

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on January 12, 1995

COMMISSIONERS PRESENT:

Harold A. Jerry, Jr., Chairman
Lisa Rosenblum
Peter Bradford
William D. Cotter

- CASE 94-E-0648 - Petition of Central Hudson Gas & Electric Corporation for Approval of its 1995 Demand Side Management Plan and HIECA Business Plan (filed in Cases 27230 and 28223).
- CASE 94-E-0646 - Petition of New York State Electric & Gas Corporation for Approval of its 1995 Demand Side Management Plan and HIECA Business Plan (filed in Cases 27230 and 28223).
- CASE 94-E-0647 - Petition of Orange and Rockland Utilities, Inc. for Approval of its 1995 Demand Side Management Plan and HIECA Business Plan (filed in Cases 27230 and 28223).
- CASE 94-E-0635 - Petition of Rochester Gas and Electric Corporation for Approval of its 1995 Demand Side Management Plan and HIECA Business Plan (filed in Cases 27230 and 28223).
- CASE 94-G-0596 - Petition of The Brooklyn Union Gas Company for Approval of 1995 HIECA Business Plan (filed in Case 27230).
- CASE 94-G-0601 - Petition of National Fuel Gas Distribution Company for Approval of 1995 HIECA Business Plan (filed in Case 27230).

ORDER CONCERNING 1995 DEMAND SIDE MANAGEMENT PLANS
and HIECA BUSINESS PLANS

(Issued and Effective June 26, 1995)

BY THE COMMISSION:

INTRODUCTION

Pursuant to prior Commission orders, Central Hudson Gas and Electric Corporation (CHG&E), New York State Electric and Gas

Corporation (NYSEG), Orange and Rockland Utilities, Inc. (O&R), and Rochester Gas and Electric Corporation (RG&E), submitted proposed 1995 Demand Side Management (DSM) and Home Insulation and Energy Conservation Act (HIECA) plans for review and approval in August 1994.¹ The Brooklyn Union Gas Company (BUG) and National Fuel Gas Distribution Corporation (NFG) submitted HIECA business plans only. On December 5, 1994, after discussions with staff, Central Hudson submitted a revised DSM plan. The staff memorandum dated December 30, 1994 attached to this Order contains an overview of each utility's DSM plan and an assessment of party comments on the utility plans. With certain modifications noted herein, the utility HIECA plans and the DSM plans of Central Hudson and RG&E are approved. NYSEG and O&R are directed to consult with staff and submit amended DSM plans.

OVERVIEW

For 1995 the four utilities propose to spend \$29.6 million on DSM and achieve 147.5 GWH of incremental energy savings, reduced from their 1994 plans to spend \$74.2 million on DSM and achieve 261.8 GWH of incremental energy savings. In addition, the six gas and electric utilities propose to spend \$8.4 million on HIECA programs in 1995. The \$29.6 million DSM investment proposed for 1995 is estimated to provide lifetime energy, capacity, and environmental benefits of about \$88.5 million. On a present value basis, expected benefits exceed costs, including those to program participants.

The 1995 DSM and HIECA plans of Consolidated Edison, the Long Island Lighting Company and the Niagara Mohawk Power Corporation were also submitted and were separately considered in recently concluded rate cases.

1995 AS A TRANSITION YEAR

The 1995 program year is a year of transition in the Demand Side Management effort in New York State. Statewide, the utilities report a planned 41% reduction in DSM related spending. Prospectively, the likelihood that electric utilities will be exposed to increasing price competition has heightened utility and customer concern about the rate impacts of DSM and led to substantial proposed reductions in DSM program goals and budgets. Statewide, electric utilities propose to reduce 1995 DSM energy savings goals by almost 50% compared to 1994.

The approach to DSM which has prevailed since the late 1980's certainly must be reevaluated in the light of changing industry conditions. An examination of the guiding principles for a transition to a more competitive industry and the industry structures most likely to achieve these principles is currently underway in Phase Two of the Competitive Opportunities and Bypass (COB II) case. Pending the outcome of COB II, it is reasonable to modify DSM program designs and budgets to reduce rate impacts, but there is a continuing need for utility involvement in end use energy efficiency in order to:

- reduce average customer bills by helping individual consumers minimize their electricity costs;
- improve the state's economic competitiveness;
- reduce the environmental impacts of energy use; and
- lay the groundwork to insure that cost-effective energy efficiency technologies and services compete effectively in an unregulated market.

While the future configuration of the electricity industry is not now known, some utilities envision energy efficiency programs as an important customer service that will help them retail customers in a more competitive industry.

In the spring of 1994, staff of the Office of Energy Efficiency and Environment prepared a report on DSM in

transition² which recommends phasing down traditional DSM rebate programs and developing new utility initiatives to:

- transform markets for energy efficient electric end uses;³
- encourage conservation through programs which minimize rate impacts by shifting more costs to program participants (information, education, financing and shared savings programs, for example);
- capture lost opportunities for energy efficiency during building construction or major remodeling or at the time of purchase of major appliances or equipment;
- delay the need for transmission and distribution improvements through geographically targeted DSM.

The four utility DSM plans addressed in this Order envision major cutbacks in traditional DSM programs in 1995 and some initial efforts to offer alternative program approaches.

MARKET TRANSFORMATION PROGRAMS

O&R and CHG&E propose that a portion of their goals be achieved through market transformation programs, and NYSEG proposes to eliminate all rebate-based programs in favor of what it describes as market transformation and DSM information programs. Market transformation programs, although relatively new, may be more cost-effective than conventional DSM rebate programs and provide benefits to more customers. To be considered as part of the annual DSM goal, staff recommends that such programs should be prospective efforts by the utilities and subject to satisfactory measurement of achievements.

New York DSM in Transition, Office of Energy Efficiency and Environment, New York State Department of Public Service, April 18, 1994.

Market transformation programs are typically directed at the manufactures and distributors of energy efficient products and are intended to increase the supply and availability of these products to all customers.

NYSEG and O&R have not provided sufficient detail on the specific programs they intend to conduct in 1995 nor on the means that will be used to evaluate the results of these programs. We require these two companies to submit amended 1995 plans that better describe proposed programs and the means of their evaluation and verification.

As recommended by parties and discussed in the staff memorandum, a cooperative approach should be employed to develop the information needed to, among other things, identify the remaining potential for economic energy efficiency improvements, and refine and evaluate utility market transformation programs, and we shall direct that such an approach be taken.

PERFORMANCE-BASED COST RECOVERY

Staff has recommended that we direct NYSEG to propose a mechanism for performance-based cost recovery of DSM program costs. Such an approach is intended to provide greater certainty of attaining energy savings goals and to introduce greater competition in the delivery of energy services.

We will not direct that such an approach be applied to NYSEG at this time. The issue of performance-based cost recovery and consistent treatment of company- and third party-provided DSM programs concerns all the electric utilities and has not been sufficiently developed in this case. Staff should pursue this issue in other proceedings, such as the COB II proceeding or rate cases.

PARTIES' COMMENTS

Parties recommended numerous technical and programmatic changes to the utility programs. The more significant points raised are discussed below. There also were a number of suggestions on technical aspects of program design or implementation. Many of the latter should be seriously considered by the utilities but this Order does not require that the companies adopt them. If a utility agrees to make program changes after considering these comments, it may do so, upon notice to staff and active parties.

Several parties claim that the utility DSM goals are too low and recommend that we direct the utilities to increase their goals. In contrast, Multiple Intervenors argues that the utilities should offer only information and shared savings programs.

