Docket DE 04-052
Response Testimony of
Paul A. Cillo; PAYS America, Inc.
on behalf of
The New Hampshire Public Interest Research Group
September 17, 2004

Q. Are you the same Paul A. Cillo who provided direct testimony in this docket on September 3, 2004?

A. Yes, I am. And, as was the case with my previous testimony, when I use "we", "our", or "us" in this testimony, I am referring to the work that I have done with Harlan Lachman, Co-Executive Director of PAYS America, Inc. and President of the Energy Efficiency Institute, Inc. When referring to a position of NHPIRG, I refer to that organization by name.

Q. What is the purpose of your reply testimony?

A. The purpose of my reply testimony is to respond to certain assertions made by witnesses for the utilities and the Staff in their direct testimonies in this docket.

Q. Please summarize your understanding of the rationale for the utilities' joint proposal.

A. To understand the implications of the utilities' proposals in this docket, it is important to understand the underlying rationale for those proposals. The goals of the utilities' programs should and do strongly influence the program choices they propose. The utilities' stated rationale can be found in the utilities' July 30, 2004 proposal, "NH Electric Utilities Proposal for the Future of PAYS® in New Hampshire" (Joint Proposal).

In the Joint Proposal the utilities made a number of recommendations concerning a pilot program to supplement their CORE programs, offering what they consider to be enhancements to their CORE programs in lieu of offering PAYS®. On page 1 of the Joint Proposal, the utilities list the rationale for their recommendations:

"(1) any offering must be compatible with the CORE programs;
(2) expansion of the existing pilot program should proceed cautiously…
(3) consideration of program costs – including the cost of implementation, as well as cost effectiveness; and
(4) flexibility – both in terms of the choices available to customers as well as in terms of offerings made by individual Utilities."

A. What is your assessment of the utilities' rationale?

A. While these four objectives have some merit, in particular number 3 (the consideration of costs and cost-effectiveness) and part of 4 (choices for consumers), others are not as important. The Commission and the legislature have articulated larger goals, including (a) achieving all cost-effective energy efficiency, (b) reducing reliance on subsidies, and (c) shifting to a more market-based approach to energy efficiency. Thus, numbers 1 (compatibility with the CORE programs), 2 (caution in expanding the existing pilot), and the remainder of 4 (flexibility for utilities in their program offerings) should be subordinate to the larger goals articulated by the legislature and the Commission.

Q. Do the utilities make reference in the rationale for their proposals to the goals of achieving all cost-effective energy efficiency, reducing reliance on subsidies or shifting to a more market-based approach to energy efficiency?

A. No. The utilities' rationale for their Joint Proposal makes no reference to these goals.

Q. What are the implications of the utilities' failure to include achieving all cost-effective energy efficiency, reducing subsidies and moving to a more market-based efficiency approach?

A. As I will discuss in more detail below, the utilities' program design proposals reflect the lack of an intention to achieve all cost-effective energy efficiency, reduce ratepayer subsidies, or shift to a more market-based approach to energy efficiency.

Q. Please summarize the NHPIRG proposal.

A. NHPIRG believes that Commission is correct in seeking to transition to market-based programs that reduce reliance on subsidies. NHPIRG has submitted a proposal that seeks to advance these goals. NHPIRG's proposal will produce greater cost-effective savings than the programs proposed by the utilities.

Market-Based. NHPIRG agrees with the Commission that there are many benefits to transitioning from utility-managed programs to more market-based programs. First, this transition will enhance the capabilities of non-utility vendors who are required to learn the skills necessary to implement what have been utility functions (e.g., performing savings calculations, creating offers that customers will buy, rigorous quality control standards, etc.). More capable vendors able to play a larger role will enable more efficiency work to be done.

Additionally, competition among skilled vendors in an active marketplace in which customers can purchase desirable products will tend to lower prices and result in an even more robust market.

And, lastly, transferring responsibilities, tasks, and administrative costs to vendors means not only lower costs for ratepayers, but higher quality work for customers since the more capable vendors will be more successful in making sales.

Subsidies. NHPIRG also agrees with the Commission and legislature regarding subsidies:

> "We believe that efforts during the transition toward market-based DSM programs should focus on creating an environment for energy efficiency programs and services that will survive without subsidies in the future." (Order No. 22,875 citing RSA 374-F:3, X Sec. O, 3, p.82).

As I explain in this Response Testimony, only NHPIRG's proposed PAYS® pilot extension and expansion offers the Commission programs that have the potential for surviving without subsidies in the future.

Additionally, subsidies rely on the limited funds available from taxpayers or ratepayers. Using subsidies as incentives for customers to purchase efficiency measures they otherwise would not purchase effectively caps the amount of efficiency investment to the amount of available subsidy funding. In other words, programs that rely on subsidies to transform and stimulate markets actually limit market activity, rather than expand it, because the amount available for subsidies is limited and will prevent the Commission from reaching its goal to "potentially unleash pent-up consumer demand for efficiency measures." (Order No. 23,574 p.18)

Q. Do any of the program proposals before the Commission in this docket reduce reliance on subsidies, and help transition energy efficiency efforts to more market-based approaches?

A. Yes, NHPIRG's proposed PAYS® pilot extension and expansion. Our proposed pilot extension and expansion is the only option before the Commission that reduces reliance on subsidies and transitions energy efficiency efforts in New Hampshire from utility programs to the marketplace.

Q. How does the extended and expanded pilot you have proposed benefit New Hampshire electricity utility ratepayers?

A. The extended and expanded pilot described in my Direct Testimony benefits New Hampshire ratepayers in three ways:

1. Subsidies are only used to qualify efficiency measures to be offered as PAYS® products, and as a result significant savings are achieved by avoiding unnecessary subsidies. Subsidies are used only to buy down the cost of measures that, while sufficiently cost-effective to society, do not offer sufficient savings to be an attractive purchase for individual customers. As I showed in Appendix 1 to my direct testimony, 70% of the

amount spent on rebates by PSNH during its PAYS® pilot could have been saved had the PAYS® approach to subsidies been used instead of the CORE program approach.

2. Vendors assume responsibilities they can and should assume, lowering utility program implementation and administrative costs.

2. Unnecessarily expensive programs are eliminated. NHPIRG specifically requested the Commission to reject CORE programs with features that by design accomplish less efficiency than programs without those features, and any programs that spend more than would be required to simply pay the full cost of installing measures for customers. This is a key component of NHPIRG's position, and I will respond to the utility and Staff discussion of this point further below.

Q. In your opinion, after reviewing the proposals of the other parties, what is the fundamental choice before the Commission in this docket?

A. The fundamental choice before the Commission in this docket comes down to this:

- Either re-commit to programs that continue to rely on large financial incentives and utility administration and that neither seek to minimize ratepayer costs nor move to a more market-based approach, or
- Continue to move to more market-based programs that eliminate the reliance on rebates as customer incentives and that minimize the need to use ratepayer funds to achieve resource efficiency benefits for all New Hampshire customers.

