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December 29, 2021

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 5th Floor
Boston, MA 02110

Re: *The Berkshire Gas Company; Eversource Gas Company of Massachusetts d/b/a Eversource Energy; Fitchburg Gas and Electric Light Company d/b/a Unitil (Gas); Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty; Boston Gas Company d/b/a National Grid; NSTAR Gas Company d/b/a Eversource Energy; The Cape Light Compact; Fitchburg Gas and Electric Light Company d/b/a Unitil (Electric); Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid; NSTAR Electric Company d/b/a Eversource Energy*,
D.P.U. 21-120 through D.P.U. 21-129

Dear Secretary Marini:

Enclosed please find the Attorney General's Initial Brief. Please file according to your usual practice. Thank you for your assistance in this matter.

Sincerely,

/s/ Jo Ann Bodemer
Jo Ann Bodemer
Assistant Attorney General

Enclosures

cc: Jeffrey Leupold, Hearing Officer
Service List

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COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

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INITIAL BRIEF OF THE
ATTORNEY GENERAL

The Office of the Attorney General (hereinafter the "AGO") submits this Initial Brief to the Department of Public Utilities ("Department" or "DPU") in response to both the proposed Joint Statewide 2022–2024 Electric and Gas Energy Efficiency Three-Year Plans and the supporting Individual Program Administrator plans filed by the Commonwealth's Electric and

Gas Program Administrators[1] (collectively "the 2022–2024 Joint Statewide Plan" or "Statewide Plan"). [2]

I. INTRODUCTION

The 2022–2024 Joint Statewide Plan represents a transformation in the delivery of energy efficiency to the residents of the Commonwealth and responds to the recent legislative changes to the statutory framework governing the administration of energy efficiency to advance the Commonwealth's Climate goals.[3] Specifically, in March 2021, the legislature passed the Next Generation Roadmap for Massachusetts Climate Policy (the "Climate Act") setting forth statutory directives to aid the achievement of the Commonwealth's 2050 net-zero greenhouse gas ("GHG") emission goals. Acts of 2021, c. 8. The Climate Act provides, among other things:

- the inclusion of the social value of GHG emission reductions to the energy efficiency cost-benefit analysis for all measures except for fossil fuel heating and cooling;
- the achievement of mandated GHG reductions through the delivery of the three-year energy efficiency plans; and

[1] The 2022-2024 Joint Statewide Three-Year Electric and Gas Energy Efficiency Plans and individual PA specific materials were each separately filed by: The Berkshire Gas Company (D.P.U. 21-120); Eversource Gas Company of Massachusetts d/b/a Eversource (D.P.U. 21-121); Fitchburg Gas and Electric Light Company d/b/a Unitil (Gas -D.P.U. 21-122) (Electric- D.P.U. 21-127); Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty (D.P.U. 21-123); Boston Gas Company d/b/a National Grid (D.P.U. 21-124); NSTAR Gas Company d/b/a Eversource (D.P.U. 21-125); The Cape Light Compact JPE (D.P.U. 21-126); Massachusetts Electric Company and Nantucket Electric Company each d/b/a National Grid (D.P.U. 21-128) and; NSTAR Electric Company d/b/a Eversource (D.P.U. 21-129).

[2] The 2022-2024 Joint Statewide Plan is found in each Program Administrators' docket (DPU 21-120 through DPU 21-129) as Exhibit 1, Three Year Plan, as well as each of Appendices A-S to the Statewide Plan.

[3] The Green Communities Act of 2008 ("GCA") sets forth the framework for the administration and delivery of energy efficiency in Massachusetts. The GCA is codified at G.L. c. 25, §§ 19, 21, 22 and was amended by the Acts of 2012, c. 209, the Acts of 2018, c. 227 and last by the Acts of 2021, c. 8.

- the Department to consider how projects or its decisions will reduce emissions and promote ratepayer equity, among other things.

See generally, Acts of 2021, c. 8.

