Inquiry into New Conservation Programs and Developing a Plan for Using Increases in the Conservation Fund: Results from Docket 2006-446

Prepared for:

Utilities and Energy Committee
123rd Maine Legislature

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I. EXECUTIVE SUMMARY

In response to legislation passed by the 122nd Maine Legislature, the Maine Public Utilities Commission opened an inquiry into its energy programs to seek stakeholder input entitled "Inquiry into New Conservation Programs and Developing a Plan for Using Increases in the Conservation Fund" (the "Inquiry"). The Inquiry addressed in broad terms the issues of how Efficiency Maine should approach load control, existing and proposed new efficiency programs, funding and staffing levels, the creation of an Efficiency Maine Advisory Council, and options for changing the method in which Efficiency Maine is funded.

The Maine Public Utilities Commission's Efficiency Maine program, has four broad goals established by statute:

> (1) Increase consumer awareness of cost-effective options for conserving energy;
>
> (2) Create more favorable market conditions for the increased use of efficient products and services;
>
> (3) Promote sustainable economic development and reduced environmental damage; and
>
> (4) Reduce the price of electricity over time for all consumers by achieving reductions in demand for electricity during peak use periods.

As a result of the Inquiry, and recent evaluations of the residential and business programs the Commission will:

1) Establish a load control mechanism to enable Maine consumers to participate as demand side resources in the Forward Capacity Market (FCM);

2) Undertake a detailed study of the value and the type of load response programs most suitable for Maine;

3) Open a rulemaking proceeding to double the cap on incentive amounts for participating businesses and school districts to $100,000 per year or $200,000 over two years;

4) Initiate a residential new construction program; and

5) Form an Efficiency Maine Advisory Council.

In response to language in the statute regarding the funding levels for PUC energy programs, the Commission has provided in this report three funding scenarios with accompanying program portfolios that are illustrative of the type of program expansion and new programs required to access additional cost-effective energy efficiency.

II. BACKGROUND

During its last session, the Legislature enacted an Act to Encourage Energy Independence for Maine (Act). P.L. 2005, ch. 569. Section 1 of the Act modified section 3211-A (2)(A) by adding a fourth consideration criterion for conservation programs and directing the Commission to consider programs that "[r]educe the price of electricity over time for all consumers by achieving reductions in demand for electricity during peak use periods." Section 7 of the Act directed the Commission to develop a plan for using revenues from any increase in the assessment on transmission and distribution utilities. The plan was to include a description of how increased funds would contribute to the goals of increasing energy efficiency for program participants and reducing electricity prices for all consumers. Section 7 also directed the Commission to consider whether increases to program funding levels should be used to increase the current business program incentive cap.

A. Commission Inquiry

On August 9, 2006 the Commission initiated MPUC Docket No. 2006-446, "Inquiry into New Conservation Programs and Developing a Plan for Using Increases in the Conservation Fund." The purposes of the Inquiry were to: (1) seek input from interested persons on how to interpret and implement the requirements of Section 1 of the Act; (2) invite interested persons to propose new conservation programs that are consistent with the Act; and (3) invite comments regarding the plan required by Section 7 of the Act. A list of the 13 parties providing comments in the Docket is attached as Appendix A.

This report presents the overall highlights and summary of our Docket proceeding. A summary of specific comments provided by Docket participants and additional docket related details are included in the following appendices:

Appendix A: Docket Participants
Appendix B: Demand and Price Reductions
Appendix C: Caps
Appendix D: Efficiency Maine Budget, New Conservation Programs, and Staffing Levels
Appendix E: Prior Recommendations
Appendix F: Other Questions

B. Existing Budget and Programs

In 2002, Maine's Legislature directed the Commission to assume responsibility for planning and implementing energy conservation programs. In response, the Commission conducted a series of hearings and rulemakings to develop a funding level and to plan programs responsive to the Legislature's direction. These programs are now beginning their fourth year of operations. Efficiency Maine currently offers five programs designed to provide every Maine electric customer an opportunity to participate. Low income residential consumers are provided energy efficient appliances and lighting through partnerships with Maine Housing and with local housing authorities. Non-low income residential customers can take advantage of the Efficiency Maine Residential Lighting Program. Large and small businesses, towns, schools, and agricultural businesses can participate in the Efficiency Maine Business Program. New schools can be designed and built more energy efficiently through the Efficiency Maine High Performance Schools program. Educational programs targeting diverse customer segments from school children to building operators and facility managers to architects and engineers, provide information, tools, and advice on becoming more energy efficient.

The Commission recently completed independent third party evaluations of the Efficiency Maine business and residential programs[1]. The evaluations provide valuable information on how the programs can be improved, but also conclude that the programs are cost effective and achieving substantial savings. The evaluations along with information from MPUC Docket 2005-446 indicate that the Efficiency Maine program is achieving greater energy savings at lower costs than was projected at the time of program development.

The productivity of the program implementation has helped the Commission achieve greater savings than expected with its existing budgets. Annual program revenues started at $2.6 million in fiscal year 2003, and have grown to $9.2 million in fiscal year 2006. Current projections show that at current levels of assessment, the funds available for conservation programs will be $17 million in fiscal year 2010[2]. Based on these budget projections, the Commission has determined current funding is adequate to maintain the current programs it offers. It will also develop a limited expansion to the residential lighting program to include other products as budgets allow. It will add a commercial new construction program and a limited residential new construction program.

[1] http://www.efficiencymaine.com/documents.htm

[2] These increases are the result of three factors. The most significant is CMP's retirement of payments to expiring Power Partners contracts and represents no increase in costs to consumers. The second most significant effect is the ramp up of assessment on utilities other than CMP to the 1.5 mil statutory cap. CMP's customers are already at the 1.5 mil statutory cap. The least significant increase is due to projected annual increases in sales.

III. Demand Reduction

Section 1 of P.L. 2005, ch. 569. ammends the Conservation Act by adding a fourth consideration criterion for conservation programs, by requiring the Commission to consider programs that "[r]educe the price of electricity over time for all consumers by achieving reductions in demand for electricity during peak use periods." (MRSA 35-A§3211-A (2)(A)4).

Demand reduction programs can reduce prices because of the way in which power plants are dispatched. The lowest cost plants run first, with higher cost plants being dispatched to serve increases in system demand. Thus, at the periods of highest use, the most expensive plants are in operation. Thus, demand reduction programs can reduce energy prices. Demand reduction programs may be broadly divided into three types; peak clipping, peak shifting, or peak shaving. Peak clipping programs eliminate use at the time of the power system's period of highest use (peak). Programs that interrupt load by cycling air conditioners or water heaters on or off or by dimming office lights are examples of peak clipping. Peak shifting programs move customer use from the system peak to periods in which there is less demand on the system. Examples of peak shifting programs are payments to customers to change their pattern of consumption or smart metering programs that convey time-of-use price signals. Peak shaving programs are conservation programs similar to some of those currently being implemented in the Efficiency Maine program.