Q. Despite the fundamental differences between the utilities' and NHPIRG's proposals, are there any areas where there is no dispute between the two proposals?

A. Yes. The utilities and NHPIRG both recommend that:

- NHEC and PSNH operate their PAYS® pilot through December 2007.
- There can be a minimum PAYS® project size of $1,000 for commercial customers during the pilot.
- Portable measures will not be offered during the extended pilot.
- PSNH should offer PAYS® to customers eligible to participate in its Small Business Energy Solutions program.
- Customers will be allowed to accelerate payments and to pay off the entire PDC (PAYS® Delivery Charge) obligation at any time (although NHPIRG, as noted in my direct testimony, would support this "…only if successor customers were offered, and the original customer had the right to return to, the original payment schedule, and some notation was made on the bill identifying that the customer had chosen to accelerate payments." p. 3, lines 31 - 33).

- No utility will use the registered Trademark "PAYS®" as the name for their pilot; instead, the utilities will chose to use whatever name they want.

Q. Does NHPIRG agree or disagree with GSEC's and Unitil's proposals to offer on-the-bill financing as part of their 2005 CORE program offerings?

A. NHPIRG opposes the proposals of GSEC and Unitil to offer on-the-bill financing as part of their 2005 CORE program offerings. GSEC's and Unitil's proposals for on-the-bill financing are examples of the type of program that produces less efficiency for the ratepayer dollars spent than if the utilities were simply to offer rebate subsidies without on-the-bill financing. I illustrated this phenomenon in Appendix 6 submitted with my direct testimony. As I discussed, especially when the additional costs of implementing these program changes are considered, less efficiency will result than if these utilities simply operated their CORE programs and did not add on-the-bill financing. In fact, Unitil acknowledges this problem in the direct testimony of Deborah Jarvis (p.7, lines 14 - 15) when she states:

> "Yes. Using SBC funds to enable municipalities to finance their share of project cost will decrease the amount available for rebates to other customers."

Q. How do GSEC and Unitil plan to offer on-the-bill financing?

A. In its Large Business Energy Solutions and New Construction programs, GSEC plans to offer on-the-bill financing for the balance of a project's costs that remains after providing the full CORE program rebate to participants. GSEC currently offers such financing to participants in its Small Business Energy Solutions program. Until is planning to offer on-the-bill financing to state, local and municipal customers participating in its commercial and industrial programs. As with GSEC's program, the amount financed on the bill will be the balance of a project's costs after the CORE program rebate is applied. With respect to such financing, both utilities use SBC funds pay for as much as 50% to 80% of the measure cost upfront via the rebate, and then use SBC funds to cover the balance of the measure cost, subject to repayment by the consumer over time. No other capital is made available to fund measures beyond the amount of annual SBC receipts and financing repayments.

Q. What standard should the Commission use in determining whether to approve the GSEC and Unitil proposals for on-the-bill financing of CORE program measures?

A. As I stated in my direct testimony, no utility should be permitted to offer on-the-bill financing with its CORE programs if doing so reduces the total investment in installed efficiency measures to less than the investment in installed efficiency measures that would result from just using its CORE programs alone, without on-the-bill financing. (p. 5, lines 33-7).

Q. What are the results of applying this standard to a program with the kind of on-the-bill financing feature proposed in this docket by GSEC and Unitil?

A. Less energy efficiency will be achieved with available SBC funds under the GSEC and Unitil proposals than would be achieved if they simply offered their CORE programs, with no on-the-bill financing and the SBC funds used only for rebates rather than to fund loans.

The proposals put forth by GSEC and Unitil in this docket are analogous to the example I discussed in Appendix 6 to my direct testimony. They use SBC funds to capitalize a revolving loan fund that is used for on-the-bill financing of the customer's share of the costs for energy efficiency measures after the full CORE rebate is applied results in less investment in efficiency than other options and less than the base case.

Q. How would NHPIRG characterize the approach to on-the-bill financing proposed by GSEC and Unitil in this docket?

A. As I stated in my direct testimony, NHPIRG considers program changes that by virtue of their design result in less efficiency investment than would be realized with a successful CORE subsidy program to be a waste of ratepayers' money. (p. 27, lines 7-13).

Q. But PAYS® is a form of on-the-bill financing, is it not? How is NHPIRG's recommendation for PAYS® different from the GSEC and Unitil approach?

A. NHPIRG's proposal for the expansion and extension of PAYS® does not operate like the GSEC and Unitil proposals. First, assuming the same level of SBC funding, GSEC and Unitil's proposal reduces the total amount invested in energy efficiency measures compared to the CORE programs without this modification. NHPIRG's proposal, on the other hand, more than doubles the total investment in energy efficiency compared to CORE.

PAYS® does not involve capitalizing a revolving loan fund with SBC money, and then limiting energy efficiency investment to the amount in that fund. The NHPIRG's PAYS® proposal uses SBC funds to leverage outside capital so that more cost-effective efficiency can be achieved with the same SBC funding. PAYS® also does not require the application of the full 50% (or greater) rebate to attract participating customers, and so it further stretches limited SBC funds for efficiency.

Q. Even if the GSEC and Unitil approaches reduce the amount of efficiency that can be achieved for the same SBC funds, do they not have the benefit of enabling some consumers to participate in utility efficiency programs who otherwise could not?

A. Yes, GSEC's and Unitil's proposals will benefit some hard to reach customers. However, GSEC and Unitil's proposals, because they do not propose to ensure that savings will exceed payments or that customers' obligations to make payments ends when they terminate occupancy, will not reach nearly as many customers as PAYS®. More importantly, offering full rebates to customers together with on-the-bill financing is not necessary in order to enable all consumers to participate in cost-effective utility efficiency programs. To the extent that the reason for proposing on-the-bill financing (coupled with full rebates) is to remove barriers to participation by entities such as municipal customers who cannot take advantage of rebates alone, the GSEC/Unitil solution is unnecessarily costly. If the utilities offered these customers PAYS® products, and limited rebates to the amount required to qualify CORE measures as PAYS®

products, the same level of efficiency could be enjoyed by this customer group as under GSEC/Unitil's proposal, but at a much lower cost to ratepayers.

Q. Do you have any other concerns about GSEC's and Unitil's proposals to offer on-the-bill financing as part of their 2005 CORE program offerings?

A. Yes. Based on GSEC's response to NHPIRG Data Requests 1-9 and 10, NHPIRG is also concerned that GSEC's current financing program may be spending more on rebates, implementation and administration than it would cost to simply pay 100% of the cost to install targeted measures. If such is the case, NHPIRG believes this would be a waste of ratepayers' money.

