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August 22, 2008

Honorable Jaclyn A. Brillong  
Secretary  
State of New York Public Service Commission  
Three Empire State Plaza  
Albany, NY 12223

Re: Case 07-M-0548 – Proceeding on Motion of the Commission  
Regarding an Energy Efficiency Portfolio Standard

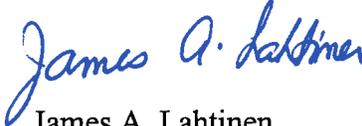
Dear Secretary Brillong:

New York State Electric & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation (“RG&E”) (collectively the “Companies”), hereby submit their Gas Program Plan (“Plan”) in accordance with Ordering Clause 11 of the June 23, 2008 *Order Establishing Energy Efficiency Portfolio Standard and Approving Programs*, issued by the New York State Public Service Commission (“Commission”) in the above-referenced proceeding.

In response to the anticipated higher costs of natural gas during the 2008-2009 heating season and also recognizing the dramatic rise in home heating oil prices since last winter, the Companies have chosen to accelerate the contractor procurement and program implementation processes to allow promotion and rebate processing to begin October 1, 2008. This start date depends upon Commission approval of the program and associated cost recovery, which are necessary before retail program promotion and rebate processing can begin. Accordingly, NYSEG and RG&E respectfully request expedited approval of the Plan by the Commission in order to begin providing benefits to gas heating customers during the upcoming winter season.

The Companies are available to answer any questions the Commission or the Department of Public Service Staff may have concerning the Plan.

Respectfully submitted,

  
James A. Lahtinen

cc: Active Parties Service List (via ListServ)

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STATE OF NEW YORK  
PUBLIC SERVICE COMMISSION

-----X  
Proceeding on Motion of the Commission Regarding an :  
Energy Efficiency Portfolio Standard : Case No. 07-M-0548  
: :  
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**GAS PROGRAM PLAN OF  
NEW YORK STATE ELECTRIC & GAS CORPORATION  
AND  
ROCHESTER GAS AND ELECTRIC CORPORATION**

Dated: August 22, 2008

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## I. INTRODUCTION

New York State Electric & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation (“RG&E”) (collectively “the Companies”) hereby submit their Gas Program Plan (“Plan”) in accordance with Ordering Clause 11 in the June 23, 2008 *Order Establishing Energy Efficiency Portfolio Standard and Approving Programs* (“June 23 Order”) issued by the New York Public Service Commission (“NYPSC” or “Commission”) in Case 07-M-0548, Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard (“EEPS”).

In order to begin processing customer rebates by October 1, the Companies have chosen to pursue program development and regulatory approval simultaneously. Achieving this start date is desirable for at least two reasons: it is the same date that the System Benefits Charge (“SBC”) will begin to appear on residential customer natural gas bills, and beginning this program as soon as practically possible will maximize its potential to provide relief to gas heating customers during the upcoming winter season.

To achieve the goal of an October 1 start date, the Companies respectfully request that the program be approved by the NYPSC for SBC funding as soon as possible. NYSEG and RG&E stand ready to answer any questions the NYPSC or Department of Public Service Staff (“Staff”) may have concerning this Plan.

## II. EXECUTIVE SUMMARY

As directed by the NYPSC in the June 23 Order, the gas portfolio described in this Plan includes only the Residential Efficient Gas Equipment Program. The purpose of this rebate program is to increase the penetration of high efficiency gas space and water heating in NYSEG’s and RG&E’s service territories, by (a) motivating customers to purchase higher-efficiency gas equipment than would otherwise be the case, and (b) motivating trade allies, including equipment vendors and contractors, to stock and promote the installation of high efficiency gas equipment.

In response to the anticipated higher costs of natural gas during the 2008-2009 heating season and also recognizing the dramatic rise in home heating oil prices since last winter, the Companies have chosen to accelerate the contractor procurement and program implementation processes to allow promotion and rebate processing to begin October 1, 2008. This start date depends upon Commission approval of the program and associated cost recovery, which are necessary before retail program promotion and rebate processing can begin.

The Total Resource Cost (“TRC”) test results for this program are 1.63 for RG&E and 1.77 for NYSEG without carbon externalities, and slightly greater when carbon externalities are included.

The program is expected to encourage the participation of about one percent of the Companies’ residential gas customers (or approximately 2,500 customers for each Company) per year, at an annual cost of approximately \$1.15 million for each Company. This expenditure will produce new savings of about 22,000 MBTU for each Company each year.

Because the new savings each year will be sustained until well after 2015, the total savings each year will include both that year's new savings and the sustained savings from prior years. If the program is continued through 2015, the total savings in 2015 will be about 156,600 MBTU.

That reduction in usage is expected to produce new delivery revenue reductions of about \$35,000 each year, to which will be added the revenue reductions associated with the growing level of sustained revenue reductions from prior years. The total reduction in usage is currently projected to result in a revenue reduction of about \$250,000 in 2015 for each Company.

Until such time as the Companies have implemented a PSC-approved Revenue Decoupling Mechanism ("RDM"), energy sales that are lost due to the implementation of gas energy efficiency programs will be tracked and revenues associated with such lost energy sales will be calculated and recovered from all residential gas delivery customers through the SBC. Any implementation costs in excess of current SBC revenues will also be tracked and deferred for recovery when the SBC rate is reset.

### III. PROGRAM PORTFOLIO

#### A. Objectives

The primary objective of the Residential Efficient Gas Equipment Program presented in this Plan is to comply with the requirements of the June 23 Order. In addition, the Companies specifically chose to develop a program that could be launched rapidly, to allow their residential customers the potential for early relief from rising natural gas and home heating oil costs.

NYSEG and RG&E also consider this program to be a gateway into the larger world of natural gas energy efficiency programs, and expect to apply lessons learned from planning and implementing this program when participating in the Natural Gas Efficiency Working Group (Working Group V).