Based on comments received in this Inquiry (Appendix B) the Commission will initiate a study before beginning the implementation of any demand reduction programs. The study will allow us to determine which hours of the system peak are most valuable, the type of load (e.g. air conditioners, water heaters, industrial process) available for interruption at those hours, and the potential magnitude of load reduction available during those periods. This part of the study will determine the potential value available through demand reduction programs and will involve modeling of the bulk power system and require cooperation of the ISO and electric utilities. A second part of the study will investigate the costs of recruiting the reductions[3]. Together, the answers to these questions will allow the Commission to determine whether there are net benefits and cost effective price reductions available to all consumers through the implementation of such programs.

IV. Increases to Business Program Incentive Cap

Section 7 of an "Act to Encourage Energy Independence for Maine (Act). P.L. 2005, ch. 569" directs the Commission to consider whether increases to program funding levels should be used to increase the current business program incentive cap.

During the development of its business program, the Commission instituted a $50,000 per year incentive cap for any single business customer. The cap was

[3] e.g. What price is required to encourage large and/or small customers to change their patterns of consumption?

instituted to ensure the greatest number of customers are able to participate in the program. According to information received from some larger customers, the cap was not large enough for them to initiate large scale efficiency projects at their facilities. In addition, some complained that the amount of incentive available to them was less than the amount of money that they contributed to the fund. To help address the first issue, the Commission allowed customers to apply two years' worth of incentive to large projects in a single year ($50,000 in any single year or up to $100,000 over two years).

Since the imposition of the incentive cap program budgets have grown, and experience has shown that there are relatively few projects that trigger the cap[4]. Based on its experience and comments received in its investigation (see Appendix C), the Commission has concluded that it can double the existing incentive caps within its current. A more ambitious large customer efficiency funding approach that would allow for very large projects depends on increased funding and is discussed in section V below.

V. Increased Budget and Expenditure Plans

Section 7 of the Act directed the Commission to develop a plan for using revenues from any increase in the assessment on transmission and distribution utilities. The plan was to include a description of how increased funds would contribute to the goals of increasing energy efficiency for program participants and reducing electricity prices for all consumers.

Since initially being directed by the legislature to plan and implement energy efficiency programs, the Commission has examined the potential for achievable cost-effective energy efficiency (MPUC Docket No. 2002-162); it has reviewed and received public comment on its programs to help refine current offerings and solicit input for additional programs (MPUC Docket No. 2005-446), it has conducted formal reviews of its two largest efficiency programs; and it has conducted this Inquiry to help respond to Section 7 of the Act. Our conclusions from these multiple Inquiries are that:

- Current Efficiency Maine program offerings are cost effective and meeting all statutory directives;
- Programs are producing greater savings and at lower costs than was expected during the planning stages;
- The existing Efficiency Maine programs continue to receive broad support from stakeholders;
- Existing programs for efficient products provide a platform, which can be expanded to capture additional efficiency without adding new programs;
- New commercial and residential construction programs will provide opportunities for additional cost effective savings that cannot be achieved through the existing programs; and

[4] Since program inception, the cap has been triggered only 17 times.

- Significant cost-effective energy efficiency opportunities remain [5]

The language of Section 7 directs the Commission to develop a plan for spending any additional revenues. As mentioned above, our existing programs along with our new commercial and residential new construction programs, will allow us to deliver some level of efficiency savings from all sectors. The growing demand for existing programs will itself absorb a major portion of increased funding[6]. Increased budgets would also allow the Commission to initiate a commercial/industrial bid for savings program modelled after CMP's earlier Power Partners program[7]. Finally, expanded funding could allow the Commission to coordinate with the Office of Energy Independence and Security to offer an expanded existing home performance program.

The Commission has accepted the recommendations of all parties for additional energy efficiency programs as we believe program expansion will result in the capture of additional cost-effective energy efficiency that cannot be achieved with the existing programs. Expanding energy efficiency investments will allow additional cost-effective energy efficiency to be secured.

To address the concerns of larger customers, the Commission will open a rulemaking proceeding to raise the cap on incentives for large projects as discussed in Appendix C.

Should budgets increase, the Commission could again raise the incentive cap or alternatively, if the budget is expanded to 2.5 mils, or about $25 million per year, we believe there would be enough funding available to implement a meaningful bid for savings program as recommended by IECG[8]. The scenarios below do not include any allocations directed to demand response initiatives, as recommended by CMP as we believe further analysis is necessary prior to making any recommendation.

In response to Section 7 of the Act, the Commission has examined program expansion and provided 3 funding scenarios for illustrative purposes[9]; at 2 mils, 2.5 mils, and 3 mils. A brief description of each funding scenario is provided below. More detail on funding for each of the programs and the responses of stakeholders to questions in the Commission Inquiry are provided in Appendix D.

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[5] OPA report in MPUC Docket No. 2002-162 indicated the maximum achievable levels of cost effective energy efficiency could be captured with average program budgets of $71 million per year, or about 4.4 times the level at which the Conservation fund is expected to reach by FY 2010.

[6] Annual energy savings from program measures in FY'06 increased by a factor of four over program measures installed in FY'04.

[7] Power Partners was the first bid for savings program of its kind. Rather than develop a program delivery structure, CMP requested $/kWh bids from its "Power Partners" to provide efficiency savings. Power Partners contracts included stringent measurement and verification clauses to ensure program performance.

[8] "Bid for Savings" refers to a type of energy efficiency program that invites competitive responses from businesses for proposed efficiency savings given a requested level of incentive payment.

[9] We are not ruling out the addition of programs beyond what is presented here, nor are we excluding the possibility of adding load response programs to the menu of Efficiency Maine services. Prior to implementation of any new programs, we will seek input from stakeholders as required by §3211-A.

A. Increase Funding by 33% to 2 mils ($0.002/kWh)

As discussed above, with the addition of a new residential construction program this summer, the Commission will be able to target efficiency savings in all major sectors. With funding set at the 2 mil level, the annual program revenues are estimated to be $20 million with energy savings 8% greater and lifetime economic benefits 19% greater than program performance in FY'06. A discussion of implications for increased funding for each sector follows.

1. Residential Programs: Efficiency Maine currently provides an efficient products program, a low income appliance replacement program, and will soon add a limited residential new construction program. The efficient products program has been targeted primarily at residential lighting. This summer, the program will begin providing limited incentives and offerings for other products such as efficient clothes washers and air conditioners as budgets allow. The Commission has decided to add a residential new construction program to its menu of programs. At current funding levels, adequate resources exist to conduct a baseline study of housing construction practices and to provide builder training programs. Funding at a 2.0 mil assessment level would increase the budget for the efficient products program by up to $1 million per year and allow more products to be promoted for periods of greater duration. This would also allow the Commission to budget approximately $1.5 million per year towards residential new construction, enabling more expansive training and program promotion. The increased funding would also allow the Commission to increase its grant to the Maine Home Performance program from $150,000 per year to $500,000[10]. Low income residential customers receive efficient appliances and lighting through a program cooperatively administered with Maine Housing. At current funding levels, the program can serve between 2,500 and 3,000 low income customers per year. An increase to 2.0 mils would yield an approximate 30% increase in the low income program budget[11]. The Commission is exploring ways to deliver program benefits to additional eligible low income customers which could absorb additional funding. One possibility would be for the Commission to revisit the income guidelines it has set for classification as low income, and by so doing expand the population eligible for services.