Q. What do you conclude about the GSEC and Unitil on-the-bill financing approach in the CORE programs?

A. The approach to financing efficiency measures proposed by GSEC and Unitil in this case produces less efficiency than the CORE rebate program without this element, and may produce even less than if the utilities paid 100% of the costs of efficiency installed in customer premises (an outcome that would definitely minimize the amount of efficiency achievable with any given limit of SBC funding). This is why NHPIRG requests that the Commission not approve GSEC's and Unitil's request to add on-the-bill financing to its CORE programs. As stated in my direct testimony, NHPIRG is requesting the Commission to order that:

> "Any efficiency program (PAYS® or CORE or a combination) that by design spends more money on subsidies, utility administration, and implementation than the amount required to simply pay the full cost for customers to install targeted measures will not be approved." (pp. 5-6)

Q. Do the utilities agree with NHPIRG's position on how rebates should be integrated into the utilities' PAYS® pilots?

A. No, they do not.

Q. What is NHPIRG's position on how rebates should be integrated into the utilities' PAYS® pilots?

A. NHPIRG proposes that NHEC and PSNH make the same subsidy offer to all customers who qualify for program services in the extended PAYS® pilot, whether or not they participate in the PAYS® pilot. The subsidy offered would equal the amount required to qualify a measure as a PAYS® product, up to the prescriptive CORE rebate amount. With this offer, no rebates will be offered for the most cost-effective measures.

In practical terms, this would mean that potential participants, in a program which included the opportunity to purchase CORE program measures as PAYS® products, would have only one subsidy option: to receive the amount of money, if any, required to qualify their project as a PAYS® project. This amount would be the same whether or not they chose to take advantage of the PAYS® offer.

Q. What are some of the benefits of using the PAYS® approach to determining rebate amounts as you have recommended?

A. First, limiting rebates to the PAYS® qualifying amount would sharply reduce the amount of SBC funds needed for rebates, while achieving the same amount of efficiency. Thus, SBC funds could go further, increasing the efficiency savings achieved, and allowing greater numbers of customers to participate. According to Appendix 1, submitted with my direct testimony, 70% of the amount spent on rebates by PSNH during its PAYS® pilot could have been saved with no loss in efficiency achieved had this element of the PAYS® program design been followed.

Second, customers would not be faced with the troubling choice between accepting PAYS® payment terms or getting large rebates, as in the NHEC PAYS® pilot. If all customers were offered a straightforward and reasonable choice, where the subsidy did not vary with the timing of payment for the balance of the measure cost, the subsidies would be limited to the smallest amount necessary to assure participating customers that based on reliable savings estimates, they would receive savings comfortably greater than their monthly payments.

Q. But if you lower rebates to the amount needed to qualify a measure as having robust enough participant benefits to justify PAYS® treatment, won't you attract fewer participants?

A. No, I do not believe so. We know that PAYS® was very well received by participants in the pilots to date. Customers at both NHEC and PSNH accepted PAYS® products without subsidies. In fact, NHPIRG's recommendation for the extended and expanded PAYS® pilot is designed to provide an opportunity to demonstrate that, even with rebates not artificially inflated beyond the amount needed to assure immediate bill savings, customers will participate in energy efficiency programs and SBC funds will not go unspent on efficiency.

Q. You have pointed out that the on-the-bill financing proposed by GSEC and Unitil would reduce the amount of efficiency below that obtainable using the CORE program without such financing. Instead of extending and expanding PAYS®, why should the Commission not simply order that GSEC and Unitil remove this program element, and offer the CORE program as originally conceived?

A. Even though the CORE program rebate may attract sufficient customers to purchase measures to exhaust available funds under the current program structure and available funding, NHPIRG's PAYS® proposal can achieve the same, or greater, customer participation and energy savings with less ratepayer funding. NHPIRG achieves these savings by leveraging SBC funds to secure greater total investments in efficiency, and by ending the use of financial subsidies as incentives to encourage customers to purchase measures, thus freeing up even more funding for efficiency.

Q. How can the Commission be certain that NHPIRG's proposal really will achieve the same level of participation?

A. It cannot. That is why NHPIRG is suggesting the Commission order extending the pilot, but this time with the assurance that this key question will be answered. Unless the Commission tests this premise as NHPIRG proposes, we will never know whether or not PAYS® offers sufficient incentive for customers to participate so that rebates used as financial incentives are no longer needed.

Q. What are the utilities concerns about NHPIRG's position on how rebates should be integrated into the utilities' PAYS® pilots?

A. Mr. Gelineau's direct testimony states three concerns the utilities have about NHPIRG's recommendations for calculating rebate levels:

> "Use of the minimum rebate amount increases administrative overheads, eliminates prescriptive rebates from the CORE programs, and lengthens the repayment term of PAYS® obligations." (p. 12, lines 18 – 20)

Q. What is NHPIRG's response to Mr. Gelineau's first point that NHPIRG's proposal increases administrative overheads?

A. NHPIRG agrees with Mr. Gelineau's statement in his direct testimony insofar as he argues that having different rebate levels requires a separate calculation for every project (p. 13, lines 3 – 4). In order to calculate a PAYS® PDC, the savings estimate for each project must be calculated, preferably by the vendor with a check by the utility. The calculation of estimated savings requires some modest time and cost.

However, not all of this additional time and cost would need to be borne by the utility. Some of it can be borne by vendors who stand to profit from the sale of PAYS® efficiency products. Additionally, once project savings are known, as I point out in my direct testimony (p.36, lines 8-13) and as evidenced by Appendix 7 to that testimony, the calculation to determine whether a measure qualifies as a PAYS® product can be computed instantaneously requiring only three inputs: project cost, project annual savings, and maximum CORE rebate amount.

Reducing rebate costs by as much as 70% justifies the modest time and expense required to verify a vendor's savings calculation (or even to generate a savings calculation).

Q. What is NHPIRG's response to Mr. Gelineau's second point that NHPIRG's proposal eliminates prescriptive rebates?

A. Discussing his second point, Mr. Gelineau states in his direct testimony:

> "Under the minimum rebate approach, two customers installing the exact same measures will likely receive different rebates. Regardless of the logical explanation that can be offered as to differences in hours use, customers are likely to perceive different rebates for the same project as unfair." (p. 13, lines 19 – 23)

NHPIRG agrees with Mr. Gelineau that NHPIRG's proposal eliminates prescriptive rebates for projects, and will likely result in different customers receiving different rebates. I would note that this applies only for projects that exceed $1,000 and only for those customers who are eligible for PAYS® in the extended pilot. In any event, however, NHPIRG disagrees with Mr. Gelineau's assertion that this is inequitable. In my direct testimony, I stated what NHPIRG considers to be a more reasonable definition of equity:

"• that more of the customers who are paying for these programs will have the ability to install the same measures (i.e., more customers and even harder to reach customers will be able to participate) because they have access to savings with little risk,

• subsidies will only be used to the extent necessary to assure all customers who purchase targeted measures that benefit the system that they will personally benefit,

• that all participants will receive at least net savings equal to one third of the amount they pay for measures; and

• for more expensive permanent measures, individual customers will only be asked to spend money for measures while they benefit. If they change locations, their obligation to pay ends and the next customer who benefits assumes the obligation." (p. 35, lines 14 – 26)

NHPIRG believes that its proposal for calculating rebates is more equitable for all customers because it enables more ratepayers who pay for these programs to participate and to benefit individually from purchasing measures that also benefit the system. NHPIRG is confident customers will understand and appreciate this change.