Parties also question the utilities' proposals to rely in large measure on market transformation programs to achieve their energy savings goals, citing the utilities' vague descriptions of their programs and the lack of experience with these programs.

For each of the companies, the 1995 DSM budgets and goals represent a reasonable balance of goals, spending, and ratepayer impacts. Subject to the modifications noted in the attached staff memorandum, we shall approve the plans of Central Hudson and RG&E. While the budgets and goals of NYSEG and O&R are also appropriate, the proposed plans of these companies do not describe sufficiently DSM programs that provide assurance that the budgets will be well spent and that goals can be achieved. We shall direct these companies to consult with staff and submit revised plans.

DSM PROGRAM GOALS

Approval of the proposed 1995 goals is appropriate given rate impact considerations. While New York's utilities have become adept at implementing conventional rebate programs, baseline data collection, experience and time will be required before innovative shared savings, financing and market transformation programs can reach their full potential. The emphasis in this transitional year should be on building a solid foundation for future accomplishment rather than meeting short term targets.

HIECA PROGRAMS

Public Service Law Section 135-b.3(b) limits eligibility for HIECA services to customers with homes constructed before 1980. O&R's HIECA plan proposes to offer its Energy Survey for Post-1980 Homes pilot program and its Personal Energy Profile to customers that are ineligible to receive services under the HIECA program. Similarly, RG&E proposes to offer its NYSE-STAR new construction program under the HIECA program. These programs cannot be conducted under the companies' HIECA programs; the companies should, instead, consider conducting these programs as DSM non-resource programs.

NFG asks that the eligibility limit for its Non-Residential Audit program be increased from 200 MCF annual gas usage to 500 MCF. This change would better reflect the gas usage characteristics of NFG's service territory, and appears reasonable.

The Commission orders:

1. The 1995 DSM Program and HIECA Plans of Central Hudson Gas and Electric Corporation and Rochester Gas and Electric Corporation, as amended to be consistent with this Order, are approved.

2. The 1995 HIECA Plans of The Brooklyn Union Gas Company, National Fuel Gas Distribution Corporation, New York State Electric and Gas Corporation, and Orange and Rockland Utilities, Inc., as amended to be consistent with this Order, are approved.

3. In addition to complying with the company-specific directives set forth in ordering clauses 4 through 8, Central Hudson Gas & Electric Corporation, Consolidated Edison Company of New York, Inc., Long Island Lighting Company, New York State Electric and Gas Corporation, Niagara Mohawk Power Corporation, Orange and Rockland Utilities, Inc., and Rochester Gas and Electric Corporation (the utilities) shall initiate a cooperative process with interested parties to explore opportunities, strategies and measurement methods for market transformation programs. The utilities shall consult with staff and interested parties and submit within 60 days a workplan for a cooperative process to:

- (a) Identify the remaining potential for economic energy efficiency improvements, and the best ways to capture that potential (e.g. codes and standards, market forces, utility DSM, etc.);
- (b) Identify the current and potential market penetration of key energy efficient technologies;
- © Identify and estimate the potential of emerging energy efficient technologies;
- (d) Analyze barriers to market adoption of energy efficient technologies and identify strategic and appropriate roles for utility intervention in markets; and
- (e) Develop measurement methodologies and protocols for estimating the impacts of market transformation programs.

4. Central Hudson Gas & Electric Corporation:

(a) shall submit its plan for 1995 market transformation efforts and the evaluation of their impacts within 30 days of the Commission Order approving the 1995 plan; and

(b) shall submit to the Secretary within 30 days of this Order its proposal to revise its equity incentive plan.

5. New York State Electric and Gas Corporation shall consult with staff and submit for Commission approval within 30 days of the date of this Order an amended DSM plan that describes the specific programs the company plans to implement in 1995. The amended plan shall also describe the evaluation and verification methods the company intends to use to demonstrate that program savings are the result of specific utility actions.

6. Orange and Rockland Utilities, Inc.:

(a) shall consult with staff and submit an amended DSM plan for Commission approval within 30 days of this Order. This plan shall describe the evaluation and verification methods the company intends to use to demonstrate that program savings are the result of specific utility actions; and

(b) shall not implement the Energy Survey for Post-1980 Homes, nor offer the Personal Energy Profile to ineligible customers under the HIECA program. O&R should consider conducting these projects as DSM non-resource programs.

7. Rochester Gas and Electric Corporation:

(a) shall submit a supplemental filing within 30 days of this order to provide greater opportunity for residential customers to participate in DSM program activities; and

(b) shall not implement the NYSE-STAR project under the HIECA program. RG&E should consider conducting the project as a DSM non-resource program.

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8. National Fuel Gas Distribution Corporation may increase the annual usage threshold for its Non-Residential Audit Program to 500 MCF.

9. These proceedings are continued.

By the Commission,

(SIGNED)

JOHN J. KELLIHER
Secretary

BROOKLYN UNION GAS
HIECA Business Plan

The Brooklyn Union HIECA Business Plan is budgeted at \$2,135,593 for 1995. The following table shows the expected number of audits, planned pilot projects, and budgets:

HIECA Program Budgets and Survey Goals

	SURVEY OBJECTIVE	BUDGET
SAVING POWER	2,500	\$ 1,141,464
ABCS	175	\$ 394,934
NON-RESIDENTIAL	300	\$ 364,195
PILOT PROJECTS	3 Projects	\$ 235,000
TOTAL		\$ 2,135,593

Program objectives are substantially unchanged and the overall budget is only slightly lower than in 1994. BU estimates savings due to its HIECA activities of 2,122,800 equivalent gallons of oil (EGOs) in 1995.

As with the 1993 and 1994 programs, surveys will be conducted by a private contractor and will include the direct installation of low cost measures. As a result of a cooperative agreement with Con Edison, BU also coordinates distribution and installation of compact fluorescent lamps during HIECA and ABCS surveys.

BU proposes to continue three pilot projects in 1995. For SAVING POWER customers, BU encourages the replacement of manual thermostats with clock thermostats by offering a \$50 rebate to gas heating customers and the installation of roof/attic insulation by providing rebates up to 25% (up to \$250). BU anticipates it will offer about 500 roof/attic insulation rebates and 2,000 clock thermostat rebates in 1995. In conjunction with the ABCS program, BU encourages the installation of showerheads and faucet aerators in apartment buildings.

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and 94-G-0601

Staff recommends approval of BU's proposed 1995 HIECA
Business Plan.

CENTRAL HUDSON GAS & ELECTRIC CORPORATION

A. Introduction and Summary

Central Hudson's initial 1995 DSM plan included a total budget of \$2.55 million, excluding bidding and HIECA expenditures, and an annualized energy savings goal of 18,129 MWh. Following discussions with staff, the company supplemented its initial filing with an increase to its budgets and goals.⁴ With this supplement, the company proposes to spend \$4.69 million and achieve annualized energy savings goal of 30,615 MWh.⁵ The company's 1995 budget, however is still 39% lower and the energy savings goal is 15% lower than the 1994 plan.

CHG&E intends to achieve the revised goal through its established rebate programs and by obtaining savings through activities it classifies as market transformation. Rebate programs account for 74% of the 1995 energy savings goal with market transformation activities accounting for the other 26%. These activities include HIECA-related electricity savings for which the company has not claimed credit in prior years, as well as estimated spillover effects on purchases of electronic ballasts due to its DSM program.