2. Business Programs: The Efficiency Maine business programs include a new commercial construction program and incentives and advice for improving the efficiency of existing facilities. At least 20% of all funding must be targeted towards small businesses. By increasing the assessment levels to 2 mils, the annual budget for the existing facilities and new commercial construction programs would be about $9.7 million per year. The expanded budget would allow for increased program promotion and allow the Commission to meet the increasing demand for the existing products

[10] Budgets for the residential products program are approximate and determined after mandated expenditure levels for small business and low income programs have been deducted from projected increases in revenues.

[11] Forecasts for the low income program budget are driven by statute which directs that the Commission must ensure that 20% of all program funds are targeted towards services to low income households.

program. It would allow the Commission to (if warranted) once again increase the per customer incentive cap, and would allow for provision of more comprehensive services in the new construction program.

3. Schools: The Efficiency Maine program provides services to schools through three avenues; the High Performance Schools program increases energy efficiency through improvements in the design and construction process of five to ten new schools built each year, the Building Operator Certification program provides training on energy efficient and preventative maintenance practices to approximately eighty school facility personnel each year, and the Efficiency Maine business program provides financial incentives and technical assistance to existing school buildings. We do not foresee making any changes to the budgets for these programs from revenues generated at the 2 mil assessment level. Demand for the High Performance School program is driven largely by the number of schools approved by the Maine Department of Education each year. Current program budgets are adequate to provide for the current rate of construction. Increases in the business program budget discussed above will allow us to package and market a more comprehensive set of measures for existing schools.

B. Increase Funding by 66% to 2.5 mils ($0.0025/kWh)

At this level, annual program revenues are estimated to be $25 million with energy savings 36% greater and lifetime economic benefits 50% greater than program performance in FY'06. Beyond incremental expansion to existing programs described above, the Commission would initiate a bid for savings program funded at $2.5 million per year.

C. Increase Funding by 100% to 3 mils ($0.003/kWh)

An assessment level of 3 mils would result in program revenues of approximately $30 million per year. We project that the energy savings from a program of this size would be nearly 70% greater and net lifetime economic benefit would be 80% greater than those yielded by the current programs in FY'06. As explained in B above, all programs would receive incremental increases to their budgets and funding for the bid for savings program would increase to an estimated $5 million per year.

VI. Summary and Conclusion

Based on information gathered in its Inquiry, the Commission will initiate a quantitative study of the value of load response programs. The study will examine the wholesale market system's economic dispatch to assess the periods in which demand reduction would yield the greatest economic benefit. The study will determine whether the cost of acquiring those reductions is less than the benefit yielded. Finally, the study will document any price reduction effects likely to occur from the demand reductions. Information gathered through this study will inform the Commission's efforts to develop an economic load response program.

The Commission will open a Chapter 380 rulemaking proceeding to change the current per customer annual incentive limitation of $50,000 per customer per year or $100,000 per customer every two years, to $100,000 per customer per year or $200,000 per customer every two years.

The Commission will form an Efficiency Maine Advisory Council composed of a representative group of stakeholders. The Council will serve as a way for the Commission to regularly inform this group on the progress of the Efficiency Maine programs and as a venue for the Council to provide regular input to the Commission.

Two new programs, commercial new construction and residential new construction will be initiated beginning in FY'08 and will operate within the current budgets expected from the current 1.5 mil assessment cap. Should the legislature elect to increase program funding levels by removing the current cap on the assessment, these programs would be expanded to absorb increased program budgets. At annual budgets of $25 and $30 million, the Commission would initiate a bid for savings program. In addition, should the legislature elect to increase efficiency program budgets and assessment levels, it should adopt a gradual ramp-up in the program revenues to allow for gradual program expansion.

APPENDIX A:
DOCKET PARTICIPANTS

A total of 13 parties provided written comments for this Docket proceeding and are grouped in the following categories presented below:

Utilities
- Central Maine Power (CMP)
- Bangor Hydro Electric (BHE)
- Maine Public Service (MPS)

Industry:
- Industrial Energy Consumer Group (IECG)
- Madison Paper Industries

Environmental Groups:
- Natural Resources Council of Maine (NRCM)
- Environment Maine
- Environment Northeast

Efficiency Organizations/Firms:
- Northeast Energy Efficiency Partnerships (NEEP)
- North Atlantic Energy Advisors (NAEA)

Other:
- Maine State Housing Authority (MSHA)
- Office of Public Advocate (OPA)
- Office of Energy Independence and Security (OEIS)

APPENDIX B:
DEMAND AND PRICE REDUCTIONS

In Section 1 of the Notice of Inquiry, the Commission sought input on questions related to programs to address demand and price reductions.

1.A. Peak demand reductions

Question 1.A.1 of the Docket asked how the "peak period" should be defined; whether it should be based on in-State system peak or on the New England system peak.

All but one respondent stated that "peak" be defined based on ISO-New England peak period definitions. Maine Public Service (MPS) stated that the "peak" should be defined based on the relevant wholesale electricity market, noting that northern Maine is winter peaking and southern Maine is summer peaking.

Question 1.A.2 asked if the Commission should consider all three types of programs (energy efficiency, load shifting, and load interruption) as peak reduction programs for the purpose of interpreting newly-enacted section 3211-A (2)(A)(4). *Energy efficiency* programs result in permanent reductions to peak demand by improving the efficiency of use. The demand reduction continues as long as the efficient equipment remains in place. *Load shifting programs*, may not improve efficiency but reduce peak demand by encouraging consumers to change their pattern of consumption. Examples of such programs are Time-of-Use rate structures or smart metering programs. *Load interruption programs* such as water heater cycling or voluntary interruptible programs reduce peak loads but do not increase energy efficiency.

Comments furnished by utilities Central Maine Power, Bangor Hydro-Electric, and Maine Public Service support shifting funds from the implementation of efficiency programs to load shifting and load interruption programs, hereafter referred to simply as "demand response" programs. According to CMP and MPS, if a sufficiently large demand response program is implemented it could reduce peak demand enough to reduce the spot clearing price for electricity, thereby providing benefit to all customers through lower prices for generation service. Others, such as Northeast Energy Efficiency Partnerships and Environment Maine discouraged the use of conservation funds for demand reduction programs stating that the long term benefits of efficiency are greater than demand response. While Natural Resources Council of Maine acknowledged the potential benefits of demand response programs, they noted that when considering the long term public benefits of avoided costs they prefer efficiency. Maine's Office of Public Advocate urged the Commission to apply the same set of cost effectiveness criteria to load shifting and load control programs as are currently applied to energy efficiency programs as a factor for deciding where to invest conservation

funds. Additionally, OPA noted that demand response, unlike efficiency, only reduces peak demand, with little to no effect on energy consumption. As such, they note that utilities commonly favor demand response as it provides capacity savings while not impacting revenue to the same extent of investment in energy efficiency. Additionally, unlike efficiency investments which typically have at least a 10 year measure life, the measure life of a load control program is one year, thus resulting in limited capacity savings relative to its cost. OPA and Environment Northeast suggest that with the rise of the Forward Capacity Market (FCM), consideration should be given to using FCM funds for any demand response effort, thereby not displacing the existing system benefit charge funding stream for efficiency.