Furthermore, we also agree with Staff's statements on this issue as noted in Mr. Keller's direct testimony:

"First, various forms of discrimination exist with respect to many aspects of utility ratemaking. Prices among customer classes differ..." (p. 8, lines 8 – 9)

"Second, with respect to differences from service territory to service territory, such differences already exist within the existing Core Statewide Energy Efficiency Programs, through the utility-specific programs that are offered." (p. 8, lines 10 – 13)

"The goal from the Commission's perspective, I would argue, is to identify those experimental programs that are achieving their goals efficiently, and then promote their adoption by other utilities once they have been proven. PAYS is simply one more example of a unique approach to promoting energy efficiency. In my view, trading some level of uniformity for greater innovation is a good trade. I would even go so far as to argue that it is a good trade even if the program is, ultimately, not successful, so long as we can take valuable lessons from the experience and apply them to future decisions about the best way to promote energy efficiency." (p. 8, line 21 – p. 9, line 6)

Q. What is NHPIRG's position on Mr. Gelineau's third point that NHPIRG's proposal lengthens the repayment term of PAYS® obligations and may create problems?

A. Mr. Gelineau states in his direct testimony:

"The final point I want to make regarding the use of the minimum rebate is that this would maximize the repayment term and force all projects to have a repayment term equal to three-quarters of the measure life…over an extended repayment period, customers may not remember what they are paying for nor will they recall the benefits of the efficiency measures installed. Use of the minimum rebate would substantially increase the risk that this concern will be a problem…it also increases the likelihood that the measure will fail during the repayment period and requires PSNH to provide repair services – which based on the rules of the PAYS® program could further extend the repayment period beyond the three-quarters of the measure life." (p. 13, line 25 – p. 14, line 6)

NHPIRG disagrees that all projects would need to have a repayment term equal to three-quarters of the measure's life. First, for the most cost effective measures, PSNH and NHEC will be able to shorten the term of payments and still give customers one quarter of the savings without a subsidy. Doing this was part of each field staff's training in the pilot.

Second, as pointed out by Mr. Gelineau in his testimony, many of the municipal and school district customers participating in the Pilot Program opted to pay 100% of the estimated savings every month in order to pay off the PAYS® obligation. (p. 8, lines 17 – 19) Customers such as these will not be bound to make payments over extended periods. The ability to do this under the program rules will thus tend to promote shorter PDC terms on average.

Q. Besides providing for unnecessarily high rebates, how else do the utilities propose to lower repayment periods? Are there problems with their approach?

A. PSNH (Mr. Gelineau's direct testimony, p. 8, lines 26 - 30) and the other utilities (Joint Proposal, p. 2; Ms. Jarvis direct testimony, p. 6, line 2) propose to cap the repayment term at 2 or 5 years. The problem with this approach is that these caps will cause payments in many cases to exceed estimated savings. This will eliminate the fundamental PAYS® assurance that savings will greatly exceed payments. NHPIRG questions whether customers will want to make purchases that worsen their financial situations, at least for the foreseeable future.

Q. Is Mr. Gelineau correct that NHPIRG's recommendations will, at least for the most part, result in longer PDC terms than the utilities' proposal? If so, why should they be adopted nonetheless?

A. Running the PAYS® program as intended, with the attraction to the customer being the assurance of monthly savings comfortably above monthly payments, will result in longer average PDC terms than the utilities' approach of unnecessarily high subsidies and capped repayment periods. However, NHPIRG does not believe that longer terms will result in problems for customers. Customers will see the PAYS® PDCs monthly. Successor customers will receive notification of the charges from the building owner and the utility. The utilities' and vendors' marketing will also foster awareness about PAYS® charges and their associated benefits.

The other problem that Mr. Gelineau attributes to extended payments terms is "…the likelihood that the measure will fail during the repayment period…" (p. 14, line 1) NHPIRG disagrees with Mr. Gelineau's implication that measures targeted by the CORE and PAYS® programs are likely to fail during the first three quarters of their useful life. The measures in question are currently offered under the CORE programs. Individual customers' as well as ratepayers' funds are being spent on these measures with the assumption that savings will be realized over the measure's entire useful life. Measure failure before the end of a measure's useful life, and as early as before three quarters of its useful life, would mean that customers would not receive the savings that justified the expenditure.

Further, although NHPIRG anticipates little risk of such failure, to the extent that measures do fail during the first three-quarters of the measure's useful life, NHPIRG's recommended PAYS® pilot extension and expansion is the only proposal before the Commission that addresses this problem for customers and ratepayers. Under NHPIRG's proposal, if a measure fails, the customer is assured that they no longer have to pay the PDC unless the utilities arrange to have the measure repaired. By repairing it, the utility can continue to bill the PDC and recover its costs, providing the repair is likely to keep the measure functioning until the remaining and extended payments have been collected. In other words, NHPIRG's proposal ensures that both the customer at the location and all ratepayers receive the promised savings for which they are paying.

Q. Why is the calculation methodology for rebates so important?

A. NHPIRG's proposed rebate calculation methodology is key to helping the Commission to meet its goal of transitioning the utilities to programs that are market based and are less reliant on subsidies to install measures that benefit the system.

Q. Are the utilities correct that their system for providing rebates combined with a revolving loan fund will promote efficiency programs that do not require sustained infusions of ratepayer funds?

A. No. PSNH's concept of a self-sustaining program is not really self-sustaining and will require significant public funding to continue. In Mr. Gelineau's direct testimony, he states:

> "Each year additional SBC dollars are added to grow the loan fund. At some point it is feasible that the annual funding would no longer be necessary and the fund could become self-sustaining." (p.11, lines 16-18)

The utilities' proposed program design requires that, absent continued system benefit funding, 50—80% of available funds in the revolving loan fund will have to be used as subsidies, never to be returned to the fund. Additionally, relying solely on utility administration requires an additional annual deduction from the fund to cover costs for utility oversight and implementation – funds which will also not be repaid to the fund.

Q. Could NHPIRG's proposed PAYS® program be self-sustaining without perpetual infusions of SBC funding?

A. Yes, but using PAYS® financing alone without any SBC-funded rebates would unnecessarily limit the extent of efficiency that could be achieved by the PAYS® approach. This is so because not all measures that pass the Total Resource Cost test (as used for example in the CORE programs) will qualify for PAYS® treatment absent a buy-down of measure costs as recommended by NHPIRG. As the utilities point out, not all measures that qualify for the CORE program qualify as PAYS® measures.

This is because CORE program measure-screening includes all savings over a measure's useful life, and includes environmental and inflation adders to ensure the system can benefit from all cost-effective measures. The PAYS® system only considers three quarters of a measure's savings and only counts those achievable over three quarters of a measure's useful life. PAYS® screening does not include environmental or inflation adders. This conservative measure screening ensures customers they will individually save more than they pay. However, the result is that some measures that benefit the system will not qualify as PAYS® products.

