Connecticut Department of
ENERGY &
ENVIRONMENTAL
PROTECTION

Energy and Technology Policy

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**2018 Update**
**Electric and Natural Gas Conservation and**
**Load Management Plan for 2016 through 2018**
**(Revised Budget 12/15/17 per June Special Session Public Act 17-2)**

**APPROVAL WITH CONDITIONS**

***Via Electronic Mail***

December 26, 2017

Christopher Plecs, Director-Regulatory Planning, Support, and Evaluation
Stephen Bruno, Manager, Regulatory, Planning and Evaluation
As Agent for CL&P and Yankee Gas both doing business as Eversource Energy

Patrick McDonnell, Senior Director of Conservation and Load Management
Connecticut Natural Gas, Southern Connecticut Gas, and United Illuminating

Re: **2018 Update of Electric and Natural Gas Conservation and Load Management Plan for 2016 through 2018, submitted pursuant to Connecticut General Statutes Section 16-245m (d)**

Dear Messrs. Plecs, Bruno, and McDonnell:

On December 31, 2015, the Connecticut Department of Energy and Environmental Protection (DEEP) approved with conditions the 2016-2018 Electric and Natural Gas Conservation and Load Management Plan, dated October 1, 2015 (the Plan). The Plan was submitted by Eversource Energy (Eversource), the United Illuminating Company (UI), Connecticut Natural Gas Corporation (CNG) and the Southern Connecticut Gas Company (SCG), together referred to as "the Companies," pursuant to Connecticut General Statutes Section 16-245m , and in consultation with the Connecticut Energy Conservation Management Board (aka as Energy Efficiency Board or "the Board"). The Companies and the Board annually update the three-year Plan and submit these annual updates to DEEP for review.

On October 11, 2017, the Board approved the annual update of the three-year Plan for calendar year 2018 (2018 Update). The Board's approval of the Plan and the 2018 Update was based on full funding collected through utility assessments on electric and natural gas consumption as prescribed under Connecticut General Statutes section 16-245m (a)(1) as well as through payments from commitments in the ISO New England Forward Capacity Market and proceeds from the Regional Greenhouse Gas Initiative (RGGI) auctions.

On October 31, 2017, June Special Session Public Act 17-2, *An Act Concerning the State Budget for the Biennium Ending June 30, 2019, Making Appropriations Therefor, Authorizing and Adjusting Bonds of the*

*State and Implementing Provisions of the Budget* ("June SS P.A. 17-2"), became law, effective on passage. The public act identified the seizure of funds to cover the state budget deficit. These diversions included redirection of a total of $68 million from the conservation mill charge on electric ratepayers' bills and a portion of Connecticut's revenue from RGGI auctions, reducing by $68 million per year the funds available to implement the Plan in calendar years 2018 and 2019.

Section 683 of June SS P.A. 17-2 reads:

> *Notwithstanding the provisions of section 16-245m of the general statutes, for the fiscal years ending June 30, 2018, and June 30, 2019, the sum of $63,500,000 shall be transferred from the Energy Conservation and Loan [sic; Load] Management Fund account and credited to the resources of the General Fund for each said fiscal year.*

Additionally, Section 682 of June SS P.A. 17-2 reads:

> *Notwithstanding the provisions of section 22a-220c of the general statutes, for the fiscal years ending June 30, 2018, and June 30, 2019, the sum of $10,000,000 shall be transferred from the Regional Greenhouse Gas account and credited to the resources of the General Fund for each said fiscal year.*

On November 1, 2017 DEEP received from the Companies the 2018 Update of the Plan. This submittal effectively "crossed in the mail" with the passage of the state budget the day before, on October 31, 2017. Therefore, to accommodate the diversion of revenue from the implementation of the Plan to the state's General Fund, the Companies and the Board revised the budget for the 2018 Update from the budget the Board approved October 11, 2017.

On November 8, 2017 the Board, during its regular meeting, identified priorities to consider when adjusting the budget for 2017 and 2018. The highest priority was identified as the retention of direct services involving energy efficiency upgrades at homes and businesses throughout the state, with the intent of retaining jobs. DEEP concurs with the prioritization articulated during the meeting, particularly the focus on prioritizing direct efficiency services completed by contractors that leverages private investments and the focus on demand management investments that minimize the impacts of the budget reduction on Connecticut's commitments to the ISO-New England Forward Capacity Market.