#### B. Collaborative Discussions

Consistent with Ordering Clause 11 in the June 23 Order, the Companies consulted with other New York State utilities during the development of these programs, beginning with a July 17-18 meeting. The Companies also provided an opportunity for input by other interested parties on a webcall of July 28, 2008. An initial meeting between NYSERDA and all utility program administrators was held on Friday, August 1. Specific discussions with NYSERDA concerning NYSERDA, NYSEG, and RG&E activities began at an all-day meeting on Thursday, August 21.

### C. Independent Program Administrator Proposals

NYSEG and RG&E are in the process of evaluating all Independent Program Administrator (“IPA”) proposals received by the Companies.

Two proposals have the potential to benefit residential gas customers. The EnSave proposal would target agricultural customers, and the proposal from Positive Energy targets residential customers. In each case, the programs would pursue both electric and gas savings.

### D. Financial Incentives

In the June 23 Order, the Commission stated it would not establish a long-term policy regarding utility incentives until the parties had more opportunity to comment on the issue. The 90-day proposals required by the June 23 Order were to be delayed if necessary so that the pending order adopting an incentive policy can be incorporated into the plans filed.

At the time of this filing, it appears that no incentives will be set for this gas program, and therefore NYSEG and RG&E have not incorporated shareholder incentives into this Plan. If the Commission does choose to set such incentives, the Companies respectfully request the opportunity to update the Plan and the TRC ratios it contains accordingly.

### E. Gas Program Portfolio

The RG&E and NYSEG natural gas program portfolio contains solely the Residential Efficient Gas Equipment Program outlined in Appendix 2 of the June 23 Order. This program targets all gas customers who will begin to pay the new SBC gas charge on their bills in October 2008. The details of this program are provided in Section IV below.

Table 1 provides the annual MBTU savings attributable to the RG&E and NYSEG programs. New savings are produced each year, and continue into subsequent years as sustained savings.

**Table 1. Annual MBTU Savings**

	RG&E		NYSEG	
	New	New Plus Sustained	New	New Plus Sustained
2009	22,383	22,383	22,383	22,383
2010	22,383	44,766	22,383	44,767
2011	22,383	67,149	22,383	67,150
2012	22,383	89,532	22,383	89,534
2013	22,383	111,915	22,383	111,917
2014	22,383	134,298	22,383	134,301
2015	22,383	156,681	22,383	156,684

Tables 2a and 2b project the year-by-year delivery and supply<sup>1</sup> revenue erosion for RG&E and NYSEG resulting from these program activities.

**Table 2a. RG&E Annual Lost Revenues**

Year	Delivery		Supply	
	New	New Plus Sustained	New	New Plus Sustained
2009	\$36,201	\$36,201	\$160,544	\$160,544
2010	\$36,201	\$72,402	\$164,236	\$324,780
2011	\$36,201	\$108,603	\$168,014	\$492,794
2012	\$36,201	\$144,804	\$171,878	\$664,672
2013	\$36,201	\$181,005	\$175,831	\$840,504
2014	\$36,201	\$217,206	\$179,875	\$1,020,379
2015	\$36,201	\$253,407	\$184,013	\$1,204,392

**Table 2b. NYSEG Annual Lost Revenues**

Year	Delivery		Supply	
	New	New Plus Sustained	New	New Plus Sustained
2009	\$34,661	\$34,661	\$183,479	\$183,479
2010	\$34,661	\$69,322	\$187,699	\$371,178
2011	\$34,661	\$103,983	\$192,016	\$563,193
2012	\$34,661	\$138,644	\$196,432	\$759,626
2013	\$34,661	\$173,305	\$200,950	\$960,576
2014	\$34,661	\$207,966	\$205,572	\$1,166,148
2015	\$34,661	\$242,627	\$210,300	\$1,376,448

Appendix 3 of the June 23 Order directed the Companies to calculate the gas rate impact of the portfolio of gas programs. In this case, the rate impacts shown in Tables 2a and 2b apply to both the portfolio, and the single program in that portfolio.

#### F. Non-program-specific Activities

In addition to the activities that are specific to the Residential Efficient Gas Equipment Program, certain other activities will be conducted by the Companies to support their entire suite of electric and gas energy efficiency programs. These include:

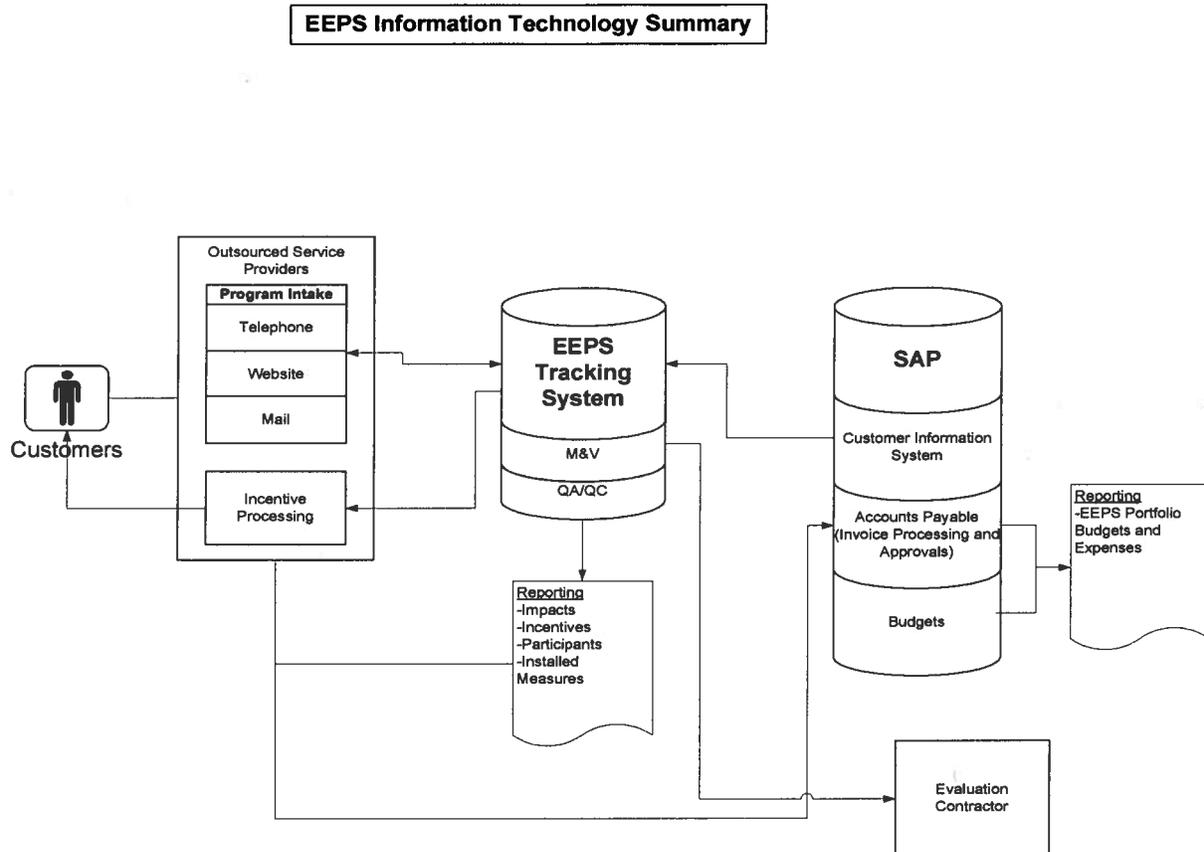
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<sup>1</sup> The impact of supply savings in Tables 2a and 2b makes no distinction between commodity provided by the Companies and commodity provided by Energy Service Companies (“ESCOs”). The Companies are not proposing to pursue recovery of lost commodity revenues.