NHPIRG is recommending its proposal for integrating PAYS® into the current CORE programs to ensure that all eligible CORE program measures can be packaged as PAYS® products so that the savings from the PAYS® system can be combined with the comprehensiveness of the CORE programs to offer New Hampshire the best possible efficiency programs.

If the Commission orders that utilities adopt NHPIRG's recommendations for calculating rebates in the extension and expansion of the PAYS® pilot, it will be taking the first step to developing self-sustaining programs. For the most cost-effective measures, no rebates are needed to encourage customers to buy them. The promise of the PAYS® approach (immediate net savings, that customers' monthly payment obligations end when they no longer benefit, and that this obligation does not add to individual debt obligations) should be sufficient incentive for customers to install targeted efficiency measures. The PAYS® pilot projects at both utilities, where customers implemented some projects without rebates, evidences that customers will purchase PAYS® products without subsidies.

Further, once vendors are trained to perform many program tasks and as vendors and customers become familiar with the PAYS® system, should system benefit funds ever cease to become available, it is conceivable New Hampshire could accelerate the transition to a complete market-driven PAYS® program, at least for the most cost effective measures. Vendors could take over all marketing responsibilities. Oversight and certification could be provided for a small program charge and utilities could perform just the billing and collection functions. NHPIRG hopes that system benefit funding remains available as long as there are efficiency opportunities not being implemented that are more cost effective to the system than purchasing power. However, should system benefit funding cease to be available, only NHPIRG's proposal offers the possibility of continued programs to help customers make choices that benefit them and all ratepayers.

Q. All of the utilities claim that implementing NHPIRG's recommendation for leveraging will create too much risk of bad debt for the utilities. Does NHPIRG agree?

A. No. The utilities greatly overstate the risk of leveraging. Also, the pilot results to date do not bear out the utilities' concern. NHEC successfully used leveraging to turn a $50,000 annual PAYS® pilot budget into the potential for $1,000,000 annual investment in cost effective efficiency work and helped its customers to implement more projects than the amount in its PAYS® budget. PSNH has experienced zero bad debt with its PAYS® pilot to date, and NHEC has only experienced .08 % bad debt to date.

Q. What is the level of bad debt risk associated with PAYS® leveraging?

A. Because the PAYS® charge is a tariffed charge like any other component of the bill, the risk associated with leveraging should be essentially the same as the utilities' average bad debt, and perhaps even lower.

Q. Why may PAYS® bad debt be lower than the utility overall average bad debt?

A. PAYS® reduces the consumer's bill obligations, thus making it easier for customers who buy PAYS® products to pay the bill.

Q. Please contrast the bad debt risk from leveraging with the bad debt risk from on-the-bill financing.

A. The risk posed by leveraging is associated with the risk that PDC payments will not be made by participants, despite the fact that PDC payments are a tariffed charge on the bill and subject to disconnection like any other part of the utility bill. PAYS® may thus be analogized to any other utility bill element.

By contrast, GSEC has an efficiency loan program, under which it extends financing to consumers for efficiency, and if the customer does not make payments on the loan, GSEC does not disconnect for non-payment. During technical sessions, GSEC noted that bad debt for its loan program was approximately five percent (5%), even with a much shorter-term obligation (two years instead of the almost five year average of PSNH's pilot). GSEC treats each participant's obligation as a loan and does not use a tariff with the enforcement of disconnection.

If we can anticipate similar results from other utility on-the-bill financing programs that do not use a tariffed charge to assure collection, we can anticipate a bad debt from the utilities' that is more than 20 times higher than PSNH's traditional bad debt of one quarter of one percent (NH Commission Order No. 23,851, p. 11) and 62 times greater than NHEC's PAYS® pilot's bad debt to date. In other words, by using a less reliable collection system, significant ratepayer funds are likely to be wasted on excessive bad debt.

NHPIRG is proposing that a guarantee fund be established to ensure that even if bad debt reaches twenty-five percent (25%) of the amount spent on measures, there will be no problems for the utilities and their stockholders (or NHEC's members). It is not credible to assert that by using a more reliable collection system than the one used by GSEC in its loan program, even with longer terms, the result will be bad debt that is five times greater than what GSEC's loan program experienced, 100 times greater than PSNH's traditional bad debt, and 310 times that of NHEC's bad debt in its pilot to date. That is what would have to occur for there to be any risk to the utilities under NHPIRG's proposal (i.e., 25% is 100 times greater than .25% and 310 times greater than .08%).

Not only is the risk very small, but the potential benefits are large. Leveraging will help transition the utilities from using ratepayers' money to pay to distribute rebates to a limited number of customers to using the regulatory system and utilities' expertise in collections to harness third party capital to pay for efficiency installations that benefit the entire New Hampshire electric system.

Q. What if NHPIRG is wrong and bad debt is more than 100 times greater than PSNH's traditional bad debt and exceeds the guarantee fund?

A. NHPIRG has had conversations with Staff about this possibility. I want to reiterate that we believe there is no real risk that bad debt will reach anything close to 25% of the total investment in PAYS® projects in the proposed extended pilot. 25% is the amount bad debt would need to exceed in order to exhaust the guarantee fund with a 4:1 leveraging scenario.

Having said that, in the interest of eliminating this as an issue for the utilities and Staff, the Commission could assure the utilities that any amount that bad debt exceeds the guarantee fund in the extended pilot would be covered by future years' system benefit funds, providing that they implement their PAYS® pilots properly and perform collections with the same rigor they use for their other tariffed charges. In this way, any utility operating a PAYS® extended pilot program and borrowing funds to pay for measures could be made whole for any bad debt in excess of that covered by the guarantee fund from system benefit funds.

There are many overriding benefits of the leveraging approach. As I showed in my direct testimony, on pages 24-26 and pages 27-30, and in Appendices 3-6,

1. Leveraging as low as 4:1 can achieve more than twice the amount of investment of a basic CORE program and almost three times the investment of programs as recommended by the utilities, and

2. NHPIRG has chosen to recommend a leveraging amount so conservative that no one could credibly argue that it creates any real risk to the utilities or their stockholders (or NHEC's members).

Q. The utilities recommend that they and the Commission avoid use of the trademarked "PAYS®" or "Pay-As-You-Save™." Does NHPIRG agree?

A. No. NHPIRG does not agree that the Commission should avoid taking advantage of the trademark. The utilities misunderstand the trademark issue and draw the wrong conclusions as a result.

In their Joint Proposal, the utilities raise what they call "Implications of Using PAYS®." They assert that if they called their programs PAYS® programs, they would be subject to increased costs and decreased flexibility. However, since all the parties have agreed that the utilities can call their individual programs whatever they want, these concerns are moot. Since they will not be using EEI Inc.'s trademarked names, none of the costs associated with using a trademark are relevant.

NHPIRG does ask that the Commission adopt the PAYS® program elements, and use the term PAYS® in describing what is ordering the utilities to offer. This is a different matter from the question of naming the utilities' programs.