Question 1.A.3 asked whether it would it be necessary to involve electric distribution companies in load reduction/load shifting programs. There was unanimous agreement of stakeholders responding to this question that electric distribution companies would be required to participate in any load reduction program for it to be successful.

1.B. Price Reductions

Question 1.B.1 asks how the Commission should determine whether demand reduction "[r]educe the price of electricity over time for all consumers" as required under section 3211-A (2)(A)(4)? Should the Commission only consider demand reduction programs which have operated elsewhere and have empirically demonstrated price reductions for all consumers? Would a demonstration of price effects over time using hypothetical load reductions and a computer model suffice?

Stakeholder response to this question was divided. Utility respondents agreed that empirical evidence and evaluations of price reduction associated with demand reduction programs should be required prior to program implementation. Others, such as NEEP and OPA would be satisfied if such benefits could be demonstrated through a study modeling the effect of such a program.

APPENDIX C:
CAPS

Question 4.C.1 of the Notice of Inquiry refers to Section 7 of the Act that directs the Commission to "consider using funds resulting from any increased assessments to increase the per-business incentive cap imposed on large businesses under the business program. . .." The initial reason for the incentive cap was to prevent depletion of the fund by a few very large projects. The Commission asked docket participants if a different maximum value should be adopted and, if so, how should it be determined?

NRCM supported a process of establishing caps based on a cash flow analysis of the project in question, up to a maximum of $200,000 per customer over a four year time period. OPA supports multi-year caps, with an increased cap level for lost opportunity projects such as new construction, versus, discretionary retrofit. Additionally, while OPA is a firm supporter of caps to ensure that no single customer reserves a significant percent of overall program funding in any cycle, they justify the need for flexibility, and a provision to allow the program to waive the cap when programs are undersubscribed or for very large lost opportunity projects.

BHE expresses support for caps consistent with the original intent to ensure availability of funds for all customers. CMP did not support caps, other than to cap incentives at the amount the customer is actually assessed. CMP states this could be accomplished by escrowing funds contributed by customers to the conservation fund for use at a later time or limiting the amount that business customers are required to contribute in the first place. MPS did not support an increase in the cap, noting that businesses in southern Maine are larger and would absorb most of the funding with an increased cap, thereby reducing available funds for northern businesses. IECG does not support the use off caps, rather, cost-effectiveness should be the criteria for determining an individual project incentive level.

Question 4.C.2 asked if the Commission should reserve a "large incentive" fund within its business program with a "first come first served" application process. BHE responded that they do not support this idea, as they want to ensure their smaller business customers have access to incentive resources. OPA and IECG also did not support this idea.

APPENDIX D:
EFFICIENCY MAINE BUDGET, NEW CONSERVATION PROGRAMS, AND STAFFING LEVELS

Section 4 of the Notice of Inquiry addressed questions in Section 7 of the Act directing the Commission to develop a plan for using revenues from any increase in the assessment on transmission and distribution utilities pursuant to section 3211-A (4).

The Commission received input on a variety of questions related to budget levels from Docket participants, conducted a comparative review of spending on efficiency in Maine compared to other New England states and nationally, and finally, for illustrative purposes only, presented three different funding scenarios and portfolio designs to provide an indication to the Legislature how the Commission might allocate additional efficiency funds if authorized by the Legislature.

Assessment levels

In Section 4.A of the Notice of Inquiry, the Commission asked Docket participants if the existing assessment level of 1.5 mills ($0.0015/kWh) is adequate, or should the Commission recommend an increase in the assessment?[12] The Commission noted the assessment level for efficiency activities is actually 1.45 mils as 0.05 mils are allocated to fund the Maine Solar Energy Rebate program. The Commission asked if the assessment amount available to support efficiency activities should be raised back to the full 1.5 mil rate level in the event the rebate program is allowed to sunset. Finally, the Commission asked if the recommendation is for an increase in the assessment level at what rate should the assessment escalate.

Comments on this question were divided. CMP, BHE and MPS stated the current assessment level is adequate and noted that the expiration of the Power Partners contracts and continued load growth will result in increased budgets over time.[13] As noted previously in this report, the Commission projects the Efficiency Maine budget to grow to $16.4 million by 2010. CMP notes that Maine electricity consumers, in addition to paying for the Efficiency Maine programs, are also paying for the ISO-New England Demand Response programs. CMP says Maine's assessment on T&D utilities is already high. At the same time, CMP notes that Maine already has high market shares for ENERGY STAR appliances and the recent Energy Policy Act of 2005 will result in increased standards and tax credits on efficient products, all of which will advance efficiency goals. IECG does not support an increase in the assessment, rather, they voice support for reallocation of the existing funds.

[12] The Commission's investigation in Docket 2002-162 determined the current 1.5 mil assessment level captures only a fraction of the achievable economic potential for energy efficiency savings. *Order On Conservation Program Funding,* Docket 2002-162 (April 4, 2003).

[13] The projected budget for efficiency programs is $13.1 million for fiscal year 2007. At current assessment levels, the budget is projected to grow to $16.4 million by 2010 due to the payoff of Power Partners expenses, the graduated increase in assessment for consumers who are not yet paying the full 1.5 mil rate, and the expected increases in sales.

Regarding the issue of raising the mil rate back to the full 1.5 to account for the 0.05 deduction to fund the solar program, IECG and BHE did not support this idea. On the contrary, the environmental and efficiency groups and the OPA all supported raising the level back to the full 1.5 mil rate if the solar rebate program expires.

NRCM, Environment Northeast, Environment Maine, NEEP, and OPA all support an increase in the assessment level, noting that Maine's funding of energy efficiency is the lowest in New England.

Section 4.A.3 asked if the Commission recommends an increase to the assessment level, should the increase be introduced gradually to correspond with ramp up in activity for new programs? If so, at what rate should the assessment escalate?

Responses to this question, although varying in specific amounts and timelines, uniformly support a gradual phase in of increased assessments if the Legislature were to authorize an increase in the assessment level. Although BHE and MPS were not supportive of an increase in the assessment level overall, they both stated that any increase be phased in gradually, at a rate of approximately 0.2 mils per year or approximately $2 million per year as agreed to by the Commission previously in Docket 2002-162. NRCM supported a more accelerated increase in assessment levels, increasing to 1.75 mils to eventually 3.0 mils in two to three years.

4.B. Targeted Spending

Question 4.B.1 asked whether if the Commission recommends an increase in the assessment, should the existing spending allocations remain the same. As currently written, section 3211-A (2)(B) requires the Commission to target at least 20% of available funds to low income customers and at least 20% to small business customers.

Responses to the question were mixed, with the majority in support of maintaining the existing arrangement. BHE, CMP, and Maine State Housing Authority (MSHA) all supported a continuation of the current allocation requirements. OPA stated that the current allocation should be maintained and consideration given to an increase. OPA noted that on a per capita basis, the set-aside for low income customers in Maine is lower than required funding allocations for efficiency spending in Vermont or Massachusetts. IECG did not support a continuation of the automatic allocation.