Relative to the initial filing, the company plans to increase participation in several programs by steering participants in its Commercial and Industrial (C/I) and Non-Residential HIECA Audit Programs into its C/I Dollar Savers Rebate, Residential Lighting, and Electric Space Heat programs.

By letter dated 12/6/94, staff and the company signed a memorandum of understanding whereby the company agreed to, among other things, supplement its 8/15/94 filing, and proposed modifications to its DSM incentive mechanism.

The supplement to the company's 1995 DSM plan filing was received on December 7, 1994; after an initial review of the supplemental filing errors in rate and bill impacts were corrected, and it appears the document is now complete. However, staff is continuing its analysis and will report to the Commission if any subsequent deficiencies are found.

CHG&E plans to double the impacts from its C/I Designing for Efficiency new construction program and also proposes to add a large scale non-resource residential new construction program.

The new plan projects that, by the year 2000, the combined effect of CHG&E's direct DSM programs and market transformation activities will save 7.4% of energy requirements. The company claims that its original plan is consistent with its latest IRP, but that its supplemental filing goes beyond the level of DSM indicated by its 1993 IRP. OEEE's review of that IRP revealed deficiencies to which the company has not yet responded.

Equity Incentive Modification

In its order denying CHG&E's petition for modification of its 1994 DSM plan,⁶ the Commission instructed staff to investigate possible penalty actions or cost disallowances for poor DSM performance in 1994. Staff has been working with the company to resolve this matter. The company has acknowledged that it will not achieve its 1994 goals. To compensate, CHG&E proposed to increase its 1995 goals above the levels contained in its original filing. In addition, at Staff's request the company has agreed to modify its DSM incentive mechanism so that it would not begin to earn an incentive until it achieves 70% of its approved annual goal. Under the current incentive plan, the company begins to earn an incentive when 50% of the goal is achieved.

B. Bill Impacts

CHG&E recovers its DSM program costs on a program-by-program basis from those customer classes eligible to participate in each program. The company provided a corrected analysis of the expected bill impacts in its revised DSM plan.

Case 94-E-0275, Order Denying Petition of CHG&E Corp. for Modification of 1994 DSM Plan Budgets and Goals, July 12, 1994.

**Expected Long-Term Bill Impacts
PV Savings (-) or Increase (+)**

	Residential	Commercial
Average Customer	-\$0.96	-\$104.64
Average Participant	-\$185.23	-\$8,291.39
Average Non-Participant	+\$ 7.64	+\$164.68

C. Program Delivery Approach

For its large scale resource programs as well as the HIECA and C/I audit activity, CHG&E is continuing its existing program delivery approach. This approach combines rebates, informational bill inserts, trade ally marketing, media promotion and direct contact of large customers by corporate representatives to promote participation in rebate programs. Direct contact with customers will be used more aggressively in 1995, especially with CHG&E's largest customer, which has reportedly declined to participate in any DSM programs to date.

The savings associated with the sale of electronic ballasts outside the rebate program are to be supported by modest market transformation activities by CHG&E in 1995 beyond those associated with the promotion of its rebate programs and energy efficiency information services.

D. HIECA

Proposed survey objectives and budgets for CHG&E's 1995 HIECA Business Plan are summarized in the table below:

HIECA Program Budgets and Survey Goals

	SURVEY OBJECTIVE	BUDGET
SAVING POWER	3,500	\$ 603,000
ABCS	10	\$ 10,000
NON-RESIDENTIAL	200	\$ 74,000
PILOT PROJECTS	1 Project	\$ 23,500
TOTAL		\$ 710,500

As it has done in three of the past four years, CHG&E proposes to reduce its residential survey objective. Compared to 1994, 500

fewer households will be targeted for home energy surveys in 1995; the company states that it has achieved significant market penetration (43%) in its residential audit program. The audit objective for both the Apartment Building Conservation Service (ABCS) and the Non-Residential HIECA program is unchanged from the 1994 objective. The company's only pilot project will employ state-of-the-art energy survey techniques in the homes of customers who have complained of high bills. CHG&E estimates savings due to its HIECA and ABCS activities of 538,213 equivalent gallons of oil (EGO) in 1995.

CHG&E plans several cost-cutting moves in 1995. The company now plans to limit the direct installation of hot water measures to electric and gas water heating customers only. The company also plans to scale back its use of audit contractors to provide the surveys; company personnel will provide about half of the HIECA surveys in 1995. Overall CHG&E's 1995 HIECA budget is approximately \$277,000 (28%) less than the 1994 budget.

E. Summary of Party Comments

Four parties commented specifically on CHG&E's initial DSM plan proposal. Multiple Intervenors (MI) states that CHG&E should be ordered to eliminate its rebate programs until its surplus capacity situation is reversed. MI further states that CHG&E's current reserve margin of 43% will rise to 88.6% by the summer of 2005 and it has no need for capacity until the year 2013. MI also states that due to the 1995 DSM program, CHG&E's customers will see rate impacts that are unacceptable for a company in a surplus capacity situation. Finally, MI asserts that the "direct cost of virtually every one of Central Hudson's rebate programs exceeds the spot market for energy today." MI encourages the Commission to reject the company's rebate programs.

Public Interest Intervenors (PII) comments that the Commission should reject CHG&E's 1995 DSM plan and require the company to refile a plan that meets the Year 2000 State Energy

Plan (SEP) targets. It further asserts that the 1993 IRP upon which this plan is based is flawed and does not support the drastic cuts proposed in the filing. While PII commends the company for eliminating its curtailable load program and attempting to develop a C/I shared savings pilot, it indicates that these improvements are dwarfed by the negative effect of reductions in other areas of service.

PII asserts that strong residential growth is occurring in the Hudson Valley yet CHG&E has no residential new construction program. According to PII, failure to address the lost opportunities for cost-effective savings available in the new construction market is inconsistent with least cost planning principles and prior Commission orders. PII is especially concerned with the company's proposal to replace proven and cost-effective incentive programs with untested market transformation activities. Finally, PII cites CHG&E's historical reluctance to engage in promoting energy efficiency or to comply with the intent of the Commission's orders, general and specific. It notes that the company has not yet responded to the Commission's order to meet the SEP targets or explain why it is not cost-effective to do so.⁷

SEO comments that CHG&E's proposed budget cuts for its 1995 DSM plan are too severe and that it should not be allowed to fall short of the SEP targets. According to SEO, while budget cuts are an expected response to the threat of competition, these cuts should not come in the new construction, renovation and replacement markets which represent significant lost opportunities. SEO is also concerned with the accuracy of CHG&E's claim that its year 2000 energy savings will be higher than anticipated in its 1992 DSM plan filing in spite of drastically reduced budgets. SEO is especially troubled with

Case 92-E-0261, Order Concerning 1993 and 1994 Demand Side Management Plans and HIECA Business Plans, issued March 19, 1993.

CHG&E's assertion that in both 1995 and 2000, a high proportion of the company's energy savings results from market transformation. Specifically, SEO questions the appropriateness of claiming the energy savings resulting from activities related to the HIECA program and Federal efficiency code enhancements as well as the methodology the company used to calculate savings that result from CHG&E's participation in the SEO Appliance Directory.⁸ SEO supports a more proactive involvement by the company in activities directly linked to the achievement of market transformation within CHG&E's service territory.

DOL urges the Commission to require CHG&E to strengthen its C/I and Residential New Construction Programs.

Central Hudson does not claim any savings in 1995 for its participation in the SEO Appliance Directory or the Federal Code activity.