- **Administration.** The administration of the complete portfolio of gas and electric programs proposed by NYSEG and RG&E will involve planning, budgeting, accounting, management and oversight, executive and regulatory support and reporting, and procurement.
- **Portfolio Promotion.** The Companies intend to support three levels or tiers of promotional activities. The highest tier will be the statewide activities pursued under the guidance of the O&E/Marketing Policy Advisory Group. The second tier, which is not specific to any particular program, will promote the portfolio of specific savings opportunities available to customers in the NYSEG and RG&E service territories. The third tier will be devoted to individual programs, and its costs are included in the costs of those specific programs.
- **Website.** NYSEG and RG&E will develop a customer-facing public website for the dissemination of program information and to provide a mechanism to support online customer filing of rebate applications. Once the web portal is fully developed, it will be linked to the program tracking system as an alternative to a document-driven application intake system. The website will continue to provide links to downloadable application forms that can be used by customers who prefer not to apply online.
- **Market Research.** The Companies will conduct studies to enable fact-based improvements to be made to the programs in the Gas and Electric Plans during 2009-2011, and to prepare for development of an extended suite of programs to be implemented during 2012-2015. The residential sector studies will include an appliance saturation survey and a market segmentation survey.
- **Data Management and Tracking.** Although the accelerated in-service date may require an interim solution for this program in the short term, the Companies intend to transition to the permanent data management and tracking system (see Figure 1) as soon as possible. This system will be used by NYSEG and RG&E for all their electric and gas programs to:
  - Verify customer and equipment qualifications for incentives
  - Manage incentive payments, including calculation of incentive amounts and potential adjustments, accounting, and payment processing
  - Support the impact-tracking process for each program
  - Capture customer and premise information, including measure detail (down to account number for each measure installed, if applicable)
  - Support application status tracking
  - Capture baseline equipment as well as installed equipment
  - Provide a detailed audit trail
  - Track program performance

- Support evaluation activities, including measurement and verification of savings (see Appendix A for more detail in this regard)
- Produce real-time, scheduled and ad-hoc management and regulatory reports

**Figure 1. Data Management and Tracking System**



The costs of program administration, portfolio promotion, development and maintenance of an energy efficiency website, and the data management and tracking system span both NYSEG's and RG&E's gas and electric businesses and all Company-sponsored energy efficiency programs. Therefore, NYSEG and RG&E will allocate these costs based on the following business rules:

- Costs that span all programs and all markets will be allocated across all programs based on each program's budget as a percentage of the total budget.
- Costs that span a specific market, such as residential (or non-residential), will be allocated to all residential (or non-residential) programs based on each program's budget as a percentage of the total residential (or non-residential) budget.

- Costs that are clearly identifiable as pertaining to a specific program will be charged to that program. Within programs, costs are allocated based on the ratio of expected participants from each Company.

## G. Budget

Tables 3a and 3b provide the annual implementation costs<sup>2</sup> RG&E and NYSEG, respectively, propose to recover through the gas SBC on a budgetary basis. As specified in Ordering Clause 7 of the June 23 Order, actual prior year expenditures will be reported to the NYPSC on an annual basis on or before June 1<sup>st</sup> of every year.

Table 5 in Section IV.G provides a more detailed breakdown of the program-specific costs. The non-program-specific costs reflect an allocation among programs as described above. The Gas Plan has been allocated 1.88 percent of RG&E and 1.88 percent of NYSEG non-program-specific costs, respectively. Material changes to the Gas and Electric Plans proposed by the Companies could cause a reallocation of these costs, increasing or decreasing the final budget for the Gas Plan.

The table compares the budget for the Gas Plan with the funds collected annually through the SBC charge, as drawn from Table 18 (*EEPS Annual Collections from Gas Ratepayers by Service Territory*) in Appendix 1 of the June 23 Order, as updated in the July 3, 2008 *Errata Notice*. The budgetary variance identifies the difference between expected annual expenditures and collected funds. Actual variances may be different from those specified here, depending on actual program participation levels, non-program cost allocations, and program administration, delivery, promotion, and evaluation expenses.