Question 4.B.2 referred to Section 7 of the Act that directs the Commission to "consider using funds resulting from any increased assessments to increase the per-business incentive cap imposed on large businesses under the business program. . .." The Commission sought input on how to interpret this directive and whether this negates the mandated 20% allocation to low income and small business customers.

Response to this question was divided as well, with the majority (BHE, MSHA, and OPA) supporting the interpretation that if the assessment is increased, the 20% allocations should remain intact. On the contrary, IECG stated an opinion that if the assessment is increased, the 20% allocations should be capped at the 1.5 mil rate funding level, and additional funds used for increasing the business caps.

In question 4.B.3 the Commission explained how the current low income residential program effort is directed at customers who meet 150% of the federal poverty guidelines and qualify for LIHEAP. The Commission asked if it makes sense to continue an automatic allocation of 20% of the conservation fund to this class in light of the limited opportunities for electric savings in residential dwellings in Maine?

BHE, MSHA, and OPA all supported the continued 20% allocation. OPA stated that the Commission's guidelines for low-income eligibility do not need to correspond with the federal poverty guidelines, citing both Vermont and Long Island, NY as locations that have more generous income eligibility guidelines. Additionally, OPA expressed support for an expansion of the electrical end-uses targeted by the program.

IECG does not support a continuation of the automatic 20% allocation, rather, they state their preference for investment of efficiency funds that will maximize cost-effectiveness.

Table 1 below shows that Efficiency Maine's funding level of 1.5 mils is the lowest in New England, additionally, efficiency spending as a percent of electric sales revenue is also the lowest in New England at 2.02%.

Table 1: Comparison of 2006 New England Energy Efficiency Program Budgets

State	2006 Electric Efficiency Budget (Millions)	Mills per KWh	Efficiency Budget as Percent of Electric Sales Revenues
Connecticut	$56.8	3.0	3.30%
New Hampshire	$17.8	1.8	2.91%
Massachusetts	$122.5	2.5	2.81%
Vermont	$16.4	2.8	2.40%
Rhode Island	$21.0	2.0	2.21%
Maine	$11.9	1.5	2.02%
AVERAGE	**$41.1**	**2.3**	**2.60%**

Notes:

Budget estimates as reported by CEE 2006 research http://www.cee1.org/ee-pe/06_elec.pdf

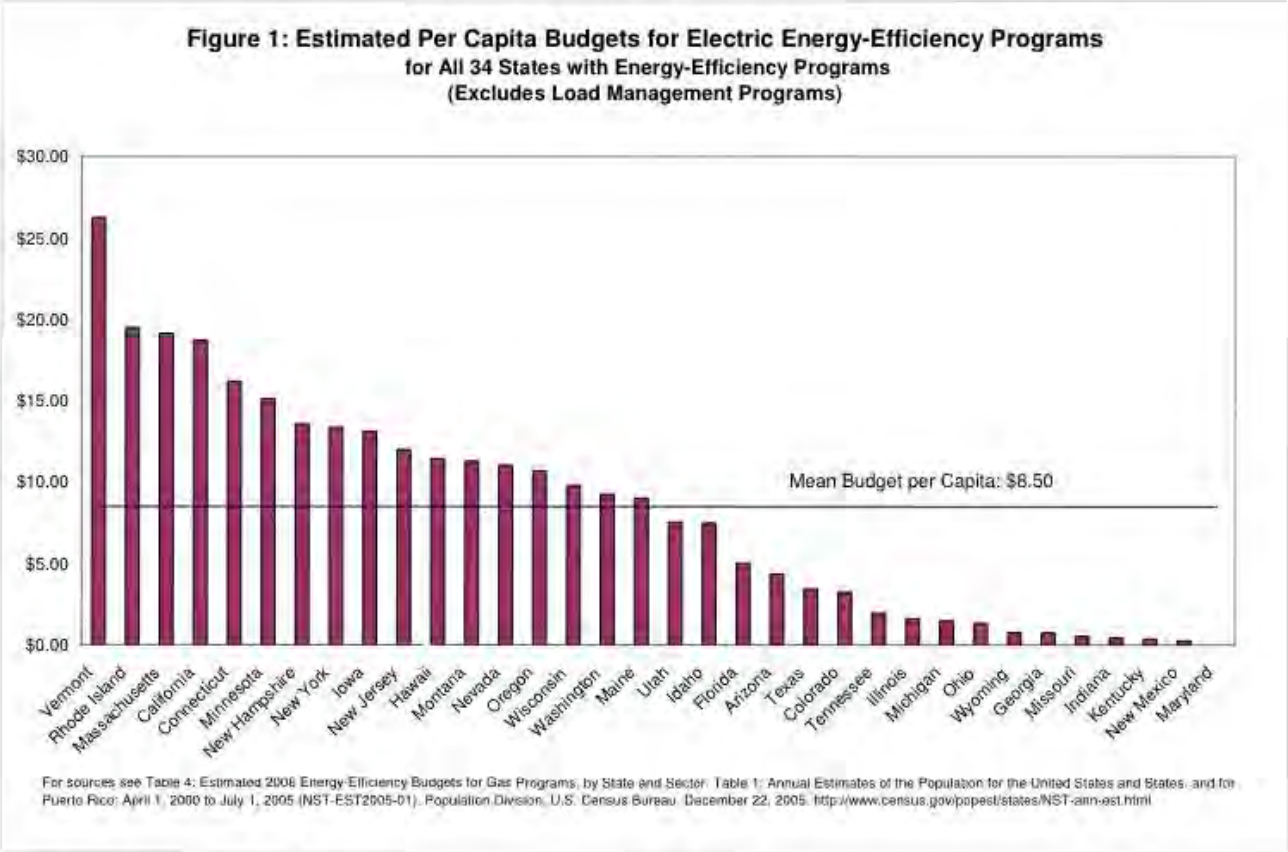
Mills per kWh as reported by previous NEEP research. 2006. Source. Jim O'Reily, NEEP.

Percent of electric sales revenue based on ACEEE research, December, 2005.. http://aceee.org/briefs/mktabl.htm

As shown in figure 1 below, Maine ranks 17th nationally in levels of funding at approximately $8.25 annually per capita. This information was provided by in a recent review by the Consortium for Energy Efficiency (CEE).[14]

[14] Further information, on the comparative spending levels by states on energy efficiency is available in CEE's 2006 review of energy efficiency programs. http://www.cee1.org/ee-pe/cee_budget_report.pdf

Figure 1



OPA states in their 2002 efficiency potential study, the remaining economically achievable potential for energy efficiency in Maine would support a tripling of the assessment level. They continue that Vermont regulators decided in 2006 to increase Efficiency Vermont's funding level by 75% to a total of $31 million/yr. OPA notes that even increasing Efficiency Maine's budget to $30 million/year represents capturing only approximately 33% of the economically achievable potential. NRCM supports a doubling of the assessment rate based on economic grounds of procuring the least cost electricity supply resource through efficiency, and propose a gradual increase in the assessment level from the existing 1.5 mils to 3.0 mils over a two-three year time period.