NHPIRG wants to point out that should the Commission order the utilities to implement PAYS® programs using the trademark to identify the program elements, the Commission will not be using PAYS® as a marketing tool for its own products or services but as a descriptive term. Such use does not necessitate a trademark license agreement or payments. It also does not require the utilities to use the trademarked name. Further, if the Commission determines at a later date that it wants the utilities to implement a different type of efficiency program, all it needs to do is order the change.

The reason the Commission should order the utilities to implement the trademarked PAYS® program is because doing so will guarantee that the three key elements of PAYS® are part of the program. These elements were accurately summarized by the utilities in their Joint Proposal, as follows:

"a) A tariff that assigns repayment of permanent measures to the meter location;
b) Billing and payment through a charge on the distribution utility bill with disconnection for non-payment; and
c) Independent certification that the products and installations are appropriate and that estimated savings will exceed payments." (p.10)

Q. If the Energy Efficiency Institute is willing to allow the utilities to use the trademark with only nominal payment (should they choose to do so), and if the Commission can order a utility to offer the PAYS® program without trademark consequences (so long as a different name is used on the program), what is the purpose of having PAYS® be trademarked?

B. The trademark was sought precisely to be able to prevent look-alike and sound-alike programs from being implemented with claims that they work as well as PAYS®. As noted above regarding the GSEC and Unitil on-the-bill financing program, a program can have some of the PAYS® elements, but not all of them. But, without all of them (e.g., ensuring savings exceed payments and that customers don't have to pay for savings they do not receive because they have to relocate), it is likely such efforts will fail to deliver on the fundamental purposes of utility energy efficiency programs – to cost-effectively encourage customers to invest in energy efficiency that benefits all ratepayers.

Q. Why should the Commission use the PAYS® trademark in referring to the program design it orders the utilities to implement?

A. The utilities state in their Joint Proposal that none of them will be adhering to all of the 3 key elements of by which PAYS America defines PAYS® (p. 11). Using the Trademark and ordering the implementation of the associated unique PAYS® elements might be the best way for the Commission in its order to make it clear that it insists:

a) That the utilities use the most reliable and cost-effective billing and collection system available to protect ratepayers' money and increase its ability to encourage investment in resource efficiency.

b) That customers who make investments that benefit all ratepayers will also benefit from doing so and will be assured that products and installations are appropriate and that according to reasonable estimates they can receive immediate savings if they choose to.

c) That all customers will only pay for measures for as long as they benefit. If they leave the location where measures are installed, their obligation to pay ends.

Q. Does NHPIRG have any disagreements with Staff's direct testimony?

A. Yes. We disagree with three recommendations in Staff's direct testimony:

- Using third party financing without requiring the utility to be the borrower;

- Reducing all CORE program rebates by 10% but allowing customers who are eligible for PAYS® products to receive full CORE rebates; and

- Suspending operations if bad debt levels ever reach 1.5%.

Q. Why does NHPIRG disagree with Staff's recommendation to use third party financing without requiring the utility to borrow the funds?

A. We disagree with this recommendation because it will not work. Mr. Gelineau points out in his testimony that during the initial program design of the Pilot Program, PSNH attempted to find a financial institution willing to work out a PAYS® funding option that would leverage the PAYS® budget without placing funds beyond the PAYS® budget at risk, but was not able to identify such an investor (p. 10, lines 12 – 15). We worked closely with PSNH during its investigation of PAYS® financing. Banks were reluctant to finance PAYS® projects unless the utility was the borrower, not because of risk of non-payment, but because PAYS® transactions have no individual borrower. With PAYS® the original customer is not responsible for the payment obligation beyond the time that customer occupies the location where the measures were installed. As noted by the Commission in Order No. 23,758 (p. 2), the payment obligation runs with the meter.

There is no financial services product that remains unresolved when ownership changes. All of the financing mechanisms with which banks and other financial institutions are familiar rely on being able to enforce payment through actions against an individual borrower (e.g., liens, foreclosure, judgments, etc.). All of the financial institutions with whom we talked as we prepared for the NH pilot and before that have been unwilling to stray from the systems they use, which always involves making loans to a person or organization who can sign for it. Without a borrower, financial institutions have no security interest to protect their investment in a PAYS® installation, other than the security a tariff provides and the high reliability of the utility billing and collection system – a system with which they are unfamiliar.

Also, the utilities, not the banks, would be responsible for collections. Consequently, the banks would have no control over how the collections would be performed, especially during the transition of the PAYS® obligation to successor customers. Banks legitimately wondered how a utility might react to a customer who did not want to pay a charge if only the bank were liable for non-payment.

NHPIRG is confident that without a utility borrowing the funds and given that PAYS® is still considered to be an unproven concept, even by those utilities who have implemented successful PAYS® pilots during the past three years, it is unlikely a third-party capital provider will be found for this extended pilot unless the utilities borrow the funds.

Q. Why does NHPIRG think that the utilities should borrow the funds required to make the up-front payments for PAYS® products?

A. The utilities should be required to borrow the funds because they have proven their outstanding ability to make collections using the tariff system, including during the PAYS® pilots, they are in control of the collection process, and they can enforce collection with disconnection. This unique collection ability and the ability to transfer obligations to successor customers which was approved by the Commission in Order No. 23,758 are key roles for utilities in the PAYS® system. The tariff system is the only mechanism that both allows PAYS® to assure customers they only have to pay while they save and also provides a reliable way to collect funds from customers.

Additionally, utilities can borrow funds at a preferred rate and pass those savings on to their customers.

Finally, to the extent there is any potential the utilities could implement the programs properly, perform collections reliably, yet have bad debt exceed the guarantee fund, the Commission could assure the utilities that future system benefit funds will be used to ensure their stockholders (or members) have absolutely no risk. By contrast, whereas such a Commission order should be sufficient protection for utilities, it will be of little assurance to private financial institutions.

Q. Why does NHPIRG disagree with Staff's recommendation that CORE program rebates be reduced by 10%?

A. Staff is recommending reducing CORE rebates for PAYS®-eligible customers at all utilities by 10% as stated in Paul Keller's direct testimony, in an effort to foster market transformation rather than continuing customer expectation of large rebates. (p. 12, lines 18 - 21)

NHPIRG agrees with Staff about wanting to end reliance on large rebates. However, there are three problems with staff's recommendation. First, by keeping rebates at 90% of current levels, Staff's proposal does not acknowledge the incentive that the PAYS® system offers to customers to install efficiency measures.

NHPIRG's position is that offering customers the opportunity to purchase efficiency measures with no up-front payment, immediate net savings, the assurance they only have to pay as long as they benefit, no new debt obligation and independent verification that the project is appropriate is sufficient incentive for most customers to purchase efficiency measures that qualify as PAYS® products. No additional financial incentives are necessary. The fact that customers bought PAYS® products without receiving any subsidy at both NHEC and PSNH supports this conclusion.

Secondly, NHPIRG's position is that the pilot should not confuse what is being tested. Before deciding whether to add incentives to PAYS® to affect customer participation, we should first test whether PAYS® can accomplish greater levels of participation than the current CORE programs without any financial incentive, which is what PAYS® is supposed do. Offering financial incentives without finding out whether they are actually needed is likely to result in needlessly wasting ratepayers' money.

