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St. Lawrence Gas

An **ENBRIDGE** Company

January 7, 2009

Jaclyn A. Brilling
Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany NY 12223-1350

RE: Case 08-G-1021 - Petition of St. Lawrence Gas Company, Inc. for Approval of an Energy Efficiency Portfolio Standard (EEPS) "Fast Track"- Administered Gas Energy Efficiency Program

Dear Secretary Brilling:

Enclosed for filing in the above referenced proceeding are the original and five copies of St. Lawrence Gas Company, Inc. Reply Comments in response to the December 17, 2008 Staff Comments.

Copies have been served via electronic mail to parties on the active party list.

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St. Lawrence Gas Company, Inc.

Case 08-G-1021 - Petition of St. Lawrence Gas Company, Inc. for Approval of an Energy Efficiency Portfolio Standard (EEPS) "Fast Track"- Administered Gas Energy Efficiency Program

St. Lawrence Gas Company, Inc.
Reply Comments

James P. Ward
Manager, Strategic Accounts & Planning
St. Lawrence Gas Company, Inc
33 Stearns St.
PO Box 270
Massena, NY 13662

Dated: January 7, 2009

St. Lawrence Gas Company, Inc.

Case 08-G-1021 - Petition of St. Lawrence Gas Company, Inc. for Approval of an Energy Efficiency Portfolio Standard (EEPS) "Fast Track"- Administered Gas Energy Efficiency Program

St. Lawrence Gas Company, Inc.
Reply Comments

On June 23, 2008, the Public Service Commission (Commission), in Case 07-M-0548, issued an order ("EEPS Order") that among other things, allowed electric utilities and certain gas utilities to submit program proposals to implement two "Fast Track" electric utility programs and one "Fast Track" gas utility program. The Fast Track Gas program consists of a residential efficient gas equipment program. The EEPS Order also authorized collection of specified funding amounts and provided for an expedited process for the utility programs. On July 3, 2008 the Commission issued an Errata Notice to revise allocations in table 18 of Appendix 1 of the EEPS Order and to include surcharges for Corning Natural Gas Corporation ("Corning") and St. Lawrence Gas Company, Inc ("St. Lawrence").

On August 22, 2008, St. Lawrence submitted its Fast Track proposal. Thereafter, the Department of Public Service Staff (Staff) commenced discovery concerning the company's proposal. On December 17, 2008 Staff provided comments to reflect Staff's analysis of St. Lawrence's Fast Track proposal and its responses to Staff interrogatories.

The following is a summary of the Recommendations made by Staff for the St. Lawrence Gas Program:

1. Staff recommends that St. Lawrence implement a limited Gas Fast Track program consisting of rebate incentives provided only for energy efficient space heating

equipment and only to those customers purchasing eligible equipment. Rented or leased equipment should not be eligible for rebates.

2. Staff recommends that efficiency levels and rebate amounts for any equipment offered as part of St. Lawrence's program be uniform with other utility programs.

3. Staff recommends that St. Lawrence provide an option for customers to receive incentives directly in the form of a check rather than as a bill credit.

4. Staff recommends that St. Lawrence's Gas Fast Track program include some measure of a contractor training and program orientation component.

5. Staff recommends that St. Lawrence's Gas Fast Track program contain some minimum procedures for quality assurance.

6. Staff recommends that once the Commission approves final program parameters, St. Lawrence be required to submit an energy efficiency program Implementation Plan that describes in detail the overall program and how it will operate.

7. Staff recommends a standard approach to estimating energy saving as outlined in Appendix 3 of the EEPS Order.

8. Staff recommends that competitive bidding - rather than sole-source procurement -- be required as the preferred procurement method for equipment and contracts.

9. Staff recommends that any utility proposal for changes to approved program budgets, eligible energy efficiency measures, or customer rebates should be submitted to Staff for review and comment at least 90 days before the proposed implementation date. Proposals that would result in budget allocations that would represent a cumulative

change of 10% or more from the total approved annual budget should be submitted for Commission approval before implementation.

10. Staff recommends that the Commission require St. Lawrence to provide a more detailed evaluation plan as part of the detailed Implementation Plan and prior to final approval of any utilities' evaluation plan.