F. Analysis and Recommendations

The excess capacity figures referenced by MI are based on the New York Power Pool's 1994 Load and Capacity Data Report. The report assumes that CHG&E will exercise its contractual option to buy back Con Edison's 480 MW share of the Roseton generating facility in 2005. CHG&E has informed staff that it has not yet determined that, in fact, it will exercise this option. The company also notes that the NYPP report does not factor the resale of power associated with the 480 MW purchase back to Con Edison. As such, MI has relied on a report which yields a high estimate of the year 2005 reserve. Further, by focusing on the company's reserve margin, MI ignores the energy, environmental, transmission/distribution system and overall bill savings benefits that the DSM programs provide. MI has also incorrectly cited estimates of the rate and bill impacts from the initial filing, thereby overstating these estimated rate impacts by an order of magnitude. Finally, MI's assertion that the direct costs of CHG&E's rebate programs exceed the spot market for energy is an invalid comparison. It is inappropriate to compare CHG&E's levelized, lifetime, direct costs for multi-year DSM savings with the more volatile short term, energy only spot market prices.

Staff supports PII's observations that the company's 1993 IRP is flawed and that the company has not responded to the Commission's Order to meet the SEP targets or explain why it is not cost-effective to do so. OEEE staff has informed CHG&E of the observed deficiencies in the company's 1993 IRP and recommended that these be corrected in its next IRP filing. Similarly, the company should address the Commission's Order regarding the cost-effectiveness of meeting SEP targets in that IRP filing.

With respect to CHG&E's initial filing, we support SEO, DOL and PII regarding the need to provide or enhance services which capture lost opportunities. The company, however,

has proposed goals in its supplemental 1995 DSM filing that address lost opportunities in the residential and C/I sectors; the residential new construction program was found to be not cost-effective and is offered as a non-resource program.

Staff also shares the concern of SEO and PII about the accuracy of CHG&E's claimed market transformation savings. CHG&E must adequately evaluate the effectiveness of its market transformation efforts before being credited with the savings.

Finally, the Commission instructed Staff to investigate possible penalty actions or cost disallowances for CHG&E's failure to comply with the order approving the 1994 DSM plan. During its dialogue with Staff regarding potential penalty action, the company offered to propose an increase to its 1995 goal of 12 Gwh over the goal contained in the initial 1995 plan, partly to compensate for an expected shortfall in 1994. In addition, at Staff's request the company also agreed to propose to modify its DSM incentive, raising the minimum threshold of achievement at which the company can begin receiving an incentive from 50% of the approved goal to 70%. This modification increases the risk the company faces for non-achievement of its goal. Based on these modifications, staff, with the assistance of the Office of General Counsel, entered into a memorandum of understanding with the company under which staff agreed to recommend Commission approval of the revised plan and resolution of the penalty/cost disallowances associated with the 1994 program year. As such, the scale and scope of the CHG&E's 1995 DSM Plan is affected by the potential resolution of penalty action related to the implementation of its 1994 DSM Plan.

Staff finds the overall mix of rebate and market transformation services contained in CHG&E's supplemental filing to be reasonable given the transitional period in which the industry now finds itself. Relative to the initial filing, cost-effective rebate offerings have been expanded for all customer classes and efforts to capture lost opportunities have been

enhanced. In addition to market transformation initiatives, the company has agreed to investigate the potential and feasibility of energy efficiency programs for street lighting, company-owned facilities and constrained transmission and distribution areas. These studies will provide useful input to improving the equity and cost-effectiveness of future DSM initiatives. However, the company should provide an evaluation plan for its electronic ballast and other market transformation initiatives.

G. Summary of Recommendations

Staff recommends that the Commission:

1. Approve Central Hudson's 1995 HIECA Plan.
2. Approve Central Hudson's proposal embodied in its December 5, 1994 plan revision to increase 1995 DSM program goals and budgets as a satisfactory response to the company's 1994 program shortfall, with the following conditions:
 - a. the company provides a plan to evaluate the impacts of its market transformation efforts contained in the 1995 plan within 30 days of the Commission Order approving the 1995 plan; and
 - b. CHG&E's proposal to revise its equity incentive plan should be submitted to the Secretary within 30 days of the Commission Order approving the 1995 plan.
3. Direct Central Hudson to respond to the previous Commission order to meet the SEP targets or explain why it is not cost-effective to do so in its next IRP filing.

NATIONAL FUEL GAS DISTRIBUTION COMPANY

HIECA Business Plan

NFG proposes to continue the SAVING POWER program in 1995 with a goal of 5,000 audits and a budget of \$1 million; this plan is comparable to the 1994 program. NFG proposes a lower level of activity in 1995 for the ABCS program. The goal for 1995 would be 20 audits, down from 35 in 1994. The ABCS budget for 1995 would also be reduced to reflect the smaller goal.

HIECA Program Budget and Survey Goals

	SURVEY OBJECTIVE	BUDGETS
SAVING POWER	5,000	\$ 1,002,270
ABCS	20	\$ 400
NON-RESIDENTIAL	200	\$ 168,090
PILOT PROJECTS	5 Projects	701,324
TOTAL		\$ 1,872,084

NFG asks to increase the eligibility limit applicable to its non-residential customers from 200 MCF to 500 MCF. NFG has indicated that the MCF cut off for these audits should be adjusted to reflect heating degree day differences between upstate and downstate.

NFG's request appears reasonable. The intent of the non-residential audit program is to serve small commercial customers which were being missed by other programs. NFG has presented evidence that with the 200 MCF limit the program was missing large numbers of small commercial customers in its service territory, due to the greater gas heating needs of its customers. Therefore, staff recommends that the MCF limit be raised for NFG gas customers from 200 to 500 MCF.

NFG seeks greater flexibility in modifying, discontinuing or substituting pilot programs between plan approvals. Since these are the equivalent of "development and support" programs, a more flexible policy would be consistent with the DSM treatment afforded such programs. NFG should be

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allowed to modify programs upon notification to staff, as long as the changes do not increase the amount of the approved Pilot program budgets.

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and 94-G-0601

Staff recommends that the Commission:

1. Approve NFG's 1995 HIECA Business Plan.
2. Allow NFG to increase the MCF threshold for its non-residential Audit program to 500 MCF.

NEW YORK STATE ELECTRIC & GAS CORPORATION

A. Introduction and Summary

NYSEG's proposed 1995 efforts are very different from pre-1995 DSM efforts which centered upon customer rebates. NYSEG's 1995 DSM plan proposes to eliminate all traditional rebate programs, replacing them with market transformation programs which NYSEG defines as including informational efforts directed at manufacturers, trade groups, retailers and customers.

Budgets and goals for NYSEG's two DSM programs, Residential Market Transformation and Non Residential Market Transformation, are shown below in the attached NYSEG Tables 1 and 2. NYSEG plans to spend \$10,557,000 to reduce incremental winter load by about 7 MW and to achieve 54,444 MWh in incremental, annualized energy savings in 1995. Including its 1995 efforts, cumulative annualized savings through the year 2000 would total about 6.7% of the anticipated year 2000 energy requirements according to NYSEG's plan. NYSEG's 1995 DSM budget, 1995 planned incremental winter load reductions, and planned annualized incremental energy savings represent reductions from 1994's original budget and goals of 67%, 65% and 57% respectively.⁹

B. Bill Impacts

Estimates of the long term bill impacts for NYSEG's 1995 DSM effort are:

Expected Long-Term Bill Impacts		
PV Savings (-) or Increase (+)		
	Residential	Commercial

Comparisons here are between the 1995 plan and the originally approved 1994 plan, rather than the subsequently revised 1994 plan. The original 1994 plan is a more appropriate basis for comparison, since the revised 1994 plan represented a reduced effort to account for the anomalous and dramatic over-achievement by NYSEG of its energy savings goals in 1993. But for that over-achievement, the Commission indicated it would not have approved the 1994 revisions.