DEEP recognizes that the public-private partnership that drives the Plan's implementation is key to retaining the energy efficiency workforce in Connecticut. Reductions in direct services creates uncertainty and reduced investments by private businesses and reduces economic activity. Given that the Plan's implementation catalyzes thousands of jobs across the state each year, DEEP shares the Board's and Companies' concerns about losing contractors to neighboring states that have not had legislative diversions of utility-collected revenue designated for energy efficiency investments. DEEP recognizes the devastating consequences the passage of June SS P.A. 17-2 creates for the Plan's budget and on Connecticut's progress towards increased energy productivity. DEEP acknowledges that difficult decisions needed to be made to achieve the Board's priorities and acknowledges the careful work of the Companies to reflect those priorities.

We recognize the Board's and the Companies' prioritization process involved a delicate balance, and all of the Conservation and Load Management programs provide value, even if funding levels are reduced.

Given the depth and the timing of the revisions required due to June SS P.A. 17-2, we recognize that there is a disproportionate effect on the Plan's budget for calendar year 2017. This is because the majority of the Plan's investments have already been expended or committed to thousands of local businesses and households for calendar year 2017 (the first half of SFY18). This means that a portion of the adjustments in program implementation and cancelled commitments resulting from reductions in funding in SFY18 need to occur in calendar year 2018 (the second half of SFY18), and the 2018 Update with revised budget reflects that reality.

The Companies incorporated the Board's prioritization in the revisions by taking actions to retain as much as possible the existing contractor network, retaining as much energy savings and demand reduction as possible. This resulted in suspending new initiatives in 2018 and focusing on program delivery over other supporting tasks. Specifically, the cuts to direct services programs in the revised budget are generally 33%, and the cuts to other categories such as workforce development partnerships, education services, municipal engagement and technical assistance, are generally higher, such as 51% for education and 86% for marketing. The Board and the Companies made adjustments to the 2018 budget and on December 13, 2017 the Board approved the revised budget with conditions of approval. The Board's condition of approval #2 noted the Board's vote to support continuing to develop and make progress on recapitalizing the Small Business Energy Advantage program, with the intent of having the recapitalization implemented by April 2018. DEEP supports this effort and believes that increased recapitalization could result in increased opportunities to save energy and money for commercial and industrial customers.

On December 15, 2017 the Companies submitted for DEEP's review the revised budget for the 2018 Update, with the incorporation of the December 13, 2017 conditions of approval from the Board.

***OPM direction on timing of revenue diversion to State General Fund; DEEP's approval role***
The Connecticut Office of Policy and Management noted in a letter dated December 15, 2017 [attached] that $63.5 million in ratepayer mill charge collections and the Companies' portion of Connecticut's RGGI auction proceeds would need to be provided to the state in June 2018, rather than used to implement the 2016-2018 Conservation and Load Management Plan. Consistent with our discussions with you, we recognize that this means the Companies will need to account for this $68 million total obligation in accordance with your accounting practices.

DEEP's role in the Plan's implementation is to confirm equitable distribution of benefits from the Plan's implementation, and to review and either approve, modify, or reject the Plan. DEEP is also charged with ensuring cost-effective energy savings and program effectiveness are achieved by making sure programs are administered appropriately and efficiently, evaluated effectively, and comply with statutory requirements. The legislature's taking of a portion of the Conservation and Load Management Plan utility mill charge revenue and a portion of RGGI auction proceeds for General Fund services significantly reduced the level of investments for the 2016-2018 Conservation and Load Management Plan and diverted such revenue for general government services. DEEP has no regulatory or statutory role in approving the revenue diversions authorized under June SS P.A. 17-2. The diversion is solely authorized by the passage of that public act, not by DEEP or the Board.

***Determination of equitable distribution of collections***
Pursuant to Connecticut General Statutes Section 16-245ee, before approval of any Conservation and Load Management Plan submitted by the Companies and the Board, DEEP must determine that an

equitable amount of the utility revenue designated for the implementation of the Plan is "deployed among small and large customers with a maximum average monthly peak demand of one hundred kilowatts in census tracts in which the median income is not more than sixty percent of the state median income." DEEP's review of previous years' data found that the overall distribution was equitably deployed. DEEP is currently reviewing data from 2016 and will analyze data from 2017 when it becomes available in 2018. The distribution proposed in the 2018 Update with revised budget is similar to previous years and therefore DEEP has determined that the Plan proposes an equitable deployment of the utility revenue designated for deployment of the Plan. To facilitate more expeditious review of the data DEEP has included steps for the Companies to take regarding the submittal of the data as a condition of our approval (Condition of Approval # 9). DEEP will submit the most current determination of equitable distribution to the General Assembly in January 2018.