These recent legislative changes facilitate a transformation that shift the programs' focus toward measures that also reduce greenhouse gas emissions. Toward these ends, the Program Administrators present a Statewide Plan:

- that advances a portfolio of measures to achieve unprecedented levels of GHG emissions reductions by aggressively promoting electrification and shifting away from traditional fossil-fuel based heating. The Statewide Plan will achieve the GHG reductions of 845,000 tons CO2e mandated by the Executive Office of Energy and Environmental Affairs' ("EEA") Secretary pursuant to G.L. c. 21N, § 3B.[4] To achieve these reductions, the Statewide Plan focuses on the electrification of heating systems through the planned installation of over 63,000 heat pumps in the residential and low-income sectors, and significant commitment to electrify heating, measured in square footage, in the commercial and industrial sector. *See* Exh. 1, at Appendix M at 5–6 (setting forth heat pump and/or square footage numbers for each sector).
- that advances new commitments to improve program designs, implementation strategies to improve the equitable delivery of energy efficiency that reflect the collaborative work

[4] On July 15, 2021, the EEA issued a letter, pursuant to the authority established under the Climate Act, that requires the Secretary to "set a goal, expressed in tons of carbon dioxide equivalent, every three years for the succeeding Mass Save Energy Efficiency Plans' necessary contribution to meeting each statewide greenhouse limit and sublimit adopted under the GWSA." See Exhibit 1, at Appendix D. The Secretary set a collective requirement of 845,000 metric tons of CO2e reductions expected in 2030, directly associated with the energy efficiency measures implemented in 2022-2024. *See id.*, at 3.

of the Energy Efficiency Advisory Council's ("EEAC")[5] Equity Working Group ("EWG").[6] The Statewide Plans increase investment in historically underserved populations including renters/landlords, moderate income customers, and the language isolated. *See* Exh. 1, Appendix M at 8–9 (providing planned equity investment). In addition, the Program Administrators are strengthening their investments in community partnerships recognizing the importance of engaging with community-based organizations to better serve the needs of underserved communities.

- that commits to developing a workforce that is trained and able to assist customers in making efficiency energy choices as the Commonwealth transitions to its net-zero GHG emission future. Further Program Administrator commitment to workforce development is highlighted by the Clean Energy Pathways internship program to train a more diverse and field-ready workforce.
- that delivers over $12 billion in benefits to the Commonwealth through a comprehensive portfolio of electric and gas measures.
- that ties utility performance incentives to achievement of the key plan priorities of ratepayer equity and electrification, while also maintaining significant incentives for traditional energy efficiency savings. The proposed revisions to the performance incentive mechanism reflects the transformational nature of the Statewide Plan itself.

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[5] The Attorney General's Office is a voting member of the EEAC and in its role on the EEAC, was active in the development of the Statewide Plan and the negotiations of the Term Sheet (Exhibit 1 at Appendix M).

[6] The EWG is comprised of voting EEAC Councilors (including the Attorney General's Office and Department of Energy Resources ("DOER")), representatives of the Program Administrators, the Low-Income Network, representatives of environmental justice organizations, and the EEAC consultants. See Exhibit 1, at Appendix M, Attachment B (providing Equity Framework and Targets as developed by the EWG and participating representatives).

Although the mechanism continues to be based on benefits achieved, it does so in a way that ties the incentives to the achievement of benefits from electrification, as well as from increased investment in environmental justice communities ("EJ communities") and other underserved populations.

The Statewide Plan is the culmination of the collaborative efforts of the Program Administrators, the AGO, DOER, the EEAC, and numerous other interested stakeholders. Beginning in early 2020, with the establishment of the EWG, and continuing through mid-October 2021, the parties worked tirelessly toward the development of the Statewide Plan. The end result represents a consensus balance of investment in efficiency measures designed to achieve nation-leading efficiency goals and mandated greenhouse gas reductions, as well as commitments to improved program design and implementation that will lead to a more equitable delivery of energy efficiency resources in the Commonwealth. Each Statewide Plan component, however, works with and is often dependent upon another plan component to form a portfolio of measures, innovation, and benchmarks that, in total, advance the energy goals and climate requirements of the Commonwealth. Accordingly, the AGO supports the Statewide Plan, and respectfully recommends that the Department approve the Statewide Plan as filed.

II. PROCEDURAL HISTORY

Prior to the Statewide Plan filing, the Program Administrators submitted an initial draft plan on April 30, 2021 to the EEAC for its review and comment.[7] Subsequently, on July 15, 2021, the EEA Secretary issued a letter, pursuant to the Climate Act, directing certain levels of

[7] Prior to April 2021, the EEAC undertook a comprehensive stakeholder engagement process that included, among other things, the convening of six planning workshops and six public comment opportunities. On March 24, 2021, the EEAC adopted a resolution that set forth the EEAC priorities and recommendations for the statewide plans, noting that the critical priorities were equity, electrification, and workforce development.