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Average Customer	- \$2	-\$104
Average Participant	- \$62	-\$492
Average Non-Participant	\$7	\$181

C. Program Delivery Approach

NYSEG does not propose an array of offerings that would represent an orderly transition away from traditional, incentive-based DSM. Instead, NYSEG's 1995 plan focuses wholly upon "market transformation" programs, as it defines the term. Virtually all of NYSEG's proposed 1995 program efforts are informational in nature.¹⁰ Information services proposed to be offered include self-audit booklets and texts/videos on energy-saving operation and maintenance practices, appliance replacements, building codes, and the cost of energy services. NYSEG intends limited efforts to intervene with lending institutions to obtain low-cost financing for energy conservation for those customers not eligible for the HIECA program financing. The company states that it will also intervene with manufacturers, trade groups, and other retailers in order to promote energy conservation. Finally, NYSEG's Plan indicates it will study the usefulness of DSM as a substitute for costly transmission and distribution (T&D) reinforcement.

D. HIECA Program

Budgets and goals for the proposed 1995 Home Insulation and Energy Conservation Act (HIECA) programs are reported in the following table.

HIECA Program Budget and Survey Goals

	SURVEY OBJECTIVE	BUDGETS
SAVING POWER	7500	\$1,209,000
APT. BLDG. CONS. SERV.	35	30,000
NON-RESIDENTIAL	680	142,800

NYSEG will perform a number of direct installations under its "demonstration installation" efforts. However, this effort can be considered informational, since it targets customers considered likely to inform other customers of their satisfaction with the specific technology.

CASES 94-E-0648, 94-E-0646, 94-E-0647, 94-E-0635, 94-G-0596
and 94-G-0601

PILOT PROJECTS	1 project	100,000
TOTAL		\$1,481,800

NYSEG's planned 1995 SAVING POWER budget, \$1.2 million, is lower than its originally proposed \$2.6 million 1994 budget. NYSEG's 1995 SAVING POWER survey goal of 7,500 is lower than its originally proposed 1994 survey goal of 10,000. NYSEG is expected to save 1.25 million (EGO) equivalent gallons of oil on an annualized basis.

NYSEG's proposed ABCS budget and goals are unchanged from 1994. The company has budgeted \$142,800 for Non-residential HIECA in 1995, down slightly from its 1994 budget.

NYSEG will continue its "Seniors Lending a Hand" pilot project in 1995. The pilot offers installation of energy efficiency measures for elderly customers and offers information designed to encourage such customers to take advantage of its other HIECA services and the Utility Low-Income Energy Efficiency Program (ULIEEP).

E. Summary of Party Comments

PII asserts that NYSEG will hurt its service territory's environmental and economic well-being by eliminating its energy efficiency programs in favor of planned market transformation efforts. PII argues that NYSEG's excess capacity estimates are likely to be inaccurate due to potential plant retirements and increasing sales to other utilities, and should not be used to justify reduced DSM efforts. PII likewise dismisses high DSM free-ridership levels, increased competition, and the threat of retail wheeling as reasons for such downsizing. PII notes that despite assurances that proposed DSM efforts are IRP based, company statements made in September 1994 suggest to PII that NYSEG instead has based its decisions on assumptions lacking any factual basis or foundation.

PII criticizes NYSEG for the lack of a transition period for phase-in of planned market transformation efforts, which PII typifies as having "unknown and unproven end results." PII also criticizes NYSEG for the lack of programs aimed at company facility DSM, enhanced energy codes and standards

development, shared savings, direct install and energy equipment leasing, and criticizes as vague NYSEG's description of its financing program. PII notes a lack of detail regarding specific market transformation activities, and finds no causality between market transformation efforts and their claimed effects.

PII concludes by recommending that NYSEG be directed to submit an "approvable" Plan adhering to basic DSM and State Energy Plan principles and requirements, that includes program components specifically recommended in PII's comments.

DOL asserts that NYSEG's proposed programs do not meet market transformation program criteria proposed in the Staff white paper on DSM issues, at least in part, because they are directed at "customers and store owners," rather than upstream of them. DOL continues that the company's efforts ignore the problem of high initial cost for efficient appliances, which is "generally accepted as the reason such purchases are not made frequently." DOL concludes that NYSEG's proposed plan, as currently structured, consists only of audit programs and should not be approved.

SEO observes that NYSEG has not proposed programs that are aggressive or strategically targeted at transforming any particular market, as opposed to "bolstering the image of NYSEG as a helpful electric utility." SEO asserts that by allocating its budget to market transformation efforts, NYSEG may have sacrificed meaningful, measurable DSM gains in the new commercial construction sector. Finally, SEO charges that NYSEG "failed completely" to explain its savings estimation methodology.

NFG notes that NYSEG proposes to promote ground-source heat pumps, electric water heaters and super-efficient packaged air conditioning systems. NFG asserts that benefit/cost ratios for replacing such electric equipment with natural gas-fired equipment via fuel switching programs would be at least as high as the ratios for NYSEG's planned fostering of electric-to-electric equipment replacements.

CASES 94-E-0648, 94-E-0646, 94-E-0647, 94-E-0635, 94-G-0596
and 94-G-0601

The City of Ithaca, Conservation Advisory Committee (CAC), opines that administrative hurdles exist to fuller participation in NYSEG's current DSM programs. It proposes that NYSEG be required to "redouble its efforts" to streamline its DSM program and to increase program effectiveness.

F. Analysis and Recommendations

NYSEG's proposed 1995 plan to save 54.4 GWH contains only two market transformation programs targeted at the residential and commercial customer classes. Imbedded in the two market transformation programs are a host of individual program efforts, including 10 GWH from its third party provider programs. Staff agrees with SEO that NYSEG's plan is not strategically targeted at transforming any particular market as the plan is devoid of information on the individual efforts and corresponding budget breakdowns of the two market transformation programs. The plan is tentative--since the company has not yet completed the design stage. The plan filing notes that "the first 6 months of 1995 will focus on completing the design and undertaking implementation of the market transformation programs." We agree with PII that unlike other utility DSM plans, NYSEG's proposed plan does not represent a gradual transition from traditional programs, but focuses entirely on market transformation.

Staff's review of the filed plan indicates that at best only the 10 GWH of incremental energy savings through NYSEG's ongoing third party provider contracts is achievable in 1995. This leaves 44.4 GWH of market transformation efforts, for which no definitive implementation plan or reasonable evaluation plan exists. Staff calculations indicate that the company would need to achieve 97 GWH to reach linearly the 8-10% energy reduction target established by the SEP for the year 2000. Nevertheless, staff supports NYSEG's 54.4 GWH energy savings goal for 1995, since a transition to a more competitive electric industry would warrant some short term adjustment as DSM programs are modified to be more consistent with competition.