As noted in my direct testimony, because of the way the utilities implemented their pilots, we still have not tested whether PAYS can fulfill its promise:

> "Providing a subsidy was not intended as an additional incentive for customers to purchase PAYS® products. We were recommending that subsidies be used to make more measures pass the PAYS® screening test by lowering the net project cost. By limiting subsidies to the amount required '…to enable projects to qualify as PAYS products…' subsidies would not be used if the measure was already sufficiently cost effective to provide immediate bill savings and to provide sufficient bill savings to amortize the cost of the measure comfortably before the end of the useful life of the measure, and thus qualify as a PAYS® product" (p. 13).

NHPIRG encourages the Commission to use this opportunity to finally test whether PAYS® can eliminate the need to use subsidies as incentives for customer to purchase efficiency measures. If this test is not made now, New Hampshire may not have another opportunity to find out (e.g., if system benefit funding is terminated before such a test is completed and evaluated).

Finally, NHPIRG is concerned that Staff's recommendation to continue to offer large rebates to induce customers to purchase measures as proposed is a step backward. I have provided Appendix 5b with this testimony to show a comparison of NHPIRG's proposal (Appendix 5 of my direct testimony) and Staff's proposal of offering a 10% reduction in rebates in combination with 2:1 leveraging in year one and 4:1 leveraging in subsequent years (Appendix 5b).

NHPIRG's proposal (Appendix 5) results in customer installations of $37,640,856 of efficiency measures during the first ten years with receivables (which could be reinvested) of $3,698,920. Even assuming start up costs of $700,000, NHPIRG's proposal results in a potential investment by customers of more than forty million dollars ($40,639,776).

Staff's proposal (Appendix 5b), on the other hand, results in customer installations of only $17,389,049 of efficiency measures during the first ten years with receivables of $902,525. Even assuming start up costs of only $100,000, Staff's proposal results in a potential investment by customers of only $18,191,574. This is less than the $18,400,000 baseline that should result from a CORE program (my direct testimony, Appendix 1) without any alterations. NHPIRG cannot support any effort that accomplishes less than the basic CORE programs.

Q. Why does NHPIRG disagree with Staff's recommendation regarding suspending the pilot if bad debt levels ever reach 1.5%?

A. Mr. Keller writes in his direct testimony:

> "I propose that the Commission determine that it will suspend the PAYS program and commence an investigation if bad debt levels ever reach 1.5 percent. This would create a "safety valve" on bad debt considerations. I would further recommend that bad debt levels be tracked in the quarterly reports submitted to the Commission to give Commission Staff additional information on the changing nature of bad debt over time, particularly since the utilities have identified bad debt as a potential issue for the programs." (p. 7, lines 6-13)

We agree with Staff that more information about bad debt is needed. That is why we also recommend an extension of the pilot through 2007 as I stated in my direct testimony:

> "The three years of additional data from an extended PAYS® pilot should eliminate questions about any additional risk of bad debt. By then, almost all of NHEC's and approximately half of PSNH's customers' payment obligations for projects initiated in the first pilot will be concluded." (p 9, lines 8 - 11.)

We also can support staff's recommendation that the PAYS® pilot be suspended and an investigation initiated if bad debt reaches a threshold level that raises serious questions about how the program is being operated. Such a provision could help give everyone involved more comfort that bad debt will not get out of control. However, we disagree with Staff's recommendation that the threshold should be 1.5%.

Firstly, GSEC's current on-the-bill financing program has already been approved with a bad debt level of approximately 5%. It seems unfair to hold a pilot program that promises to achieve almost three times the amount of efficiency to a higher standard than an existing loan program.

Secondly, NHPIRG's recommendation for 4:1 leveraging means that bad debt would need to reach 25% before the guarantee fund was used up. It is difficult to imagine circumstances under which such levels of bad debt associated with the PDC amounts could be experienced. NHEC successfully experimented with 10:1 leveraging during its pilot and could have tolerated bad debt of 10% of the total amount invested in PAYS® projects and still not exceeded its guarantee fund.

Thirdly, and most importantly, implicit in its approval of rebate levels of fifty (50%) to eighty-five percent (85%) of projects' costs, the Commission has established that expending this level of ratepayer funds to get some customers to purchase cost-effective measures is justified. Using the same logic, at the extreme, PAYS® could have bad debt at any amount less than fifty (50%) to eighty-five percent (85%) of projects' costs, the amount currently expended on CORE rebates, and it would still be a better bargain for New Hampshire ratepayers -- because all the other monies are being returned.

If the Commission concludes that a bad debt threshold to suspend a utility's PAYS® pilot is needed, NHPIRG believes that such a threshold for suspending the program should not be less than 10% of the total investment by that utility in PAYS® projects. An assessment of the real risk from a PAYS® effort, including the fact that any unspent subsidies and funds allocated to utility administration and implementation would be available if a program were suspended, suggests that any limit under 10% is unnecessarily restrictive.

Q. Are there other issues raised by the parties that NHPIRG wants to address?

A. Yes. Mr. Gelineau refers in his direct testimony to one of the challenges presented by PAYS® because of a Department of Revenue Administration concern as to whether the PAYS® obligation is or is not a loan. (pp. 2-3)

NHPIRG disagrees with the conclusion that PAYS® is a loan or even with the DRA that it should be treated as one. By the DRA's own definition, if legislative bodies must approve loans, and if PAYS is being approved without approval of legislative bodies, PAYS cannot be a loan. Furthermore, there is no loan instrument in any state in the country that allows a customer to terminate all obligations simply by leaving the premises. All other loans must be satisfied at transfer of ownership. The PAYS® obligation allows customers to terminate all obligations simply by vacating the premises.

During the extension and expansion of the pilot, NHPIRG is willing to work with Commission staff to explain the PAYS® obligation and tariff to DRA and help them to reclassify it in order to simplify utility program administration. However, failing the cooperation of the DRA, the solution developed and used by PSNH, using a non-appropriations clause, eliminates any problem with PAYS® and could be continued as a viable option.

Q. Is there anything you want to add before you conclude your Response Testimony?

A. Yes. PAYS® is the only option before the Commission that can survive the loss of system benefit funds. Programs that rely solely on subsidies to provide incentives to customers to purchase efficiency measures they would otherwise not buy must necessarily cease operations if there are no funds to provide subsidies. However, once the PAYS® infrastructure is in place, once vendors and customers become familiar with the PAYS® system and the Commission is able to quantify the real risk of bad debt, vendors might be able to perform all program responsibilities and the utilities or a third party could charge a fee to fund oversight. This would at least allow the most cost effective measures, those not requiring subsidies, to qualify as PAYS® products and still be sufficiently attractive to customers that they will buy and pay for them.

That is why extending the pilot as proposed by NHPIRG, without using subsidies as incentives to purchase and with leveraging rather than a revolving loan fund, is so important. The only way to find out if customers will really buy PAYS® products without financial incentives is to test it. That is why the Commission should extend the PAYS® pilot as recommended by NHPIRG.