GHG reductions measured in 2030 resulting from measures installed pursuant to the 2022-2024 Statewide Plan. *See* Exh. 1, at Appendix D. On July 28, 2021, the EEAC adopted a resolution regarding the April draft plan that, among other things, set an expectation that the final plan would reflect "the opportunity that exists as Massachusetts pivots to the future of energy efficiency programs through electrification, existing building retrofits and decarbonization, weatherization, workforce development and enhancing support for historically underserved communities and customers." *See* Exh. 1, at Appendix L. In the weeks following the Secretary's directives and the EEAC resolution, the Program Administrators engaged with the EEAC, the EWG, and other stakeholders in a series of collaborative meetings and discussions leading to a revised plan filed with the EEAC on September 22, 2021 (with updated plan numbers) and October 6, 2021 (with updated plan narrative). The Program Administrators further refined the September/October draft plan at the request of the EEAC. On October 27, 2021, the EEAC unanimously voted in support of the Statewide Plan and respectfully requested the Department approve the 2022–2024 Joint Statewide Plan and the individual plans of the Program Administrators. See Exhibit 1, at Appendix N.

On November 1, 2021, the Program Administrators filed the 2022–2024 Joint Statewide Plan with the Department in each of the individual Program Administrator proceedings, D.P.U. 21-120 through D.P.U. 21-129. The Department noticed these filings, conducted a joint public hearing on December 2 and 3, 2021 and on December 9, 10, 13, and 14, 2021 conducted joint evidentiary hearings.[8] Pursuant to the Procedural Schedule established by the Hearing Officers in these proceedings, the AGO hereby submits its Initial Brief.

[8] The hearing held on December 14, 2021, primarily concerned the filing of the Cape Light Compact JPE, D.P.U. 21-126, and completed inquiry of National Grid's filed electric plan,

III. THE ENERGY EFFICIENCY STATUTES

The GCA governs the development, content, and the funding of the three-year energy efficiency plans, as well as the Department's review and approval. *See generally*, G.L. c. 25, §§ 19, 21 and 22. The GCA directs, among other things, that the Commonwealth's electric and gas resource needs shall first be met through all available energy efficiency and demand reduction resources that are cost effective or less expensive than supply. G.L. c. 25, § 21(a). In furtherance of this legislative mandate, the Commonwealth's electric distribution companies and municipal electricity aggregators jointly prepare every three years an energy efficiency investment plan, while the gas distribution companies develop a joint natural gas efficiency investment plan each in close coordination with the EEAC. G.L. c. 25, § 21(b). In examining such plans and associated program budgets, the Department must consider, among other things, the effect of approving such plans on resulting rate increases to residential and commercial consumers.[9] G.L. c. 25, § 19(a).

Traditionally, energy efficiency investments indirectly foster and contribute to the Commonwealth's environmental goals of reduced GHG emissions and a greater reliance on renewable sources of energy. The GCA's efficiency provisions focus primarily on energy cost savings, not environmental goals, that can be achieved directly from more efficient, reduced consumption of electricity or gas. However, the 2018and 2021 amendments to the GCA broaden

D.P.U. 21-128. The other days of hearings made inquiries into the uniform statewide components of the 2022-2024 Joint Statewide Plan.

[9] As the ratepayer advocate, the AGO supports the investment in energy efficiency as provided in the Statewide Plan as it provides significant benefits, promotes energy savings, will reduce GHG emissions and each will be delivered in a more equitable manner to the Commonwealth's ratepayers.

the scope and focus of energy efficiency to expressly include achievement of certain climate goals as part of energy efficiency implementation.

In 2018, An Act to Advance Clean Energy Future (Acts of 2018, c. 227) made changes to the cost-effectiveness screening and directed the plans to include "measures that are designed to result in cost-effective reductions in greenhouse gas emissions." *See* Act to Advance Clean Energy at §§ 2 and 6. The 2018 amendments also made clear such emission reducing measures include initiatives such as "strategic electrification" and authorized the energy efficiency plans to promote "customers switching to renewable energy sources or other clean energy technologies." *See* Act to Advance Clean Energy, § 4.

The subsequent passage of the Climate Act builds on the 2018 legislation and continues the transformation of the Commonwealth's energy efficiency initiatives into programs that both cost-effectively reduce energy consumption and GHG emissions. In addition to the Secretary's authority to set GHG reductions, the Climate Act also establishes mandates for economy-wide emissions reductions by 2030 and 2040, as well as increased protections for Massachusetts' EJ communities. The Climate Act further amends the energy efficiency cost-effectiveness screening by requiring the inclusion of the social value of avoided GHG emissions reductions for all measures except for fossil fuel heating and hot water systems. Finally, the Climate Act expands the mission of the Department to prioritize, among other things, equity and GHG emission reductions in its decisions, as well as allows the Program Administrators to propose a mechanism that prioritizes projects that reduce GHG emissions.