Despite our support of the proposed energy savings goal,¹¹ staff recommends that the Commission not accept NYSEG's

We recommend that flexibility on the timing and rate implications of the 54 GWH be preserved for consideration in the pending NYSEG rate case, (Case 92-

plan and direct the company to file, within 90 days, a plan for a performance-based program. A performance-based DSM program guarantees payment of program costs is made only upon delivery of the saved energy. Such a program should include verifiable measurement standards for determining the actual amount of saved energy and capacity which would form the basis of payment. Whether NYSEG supplies all or part of the 54.4 GWH energy savings itself, or solicits competitive proposals from third party providers to do so (including the existing third party contracts), cost recovery would be contingent on proof of delivered energy savings. This approach provides for a level playing field by holding NYSEG and other energy service providers to the same cost recovery standards. We hope this will introduce a greater degree of competition in the delivery of DSM, and will provide greater assurance that DSM spending produces demonstrated net benefits.

Staff recognizes that putting NYSEG on performance-based cost recovery may provide a disincentive for NYSEG to pursue DSM. Therefore, staff intends to pursue a mechanism in the on-going rate case, that would penalize NYSEG if it fails to reach its energy goals.

Market transformation programs could be part of the recommended performance-based DSM resource programs, if NYSEG can demonstrate savings from these programs. If it cannot provide a reasonable method to verify savings, the company should be permitted to explore market transformation programs as a development and support program. The long standing Commission policy limiting total expenditures for development and support and evaluation programs to 20% of the total DSM budget should be maintained.

Until a performance-based program is fully operational, which we recommend be no later than August 1, 1995, the company

should continue to run its Energy Efficiency Information Program, as an interim 1995 DSM program. An interim program is needed to ensure that NYSEG customers continue to have some DSM program services offered to them. The interim program could also include the continuation of other successful efforts from the 1994 DSM program, as well as the market transformation efforts described above. Staff recommends that cost recovery for any resource programs operated under the interim program be tied to delivery of associated energy savings, in keeping with the performance based plan to be developed.

Finally, the company's proposed plan includes reference to energy savings from "smart sales" programs. Staff supports the concept of "smart sales" programs and generally believes such programs to be appropriate candidates for inclusion in DSM plans. However, in NYSEG's case, the Smart Sales program should not be considered within the 1995 DSM plan. As part of the last rate settlement the Commission ordered NYSEG to file a separate plan on how it would implement, evaluate and recover expenses from smart sales. Given that a cost recovery mechanism for smart sales already exists it is inappropriate to consider the program here, although in future years, smart sales could be transferred from the existing cost recovery scheme to the DSM program.

G. Summary of Recommendations

Staff recommends that the Commission:

1. Accept NYSEG's 1995 HIECA Plan as already filed.
2. Not accept NYSEG's DSM plan and direct the company to file within 90 days a plan to achieve 54.4 GWH of incremental annualized energy savings in 1995 through a performance-based program. The plan should include for Commission approval a proposed method for performance-based cost recovery. In developing this plan the company should consider the comments of the parties and staff.

3. Allow the company to explore market transformation activities in 1995 as development and support programs, unless it can offer a reasonable means to verify savings.
4. Direct NYSEG to continue to operate its Energy Efficiency Information Program as an interim 1995 DSM program, until the performance-based program is operational.

ORANGE AND ROCKLAND

A. Introduction and Summary

O&R proposes to spend \$5.7 million on DSM in 1995 to achieve incremental annualized demand and energy savings of 9.3 MW and 33.0 GWH, respectively. This represents a 50% reduction in budget and a 9% reduction in demand savings when compared to originally approved 1994 levels, while energy savings goals will increase by 8%.¹²

The long range goals included in the 1995 DSM Plan provide for cumulative annualized energy savings of 461 GWH, or 11.8% of energy requirement (for the New York service territory) by the year 2000, compared to the SEP target of 8 to 10% energy reduction. The long range goals are 18% higher than goals previously filed in the 1993 Long Range DSM Plan. Both the 1995 and long range DSM goals and objectives are consistent with the overall resource acquisition strategy developed in the company's most recent Integrated Resource Plan (IRP).

The incremental 1995 and long range goals include demand and energy savings attributed to market transformation. Market transformation impacts account for 3.6 MW of the capacity savings and 14.2 GWH of the energy savings projected for 1995. The company predicts that 187 GWH of energy reduction, or 4.8% of energy requirements, will be achieved by the year 2000 through market transformation effects. The company defines market transformation as "energy efficiency savings achieved without the customer receiving direct financial support from the serving utility, but the customer's actions were nevertheless influenced by the existence of the utility's DSM programs." However, the company does not provide adequate information on the methods to

1994 budgets and energy savings goals were reduced from their originally approved levels by Commission order. Case 92-E-0468, Order Approving Petition of Orange and Rockland Utilities, Inc., to Revise its 1994 Demand Side Management Plan, With Modifications, Issued October 3, 1994.

CASES 94-E-0648, 94-E-0646, 94-E-0647, 94-E-0635, 94-G-0596
and 94-G-0601

be used to calculate and evaluate energy savings attributable to
market transformation.

B. Bill Impacts

The following summarizes expected long term bill impacts for 1995, which exclude the effects of market transformation as reported by Orange & Rockland.

**1995 Expected Long Term Bill Impacts
PV Savings (-) or Increase (+)**

Customer Class	Residential	Commercial
Average Customer	-\$ 6	-\$ 144
Average Participant	-\$ 676	-\$8,556
Average Non-Participant	+\$ 14	+\$ 94

C. Program Delivery Approach

O&R has chosen to maintain a relatively stable program mix, with few programs receiving more than minor adjustments to rebate level or delivery mechanism. Of the programs O&R ran in 1993-1994, the Residential A/C Cycling program has been eliminated, and the rebate segment of the Residential New Construction program has been discontinued, as these programs proved not to be cost-effective. Financing, endorsed by staff because participants absorb more of program costs, has been offered to participants of the Small Commercial and Non-Residential Lighting programs since mid-1994. The Curtailable Load program was extensively modified in 1994, and incentives were reduced over 75%, in recognition of the diminished value of capacity savings.

In approving modifications to O&R's 1994 DSM Plan, the Commission noted that the program changes produced a major shift in program emphasis from residential to commercial sectors, which would result in unreasonable interclass subsidies, based on O&R's assignment of DSM costs across all customer classes. The order directed the company to enhance its program offerings for residential customers or explore revisions to its cost recovery mechanism. In its compliance filing, the company has indicated that it "could not identify appropriate additions to propose" for residential customers, and instead will revise DSM cost

allocation in its next rate case.¹³ For the submitted 1995 plan, less than 5% of projected energy savings are from the residential sector.

D. HIECA

O&R plans to conduct 1,000 residential audits in 1995, down from a goal of 2,000 in previous years. Goal reductions are premised on the fact that, by year-end 1994, O&R will have achieved a 43% penetration rate for HIECA audits among eligible households. Audit goals for the non-residential and apartment building sectors are similar to 1993-1994 levels. The HIECA budget has been reduced from the 1993-1994 budget level of \$1.3 million per year to \$382,600. Over half of the budget reductions come from the elimination of several pilot programs. O&R has proposed a \$7,500 budget for a new HIECA pilot in 1995, an Energy Survey Program for Post-1980 Homes. In addition, O&R would provide disaggregated billing analyses through another HIECA pilot, the Personal Energy Profile, to customers not eligible for HIECA surveys.

O&R's HIECA and SAVING POWER plans are expected to save 141,500 in (EGOs) equivalent gallons of oil on an annualized basis through its 1995 program efforts.