Actual negative variances will be deferred and interest will accrue at the Other Customer Capital rate as published and updated annually by the Public Service Commission, which is the same interest rate the Companies will pay on unexpended funds (see Ordering Clause 7 in the June 23 Order). Beginning January 2010, deferred variances, accumulated since program inception, will begin to be recovered through the annual SBC tariff surcharge rate established in the June 23 Order. Each subsequent annual SBC tariff surcharge rate will incorporate calculated variances, as described above, for the prior twelve-month period.

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<sup>2</sup> Lost revenues are not included in Tables 3a and 3b.

**Table 3a. NYSEG Gas Program Plan Implementation Costs for SBC Recovery**

	4 <sup>th</sup> qtr 2008	2009	2010	2011
Program-Specific Costs	\$255,508	\$1,022,032	\$1,045,588	\$1,069,144
Non-program-specific Costs	\$34,251	\$137,004	\$121,035	\$128,961
Total	\$289,759	\$1,159,035	\$1,166,622	\$1,198,105
Annual Collections	\$260,830	\$1,043,319	\$1,043,319	\$1,043,319
Budgetary Variance	(\$28,929)	(\$115,716)	(\$123,303)	(\$154,786)

**Table 3b. RG&E Gas Program Plan Implementation Costs for SBC Recovery**

	4 <sup>th</sup> qtr 2008	2009	2010	2011
Program-Specific Costs	\$255,508	\$1,022,032	\$1,041,734	\$1,061,437
Non-program-specific Costs	\$38,169	\$152,678	\$125,528	\$133,863
Total	\$293,677	\$1,174,709	\$1,167,263	\$1,195,300
Annual Collections	\$250,135	\$1,000,540	\$1,000,540	\$1,000,540
Budgetary Variance	(\$43,542)	(\$174,169)	(\$166,723)	(\$194,760)

#### H. Competitive Procurement

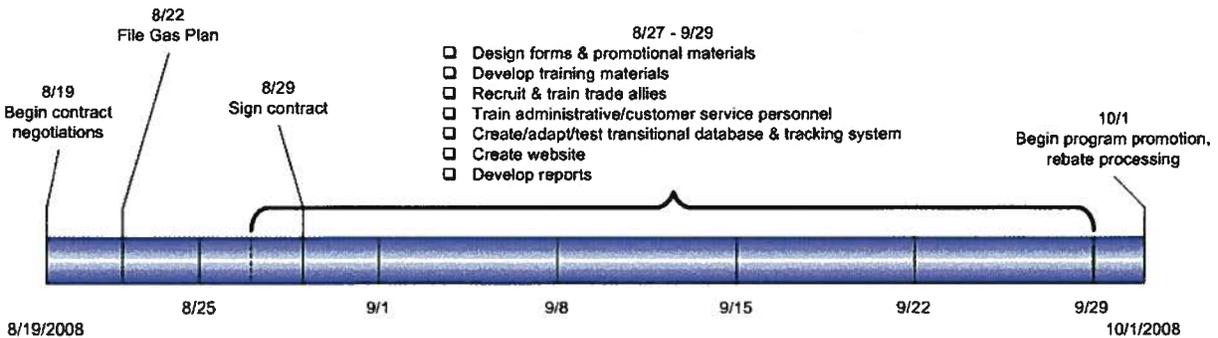
Rather than allowing the accelerated implementation schedule for the Residential Efficient Gas Equipment Program to force the Companies into a sole-source procurement, NYSEG and RG&E have chosen to accommodate the need for rapid procurement of a program contractor through the use of an interview-based Request for Information (RFI) process, followed by simultaneous contract negotiations with the most promising program contractors.

#### I. Schedule

Figure 2 summarizes the procurement and implementation schedule for the Residential Efficient Gas Equipment Program. Although the Companies are moving forward on an accelerated basis to meet their proposed October 1 deadline, the ability of NYSEG and RG&E to meet this date is fundamentally dependent upon timely regulatory approval. Commission approval of the program and associated cost recovery are necessary before retail program promotion and rebate processing can begin.

For this reason, the Companies respectfully request accelerated regulatory approval of this Gas Plan.

**Figure 2. Procurement and Implementation Schedule**



**J. Lost Revenues**

Until such time as the Companies have implemented a PSC-approved Revenue Decoupling Mechanism (“RDM”), energy sales that are lost due to the implementation of gas energy efficiency programs will be tracked and delivery revenues associated with such lost energy sales will be calculated and recovered from customers through the SBC as explained below.

The Companies will track the unit savings, in therms, for the participants of each energy efficiency program at the customer account level. All Program Administrators (“PA”) active in the NYSEG and RG&E service territories will be required to track and submit the participation levels by equipment type for each of the energy efficiency programs they implement.<sup>3</sup>

The Companies will calculate actual lost revenues on a monthly basis by multiplying the unit savings associated with the actual installed measures by the variable delivery charge(s) (\$/therm) of the participants’ respective service class. All calculated lost delivery revenues will be deferred and interest will accrue at the Other Customer Capital rate as published and updated annually by the Public Service Commission, which is the same interest rate the Companies will pay on unexpended funds (see Ordering Clause 7 in the June 23 Order).

Beginning January 2010, deferred lost revenues, accumulated since program inception, will begin to be recovered through the annual SBC tariff surcharge rate established in the June 23 Order. Each subsequent annual SBC tariff surcharge rate will incorporate calculated lost revenues, as described above, for the prior twelve-month period.<sup>4</sup>

<sup>3</sup> The mechanism approved by the NYPSC for use in measuring and verifying the savings impacts for codes and standards will be used to calculate lost revenues due to the impact of these activities.

<sup>4</sup> The Companies will submit tariffs in compliance, once the Commission Order is issued approving the lost revenue provisions proposed in this Plan.