These legislative amendments effectively transition energy efficiency administration away from exclusive focus on energy savings to implementation of programs that will reduce GHG emissions and promote cleaner energy technologies. It is within this newly revised statutory framework that the Department must review the Statewide Plan, while maintaining the checks and restraints in the GCA on overall funding cost-effectiveness and ratepayer bill impacts. G.L. c. 25, § 19(a).

IV. THE TERM SHEET AGREEMENT BETWEEN THE PROGRAM ADMINISTRATORS, DOER, AND THE AGO

From July 2021 through October 2021, the AGO participated in numerous discussions and ongoing dialogue with DOER and the Program Administrators with the goal of developing principles and commitments that would serve as the framework for the 2022–2024 Joint Statewide Plan and that would achieve applicable requirements of both the GCA and Climate Act.[10] The key planning priorities of delivering savings and transitioning toward climate and equity imperatives served as guideposts for these stakeholder discussions. The resulting Term Sheet provides planning objectives for overall electricity, gas and GHG savings goals, related program costs, proposed Program Administrator budgets, performance incentives and other key priorities for the 2022–2024 Statewide Plan. *See* Exh. 1, at Appendix M.

Specifically, the Term Sheet memorializes the Program Administrators' commitment to achieve GHG reductions of 845,000 metric tons of CO2e in 2030.[11] Exh. 1, at Appendix M at 2. The AGO and DOER agreed to allocate this aggregate amount with 474,000 tons of CO2e to be achieved from the electric programs, 341,000 metric tons of CO2e to be achieved from the gas programs, and 30,000 metric tons of CO2e from gas to electric fuel switching projects. *Id.* at 2–3. The agreement to aggregate and reallocate the 845,000 metric tons of CO2e in the manner

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[10] The Term Sheet also reflects the EEAC directional discussions on plan content and the EWG recommendations on equity.

[11] The Term Sheet contains additional commitments between the agreeing parties that are not reflected in this summary discussion of the key provisions. *See generally*, Exh. 1, at Appendix M.

described was conditioned on the commitment from the gas program administrators to support gas to electric fuel switching projects that achieve reductions of at least 30,000 metric tons of CO2e.[12]

The achievement of the GHG emission reduction commitment, however, is inextricably linked, in part, to the Program Administrators commitment to electrification of Commonwealth's thermal load.[13] One of the State's largest source of GHG emissions is the building sector. *See* Exh. 1, at 11. Therefore, to meet the mandated GHG emissions reductions, it was important that the Statewide Plan include significant increases to electrification measures, as well as a targeted focus on market transformation activities. Toward that end, the Term Sheet sets forth heat pump electrification goals that are expected to result in 43,370 "household equivalent" electric heated homes (17,677 full displacement homes and 36,000 partial displacement homes) through an investment of over $800 million. *See* Exh. 1, Appendix M at 6.

Through the process of plan development, the Program Administrators also agreed to prioritize equity and workforce development in their 2022–2024 efforts. The Term Sheet provides key performance indicators to measure success and to achieve milestones toward equity and workforce goals. Informed in part by the Program Administrators' evaluation of non-participants and valuable input from community-based organizations, the EWG advanced recommendations for programmatic and implementation changes to be incorporated into the Statewide Plan. *See* Exh. 1, Appendix M at Attachment B (providing the EWG equity framework and targets for the Statewide Plan). Specifically, the EWG examined barriers to

[12] The DOER and AGO would not agree to this re-allocation absent an express commitment that no other savings from other efficient natural gas equipment incentives would be counted toward this specific goal.
[13] Electrification also includes adoption of heat pump technology for cooling and water heating.

participation for identified subsets of ratepayers that historically have under participated in the Mass Save programs, including moderate-income, renters/landlords, language-isolated, and small business customers. *Id.* The Term sheet reflects the EWG priorities and recommendations in securing increased investment over the 2022–2024 term for these identified groups. *See* Exh. 1, Appendix M at 8–9 and Attachment C (providing equity budget summary). Concomitant with this increased investment is the understanding that additional support for workforce development and training is required. The Term Sheet provides for continued investment in workforce development, including the Program Administrators' implementation of the Clean Energy Pathways internship program and commitment to providing opportunities for pathways to two-year and four-year degrees related to energy efficiency for disadvantaged students. *See id.* at 9.