HIECA Program Budgets and Survey Goals

<u>PROGRAM</u>	<u>SURVEY OBJECTIVE</u>	<u>BUDGETS</u>
SAVING POWER	1,000	\$ 213,900
ABCS	10	\$ 9,200
Non-Residential	215	\$ 81,800
Pilot Projects	2 Projects	\$ 77,700
TOTAL		\$ 382,600

E. Summary of Party Comments

Case 92-E-0468, "Response of Orange and Rockland Utilities, Inc., to the Commission's Order Issued and Effective October 3, 1994," dated November 2, 1994.

PII argues that "the Company's proposal to drastically reduce residential resource programs while maintaining load shifting and informational non-resource programs runs counter to prior Commission orders and State Energy Plan goals." PII recommends that the Commission reject O&R's plan and order the company to submit a plan in conformance with SEP efficiency goals, eliminate load shifting and information programs and reallocate budgets toward lost opportunity efforts.

SEO complains that O&R plans market transformation that accounts for 28% of savings for 1995 and 41% for 2000, without providing specifics regarding activities that would contribute to the energy savings goal.

DOL argues that the Commission should require O&R to spend additional funds on DSM to ensure that some unspecified minimum amount of cost-effective DSM is implemented. DOL also recommends that the Commission require O&R to capture some portion of lost opportunities, and recommends a statewide collaborative approach to the design of lost opportunity programs.

F. Analysis and Recommendations

O&R proposes to continue in 1995 programs that the company has run successfully for several years, all of which pass the Total Resource Cost (TRC) test. For this reason we cannot hold with PII that the Commission should reject O&R's Plan. Two programs fail the Utility Cost Test (UCT): Temporary Buyback and Non-Residential Peak Activated Rate. Staff recommends that the company consider changes that could be made to improve the UCT results and to provide updated benefit-cost analyses within 60 days of the date of the Commission's order herein.

O&R has proposed capacity and energy savings goals for 1995 which are both consistent with its IRP and an acceptable increment toward SEP year 2000 targets. For this reason staff believes that it is unnecessary for the Commission to require of O&R, as recommended by DOL, some minimum amount of DSM. Nor do

we concur with the recommendations of DOL and PII that the Commission order O&R to reallocate its budgets toward lost opportunity programs, notwithstanding that staff has previously identified lost opportunity programs as among the programs which "should be at the top of the list of DSM priorities."¹⁴ No useful purpose will be served by such a directive in the face of the company's continuing insistence that it cannot run such programs cost effectively.

We agree with SEO that the company has not provided the information necessary to evaluate and verify the savings claimed from market transformation activities and that appropriate market transformation savings measurement protocols need to be developed. Without counting the savings claimed from market transformation, the O&R Plan will not acquire the energy or demand resources prescribed by the company's IRP. Therefore, staff recommends that the Commission accept the company's demand and energy savings goals, but order that the goals be achieved through means which can be evaluated, by generally accepted measurement methodologies.

The company was previously directed by the Commission to offer expanded residential programs in 1995 or change its cost recovery. The current plan offers residential customers even fewer opportunities to participate than the modified 1994 program. Residential customers should be afforded opportunities to save energy and enjoy the benefits of DSM if cost effective opportunities exist. Inasmuch as the company has indicated an inability to develop cost-effective residential programs, staff recommends that the Commission order the company to conduct a competitive solicitation of residential DSM proposals from third-party providers. The company should also follow through on its stated plan to examine the DSM spending targeted for each

"New York DSM in Transition," report to the Commission April 18, 1994, p. 15.

customer class and address any unreasonable interclass subsidies in its next rate case.

O&R proposes to undertake two small resource programs that produce no energy savings or peak reduction in 1995. The company plans only to evaluate the acceptance of NYSE-STAR standards through its Residential New Construction program. Staff does not consider this to be a resource program. The Low Cost Measure program budget is for an evaluation of the persistence of measures installed before 1993. The company should be allowed to implement this as a resource program only because the expenditures represent the necessary evaluation follow-up to a now completed resource program.

Public Service Law Section 135-b.3(b) limits eligibility of HIECA services to customers with homes constructed before 1980. While well-intended, the proposed new HIECA pilot and the offering of Personal Energy Profiles to ineligible customers would violate that statute. Staff recommends that the Commission direct the company not to implement these projects under the HIECA program, but urges the company to consider these activities for inclusion in electric and gas DSM program offerings instead.

G. Summary of Recommendations

Staff recommends that the Commission:

1. Approve Orange and Rockland's proposed 1995 HIECA plan.
2. Accept the company's demand and energy savings goals, contained in its proposed 1995 plan, but order it to achieve those goals through means that can be evaluated by generally accepted methodologies.
3. Order the company to submit, within 60 days, revised benefit cost analyses and any plan modifications resulting from changes to the Temporary Buyback and Non-Residential Peak Activated Rate programs, or from any other Plan changes.

4. Order the company to issue, within 60 days, any modification required to meet clause (2) above, including any plan to competitively solicit residential programs to offer additional DSM opportunities to the residential sector; any such a plan should be designed to ensure that projects are cost-effective.
5. Direct the company to transfer the Energy Survey for Post-1980 Homes, and the Personal Energy Profile to ineligible customers from the HIECA program to the DSM non-resource program, subject to the 20% of DSM budget cap.

ROCHESTER GAS & ELECTRIC CORPORATION

A. Introduction and Summary

RG&E has proposed a group of seven core programs, plus continued delivery of bidding programs for 1995. The DSM budget, excluding bidding and HIECA is \$8.5 million, with incremental annualized energy savings of 6.95 MW (summer) 4.8 MW (winter) and 29.35 GWH. This represents an approximately 30% reduction in budget expenditures and a 60% reduction in incremental annualized energy goals from the 1994 plan.

RG&E states that the objective of its 1995 DSM plan is to "develop a DSM plan that will serve the needs of its customers, garner the greatest energy savings at the lowest possible cost, and decrease the impact on rates."¹⁵ To achieve its objective, the company proposes several changes to its plan including: combining all commercial rebate programs into one program; offering reduced levels of rebates compared to 1994; increasing the role of RG&E's DSM personnel in program implementation to reduce reliance on contractors; and integrating DSM programs with marketing activities.

Residential program budgets have been reduced from approximately \$3.0 million in 1994 to \$720,000 in 1995, a 75% decrease. The company proposes eliminating all but one of its Residential Programs, the Residential Refrigerator Program, and has reduced the incentives for this program.

Finally, RG&E proposes to continue its DSM bidding program in 1995. The bidding portion of RG&E's 1995 DSM plan is expected to provide an additional 32.74 GWH of incremental annualized energy savings in 1995, at an expected cost of \$2.5 million. This makes bidding the largest program at RG&E with capacity and energy goals that exceed all of RG&E's other direct program efforts combined.

RG&E 1995 DSM plan, pg. I.1-1.

Although, RG&E's short-term 1995 annualized energy goal of 62.1 GWH (including bidding) appears to be on track to meet SEP targets, RG&E's long range goal falls behind. RG&E's projected cumulative annual energy savings of 373 MWH by the year 2000, a 4.8% reduction, is substantially below the 8-10% reduction target recommended in the State Energy Plan.

B. Bill Impacts

RG&E reports the following bill and rate impacts from its 1995 DSM program.