11. Staff recommends that proposals to use evaluation funding for market research be reviewed by the EAG and approved by the Director of the Office of Energy Efficiency and the Environment.

12. Staff recommends that all program administrators be required to report program data and evaluation results on both a quarterly and annual basis. Staff further recommends implementation of a monthly "scorecard report," prepared by all administrators, to provide the Commission and the public with a summary of key program achievements (e.g., number of measures installed and customers served, dollars spent, progress toward goals).

<u>St. Lawrence Response</u>

St. Lawrence put forth a draft Energy Efficiency Plan that would provide the maximum benefit to the widest array of customers within the company's service area. The most challenging aspect in the design of the program was to provide a program that would be meaningful to the company's customers and achieve the goal of reduced energy consumption, given the limited budget allocated to St. Lawrence in the July 3, 2008 Errata Notice. With a budget of $103,000 per year the key to a successful program is to control operating costs in order to provide as much of the total budget back to customers in the form of incentive rebates. Even if St. Lawrence could allocate 100% of the budget to incentive rebates, the program would only be available to a fraction of the customers installing new equipment each year. If the program scope is increased to include additional training, evaluation, reporting and other administrative tasks the budget amount available for rebates erodes to a meaningless number.

Staff acknowledges that the effort required to respond to Staff's request has created a burden on the company. They recognize that the costs of administration, contractor training and rigorous evaluation create very large issues for the company. To address these concerns Staff proposes that the St. Lawrence program be scaled down. However the recommendations made by Staff do not go far enough to reduce the administrative costs and burdens on the company in order to maximize energy efficiency incentives. Without reductions in the administration, contractor training, and quality assurance requirements the St. Lawrence program will not be a benefit to the customer as only a small fraction of the $103,000 budget will be available for rebates.

On page 6 and 7 of Staff's comments Staff compares the St. Lawrence MMBTU savings goals through 2011 with program goals that Staff derived from the EEPS Order. St. Lawrence does not understand Staff's calculation and has not been provided any backup for the calculation. St. Lawrence is therefore not able to comment on Staff's comparison.

Staff believes that St. Lawrence Gas should provide contractor training however it is unclear what the definition of contractor training is. St. Lawrence is willing to provide contractor training on the aspects of the St. Lawrence Gas Energy Efficiency Plan but is not prepared to train contractors on any aspect of proper appliance installation due to related costs and potential liability exposure.

St. Lawrence was brought into this proceeding as an afterthought on July 3, 2008. St. Lawrence is too small to be able to handle the full aspects of the EEPS Order. Staff apparently recognizes that the company lacks the budget, experience or the staff to fully comply with the order and to produce an energy efficiency program that actually reduces energy consumption. It is not efficient or effective to collect ratepayer money for an energy efficiency program unless the majority of that money flows back to ratepayers in the form of incentive rebates.

St. Lawrence responses to Staff's recommendations are outlined below:

1. Staff recommends that St. Lawrence implement a limited Gas Fast Track program consisting of rebate incentives provided only for energy efficient space heating equipment and only to those customers purchasing eligible equipment. Rented or leased equipment should not be eligible for rebates.

   St. Lawrence agrees with Staff's recommendation to limit the program to include rebate incentives on energy efficient space heating equipment only. Since water heating equipment is not eligible under Staff's recommendations the company also agrees to limit the program to customers who purchase eligible equipment.

2. Staff recommends that efficiency levels and rebate amounts for any equipment offered as part of St. Lawrence's program be uniform with other utility programs.

   St. Lawrence agrees with Staff's recommendation.

3. Staff recommends that St. Lawrence provide an option for customers to receive incentives directly in the form of a check rather than as a bill credit.

   As stated above St. Lawrence believes that controlling operating costs is the only way to make the program meaningful. The company believes that using a bill credit instead of a rebate check will be more efficient because the company's accounting and billing systems are not linked. By crediting the customer account the company will be able to track customer rebates more easily. Therefore the company disagrees with the recommendation made by Staff to offer an option for customers to receive a check.

If the option to receive a check is mandatory than the increased costs associated with this option will be deducted from the amount available for rebates.