The Term Sheet also reflects the parties' agreement on a revised performance incentive mechanism that ties achieved results to the transformative changes in the measure mix, implementation strategy and equity focus of the Statewide Plan. Although the mechanism is still founded upon the achievement of benefits, the parties agreed to the use of a three-component structure that focuses on electrification, equity, and energy efficiency benefits. *See* Exh. 1, Appendix M at 10. The overall three-year performance incentive pool is $170 million, with $131.8 million for the electric utilities and $38.2 for the gas utilities. *See* Exh. 1, Appendix M at 10.

The AGO is cognizant that there are limits to the overall level of energy efficiency costs that customers can reasonably bear. However, the increase in energy efficiency costs must be considered in the context of both the avoided energy supply cost savings (and all other program benefits), as well as the likely alternative costs to the Commonwealth to comply with required GHG emission reductions mandated by the Climate Act. The Term Sheets' savings goals and related program budgets submitted as part of the 2022-2024 Statewide Plan strike an appropriate balance in accommodating cost-effective energy savings investments, achievement of GHG emissions requirements and customer rate impacts.

V. THE STATEWIDE PLAN

The Statewide Plan expresses the input and recommendations from the AGO, DOER, Program Administrators, the EEAC, the EWG, stakeholders and public comment made over the course of the last eighteen months.[14] At the outset of the early discussions on plan priorities, the AGO established that equity, climate goals and workforce development were areas of top priority. Each of these areas were prioritized in each iteration of the plan leading up to and including the final Statewide Plan filed. *See, e.g.*, Exh. 1.

As the contours of the Statewide Plan began to develop, the interdependency of critical elements became clear. The Statewide Plan needed to include a GHG goal and values on the social cost of GHG emissions reductions to inform the final measure mix, required not only to achieve "all cost-effective energy efficiency" but also to meet the Climate Act's mandated GHG emissions reductions. The Statewide Plan also needed to include both (1) a determination on how to best modify plan implementation strategies and program design to better serve identified populations that have historically under-participated and (2) a determination on how best to measure achievement of "equity" through an environmental justice lens. Similarly, increased workforce development and training objectives are woven throughout, as a trained and reliable

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[14] There were nine public comment sessions and six council workshops held prior to the filing of the April draft. *See* Exh. 1, Appendix L. The EWG met regularly since January 2020 to discuss and form equity recommendations to be incorporated into the Statewide Plan. See Exhibit 1, Appendix M at Attachment B. Following the April filing, the EEAC held additional public comment sessions to receive feedback on the April draft plan. See Exhibit 1, Appendix N at 1.

workforce is required to achieve all of these desired outcomes. Finally, the proposed performance incentive mechanism works in tandem with and dependent upon the Statewide Plan's achievement of mandated energy efficiency and GHG emissions requirements, as well as aggressive equity and electrification goals. The AGO worked to reach agreement with the Program Administrators on the fundamental and key terms of the Statewide Plan and recommends the Department's approval of the Statewide Plan as filed. *See* Exh. 1, Appendix M (Term Sheet agreement) and Appendix N (Council October 27, 2021 Resolution requesting approval of the Statewide Plan).

A. Electrification

The GCA directs that energy efficiency plans include "efficiency and load management programs… and strategic electrification, such as measures that are designed to result in cost-effective reductions in greenhouse gas emissions through the use of expanded electricity consumption while minimizing ratepayer costs…" G.L. c. 25, § 21(b)(2). Pursuant to the Climate Act, the EEA Secretary directed that the Statewide Plan reduce GHG emissions by 845,000 metric tons as measured in 2030. *See* Exh. 1, Appendix D. To meet these statutory requirements, the Statewide Plan includes ambitious electrification goals in each of the three customer sectors. *See* Exh. 1, Appendix M and N (providing for agreed upon heat pump goals by sector); *see also* D.P.U. 21-120 through D.P.U. 21-129, Program Administrators Exhibit 2 (pre-filed testimony) ("Pre-Filed PA Testimony") at Attachment A (providing list of electrification measures and benefit-cost ratio for each proposed measure). In addition, with limited exceptions, the portfolio of electrification measures will lower customer costs over the lifetime of the installation. *See generally*, Pre-Filed PA Testimony at 38–42.

Meeting the Commonwealth's climate goals will require significant reductions in the use of fossil fuel in heating. The electrification of the heating sector has been identified as a preferred pathway to accomplish the Commonwealth's climate objectives. *See* Massachusetts 2050 Decarbonization Roadmap, issued December 2020 (identifying electrification as a cost-effective means to reduce thermal heating emissions). Given the importance of meeting these goals, and the Statewide Plan's reliance on its many interconnected elements to fully succeed, the AGO respectfully requests that the Department to approve the Statewide Plan's ambitious electrification goals without modification.