#### IV. RESIDENTIAL EFFICIENT GAS EQUIPMENT PROGRAM

##### A. Program Description

The purpose of this program is to increase the penetration of high efficiency gas space and water heating in NYSEG's and RG&E's service territories, by (a) motivating customers to purchase higher efficiency gas equipment than would otherwise be the case, and (b) motivating trade allies, including equipment vendors and contractors, to stock and promote the installation of high efficiency gas equipment

Under this program, incentives will be provided to residential customers who install new or replacement gas heating and/or gas domestic water heating systems that exceed current nominal efficiency levels.

The program will be conducted by a contractor, under the management and oversight of the Companies. This contractor will be accountable for tier 3 (program-specific) promotional activities, trade ally recruitment and training, validation of rebate applications and payment of incentives, responses to customer inquiries, resolution of problems (including flawed or incomplete applications), interim data management and tracking, field inspections, and reporting.

Customers will be able to assign their rebate to their equipment vendor or contractor, which will allow that firm to manage the application and reduce the bill for the equipment by the rebate amount.

In addition, customers will be offered the option on their application to donate all or part of their rebate to the heating funds that provide relief to low-income customers in the NYSEG and RG&E service territories.

##### B. Program Promotion

Program-specific (tier 3) promotional activities will target customers currently installing new gas or replacement gas systems. In addition, a key marketing component of the program will be to involve trade allies with the program and educate them concerning the advantages of making use of the rebates to encourage the sale and installation of higher-efficiency equipment. Customer promotional approaches may include bill inserts, targeted direct mail campaigns, brochures and applications for use by trade allies, community outreach, and advertising. Periodic trade ally meetings and training sessions will be held to maintain a high level of awareness concerning the program and to recognize positive results.

Program brochures and an interactive website with program information and on-line as well as downloadable application forms will complement these activities.

##### C. Eligible Customers

In order to qualify for this program, customers must demonstrate that they contracted for the purchase of a qualifying furnace, boiler, and/or water heater no earlier than

the first day the Companies began to formally promote this program, and that the equipment itself was installed no earlier than October 1, 2008.

It is estimated that there are approximately 162,000 customers in each Company’s service territory who heat their homes with natural gas furnaces. Another 100,000 in each service territory heat their homes with natural gas boilers. Approximately 200,000 customers in each service territory utilize natural gas for making hot water. Additional customers may convert to natural gas for heating and hot water from other fuels. Based on industry experience with similar programs, the Companies estimate that approximately 2500 customers per year in each service territory will participate in this program.

#### D. Eligible Technologies and Rebates

The technologies eligible for rebates in this program include gas-fired central furnaces and boilers and natural gas water heating equipment.

The efficiency of furnaces and boilers is typically expressed as a percentage of Annual Fuel Use Efficiency (“AFUE”). Standard AFUE levels for furnaces and boilers today are 78% and 80%, respectively.

Two types of water heaters are eligible for rebates under this program – tank and instantaneous. A high efficiency tank-type water heater typically utilizes a high efficiency burner, an enhanced heat-exchanger and extra insulation to reduce standby heat losses to reduce energy consumption. An instantaneous or tankless water heater provides hot water upon demand at the location the hot water is needed. Therefore, it does not have the energy use and tank losses associated with keeping a typical tank-type water heater at a constant pre-set temperature.

Unit minimum efficiency performance requirements and prescriptive rebate levels for furnaces, boilers and water heaters are shown in Table 4. These rebates are targeted to provide approximately 50% of the incremental cost of installing higher efficiency equipment.

**Table 4. Equipment Qualifications and Rebate Levels**

Equipment	Minimum Efficiency	Prescriptive Rebate
Furnace	92% AFUE	\$400
Furnace	94% AFUE	\$500
Boilers	90% AFUE	\$500
Water Heater	0.64 EF	\$75
Tankless Water Heater	0.84 EF	\$600

Based on these rebate levels and the estimated customer participation, total rebates for eligible efficient equipment installed are estimated to be approximately \$850,000 per year for each service territory.

## E. Energy Savings

As shown in Table 1 above, annual savings under this program, based upon an assumed mix of measures installed, are estimated to be 22,383 dekatherms for each Company.

## F. Program Benefits

The Residential Efficient Gas Equipment Program designed by RG&E and NYSEG addresses many of the non-quantitative benefits listed in Appendix 3 of the June 23 Order. Specifically:

- **Evaluation.** RG&E and NYSEG present their evaluation plan in Section V of this document. As noted in the evaluation plan, the Companies fully anticipate working with the Evaluation Advisory Group and with other utilities in New York filing similar programs to develop and implement detailed process and impact assessment protocols to measure and verify the results of this program and to provide input into future program modifications.
- **Market Segment Need.** According to 2005 data from the Gas Appliance Manufacturers Association (“GAMA”), only 50% of the natural gas space heating and natural gas water heating equipment shipments to New York are high efficiency.
- **Coordination.** To the extent practicable, RG&E and NSYEG will coordinate the delivery of this program with planned future programs, including the Residential Energy Star HVAC program. In addition, the Residential Efficient Gas Equipment program is designed to also support and enhance NYSERDA’s Home Performance with Energy Star program by providing rebates and making the home performance activity more cost-effective to implement.
- **Commitment.** The Companies are committed to delivering the Residential Efficient Gas Equipment Program for the term approved by the Commission, which is assumed to be a minimum of three years (late 2008-2011). During this time frame, the Companies anticipate making modifications to improve program delivery and to add or delete specific measures as appropriate.
- **Customer Outreach.** The Company will work directly to alert eligible customers about this program and as well as through trade allies, including HVAC contractors and equipment dealers, to ensure widespread customer knowledge of this program.

## G. Costs

Table 5 provides a breakdown of program-specific costs by category. Rebates/incentives will vary directly with customer participation and associated savings. Direct administration, delivery, promotion, and evaluation expenses will vary to a much lesser degree with participation level.

