

Docket DE 04-052
Summary of Direct Testimony of Paul A. Cillo; PAYS America, Inc.
on behalf of The New Hampshire Public Interest Research Group
September 3, 2004

In his testimony, Mr. Cillo first introduces himself and describes his expertise. Then Mr. Cillo summarizes his and the NHPIRG recommendations in this case.

NHPIRG recommends that the Commission extend and expand the PAYS® pilot at PSNH and NHEC through December 31, 2007, in order to (a) answer any remaining questions about the PAYS® system while (b) fulfilling the Commission's goal of beginning the transformation of New Hampshire's CORE programs to a more market based system that reduces the need for subsidies.

This extended and improved PAYS® pilot would be offered to customers eligible to participate in their CORE programs: Small Business Energy Solutions, and Large Business Retrofit programs. The pilot program design would be improved in order to provide answers to any remaining questions about the ability of the PAYS® system to accomplish more investment in resource efficiency by more customers, including hard-to-reach customers, than traditional rebate programs.

NHPIRG also recommends that Unitil and GSEC be allowed to offer such a PAYS® pilot, but does not ask for an order that they do so at this time. We also recommend that GSEC not be permitted to continue its current type of "pay-on-the-bill" approach to funding efficiency. This is because the GSEC approach, unlike a PAYS® model, actually reduces the amount of energy efficiency that can be achieved with any given amount of SBC funds available.

As Mr. Cillo explains, NHPIRG's recommendations will increase efficiency investments but require no increase in system benefit funds. They use a market-based system that does not rely on subsidies to incent customers to purchase cost effective resources efficiency measures. Once the PAYS® system is in place, it removes market barriers that remain with the rebate approach. When the market barriers are removed, customers willingly procure efficiency measures, because they benefit them through bill savings. In turn, all ratepayers benefit through system savings, and an improved environment, economy, and electrical system reliability and security.

After making his recommendations to the Commission, Mr. Cillo notes that the Commission has repeatedly called for a "transition toward market-based DSM programs...that will survive without subsidies in the future." He also notes that the Commission has already determined that the PAYS® system has the potential to accomplish both its goals. He concludes this section of his testimony by explaining that if the Commission order includes NHPIRG's recommendations, per-customer subsidies can be significantly reduced or even eliminated. CORE program rebates can reach 50% to 80% of the cost of the measure, but PAYS® can achieve the same level of efficiency with less or no subsidy. By his estimates, if subsidies are only as needed to make current CORE measures qualify as PAYS® products, it will reduce the need for ratepayer funded subsidies by 70% compared to the current CORE programs. The funds not needed to incent any given customer would then be available to leverage additional efficiency investments.

Mr. Cillo next cites numerous examples where independent evaluator GDS Associates, Inc. documented the success of PSNH's and NHEC's pilots. He then lists a number of questions that some parties might claim still remain about use of the PAYS® system in New Hampshire. Mr. Cillo explains why some may think these questions remain unanswered. He explains how NHPIRG's recommended extension and expansion of the PAYS® pilot will address all of these questions while, at the same time, beginning the transition to a more market-based system that does not rely on subsidies.

Mr. Cillo describes the different ways PSNH and NHEC integrated CORE program subsidies with their existing PAYS® pilots. He points out the implications of each utility's approach. He shows how NHPIRG's recommended alternative will (a) create the first real test of using PAYS® to reduce or eliminate the need for subsidies to incent customers, (b) how it will end the conflict that limited participation in NHEC's pilot, and (c) how it will ensure that the same measures installed in the utilities' CORE programs will be installed in the PAYS® pilot.

He next explains that because NHEC and PSNH already have experience with PAYS® and because of the time and cost to modify billing systems to accommodate PAYS®, NHPIRG is not recommending that GSEC and Unitil be required to participate in the extended and expanded pilot (although that due the potential savings at Unitil, NHPIRG has no objections to the Commission ordering their participation). He addresses the issue of different offers to similar customers under the PAYS® way to calculate needed subsidies and the steps the Commission could take to eliminate any disparity if it determined this issue to be important nonetheless.

Mr. Cillo then explains the importance of some of the more detailed NHPIRG design recommendations and how each has been crafted to ensure that more customers, including harder-to-reach customers, can participate in the PAYS® pilot. These include measure-screening formulas, allowing customer acceleration of payment schedules, and use of minimum project thresholds during the pilot. He includes a detailed example of a PAYS® program concept illustrating how a PAYS® alternative significantly reduces program costs.

Mr. Cillo next explains the importance of creating a guarantee fund that in turn is used to leverage at least four times the amount of the fund to pay the up-front costs for PAYS® products purchased by customers. This use of SBC funds greatly expands efficiency without expanding the need for SBC funds. This leveraging concept and the new approach for incentives are two of NHPIRG's most important recommendations. He explains how NHPIRG's approach (using system benefit funds to allow utilities to safely borrow the funds needed to pay for measures), combined with NHPIRG's other recommendations, will (a) more than double the effectiveness of the current CORE programs, while (b) eliminating the use of subsidies to incent measures, and (c) transitioning to a more market-based program. Mr. Cillo presents four detailed spreadsheets to support his conclusions.

Mr. Cillo also explains NHPIRG's recommended standard for cost-effectiveness of programs, including PAYS®. NHPIRG requests the Commission to prohibit the utilities from using new pay-on-the-bill program designs that accomplish less efficiency than the current CORE programs for the same amount of system benefit funds. NHPIRG also requests that utilities not be allowed to operate CORE programs where they spend more on the program than it would cost to just pay 100% of the costs for their customers to install measures. NHPIRG believes New Hampshire's CORE programs are sufficiently mature that we no longer can justify spending more on a given program than is necessary.

Mr. Cillo then discusses the risk of bad debt in detail. He cites previous PSNH testimony and points out how the approach recommended by NHPIRG is so conservative that no one could credibly argue that it creates any real risk to the utilities or their stockholders.

Mr. Cillo next discusses the benefits and logic of transferring some program responsibilities and costs to vendors, as NHPIRG proposes. Then Mr. Cillo explains that NHPIRG is recommending using the same evaluation tools and approach, with minor modifications, used to evaluate the first PAYS® pilot because it will save money and is sufficient.

Mr. Cillo explains NHPIRG's position that real equity is the wisest use of system benefit funds that expends the least amount of money required to ensure more customers install more resource efficiency measures. Mr. Cillo concludes his testimony with NHPIRG's appreciation for the opportunity to present its ideas to the Commission.