Environment Northeast commented that the state should set as a policy goal an objective to capture all cost-effective energy efficiency and demand reduction resources, and as such, budgets should be set according to this policy goal. Environment Northeast also notes that based on the results of the OPA potential study in 2002, to capture the maximum achievable economic potential funding should be more at the level of $70 million/yr over a ten year time period. They conclude by stating that the current 1.5 mil rate should be sufficient if the anticipated future funding streams from

the FCM payments, proceeds from the auction of Regional Greenhouse Gas Initiative (RGGI) allowances, and any new rate-based investment ordered by the PUC is directed toward energy efficiency. However, if these future funding streams are not forthcoming in a timely manner and do not approach the levels required to obtain maximum achievable potential, then the SBC mil rate of 1.5 should be raised.

NEEP suggests raising the SBC rate to a minimum level of 2.5 mils and further integrated energy efficiency into the standard offer supply as part of a wider portfolio of programs managed by Efficiency Maine.

As detailed in Table 2, the findings from the OPA's 2002 study on the achievable potential for electrical energy efficiency in Maine found the potential economically achievable lifetime savings over a 10 year investment cycle to be over 74 million MWh representing a forecasted 36.7 million metric tons of avoided carbon dioxide (CO_2) emissions.[15] The OPA study projected that a total investment of $713 million over ten years (or approximately $71 million/yr on average in 2003 dollars) would result in a net economic benefit of approximately $549 million, with an overall benefit-cost ratio of 1.77.

[15] Source: The Achievable Potential for Electric Efficiency Savings in Maine. Prepared for the Maine Public Advocate by Optimal Energy Inc. & Vermont Energy Investment Corp. October 22, 2002

Table 2. Maine's Maximum Achievable Electrical Energy Efficiency Potential Over 10 Years (2003-2012)

Sector	Benefits	Costs	Net Benefits	Benefit-Cost Ratio	Lifetime MWh Savings	Lifetime Metric Tons Carbon Savings
Residential						
New Construction	$61,212,000	$42,023,000	$19,188,000	1.46	828,582	414,178
Efficient Products	$246,704,000	$160,647,000	$86,058,000	1.54	10,647,480	5,322,291
Low Income	$35,694,000	$29,046,000	$6,648,000	1.23	2,428,100	1,213,720
Subtotal Residential	**$343,610,000**	**$231,716,000**	**$111,894,000**	**1.48**	**13,904,162**	**6,950,189**
Commercial/Industrial						
New Construction	$120,177,000	$94,174,000	$26,030,000	1.28	8,175,585	4,086,680
Equipment Replacement	$127,894,000	$57,499,000	$70,395,000	2.22	7,592,020	3,794,977
Retrofit	$671,467,000	$330,470,000	$340,997,000	2.03	43,814,833	21,901,454
Subtotal C&I	**$919,538,000**	**$482,116,000**	**$437,422,000**	**1.91**	**59,582,439**	**29,783,111**
Total	**$1,263,147,000**	**$713,832,000**	**$549,316,000**	**1.77**	**73,486,601**	**36,733,300**

Lifetime MWhs and CO_2 savings based on an average 10 year measure life and 2004 ISO-NE Marginal Emission Estimates. Dollar values are based on societal present worth discounted to 2003 dollars.

Source: The Achievable Potential for Electric Efficiency Savings in Maine. Prepared for the Maine Public Advocate by Optimal Energy Inc. & Vermont Energy Investment Corp. October 22, 2002

To respond to the legislature's directive to provide a plan for how increased funds should be used, the Commission sought input regarding additional conservation programs it should consider implementing. It requested that proposals for any new programs reflect the goals, objectives, and strategies as revised by the January 18 Order in Docket No. 2005-446 and include demand reduction as well as conservation programs.

Central Maine Power Company recommended shifting funds from existing programs to load control and water heater wrapping. CMP also recommended that no new programs be added.

BHE commented that enhanced new residential construction needs are being met by Maine's Model Building Energy Code as such, a RNC program is not needed.

The Office of Public Advocate, Natural Resources Council of Maine, and the Northeast Energy Efficiency Partnerships recommended that the Commission add a Residential New Construction program to the menu of programs offered. NRCM

recommends an expansion of incentives beyond efficient lighting to residential customers. OPA requests a small business direct install lighting program. OPA also suggests a significant re-orientation of Efficiency Maine's programs to focus on "lost opportunities", that being, positioning Efficiency Maine to influence the purchasing decision during new construction or equipment end of life replacement so that the efficient technologies are installed. OPA suggests with increased funding the efficiency potential present in the reservoir of retro-fit projects could be tapped. The Industrial Energy Consumers Group recommends implementation of a bid-for-savings program similar to CMP's former Power Partners program.

In Section 3, of the Notice of Inquiry, the Commission inquired whether there are particular products that increase consumer electrical efficiency or reduce their electrical demand not currently eligible for incentives which should be included under the program. Docket participants were requested to detail the type of product, incremental costs, energy and demand savings, product lifetime, and current market share of the efficient product. Additionally, the Commission was interested in learning about the market potential, anticipated natural market adoption rate, and current and projected future number of manufacturers. Finally, the Commission was interested in learning if any of the new proposed products would require a change in the current program management contractor oversight model.

CMP did not support the introduction of paying an incentive for any new products. OPA submitted a long and detailed list of numerous residential and commercial products that addressed specifically the questions asked by the Commission.

In terms of how increased levels of funding could be used, the Commission presented three different funding scenarios detailing in broad terms how the Commission might invest additional resources and the projected results if the Legislature decided to increase efficiency investments. Each table details the amount forecasted to be invested by program, projected budget share, annual and lifetime MWh savings, and projected economic benefits and metric tons of avoided CO_2 emissions.[16] The Commission has accepted the recommendations of all parties for additional programs, and with the exception of a bid for savings program, intends to implement each within currently projected budgets. Expanded budgets will allow additional products and services and more comprehensive program treatments. At its current budget level, the Commission will raise the cap on incentives for large projects as discussed in Appendix C. Should the budget increase further, the Commission would again raise the incentive cap. If the budget is expanded to 2.5 mils, or about $25 million per year, we believe there would be enough funding available to implement a

[16] In all three funding scenarios, estimates were derived from a straight line extrapolation of the results from Efficiency Maine's 2006 Annual Report and adjusted based on the proportional increase in funding by program areas. Savings for proposed new program areas such as business new construction and bid for savings programs are based on the results from the 2006 Efficiency Maine business program. Additionally, projected savings for residential new construction and home performance are based on Efficiency Vermont's 2004 Annual Report savings estimates, and scaled again proportionate to the varying levels of funding.

meaningful bid for savings program as recommended by IECG. The scenarios below do not include any allocations directed to demand response initiatives, as recommended by CMP as we believe further analysis is necessary prior to making any recommendation.

Table 3 below presents the actual funding levels and results from Efficiency Maine's 2006 Annual report. In 2006, at a funding level of 1.5 mils, Efficiency Maine invested $9.2 million in the Efficiency Maine programs, resulting in 74,759 MWh savings, with a lifetime net economic benefit of $54 million and 344,283 metric tons of avoided CO_2 emissions.