**Table 5. 2009 Residential Efficient Gas Equipment Program-Specific Costs**

Category	NYSEG 2009 Costs	RG&E 2009 Costs
Direct administration	\$32,207	\$32,207
Delivery	\$32,207	\$32,207
Tier 3 Promotion	\$64,414	\$64,414
Customer rebate/incentive	\$858,850	\$858,850
Evaluation	\$34,354	\$34,354
<i>Total</i>	<i>\$1,022,032</i>	<i>\$1,022,032</i>

For budgetary purposes, an escalation factor has been applied to all costs except rebates for 2010 and 2011.

H. Test Results

Appendix 3 of the June 23 Order identified several tests that were specifically applicable to natural gas programs.

The primary and most important test is the Total Resource Cost (“TRC”), for which the results are provided on Table 6. The value of carbon was assumed to be \$15/ton, as suggested in Appendix 3.

**Table 6. Total Resource Cost Tests**

	NYSEG		RG&E	
	NPV	B/C	NPV	B/C
TRC	\$1,003,355	1.77	\$836,532	1.63
TRC with carbon externality	\$1,081,547	1.83	\$909,598	1.69

The Company projects that approximately one percent of customers will participate in this program each year.

The gas rate impact of the program will be the same as the delivery columns in Tables 2a and 2b above. The delivery rate impact per MBTU is projected to be \$1.55 for NYSEG and \$1.62 for RG&E.

V. EVALUATION OF RESIDENTIAL EFFICIENT GAS EQUIPMENT PROGRAM

The evaluation plan for the Residential Efficient Gas Equipment Program is provided in Appendix A.

## APPENDIX A. GAS EVALUATION PLAN

The Commission has recognized the importance of program evaluation as a means of identifying program improvements and of demonstrating that program savings are occurring as expected. NYSEG and RG&E, as part this filing, are proposing to initiate program evaluation efforts that are designed to accomplish these objectives.

### A. Program Background

The Residential Efficient Gas Equipment Program will promote efficient furnaces, boilers and water heaters. Two mechanisms will be used to promote these measures: (1) rebates for retail sale of efficient gas products, and (2) marketing training for heating contractors and plumbers. In the future NYSEG and RG&E may expand the program to include additional measures and possibly add direct incentives for trade allies as well as customers.

- **Program Objectives.** The objective of this program is to increase the penetration of high efficiency gas space and water heating in RG&E's and NYSEG's service territories. Under this program incentives will be provided to residential customers who are installing new or replacement gas heating and/or gas domestic water heating systems, assuming that the installed measures meet or exceed efficiency and quality installation standards. The program will be administered by the Companies working with a selected vendor who will be responsible for call center, rebate fulfillment, and possibly channel marketing management, including marketing the program to contractors and trade allies in the Companies' service territories.

- **Program Theory.** The Residential Efficient Gas Equipment program will support the installation of high efficiency equipment and fill a market void. In addition, to the extent practical and possible, NYSEG & RG&E will coordinate the delivery of this program with planned future programs, including the Residential Energy Star HVAC program. The Residential Efficient Gas Equipment program is designed to also support and enhance NYSERDA's Home Performance with Energy Star program by providing rebates and making overall home performance activity more cost effective to implement.

- **Anticipated Savings.** Savings in program Year 1 will be based on deemed savings estimates provided in this filing. Approximately 2500 customers per year for each service territory are estimated to participate in this program, resulting in annual savings of approximately 21,000 dekatherms per year per service territory.

- **Program Schedule.** NYSEG & RG&E plan to begin offering this program to customers on 10/01/2008 subject to Commission approval.

## B. General Evaluation Approach

Year One evaluation efforts will focus on evaluating how the program is operating during program start-up with an objective of identifying enhancements that can be made to implementation efforts that may contribute to improved results. In Year Two, the focus will be on quantifying achieved savings based on post-installation operation of equipment installed through the Residential Efficient Gas Equipment Program. Additional process evaluation efforts may be completed in program Year Three.

The Companies anticipate that their evaluation efforts will be informed by the ongoing efforts of the newly formulated Evaluation Advisory Group and by collaboration with the other utilities in the State that are planning to implement a similar program. If appropriate, the Companies may participate in jointly sponsored evaluation studies with the other utilities.

## C. Detailed Evaluation Approach

### 1. Year One Evaluation

In 2009, evaluation efforts will focus on identifying how the program is operating during the start-up phase, with the objective of identifying improvements that can be made to program implementation efforts. The Companies plan to initiate a process evaluation in support of these efforts. The plan is to hire an independent evaluation expert through a competitive solicitation to complete this work. This RFP will be issued in September 2008 with the objective of hiring the evaluation contractor in early 2009. The Companies will request interim reports from the selected contractor so that modifications to the implementation effort can be adopted quickly where it appears that a change is likely to lead to improved results in the program. A final report summarizing results from the process evaluation will likely be completed by year-end 2009.

#### ***Process Evaluation***

The first year process evaluation will document program processes during start-up and will gather the following information:

- Level of customer satisfaction.
- Effectiveness of the program delivery mechanism from the position of the program delivery contractors, program customers, trade allies and other key stakeholders. Did the delivery mechanism differ from the program plan? If yes, how and why?
- Effectiveness of program promotion.
- Remaining barriers to program participation including an assessment of why some customers choose to not participate in the program.
- Identification of lessons learned and specific actionable recommendations for program improvement.

- A review of program tracking data bases to ensure that data that will likely be required to support future program evaluation efforts is being collected.

As part of the process evaluation plan, NYSEG and RG&E will survey participating and non-participating customers as well as trade allies who have and have not promoted the program.

The desired result of this Process Evaluation is to identify and implement actionable improvement procedures for cost-effectively administering the Residential Efficient Gas Equipment Program in a manner that produces significant and cost-effective savings for RG&E's and NYSEG's customers.

## 2. Year Two Evaluation

### *Impact Evaluation*

The Impact Evaluation will quantify the savings attributable to program efforts based on how the installed equipment is actually operating. The Companies anticipate completing an impact evaluation of the Residential Efficient Gas Equipment Program in 2010 using industry-accepted methods of analysis.