**1995 Expected Long Term bill Impacts
PV Savings (-) or Increase (+)**

	Residential	Commercial
Average Customer	\$ - 1	\$ - 52
Average Participant	\$ -772	\$ -60,049
Average Non-Participant	\$ + 15	\$ + 540

C. Program Delivery Approach

The approach RG&E chose to deliver services to its customers was based largely on its 1993 DSM evaluation. RG&E indicates that its 1995 DSM plan represents the beginning of a shift in emphasis from financial incentives to an approach which influences customers' energy efficiency decisions through education and information. The company has added two new development and support programs which are designed to explore alternatives ways of delivering DSM to the commercial, industrial and residential sectors. It also plans to conduct a commercial and industrial electro-technology market potential study in its service area.

RG&E proposes one new resource program in 1995 - "Electric System Improvement Program." The purpose of this program is to improve RG&E's T&D system by reducing distribution transformer losses through the installation of high efficiency amorphous core transformers.

D. HIECA

With a proposed budget of \$1,848,000, RG&E's 1995 HIECA program plans to offer services that are roughly equivalent to its 1993-1994 HIECA program. The company proposes to maintain the same level of surveys for all aspects of its HIECA program, while reducing its program costs approximately 25% from the previous year. The company attributes the savings to reduced audit costs and pilot program costs. Due to the elimination of the company's Residential DSM Lighting Program, compact fluorescent bulbs will no longer be provided to customers under the low cost measures portion of the SAVING POWER program. RG&E estimates savings due to its HIECA and ABCS activities of 1,214,468 equivalent gallons of oil (EGO) in 1995.

HIECA Program Budget and Survey Goals

	SURVEY OBJECTIVE	BUDGET
SAVING POWER	4,000	\$1,029,000
ABCS	24	30,000
NON-RESIDENTIAL	525	395,000
PILOT PROJECTS	5 PROJECTS	394,000
TOTAL		\$1,848,000

E. Summary of Party Comments

SEO and DOL are concerned that the rebate levels in RG&E Commercial programs are insufficient and will prevent adequate participation by customers. SEO questions RG&E's ability to achieve the energy savings targets it projects with its reduced rebate levels.

SEO and NFG urge the Commission to reject RG&E's Electric System Improvement Program as a DSM program in its 1995 DSM plan. SEO states that T&D improvements have never been acceptable as DSM programs because they are not on the "demand-side" of the customer's meter, and NFG believes the program is deficient because more efficient alternative fuel sources were not examined.

DOL and PII claim that RG&E will not be capturing a sufficient percentage of lost opportunities because RG&E has cut back on its commercial new construction program and does not offer a residential new construction program. Both commentors urge the Commission to require RG&E to devote greater resources to its commercial new construction program and to require RG&E to offer a residential new construction program.

PII would also like RG&E to expand its Commercial and Industrial Rebate Program to include a direct installation program for smaller commercial facilities, to increase its budget for the Commercial Audit Program, and to have funding restored for the Energy Management Grant Program for Non-Profits. PII asserts that without the Grant Program a barrier will be created that "will likely cause many non-profits to back away from retrofitting and conservation," and urges that a shared savings approach be developed for this customer segment.

On the residential side, PII is concerned that RG&E has taken a large step backwards by eliminating all but one residential sector program and by not implementing a residential new construction program to capture lost opportunities. It criticizes RG&E for eliminating all opportunities for retrofit savings and for failing to continue programs which were cost effective. PII suggests that funding be restored for RG&E's Residential Appliance conversion program, pointing out that this was one of RG&E's most successful programs from both a cost/benefit and participation standpoint.

NFG urges the Commission to require RG&E to include a fuel switching program that utilizes natural gas, arguing that "electric utility DSM Plans that offer rebates for electric conservation programs and not for fuel switching hinder statewide integrated resource planning efforts."

F. Analysis and Recommendations

DOL and SEO are incorrect in their assessment that RG&E is not offering residential new construction programs. RG&E is

proposing to participate in the NYSE-STAR program as a pilot HIECA program. In addition, under another HIECA pilot program RG&E is providing incentives for energy efficiency upgrades for existing homes that are acquired and rehabilitated for low and moderate income owner/occupants.

Public Service Law Section 135-b.3(b) limits eligibility of HIECA services to customer with homes constructed before 1980. The NYSE-STAR program does not fit under the provisions of HIECA. Staff recommends that the Commission direct the company not to implement the NYSE-STAR program under HIECA, but that the company consider this activity for inclusion in the electric and gas DSM program offerings instead.

Staff does not agree with NFG and SEO that the Electric System Improvement Program should be rejected. In the "New York DSM in Transition" white paper, staff encouraged utilities to improve the energy efficiency of a utility's own facilities including equipment used in the generation, transmission, and distribution of power. Utility facility efficiency programs benefit all customers by lowering the utility's cost of doing business. Additionally, because there are no associated lost revenues the programs pass the RIM test.

Residential Programs

In approving the 1993-1994 DSM the Commission criticized RG&E for its lack of residential offerings and directed RG&E to "undertake a study to determine the cost-effective residential DSM potential in its service territory."¹⁶ The market potential survey, completed in March of 1994, found several technologies that were highly cost-effective

Case 92-E-0616, Order Approving Petition of Rochester Gas and Electric Corporation for Approval of its 1993-1994 Demand Side Management Plan and HIECA Business Plan, filed in Cs. 28223 and 27230, (Issued and Effective March 19, 1993), p.16.

from both a Utility Cost and Total Resource Cost perspective.¹⁷ However, rather than pursuing these technologies in its 1995 DSM plan, RG&E chose to ignore its own study and eliminated all but one of its residential program offerings. Additionally, because DSM program costs are recovered from all customers, RG&E's lack of residential program offerings raises serious participant/non-participant equity considerations--as residential customers are subsidizing programs in which they cannot participate and receive little benefit.

Staff recommends that RG&E submit a supplement to its 1995 DSM plan which provides greater opportunities for residential customers to participate in its DSM program efforts. RG&E should reallocate funds from its approved DSM budget to support these residential programs; we suggest that RG&E reconsider its proposed budgets for development and support and non-resource programs. Additionally, RG&E should consider the recommendations of both PII and NFG to reinstate the Residential Appliance Conversion Program as well as the technologies identified in its Residential Market Potential Survey. _____

Commercial Programs

RG&E has proposed a plan which for the most part retains proven rebate programs, albeit at reduced levels. Staff does not recommend that the Commission direct RG&E to increase budgets for any proposed Commercial programs at this time; rather we suggest that RG&E consider the parties' recommendations and adopt those which it deems appropriate. In particular staff shares PII's concern that the Not-for-Profit Grant Program has

Electric to gas fuel switching for water heaters, dryers and ranges, removal of second refrigerators and freezers, installation of setback thermostats where none previously existed to control central air conditioning, and compact fluorescent bulbs were identified as cost-effective Residential DSM opportunities having sufficient potential in RG&E's territory.

been discontinued and encourages RG&E to consider PII's recommendation of a shared savings program for Not-for-Profits.

Staff also agrees with PII, DOL and SEO that RG&E's commercial rebate levels may be too low to produce the proposed participation rates and projected savings. However, the DSM incentive mechanism is such that RG&E is penalized in the event it falls short of its DSM goals. We believe that the incentive provides the correct signal in motivating RG&E's behavior.

G. Summary of Recommendations

Staff recommends that the Commission approve RG&E's 1995 DSM Plan and HIECA Business plan with the following conditions:

1. RG&E should provide a supplemental filing within 60 days which provides greater opportunity for residential customers to participate in DSM program activities.
2. The company may not implement the NYSE-STAR project under the HIECA program, but should consider that project for inclusion as DSM non-resource programs.