NHPIRG acknowledges there are issues related to doing something new. We acknowledge PAYS® is still new. There are also issues related to changing from one type of incentive to another. PAYS® as recommended by NHPIRG can significantly save ratepayers' money, but it is a change. However, it is important to keep moving forward, not backward, as we explore these issues.

NHPIRG's proposal is a step in the direction the Commission has committed to -- transitioning to a more market based effort with reduced reliance on subsidies.

The utilities' proposal is a step backward:

a) Shortening payment terms so that savings are less than payments results in offers that will be unattractive to many customers. Payments that exceed savings undermines a key element of PAYS®, and more importantly, common sense.

b) Not tying PDCs to the meter forces customers to pay for measures that benefit fellow ratepayers whether or not they personally benefit. NHPIRG does not believe this is equitable and all customers concerned about the duration of their occupancy will likely not participate. This does not help potential participants or all ratepayers who will forgo the system benefits of their fellow customers' investments in efficiency.

c) The revolving loan fund in combination with rebates does less aggregate work than rebates alone. Ratepayers funds are too valuable to waste.

d) Offering the full CORE rebates to all customers including those who are offered PAYS®, is an unnecessary expenditure. Again, ratepayers funds are too valuable to be needlessly wasted.

For these reasons, the Commission should implement the order requested in my direct testimony on pages 3 through 6:

"NHPIRG requests that the Commission order PSNH and NHEC to continue their PAYS® pilot programs through December 31, 2007, incorporating…the following elements:

- NHEC would offer efficiency measures as PAYS® products to all customers seeking to participate in its Small Business Energy Solutions and Large Business Retrofit programs.

- PSNH would offer PAYS® products in its Small Business Energy Solutions and Large Business Retrofit programs to (a) all municipal, state and federal customers and to (b) all customers whose SIC (Standard Industrial Classification) codes indicate that they are hospitals (e.g., 8062 and 8063) and colleges (e.g., 8221 and 8222), or (c) who are public housing authorities.

- Both utilities would offer CORE program subsidies to PAYS®-eligible customers as defined above. No customer would receive a subsidy that is greater than the amount the current CORE program guidelines would allow, and each subsidy would be further limited to the amount, if any, required to qualify the project as a PAYS® product. Customers would not need to purchase their project as a PAYS® product to receive the subsidy.

- Any proven energy-saving measure would qualify as a PAYS® product if measure costs (including any program charges) did not exceed three quarters of the measure's estimated annual savings over three quarters of its estimated useful life (three-quarters/three-quarters rule). Customers would be allowed to accelerate their payments at their option, but only if successor customers were offered, and the original customer had the right to return to, the original payment schedule, and some notation was made on the bill identifying that the customer had chosen to accelerate payments.

- PSNH would set aside fifty percent (50%) of the SBC funds budgeted for subsidies in its Small Business Energy Solutions and Large Business Retrofit programs for PAYS® projects.

- NHEC would set aside the entire amount of the SBC funds now allocated to subsidies in its Small Business Energy Solutions and Large Business Retrofit programs for PAYS® projects.

- Both utilities would use funds set aside for PAYS® projects to pay for any subsidies to PAYS®-eligible customers using the standard described above, and to set up a guarantee fund that leveraged additional funds at a 4:1 ratio to pay the up-front costs for PAYS® products. The utilities would be permitted to borrow these funds from any lender at reasonable (i.e., market) rates. The utilities would recover these funds from customers at participating locations through a tariffed monthly PAYS® Delivery Charge (PDC) and repay their lender. The PDC would include a program charge that allowed the utility to recover costs associated with installing measures, including any financing costs, but not program implementation and operation expenses. The utilities would allocate funds between subsidies and the guarantee fund using the following formulas:

- Total PAYS® Projects = SBC funds allocated for PAYS® ÷ 0.325
- Amount allocated for PAYS® subsidies = 10% of Total PAYS® Projects
- Amount allocated for Guarantee Fund = 22.5% of Total PAYS® Projects

- Both utilities would transfer program responsibilities and costs to the vendors who would profit from these programs. At a minimum, they would train vendors who have participated in their PAYS®' pilots and their Small Business Energy Solutions and Large Business Retrofit programs to:

(a) market program services,
(b) calculate PDC charges (so they can propose projects that qualify), and
(c) complete program forms.

Vendors who did so would receive expedited approval of their projects (not more than two weeks). Both utilities would eliminate on-site inspections (except for post installation inspections and change orders) and instead require contractors to be bonded or to post irrevocable letters of credit and to agree to pay the utilities for the cost of failed inspections so that ratepayers no longer pay the costs to discover and correct poor workmanship…

…during the extended PAYS® pilot or until such time that all utilities are required to update their billing systems to accommodate the PAYS® system, NHPIRG has no objection to the utilities instituting a project size threshold of up to $1,000 including any program charges, providing that for all eligible customers projects that fall below the threshold may still only receive the subsidy level that would qualify them for PAYS®…

the same quarterly reporting and evaluation instruments be used to evaluate PSNH's and NHEC's extended pilots that were used to evaluate the original pilots. The evaluation should be presented to the Commission and all parties to this Docket no later than April 1, 2007. If possible, the evaluation should include two full years of data (2005 and 2006). In addition, if not already included in their current reporting system, both companies should be required to report:

(a) the amount of funds available for subsidies and the guarantee fund for PAYS® products,
(b) the total cost for installed PAYS® products (including the program charge),
(c) the number of customers who accepted offers,
(d) the number of customers who did not accept offers,
(e) reasons given by customers who did not accept offers, and
(f) the amount of subsidies paid during this pilot as a percentage of the total cost of installed PAYS® products (not including utility administrative and implementation costs)…

- PSNH take immediate steps to ensure that its billing system modification project that is currently underway includes building the capability to handle a full-scale PAYS® program for all customer classes by 2008.

- NHEC, Unitil, and Granite State Electric use an RFP process to determine by December 31, 2005 the actual cost and time required to modify their billing and information systems to accommodate PAYS® for all customers and for all current CORE measures.

- New Hampshire utilities other than PSNH and NHEC may participate in the continuation of New Hampshire's pilot at their option. However, no New Hampshire utility should be permitted to offer on-the-bill financing with their CORE programs if doing so reduces the total investment in installed efficiency measures to less than the installed efficiency measures that would result from just using its CORE programs alone, without on-the-bill financing.

- Any efficiency program (PAYS® or CORE or a combination) that by design spends more money on subsidies, utility administration, and implementation than the amount required to simply pay the full cost for customers to install targeted measures will not be approved.

- The Commission will reopen its investigation of the PAYS® system in the spring of 2007 with the intention of expanding use of the PAYS® system to all of the utilities' CORE programs or to end the use of PAYS® in New Hampshire."

Q. Does that complete your reply testimony?

A. Yes. On behalf of NHPIRG, I want to thank the Commission for the opportunity to present Response Testimony in this Docket.