4. Staff recommends that St. Lawrence's Gas Fast Track program include some measure of a contractor training and program orientation component.

   St. Lawrence will provide contractor training and orientation related to the specifics of its energy efficiency program in order to ensure that all contractors are knowledgeable about the St. Lawrence Energy Efficiency Program. This will allow contractors the ability to provide their customers with the correct information and documentation required to be eligible for a rebate.

   St. Lawrence is not in the business of installing gas fired equipment. Contractor training on the proper installation of gas fired equipment is currently available to the contractor through the equipment manufacturer or distributor. Training related to appliance installations cannot be done effectively or efficiently by St. Lawrence.

5. Staff recommends that St. Lawrence's Gas Fast Track program contain some minimum procedures for quality assurance.

   In 2000, due to a complaint, St. Lawrence discontinued its long standing practice of requiring that installers and contractors notify the company for inspection of gas appliance installations downstream of the company's meter. The company's understanding of Staff's concern was that certain actions of St. Lawrence may be perceived as giving preference or as anti-competitive by other market participants since a subsidiary of St. Lawrence was in the equipment sale and installation business.

Currently there are no inspections required and no associated costs included in the company's energy efficiency plan or in base rates. The company however recognizes the importance of quality assurance within the scope of this program and as part of its everyday safety measures.

St. Lawrence believes that this issue should be more appropriately addressed within the context of the company's current rate case (Case 08-G-1392). The company will revise the current rate case to include one full time position to address quality assurance.

The company looks forward to working with staff to include the costs of quality assurance in the current rate proceeding and to work to resume the practice of inspecting gas fired appliance installations.

6. Staff recommends that once the Commission approves final program parameters, St. Lawrence be required to submit an energy efficiency program Implementation Plan that describes in detail the overall program and how it will operate.

   St. Lawrence has agreed to provide an Implementation Plan once the program is approved by the Commission.

7. Staff recommends a standard approach to estimating energy saving as outlined in Appendix 3 of the EEPS Order.

   St. Lawrence agrees to change its savings estimate to align with Staff's recommended approach.

8. Staff recommends that competitive bidding - rather than sole-source procurement -- be required as the preferred procurement method for equipment and contracts.

The scaled down program envisioned by St. Lawrence will not include appliance purchases. It is the responsibility of the customer to look for the best equipment alternative available.

9. Staff recommends that any utility proposal for changes to approved program budgets, eligible energy efficiency measures, or customer rebates should be submitted to Staff for review and comment at least 90 days before the proposed implementation date. Proposals that would result in budget allocations that would represent a cumulative change of 10% or more from the total approved annual budget should be submitted for Commission approval before implementation.

   The limited scope of the company plan should not require major changes. If major changes are anticipated the company will submit them to staff for approval.

10. Staff recommends that the Commission require St. Lawrence to provide a more detailed evaluation plan as part of the detailed Implementation Plan and prior to final approval of any utilities' evaluation plan.

    On page 9 of Staff's comments Staff affirms the very limited budget in which the company has to run the program "Given the relatively small budget and the company's apparent lack of experience, the company will have difficulty implementing a complete evaluation plan as contemplated for other utilities. St. Lawrence could benefit if there were to be a statewide evaluation plan or it was otherwise able to share the cost of the evaluation process."

    St. Lawrence agrees with Staff that a statewide evaluation plan would be a benefit however the company plan should require much less evaluation than that of the larger utilities as it will include rebate incentives for energy efficient space heating equipment only. The company proposes to work with Staff and other small utilities to develop an evaluation plan that will fit within the budget as filed with the draft plan without sacrificing the amount of money allocated to rebates.

11. Staff recommends that proposals to use evaluation funding for market research be reviewed by the EAG and approved by the Director of the Office of Energy Efficiency and the Environment.

No Comment

12. Staff recommends that all program administrators be required to report program data and evaluation results on both a quarterly and annual basis. Staff further recommends implementation of a monthly "scorecard report," prepared by all administrators, to provide the Commission and the public with a summary of key program achievements (e.g., number of measures installed and customers served, dollars spent, progress toward goals).

St. Lawrence will supply all required reporting.