The Companies will explore conducting this evaluation with the other utilities implementing a similar program so that consistent approaches are used to arrive at evaluated program savings. However, at this point in time, without counsel from the Evaluation Advisory Group, the Companies propose the following for consideration as part of its program evaluation plan.

- **Impact Evaluation Methodology.** The Impact Evaluation will quantify the savings attributable to program efforts based on how the equipment installed through this program is actually operating. The Companies anticipate completing an impact evaluation of the Residential Efficient Gas Equipment Program in 2010 using industry-accepted methods of analysis. An independent evaluation consultant will be hired through a competitive solicitation where firms proposing to complete the work will recommend an impact evaluation approach appropriate for this type of program that will produce results that meet the precision requirements set forth in the guidelines issued through the Evaluation Advisory Group. Possible evaluation approaches may include a billing regression data analysis, an engineering simulation model, metering, or some other approach. This analysis may include surveys with program participants and with trade allies in an effort to arrive at net savings attributable to program efforts. The results of the impact evaluation will be used to refine expectations about future program savings, and to assess cost-effectiveness prospectively, and may be used to modify future programs. Results from this study are anticipated by year-end 2010.
- **Net to Gross Analysis.** Prior to any additionally analysis being conducted, the Companies will use a 10% net freeridership adjustment.

- **Benefit Cost Analysis.** Benefit cost analysis is performed at the measure and program level. The Companies will conduct benefit cost analysis on any new technologies being considered for this program. In addition, the Companies will review, and if necessary, redo measure screening based on information obtained from their evaluation efforts.
- **Budget.** Consistent with the Working Group III recommendation in the EEPS proceeding, NYSEG and RG&E have budgeted approximately 5% of program implementation costs to fund evaluation efforts. Each Company's annual budget for evaluation is approximately \$35,000.
- **Sampling Strategies and Design and Data Reliability Standards.** Consistent with the Evaluation Plan Guideline for EEPS Program Administrators and as recommended by Working Group III, RG&E's and NYSEG's goal for estimating gross savings at the program level is at the 90 percent confidence interval, within +/- 10 percent precision. The Companies will develop sampling protocols for all of its evaluations based on this standard.
- **Steps to Identify and Mitigate Threats to Data Reliability.** The Companies will review the evaluation plan submitted by the selected evaluation contractor for consistency with the Evaluation Advisory Group guidelines, the requirement to maintain a 90% confidence interval within +/- 10 % precision and the overall need to identify and mitigate threats to reliability of the results. The evaluation contractor will be required to insure data reliability to the greatest practical extent, including methods for minimizing systematic and random error and techniques for reducing uncertainty introduced by necessary assumptions and adjustments to the data.
- **Data Collection and Management Process.** Program data will be collected from customer application forms, site visits and surveys of participants and non-participants. NYSEG's and RG&E's tracking system supports program evaluation through the collection of all relevant data pertaining to customer rebates. Customer name, account, premise level and other non-program specific data is captured in the system. Measure specific data as appropriate for each program will also be captured. Examples of measure specific data that will be collected can include<sup>5</sup>:
  - Date of contract/agreement to install measure(s)
  - Date of beginning of installation process
  - Installation completion date
  - Installation contractor
  - Installation location
  - Project or work order number

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<sup>5</sup> Please note that not of all the measure specific data listed are going to be captured for the Residential Efficient Gas Equipment Program.

- Type of measure
  - Annualized energy savings
  - Measure life
  - Total measure installed cost
  - Incremental measure cost
  - Incentive payment amount
  - Project completion date
  - Evaluation inspection/commissioning date
  - Date of evaluation of measure or program
  - Types of evaluation conducted
  - Result of evaluation
- **Schedule and Deliverable Dates.** The Companies do not have specific dates for commencing evaluation studies. However, a process assessment is scheduled to be completed in calendar year 2009 and an impact evaluation is scheduled for calendar year 2010.
  - **Evaluation Team.** John Zabliski directs evaluation planning for RG&E and NYSEG. The Companies will explore conducting this evaluation with the other utilities implementing a similar program so that consistent approaches are used to arrive at evaluated program savings, using a common evaluation contractor.

#### D. Reporting

NYSEG and RG&E propose to provide the Commission with quarterly reports on the progress of program implementation. These reports will include information on actual expenses, customer participation, and savings realized compared to annual budgets and goals. These reports will also include information about ongoing program evaluation efforts. Each quarterly report will be submitted to the Commission approximately 45 days following the end of the calendar quarter.

In addition to quarterly reporting, the Companies propose to submit an annual report to the Commission for the purpose of updating its proposed budgets and goals for the coming year, informed by evaluation findings, customer response to program services, and other relevant market intelligence. The proposed budget to be included in this annual update will reflect any under- or over-spending from the prior year. Each annual report will be submitted to the Commission approximately 180 days following the end of the calendar year.

The Companies are proposing to use the format currently used by National Grid (KeySpan) in its reports to the Commission, as shown in Exhibit 1. The specific categories of information included in the report are:

- Program Planning & Administrative Expenditures, year to date

- Program Marketing Expenditures, year to date
- Customer Incentive Expenditures, year to date
- Program Implementation Expenditures, year to date
- Evaluation & Market Research Experience, year to date
- Total Expenditures, year to date
- Program Year Budget, year to date
- Annual Budget
- Number of Rebates (or Participants), year to date
- Participation Goal, year to date
- Annual Participant Goal for Program Year
- Total Savings (kWh, kW, Therms), year to date
- Savings Goal, year to date
- Annual Savings Goals for Program Year

