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CHAIRMAN

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STEPHEN L. DIAMOND
SHARON M. REISHUS
COMMISSIONERS

December 1, 2005

Honorable Philip Bartlett III, Senate Chair
Honorable Lawrence Bliss, House Chair
Joint Standing Committee on Utilities and Energy
115 State House Station
Augusta, ME 04333

Re: Annual Report on Gas Conservation Programs

Dear Senator Bartlett and Representative Bliss:

35-A M.R.S.A., § 4711 requires the Public Utilities Commission to report to the Utilities and Energy Committee describing actions taken by gas utilities regarding conservation programs as well as the Commission's description of how it determines cost-effectiveness of each program and its assessment of gas utilities. The Commission must also include any recommendations for statutory changes related to conservation by gas utilities. The report must be submitted by December 1st. Enclosed please find the Commission's first such annual report.

We look forward to working with the Committee on this subject when necessary. If you have any questions regarding the report, please contact us.

Sincerely,

Kurt Adams, Chairman

On behalf of

Stephen L. Diamond, Commissioner
Sharon M. Reishus, Commissioner
Maine Public Utilities Commission

cc: Utilities and Energy Committee Members
Lucia Nixon, Legislative Analyst



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2005 Annual Report on Gas Conservation Programs

Report by the Public Utilities Commission To the Utilities and Energy Committee On Actions Taken Pursuant to 35-A M.R.S.A. §4711

I. BACKGROUND

An Act to Promote the More Efficient Use of Natural Gas (“Act”) became effective on September 17, 2005. (P.L. 2005, ch. 110 codified at 35-A M.R.S.A. §4711). The Act directs natural gas utilities in Maine with 5,000 or more residential customers to offer conservation programs that are designed to promote the more efficient use of natural gas and that are cost effective pursuant to Public Utilities Commission (“Commission”) rules. Northern Utilities, Inc. (“Northern”) is the only gas utility in Maine with 5,000 or more residential customers.

The Act requires the Commission to report by December 1st of each year to the Joint Standing Committee of the Legislature having jurisdiction over utilities and energy matters. The report must include a description of actions taken by gas utilities pursuant to the Act, including descriptions of all conservation programs implemented during the prior 12 months and all conservation programs that the gas utilities plan to implement during the next 12 months. The report must also include a description of how the Commission determines the cost effectiveness of each conservation program and its assessment of the cost effectiveness of programs implemented during the prior 12 months. The report must indicate, for each gas utility to which the section applies, total expenditures for the past year and projected expenditures for the next year. Lastly, the report must include any recommendations for statutory changes related to energy conservation by gas utilities. This report is intended to fulfill the Commission’s annual reporting requirement.

II. SUMMARY OF ACTION BY THE COMMISSION AND NORTHERN UTILITIES

In August 2005, the Commission initiated an inquiry in anticipation of conducting the necessary rulemaking to implement the Act. Having received only one set of comments from interested parties, the Commission is now writing a proposed rule. The Act directs the Commission to ensure that a reasonable percentage of available funds are directed to programs for small business consumers and low-income residential consumers. The Act directs the Commission to establish the percentage target for each group based upon an assessment of the opportunity for cost-effective conservation measures for each group of consumers. Completion of those assessments is the Commission’s only remaining task prior to issuing a proposed rule. The Commission anticipates initiating the rulemaking in the first quarter of 2006, and that the rulemaking process will take four months.

In its comments in our initial inquiry, Northern (1) indicated that it already operates conservation programs in other states and (2) suggested that it could implement a limited number of these programs in Maine on an interim basis without waiting for the Commission rulemaking to be completed. In that way, some programs could be available in Maine before the start of the 2005-2006 winter heating season, which would assist customers who will be facing historically high gas prices during the coming winter.

By letter to the Commission dated August 22, 2005, the Governor urged the Commission to take every action possible to allow Northern to implement conservation programs in Maine before the winter heating season. By Order in Docket No. 2005-530 dated September 21, 2005, we approved the following interim programs proposed by Northern for effect this winter:

- Residential High Efficiency Heat Equipment Rebate Program
- Residential High Efficiency Water Heating Equipment Rebate Program
- Residential Energy Star Thermostat Rebate Program
- Residential Energy Star Windows Rebate Program
- Commercial High Efficiency Heating Equipment Rebate Program
- Commercial High Efficiency Water Heating Equipment Rebate Program
- Commercial High Efficiency Infrared Heating Equipment Rebate Program
- Commercial Energy Star Thermostat Rebate Program
- Commercial and Industrial Efficient Food Service Equipment Rebate Program
- Residential Low-Income Weatherization Program

These various rebate programs provide rebates from \$25 to \$500 depending on the type of high-efficiency equipment or appliance. The Residential Low-Income Weatherization Program provides eligible low-income customers with weatherization measures, including attic and wall insulation up to a maximum value per household of \$4,500.

The Commission decided that Northern could implement these conservation programs on an interim basis even though we had not yet promulgated the rule that will implement the Act. To the extent that the authority under the Act to offer conservation programs is not effective until the Commission adopts a rule, we concluded that Northern was authorized to offer conservation programs pursuant to its statutory obligation in 35-A M.R.S.A. §301(1) to furnish safe, reasonable and adequate service.

The Commission approved another interim program for Northern in Docket No. 2005-645 by Order dated November 29, 2005. This additional program is a weatherization rebate program for residential heating customers that will provide rebates for eligible customers up to \$25 for the purchase and self-installation of basic weatherization materials, such as weather stripping, caulking, door sweeps and pipe insulation.

While the Commission has not yet developed its own definition of cost effectiveness, the programs that were implemented by Northern have passed both the New Hampshire PUC and the Massachusetts Department of Telecommunications and Energy program cost effectiveness screens. Both jurisdictions use similar cost effectiveness rules and have similar avoided gas costs as those anticipated for Maine. In addition, the Commission reviewed the cost benefit analyses conducted by GDS Associates of the GasNetworks Regional Energy Efficiency Programs. (GasNetworks is a collaborative effort by gas utilities throughout New England, including Massachusetts and New Hampshire.) GDS concluded that all the regional programs similar to the Maine interim programs were cost effective. We found the GDS analysis to be reasonable and therefore decided in Docket Nos. 2005-530 and 2005-645 that Northern was justified in concluding that the interim programs were cost effective.

The Commission anticipates that upon completion of our final rule, Northern will "convert" the interim programs into "ongoing" programs and will add a small business incentive program, an ENERGY STAR windows program, and a whole house weatherization/insulation program to its menu of program offerings.

Northern established an initial budget for the programs we approved in Docket No. 2005-530 of no more than \$150,000. The initial budget of the program we approved in Docket No. 2005-645 was an additional \$100,000. Because the programs have only recently been implemented, we do not have a report of actual expenditures by Northern on these programs. Under §4711, Northern must spend an amount of at least 3% of annual delivery revenues (approximately \$540,000) on efficiency programs, upon full implementation. Because we would expect full implementation to take a number of years, Northern's expenditures over the next year should be only slightly larger than the interim program budget, and considerably less than the full 3% of Northern's annual delivery revenues.

At this very preliminary stage in the development of gas efficiency programs, we have no recommendation for legislative changes.

The Commission will continue to implement the Act and will provide the Utilities and Energy Committee with a second annual report on or before December 1, 2006.