***DEEP Review of 2018 Update and revised budget***
DEEP has completed its review of the 2018 Update and its revised budget and has completed review of the Board's December 13, 2017 conditions of approval [attached], which are reflected in the December 15, 2017 revised budget.

The 2018 Update of the 2016-2018 Electric and Natural Gas Conservation and Load Management Plan, with revised budget per June SS P.A. 17-2, and its associated *Connecticut Program Savings Document, 13$^{th}$ Edition for 2018 Program Year* **is approved contingent on the following conditions:**

1. **Approval to carry forward the variance in the Energy Conservation and Load Management Fund (aka Connecticut Energy Efficiency Fund or "CEEF") balance from 2017**
   The legislature's seizure of the Plan's revenue sources is retroactive to July 1, 2017 but was identified in the budget passed October 31, 2017 for State fiscal years 2018 and 2019. The Plan's implementation progress meant that the 2017 budget was substantially expended by that date, with budget remaining for only two months in calendar year 2017, resulting in a negative balance for the CEEF. Therefore DEEP is authorizing the carrying forward of whatever variance exists in the fund balance from 2017 to 2018 to complete 2017 obligations. This is consistent with the flexibility intended in following a three-year implementation plan. DEEP is applying this condition to reduce the impact of the budget reduction on the commitments to the contractor network and the jobs that had been planned based on the original budget for 2017. Since 2018 is the third year of the Plan, it is critical that adjustments to the 2018 budget are made as needed to ensure that the overall three-year budget is reconciled by the close of calendar year 2018.

2. **DEEP withdraws direction to UI on advancing Adoption of Time of Use rate (TOU)** DEEP provided direction to UI in its approval of the 2017 Update of the 2016-2018 Conservation and Load Management Plan to execute steps to educate customers regarding time of use rates and motivate customers to participate in such rates. DEEP is withdrawing that direction due to the budget reductions imposed by June SS P.A. 17-2, to enable those funds to be reallocated for direct services. DEEP also is suspending the metric related to advancing the Time of Use rate for 2017 and 2018. DEEP intends to revisit efforts to advance TOU rate adoption as soon as practical after implementation of the budget diversions and as part of the next three year plan.

3. **Home Energy Solutions-Income Eligible performance adjustment due to budget reduction**
   Given the reduction in spending for the Home Energy Solutions-Income Eligible (HES-IE) program that the legislative budget reduction prompted, we are suspending the penalty metric for not

achieving the spending for HES-IE in 2017 and 2018. While per the Board's condition of approval a budget allocation was increased for HES-IE from other budget categories to restore services to 1,000 residential units. This effectively changed the budget reduction from 29% to 25%. The budget reductions imposed by the legislature still result in the HES-IE 20108 budget being reduced by $5,600,569, resulting in the exclusion of 5,600 low-income homes from receiving weatherization services. This direction only applies to the penalty metric. The performance metrics based on achieving the targets for service delivery shall remain in place.

**4. 2018 Update narrative dated November 1, 2017 to be revised**

The Companies shall submit an updated narrative with the 2017 actual spending and savings reconciliation and final 2018 budget that should be submitted **no later than March 1, 2**018. The narrative should incorporate the program changes identified as part of the process of revising the budget.

5. **Ensure municipal data available outside of Clean Energy Communities program**

While DEEP recognizes the Board's prioritization of direct services, DEEP is concerned about the reduction of services to municipalities that is represented by the significant budget reduction to the Clean Energy Communities program. The Companies must identify in the updated narrative that is **due no later than March 1, 2018**, how, outside of the Clean Energy Communities program, it may be possible to maintain the public facing availability of energy data that municipalities rely on to inform their energy management.

**6. Communication regarding equitable contributions from oil and propane heated buildings**

While oil and propane customers do contribute to the conservation charge on electricity for a portion of their electric bill, they do not contribute to the same degree as ratepayers that heat with electricity or natural gas to support thermal energy efficiency measures. For this reason, revenue from the RGGI auctions has filled the gap for these customers. June SS P.A. 17-2 diverted RGGI auction proceeds from the funding for the Conservation and Load Management Plan. This will result in the curtailment of efficiency services for oil and propane customers.

To stretch the remaining dollars from RGGI for Home Energy Solutions assessments at oil and propane heated homes, the Companies have introduced reduced incentive limits and implemented caps on purchase orders for contractors to ration the numbers of households each qualified contractor serves in 2018.