# Exhibit 1. Sample KeySpan Quarterly Report

## KeySpan Energy Delivery Energy Efficiency Program - Quarter 2 Year to Date June 2008<sup>1</sup> New York

PROGRAM/INITIATIVE	Program Planning & Administration Expenditures YTD	Program Marketing Expenditures YTD	Customer Incentives Expenditures YTD	Program Implementation Expenditures YTD	Evaluation & Market Research Expenditures YTD	Total Expenditures YTD	2007 - 2008 Budget YTD	Annual 2007 - 2008 Budget	No. of Rebates or Participations YTD	Participant Goal YTD	Annual Participant 2007-2008 Goals	Total Annual Savings (Therms) YTD	Savings Goal YTD	Annual Savings 2007-2008 Goals
<b>Residential</b>														
ENERGY STAR Homes	\$4,124	\$8,676	\$0	\$151	\$302	\$13,153	\$131,668	\$74,329	0	96	200	0	26,304	54,800
High Efficiency Heating Rebate	\$25,159	\$97,113	\$16,989	\$1,600	\$1,844	\$129,646	\$76,978	\$1,595,162	43	720	1,500	7,095	126,000	262,500
High Efficiency Water Heating Rebate	\$19,950	\$74,312	\$6,600	\$198	\$1,460	\$102,691	\$174,646	\$33,946	33	192	400	2,541	15,168	31,600
Insulation & Air Sealing	\$32,370	\$11,153	\$18,153	\$2,121	\$2,273	\$166,547	\$319,703	\$666,032	36	240	500	13,248	88,250	184,000
Energy Analysis, Incentive Audit Guide	\$25,094	\$84,239	\$0	\$17,849	\$1,840	\$129,511	\$31,992	\$31,992	2,070	1,200	2,500	N/A	N/A	N/A
Residential Technology Demonstration	\$18,951	\$65,145	\$2,101	\$0	\$1,246	\$87,443	\$40,471	\$40,471	1	5	10	0	1,680	3,100
Energy Audit/Rebate Performance	\$61,263	\$148,510	\$24,766	\$76,175	\$4,491	\$315,296	\$261,346	\$344,470	294	410	1,000	N/A	N/A	N/A
Energy Star Products <sup>2</sup>	\$40,447	\$149,926	\$13,441	\$1,337	\$2,983	\$208,106	\$164,695	\$342,237	437	2,400	5,000	15,193	180,000	375,000
<b>Total Residential</b>	\$227,326	\$729,540	\$62,651	\$96,161	\$16,523	\$1,451,602	\$1,899,838	\$5,708,829	2,824	5,533	11,110	35,677	457,672	911,400

PROGRAM/INITIATIVE	Program Planning & Administration Expenditures YTD	Program Marketing Expenditures YTD	Customer Incentives Expenditures YTD	Program Implementation Expenditures YTD	Evaluation & Market Research Expenditures YTD	Total Expenditures YTD	2007 - 2008 Budget YTD	Annual 2007 - 2008 Budget	No. of Rebates or Participations YTD	Participant Goal YTD	Annual Participant 2007-2008 Goals	Total Annual Savings (Therms) YTD	Savings Goal YTD	Annual Savings 2007-2008 Goals
<b>Low Income</b>														
	\$706,686	\$2,892	\$1,490,203	\$19,248	\$51,809	\$2,270,840	\$1,852,530	\$5,882,354	859	842	1,754	283,582	284,569	592,852
<b>Total Low Income</b>	\$706,686	\$2,892	\$1,490,203	\$19,248	\$51,809	\$2,270,840	\$1,852,530	\$5,882,354	859	842	1,754	283,582	284,569	592,852

## Commercial and Multifamily

PROGRAM/INITIATIVE	Program Planning & Administration Expenditures YTD	Program Marketing Expenditures YTD	Customer Incentives Expenditures YTD	Program Implementation Expenditures YTD	Evaluation & Market Research Expenditures YTD	Total Expenditures YTD	2007 - 2008 Budget YTD	Annual 2007 - 2008 Budget	No. of Rebates or Participations YTD	Participant Goal YTD	Annual Participant 2007-2008 Goals	Total Annual Savings (Therms) YTD	Savings Goal YTD	Annual Savings 2007-2008 Goals
<b>Commercial &amp; Industrial</b>														
C&I and Multifamily High Efficiency Heating Rebate	\$44,256	\$100,186	\$8,900	\$71,116	\$2,245	\$227,702	\$348,684	\$1,141,780	23	192	400	1,100	248,640	518,000
C&I Building Practices & Demonstrations	\$4,241	\$12,867	\$0	\$4,403	\$311	\$21,822	\$49,227	\$87,432	0	7	14	0	170,517	355,390
Economic Redevelopment	\$6,905	\$20,629	\$0	\$7,486	\$506	\$35,526	\$77,556	\$1,610,324	0	22	22	0	149,815	312,114
Multi-Family Energy Efficiency	\$37,190	\$98,887	\$32,545	\$0	\$2,277	\$191,248	\$1,694,230	\$5,239,645	6	188	392	3,021	381,588	794,976
Commercial Energy Efficiency	\$14,773	\$40,986	\$10,960	\$4,224	\$1,025	\$71,968	\$1,052,314	\$2,192,321	18	431	888	295,692	402,160	837,854
Business Analyzer, Incentive Audit	\$4,392	\$13,732	\$0	\$2,798	\$5,128	\$26,050	\$155,352	\$333,651	60	1,358	2,830	N/A	N/A	N/A
<b>Total C&amp;I</b>	\$111,757	\$287,286	\$72,485	\$96,026	\$10,941	\$572,416	\$4,647,433	\$9,682,153	187	2,187	4,556	209,813	1,352,791	2,818,314
<b>On-Bill Financing</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$338,890	\$646,467	N/A	N/A	N/A	N/A	N/A	N/A
<b>PROGRAM TOTALS</b>	\$1,846,769	\$1,019,728	\$1,644,461	\$208,435	\$79,273	\$5,994,858	\$9,698,901	\$23,080,963	3,889	8,282	17,428	631,472	2,974,632	4,322,546

<sup>1</sup>The credits shown above reflect the sum of charges and credits from the beginning of the program year.  
<sup>2</sup>June YTD includes activity from September 1 through December 31 (Interim Program)  
<sup>3</sup>The methodology for capturing participants has changed from per window to per rebate for the windows program within the Energy Star Products program.