1. Cost-Effectiveness Screening – The Social Value of GHG Emission Reductions.

As discussed *supra*, the Climate Act requires that the Statewide Plan include a value for the social value of GHG emissions reductions. The value included in the Statewide Plan is supported by the Avoided Energy Supply Costs ("AESC") study. Past studies included an evaluation of non-embedded environmental costs associated with energy consumption. Such costs are non-embedded because they are not directly related to a specific energy purchase and thus have not been internalized in the energy price. *See generally* Exh. 1, Appendix Q, AESC 2021, at 169 *et seq*.

The 2021 AESC study estimates these non-embedded costs by evaluating several relevant factors, including estimates of the Social Cost of Carbon ("SCC") emissions; a carbon capture and sequestration ("CCS") estimate; and estimations of the marginal abatement cost of measures in New England that can curb GHG emissions. *Id.* at 169. The 2021 AESC Study Consultants estimated the SCC in March, 2021 at a 15-year levelized cost of $128 per ton of carbon-equivalent emissions, based principally on a selection of a 2 percent "discount rate" in the calculation of emission damages going out many years into the future. *Id.* at 175–76. The analysis conducted by the Study Consultants relied on evolving analyses of SCC underway at the federal agency level and among other states in the northeast (principally in New York State). *Id.* Accordingly, the 2021 AESC study urged the study users to monitor developments in this rapidly changing area.

Shortly after the 2021 AESC study was issued, Governor Baker signed the Climate Act, which, among other things, expressly requires that the Program Administrators' Benefits/Cost Analysis "shall include calculations of the social value of greenhouse gas emission reductions" when determining cost-effectiveness. Acts of 2021, c. 8 at § 16. The amendments also empower EEA to establish explicit limits and sub-limits for sector-specific emissions, both in the near term and by 2050. The Climate Act plainly ramps up the Commonwealth's commitment to mandate and achieve zero net emissions by 2050. The Climate Act's requirements prompted the principal stakeholders in energy efficiency programs (DOER, the Program Administrators, the EEAC, Department of Environmental Protection, and the AGO) to reconsider whether the analysis conducted on SCC in the AESC study was sufficiently vigorous and timely to carry out the enlarged role the "social value of greenhouse gas emission reductions" now played based upon the Climate Act mandates. The AESC Supplemental Study issued October 12, 2021 (Exh. 1, Appendix Q) presents that evaluation and recommends that study users employ a $393/ton estimation of the SCC in evaluating benefits of the 2022-2024 Joint Statewide Plan. The change in the SCC estimate was largely driven by the recommendation to employ a 1 percent discount rate in calculating a levelized SCC rather than the 2 percent discount rate that the Consultants used in the earlier, March, 2021 AESC study. Based upon these findings, the Program Administrators used the updated social value in developing and finalizing the Statewide Plan.

During the Statewide Plan hearings, the Department pursued a line of questioning regarding the applied discount rate to reach the social value of GHG emissions reductions adopted in the 2022–2024 cost-effectiveness screening model. *See* Tr., Vol. 2, at 274–92. As part of this inquiry, the Department requested the Program Administrators re-run their plans as filed with a 2 percent social discount rate. *See* Record Request DPU-3. An increase in the discount rate from 1 percent to 2 percent in the screening models and data tables would result in significantly lower benefits and lower cost-effectiveness compared to the filed Plan. *See id.* Specifically, the 2022–2024 statewide electric benefits decline by nearly 3 billion dollars and the 2022-2024 statewide gas benefits decline by over 1 billion. Overall, increasing the social discount rate to 2 percent would result in a 29 percent decline in benefits.

This decline in benefits would increase pressure on the Statewide Plan's overall cost-effectiveness, create the potential loss of measures for some Program Administrators that are critical to meeting GHG reductions, and is not consistent with the agreed upon Term Sheet or the Statewide Plan as vetted and supported by the EEAC and proposed by the Program Administrators. More importantly, as the Program Administrators' note, "there would be programmatic implications on the Plan of a social value derived using a two percent social discount rate, and further that the screening models and data tables attached hereto would not be representative of the Plan the Program Administrators would propose under that scenario." *See* Record Request DPU-3.

In sum, making changes to the social value of GHG emissions reductions incorporated in the Statewide Plan would not be consistent with the three-year plan agreed to by the AGO, DOER, and the EEA, and would undermine the Statewide Plan's efforts to meet the Climate Act's objectives.