Table 3: 2006 Annual Budget of $9.2 million (1.5 mil rate)

Program	Annual Budget (Millions)	Percent	Annual MWh Savings	Lifetime MWh Savings	Lifetime Net Economic Benefits (Millions)	Lifetime CO2 Reductions (Metric Tons)
Business New Construction	n/a	n/a	n/a	n/a	n/a	n/a
Business Existing Facilities	$4.2	45.5%	23,094	321,434	$23.1	160,673
Business Bid for Savings	n/a	n/a	n/a	n/a	n/a	n/a
Efficient Products	$2.3	25.1%	39,047	296,760	$23.1	148,340
Low Income	$2.0	21.2%	5,934	37,141	$2.7	18,565
Building Operator Training	$0.1	1.4%	6,684	33,418	$4.9	16,704
High Performance Schools	$0.1	1.3%	n/a	n/a	n/a	n/a
Residential New Construction	n/a	n/a	n/a	n/a	n/a	n/a
Home Performance	n/a	n/a	n/a	n/a	n/a	n/a
Education and Training	$0.2	1.8%	n/a	n/a	n/a	n/a
Other Evaluation & Research	$0.3	3.8%	n/a	n/a	n/a	n/a
TOTAL	$9.2	100.0%	74,759	688,753	$54	344,283

As demonstrated in Table 4, a 33% increase in the assessment rate to 2.0 mils would result in annual budget of approximately $20 million dollars per year. We project this would yield 131,433 MWh savings, with a lifetime net economic benefit of $103 million and 665,648 metric tons of avoided CO_2 emissions. The Commission believes at a funding level of $20 million per year, insufficient resources are available to fund a bid for savings type program targeted for large commercial and industrial customers.

Table 4: Annual Budget of $20 million (33% increase to 2.0 mil rate)

Program	Annual Budget (Millions)	Percent	Annual MWh Savings	Lifetime MWh Savings	Lifetime Net Economic Benefits (Millions)	Lifetime CO2 Reductions (Metric Tons)
Business New Construction	$4.0	20.0%	22,009	306,330	$22.1	153,124
Business Existing Facilities	$5.7	28.5%	31,363	436,521	$31.4	218,201
Business Bid for Savings	$0.0	0.0%	n/a	n/a	n/a	n/a
Efficient Products	$3.4	17.0%	57,401	436,250	$34.0	218,066
Low Income	$4.0	20.0%	12,150	76,043	$5.6	38,011
Building Operator Training	$0.1	0.5%	5,202	26,009	$3.8	13,001
High Performance Schools	$0.4	2.0%	2,201	30,633	$2.2	15,312
Residential New Construction	$1.5	7.5%	830	14,904	$2.8	7,450
Home Performance	$0.5	2.5%	277	4,968	$0.9	2,483
Education and Training	$0.2	1.0%	n/a	n/a	n/a	n/a
Evaluation & Research	$0.2	1.0%	n/a	n/a	n/a	n/a
TOTAL	**$20.0**	**100.0%**	**131,433**	**1,331,659**	**$103**	**665,648**

In Table 5, a 66% increase in the existing assessment rate to 2.5 mils would result in annual budget of approximately $25 million dollars per year. We project this would yield 165,597 MWh savings, with a lifetime net economic benefit of $130 million and 841,010 metric tons of avoided CO_2 emissions.

Table 5: Annual Budget of $25 million (66% increase to 2.5 mil rate)

Program	Annual Budget (Millions)	Percent	Annual MWh Savings	Lifetime MWh Savings	Lifetime Net Economic Benefits (Millions)	Lifetime CO2 Reductions (Metric Tons)
Business New Construction	$4.5	18.0%	24,760	344,622	$24.8	172,264
Business Existing Facilities	$5.5	22.0%	30,262	421,204	$30.3	210,545
Business Bid for Savings	$2.5	10.0%	13,756	191,457	$13.8	95,702
Efficient Products	$4.3	17.0%	71,752	545,313	$42.5	272,582
Low Income	$5.0	20.0%	15,187	95,054	$7.0	47,514
Building Operator Training	$0.1	0.5%	6,502	32,511	$4.8	16,251
High Performance Schools	$0.4	1.5%	2,063	28,718	$2.1	14,355
Residential New Construction	$1.8	7.0%	969	17,388	$3.2	8,692
Home Performance	$0.6	2.5%	346	6,210	$1.2	3,104
Education and Training	$0.2	0.8%	n/a	n/a	n/a	n/a
Evaluation & Research	$0.2	0.8%	n/a	n/a	n/a	n/a
TOTAL	**$25.0**	**100%**	**165,597**	**1,682,478**	**$130**	**841,010**

In Table 6, a 100% increase in the existing assessment rate to 3.0 mils would result in annual budget of approximately $30 million dollars per year. We project this would yield annually 203,210 MWh savings, with a lifetime net economic benefit of $157 million and over 1 million metric tons of avoided CO_2 emissions.

Table 6: Annual Budget of $30 million (100% increase to 3.0 mil rate)

Program	Annual Budget (Millions)	Percent	Annual MWh Savings	Lifetime MWh Savings	Lifetime Net Economic Benefits (Millions)	Lifetime CO2 Reductions (Metric Tons)
Business New Construction	$5.1	17.0%	28,061	390,571	$28.1	195,233
Business Existing Facilities	$4.5	15.0%	24,760	344,622	$24.8	172,264
Business Bid for Savings	$5.0	16.5%	27,236	379,084	$27.3	189,490
Efficient Products	$5.7	19.0%	96,232	731,361	$57.0	365,581
Low Income	$6.0	20.0%	18,225	114,065	$8.4	57,017
Building Operator Training	$0.1	0.3%	3,901	19,506	$2.9	9,751
High Performance Schools	$0.6	2.0%	3,301	45,950	$3.3	22,969
Residential New Construction	$2.0	6.5%	1,080	19,376	$3.6	9,685
Home Performance	$0.7	2.5%	414	7,422	$1.4	3,710
Education and Training	$0.2	0.5%	n/a	n/a	n/a	n/a
Evaluation & Research	$0.2	0.8%	n/a	n/a	n/a	n/a
TOTAL	**$30.0**	**100.0%**	**203,210**	**2,051,957**	**$157**	**1,025,699**

Section 4.A.3 asked if the Commission recommends an increase to the assessment level, should the increase be introduced gradually to correspond with ramp up in activity for new programs? If so, at what rate should the assessment escalate?

Responses to this question, although varying in specific amounts and timelines, uniformly support a gradual phase in of increased assessments if the Legislature were to authorize an increase in the assessment level. Although BHE and MPS were not supportive of an increase in the assessment level overall, they both stated that any increase be phased in gradually, at a rate of approximately 0.2 mils per year or approximately $2 million per year as agreed to by the Commission previously in Docket 2002-162. NRCM supported a more accelerated increase in assessment levels, increasing to 1.75 mils to eventually 3.0 mils in two to three years.

In section 2.D. of the Notice of Inquiry, the Commission requested input on MPUC program staffing levels for oversight of the Efficiency Maine contract. The current Commission staffing level for administration of Efficiency Maine programs is limited by statute to five full time equivalent (FTE) staff positions. Program implementation is accomplished through oversight of hired implementation contractors. The Commission inquired whether five FTEs was the appropriate number of staff for program management. Additionally, the Commission inquired if any new programs being proposed could be implemented through the same contractor oversight model or would they require more direct MPUC implementation. Finally, the Commission asked what would be the appropriate number of contracts for each employee to manage.