Further consideration is needed to address the lack of funding for energy efficiency investments in buildings heated with oil or propane or another fuel source that is not electricity or natural gas. Unless a new source of funding is identified for providing services to residents heating with oil and propane we anticipate Home Energy Solutions services will need to be eliminated once RGGI funding is depleted.

Therefore, the Companies shall describe the program revisions being made to the programs, including those identified in the Board's December Residential committee special and regular meetings, in the updated narrative for the 2018 Update, which is **due no later than March 1, 2018**. The updated narrative shall also identify a protocol for informing contractors and communicating to customers that legislated funding constraints limit certain services to residents and businesses that do not contribute equitably to the utility assessment on electric and natural gas consumption.

7. **Submit Consultant and Evaluation Administrator Budget Line Items in January 2018**
   Due to the Board's conditions of approval #5 and #6, noting that the Board did not complete its review of the consultant budget and the Evaluator Administrator budget. Those budget line items will need to be addressed at the Board's January meeting. The Board will need to identify the budgeted amount for those elements, and provide a rationale for any figures that are below the pro rata 33% reduction that the Board identified as the standard budget reduction during its November 8, 2017 meeting. DEEP anticipates, based on the Board's prioritization of direct services over other Plan categories that are of an administrative or other supporting nature, that the Board will revise the placeholder budget amount to represent at least a 33% reduction. DEEP will review those numbers and provide a response that can be incorporated into the Companies' submittal of the reconciled 2017 figures and final budget for 2018, **which shall be due by March 1, 2018**.

8. **Revise Evaluation Plan and Budget**
   When DEEP approved the 2016-2018 Electric and Natural Gas Conservation and Load Management Plan in 2015, DEEP approved an evaluation budget for 2016-2018 totaling $9 million [approximately $3 million per year] for Evaluation Studies. DEEP will not authorize any amount in 2018 that brings the total beyond that amount for the three Plan years.

   DEEP has summarized the studies to be completed in 2018 in Tables 1 in Attachment A to this letter. DEEP is approving the studies listed in Table 1 which are planned for initiation, are underway, or are completed. DEEP is eliminating or deferring the studies listed in Table 3. DEEP recommends revisiting and reprioritizing the list of evaluation studies as part of the development of the next three year plan.

   The Companies shall confirm the amount spent through December 31, 2017 for the approved studies in Tables 1 of Attachment A. The Companies shall submit this information to DEEP by January 30, 2018. DEEP will review and confirm the final amount to be budgeted in 2018 for Evaluation Studies, and the Companies shall include this amount in the submittal of the final Plan budget for 2018, **which shall be due by March 1, 2018**.

   DEEP supports the priorities identified by the Board in implementing the diversions mandated by June SS P.A. 17-2 and reallocation of funding to direct savings programs.

9. **Equitable Distribution data**
   The companies must convene a joint meeting with DEEP prior to submittal of the 2017 Equitable Distribution data to reduce inconsistencies in data collection and presentation and to collectively clarify interpretations of the statute that affect the data submittal. The companies must also submit an updated method of census tract identification and economic status that determines whether the census tract is distressed. The Companies must submit the 2017 Equitable Distribution data on a form prescribed and provided by DEEP **no later than July 1, 2018.**

DEEP appreciates the work of the Companies and the Board to collect public input, collaborate with the CT Green Bank, and continuously improve the effectiveness of the Conservation and Load Management Plan investments. We remain concerned about the diversion of utility-collected revenue intended for the implementation of energy efficiency investments across the state. Unless a new source of funding is identified for providing services to residents heating with oil and propane we anticipate Home Energy Solutions services will need to be eliminated once RGGI funding is depleted.

Ensuring the continuation of investments that transform energy conservation and load management and mainstream energy efficiency means that the Board, the Companies, DEEP, and others will need to undergo an important discernment process in 2018. We look forward to continued collaboration as we collectively implement the Plan's investments in energy efficiency and demand reduction and plan for sustainably to increasing energy savings to catalyze economic and environmental benefits for Connecticut.

If you have any questions, please contact Diane Duva, Director of DEEP's Office of Energy Demand, at 860-827-2756 or Diane.Duva@ct.gov.

Sincerely,

Mary Sotos

Mary Sotos
Deputy Commissioner

**Attachments**
Letter dated 12-15-17 from OPM directing the timing of the diversion of utility revenue to General Fund
Memo re: 12-13-17 EEB meeting noting EEB's conditions of approval of revised budget for 2018 Update
Attachment A, Connecticut's 2016-2018 Evaluation Plan Update

**Electronic Copy**:
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