B. Equity

Although there are no statutory directives in the GCA requiring that the energy efficiency plan prioritize equity, the Climate Act clearly reflects a focus on equity and environmental justice. *See generally*, Climate Act, Acts of 2021, c. 8. Among other things, the Climate Act defines EJ communities and prioritizes EJ communities in agency decision making. *See* Acts of 2021, c. 8 (setting forth criteria to identify EJ populations). For example, the Climate Act expands the Department's mandate to prioritize equity and GHG emissions reductions in its decisions, in addition to safety, reliability, and affordability. *See id.* Equity is also a key AGO priority with equity principles serving as a critical lens by which the AGO serves the people of the Commonwealth.

Within energy efficiency, the Program Administrators define "equity, or the process of establishing more equal access to and participation in energy efficiency, particularly among those customers who have historically participated at lower rates, including renters/landlords, moderate income customers, English-isolated families, and microbusinesses." *See* Pre-Filed PA Testimony, at 49–50.

The EWG's continuing work has served to inform programmatic changes and implementation strategies to be adopted in the administration of the 2022–2024 term. *See* Exh. 1, Appendix M at Attachment B and C. A critical requirement for the EWG was to incorporate clear benchmarks to measure success toward the equitable delivery of energy efficiency in the Statewide Plan. *See, e.g.*, Exh. 1, Appendix M at Attachment B (providing EWG equity framework and targets). With significant overlap in the characteristics of the identified low-participating customer groups[15] and that of EJ communities, the EWG recommended that the Program Administrators increase their efforts in EJ communities, as defined by the Commonwealth. *See id.*; *see also* Record Request DPU-1 (noting study determined certain customer characteristics tend to cluster together in the same geographic areas). Toward this end, the Program Administrators worked with the EWG, the AGO, and DOER to develop a set of selection criteria to narrow the list of 188 EJ communities with EJ populations to serve as both an area of Program Administrator focus but also to measure success of the increased efforts toward equity. *See* Record Request DPU-1 (detailing selection of EJ communities); Tr. Vol. 2 at 254–61 (providing testimony on the same). There were 38 communities identified through this process that met all of the established selection criteria. *Id.*

EWG's work also informed the Program Administrators' increased efforts in developing meaningful partnerships with EJ communities and community organizations operating within EJ communities. *See* Exh. 1, Appendix M at Attachment B (identifying partnership targets); Exh. 1 at 68–70 (detailing Community Partnership Program). Robust partnership relationships with EJ communities and their community organizations is vital to successfully serving these communities. With this understanding, the Program Administrators have prioritized the selected 38 communities for their Community First Partnership. *See* Record Request DPU-1; Exh. 1, at 21; Exh. 1, Appendix E at 6.

The EWG also made other recommendations for programmatic and implementation changes, as well as established targets for desired outcomes in areas of workforce development, renters, moderate income, English-isolated, and small-businesses. *See* Exh. 1, Appendix M

[15] *See* D.P.U. 21-70, 2020 Plan Year Report, at Appendix D, providing 2013-2017 Residential Customer Profile Study (identifying moderate income, renters/landlords, language-isolated and small businesses as having high rates of non-participation).

(listing by category recommendations and benchmarks for success). The AGO, alongside the other EWG members, including Program Administrator representatives and community leaders, thoughtfully developed this comprehensive set of equity recommendations and targets. And, like other parts of the 2022–2024 Statewide Plan, the equity recommendations serve to build foundations for other components of the plan, e.g., the 38 communities that form the basis for the equity performance incentive component.

The 2022–2024 Statewide Plan is unlike the previous three-year plan in that it proposes an integrated suite of programs, innovations and benchmarks that takes the first step toward a more equitable delivery of energy efficiency in the Commonwealth. The AGO fully supports the EWG recommendations and targets set forth in the Statewide Plan and respectfully recommends that the Department approve the equity improvements as filed.

C. Workforce Development

The development of a trained and adequate workforce to support the increasing needs of the Mass Save programs is vitally important to the success of energy efficiency programs in the Commonwealth. Recognizing this importance, the Climate Act directs that $12 million of energy efficiency ratepayer funds be directed annually to the Massachusetts Clean Energy Center to be used for the development of workforce in support of the delivery of energy efficiency and clean energy technologies in the Commonwealth. *See* Climate Act at § 14. The Program Administrators have proposed the Clean Energy Pathways internship program and have made a commitment to work with MASS CEC as it develops programs and training pursuant to the Climate Act directive.

The AGO supports the workforce development investment proposed in the Statewide Plan as it is critical for achievement of its aggressive goals.