Responses to this question were provided by the Natural Resources Council of Maine and the Office of Public Advocate. Both organizations expressed non-specific support for an expansion of staffing, noting that the current staffing levels are inadequate. Aside from these general comments, no specific suggestions were provided to the questions requested by the Commission.

In question 2.D.2 the Commission inquired if the proposed programs relied more on the direct delivery of the program by Commission staff, what the number of individuals required to effectively deliver the program might be.

Except for the OPA comment that a residential new construction program would require an additional FTE, no comments were received in response to this question.

As part of the February 2nd, 2007 Procedural Order, the Commission released for comment a staffing plan that compared current PUC Efficiency Maine staff and a projected staffing level at an illustrative funding level of $30 million per year for comment. Comments on this staffing table were submitted by NRCM who stated that the proposed 17 FTEs at a $30 million/year budget may be high. NRCM suggested that a staffing level in the range of 15 FTEs would be more appropriate. NRCM and NEEP requested further definition of the specific positions and functions that would be handled by “coordinators”, “managers”, and “directors”. Additionally, NEEP advocated that the “energy analyst” position be responsible for market research and evaluation activities

APPENDIX E:
PRIOR RECOMMENDATIONS

In Section 2.E. of the Notice of Inquiry, the Commission revisited several items that were addressed in previous Docket proceedings. In the January 18th Order in Docket No. 2005-446 , the Commission decided it would place a greater emphasis on the technical assistance component of the business program. As currently structured, the business program can provide technical assistance studies on a shared cost basis with the customers. Those studies are generally use-specific, not comprehensive energy audits. Question 2.E.1 of this proceeding asked whether the Commission should expand the availability of energy audits. If so, should audits of different levels of sophistication be provided?

North Atlantic Energy Advisors and ERS commented that audits, by themselves, result in little action while Bangor Hydro-Electric and MPS support an expanded use of in-field and on-line audits.

In question 2.E.2 the Commission sought comment on the likely annual cost of running a residential new construction program (RNC).

OPA reported that the estimated cost for running an RNC program would be $600,000 in the first year, ramping up to $2.0 million/year after five years.

In question 2.E.3 the Commission inquired whether there is support for an expansion of funding for the whole house efficiency program, and if so what level of funding would be appropriate for a Maine-based program.

Currently, the Maine Home Performance with ENERGY STAR program (HPWES), administered by the Office of Energy Independence and Security (OEIS), receives $150,000 per year in support from Efficiency Maine. Efficiency Maine is currently supporting this program during the pilot phase period which ends in December 2009. The HPWES program also receives funding from Maine State Housing Authority and a U.S. Department of Energy grant.

NRCM supported continuation of the current funding level, while OPA supported a gradual increase in funding and a merger of the program into the Efficiency Maine portfolio of programs. BHE had no comment on the program except to state that cost-effectiveness should be the metric to evaluate the basis for increased program funding. OEIS submitted comments expressing support for increased funding for the program and noted that calculating the benefit-cost of a program of this type needs to take into account the additional non-energy benefits of this initiative including improved indoor air quality, comfort, and safety. OEIS additionally gives support to the need to more fully integrate the promotion of electrical energy efficiency with fossil fuel efficiency, especially in the context of the growing need to address global warming.

APPENDIX F:
OTHER QUESTIONS

At the public hearing on February 2, 2007, Chairman Adams introduced several additional questions, and submitted them as a Procedural Order on February 2, 2007 and invited comment.

Question 5.A.1: Should the Commission stop funding efficiency programs through the imposition of a system benefits charge on all kWh sold and instead reflect Efficiency Maine assessment costs only in distribution rates (whether by a kWh charge or simply as a cost built into rates). In other words, design rates so that transmission level customers do not pay any Efficiency Maine costs, and transmission-level customers are not allowed to participate in any Efficiency Maine programs?

CMP and NEEP took no position on this question. NEEP recommends caution however, in making such transitions to ensure that sufficient funding for small business and low income customer programs is preserved. NEEP also cautions it is important to maintain measurement and verification protocols for large customer self directed programs. While not opposed to the proposal, OPA cautions that the removal of transmission customer load from the assessment would result in an increase to rates of non-transmission customers. OPA also recommends further research into alternative delivery mechanisms such as an "Energy Savings Account Program" should be conducted before making a final decision. NRCM recommended an alternative way to ensure greater equity for transmission customers might be to raise the incentive cap. Environment Northeast, NRCM and Environment Maine were opposed to exempting transmission level customers, pointing out that energy savings from smaller customers provide indirect benefit to large customers, and large customer efficiency projects provide indirect benefit to smaller customers as well. Madison Paper Industries recommends exempting transmission level customers from both participation and funding in the efficiency programs and supports this idea.

Question 5.A.2: Should the Commission implement separate Efficiency Maine programs for transmission-level and distribution customers, and recover costs of each of those programs through separate assessments on transmission customers and distribution customers?

Neutral responses to this question were received from both OPA and NEEP, with both organizations recommending design changes that would allow larger customers greater program design flexibility while maintaining accountability for energy savings. Environment Northeast, Environment Maine, and NRCM were all opposed to the development of a separate transmission level customer fund citing issues of program parity. So long as they are required to continue contributing to the efficiency programs, Central Maine Power Company believes the existing methodology is fair and opposes separate assessment mechanisms for transmission level customers. Madison Paper

also does not support the idea of creating a separate fund for transmission level customers.

Question 5.A.3: Should any T&D utilities' incentive rate mechanisms be designed to mitigate or even eliminate any disincentive for the T&D to encourage conservation and to reduce its incentive to sell more kWh, and if yes, how should the rate plan be designed (e.g. through sales forecasts, revenue and profit decoupling mechanisms)?

With the exception of OPA, which remained neutral, all parties favored further Commission examination of this issue. While not opposed to the concept, OPA points out that the current rate mechanisms used for Maine's investor-owned utilities do not coexist easily with revenue neutral efficiency schemes. OPA recommends including the issue for examination in BHE's on going rate case and in CMPs impending rate case. Other parties were in favor of the concept, with CMP and Environment Northeast both proposing sales adjustment clauses to factor in and compensate for efficiency program related revenue losses.

Question 5.B1: Proposed a structure for the creation of an Efficiency Maine Advisory Council. Please comment generally on the desirability of an Advisory Council, and specifically on the composition and activities described in Appendix No. 1.

Comments on the idea of establishing an Efficiency Maine Advisory Council were well received by OPA, NEEP, NRCM, Environment Northeast, and Environment Maine. No docket participant spoke in opposition to this proposal. NEEP and Environment Northeast made reference to similar advisory councils established in Connecticut, Rhode Island, and Massachusetts, and advocated using a small amount of conservation funds to hire expert third- party technical consultants to serve on the Advisory Council to help ensure excellence in program design and delivery. Environment Northeast further commented that Advisory Committees in other states take votes on program design plans and suggests that these non-binding votes be used in Maine to help inform the PUC on the sentiment of the Advisory Council. NRCM and Environment Northeast both agreed that utility representatives should not be on the Advisory Council.