D. Performance Incentives

The GCA specifies that the three-year energy efficiency plan "shall include… a proposed mechanism which provides performance incentives to the companies based on their success in meeting or exceeding the goals of the plan." G.L. c. 25, § 21(b)(2)(v). Further, the Department has issued Guidelines that set forth the requirements for the performance incentive mechanism. *See* Energy Efficiency Guidelines § 3.6.2 (noting, among other things, that performance incentives should be designed to best achieve the Commonwealth's energy goals).

Accompanying the changes in the energy efficiency plan, the performance incentive mechanism also underwent a comprehensive redesign to better reflect the goals and targets of the proposed Statewide Plan. The Program Administrators, DOER and the AGO recognized the need to modify the performance incentive mechanism to complement the changes in energy efficiency as a result of the implementation of the Climate Act and other Commonwealth energy priorities. With support from the AGO, DOER and the EEAC, the Program Administrators propose a performance incentive model that continues to be based upon the achievement of benefits but subdivides the benefits into three categories of equity, electrification, and standard energy efficiency, and eliminates the value component. *See* Exh. 1, Appendix M at Attachment E; *see also* Pre-Filed PA Testimony at Section K (performance incentives), at 112–27. This three-component approach is proposed as it better encourages achievement of the Statewide Plan priorities of equity and electrification and complies with the Department precedent and regulatory principles.

The equity component of the performance incentive methodology ties back to the Statewide Plan's changes in program and implementation design that are necessary to move toward the equitable delivery of energy efficiency. Pre-Filed PA Testimony, at 119.

Specifically, the equity component consists of the benefits achieved from energy efficiency measures (excluding large C&I) in designated EJ communities, i.e., the same 38 communities identified as part of the equity focus, as well as energy efficiency savings from moderate income customers[16] statewide, including benefits achieved for electrification measures. *Id.; see also supra* at Section V (B) (describing process of selection of EJ communities).

The electrification component of the performance incentive methodology ties back to the aggressive increases in planned electrification as part of the Program Administrators' required achievement of GHG emissions reductions set by the EEA Secretary. *See* Pre-Filed PA Testimony, at 120. The electrification component will count the benefits derived from electrification of all residential and commercial & industrial customers, except for electrification benefits carved out under the equity component.

The standard energy efficiency component of the performance model ties to the GCA's directive to administer for "all cost-effective" energy efficiency programs. The standard component captures all remaining benefit streams that are not otherwise accounted for in the other two performance incentive components. *See* Pre-Filed PA Testimony, at 121.

The total performance incentive pool proposed is $170 million, with $131.8 million for electric and $38.2 million for gas. *See* Pre-Filed PA Testimony at 115–16 (providing breakdown of design level incentive pool). Total plan benefits are accounted for within each component in a manner that avoids both double-counting and perverse incentives. *See* Exh. DPU-Comm 3-16 (noting structure avoids double-counting of benefits). Additionally, the mechanism is designed

[16] The benefits associated with the delivery of all plan measures to moderate income customers was included as part of the equity component since these customers were specifically identified in the 2019 non-participant study as having low participation in the Mass Save program. *See* D.P.U. 21-70, Appendix D, 2013-2017 Residential Customer Profile Study.

with thresholds and caps on earnings that adequately rewards Program Administrator performance for achievement of the aggressively set goals of the Statewide Plan. *Id.*; *see* Pre-Filed PA Testimony at Section K (providing narrative discussion of proposed performance incentive mechanism); Exhibit-1, Appendix S (providing calculations of performance incentive payout rates and requirements for earning under the model).

The proposed performance incentive mechanism eliminates the value component. Elimination of the value component is appropriate as the focus for the 2022–2024 plan has shifted from a mature market of well-known energy efficiency measures to the development of a market for electrification and the building of a foundation for the continued equitable delivery of energy efficiency. *See* Tr. Vol. 3, at 387 (noting Program Administrators no longer believe the value component is appropriate). To meet these priorities, an increase in the energy efficiency investment is required, as well as an increase in the activities performed on the part of the Program Administrators. A value component would disincentivize the increased investment necessary to achieve these outcomes. *See* Exh. DPU-Comm 3-16; Tr. Vol. 3, at 388–90 (noting a value component could incentivize behaviors not aligned with achievement of the plan priorities). Further, market transformation activities and workforce development are critical to the success of the equity and electrification priorities. These market development activities require investment but do not have quantifiable near-term savings. *See* Exh. DPU-Comm 3-16. Finally, the intended purpose of a value component, i.e., minimizing costs to achieve benefits, is realized through other energy efficiency mechanisms.[17] *See* Exh. DPU-Comm 3-16 (b). For

[17] Unique to electric Program Administrators is the understanding that increasing energy efficiency surcharges puts undue pressure on the customer economics of electrification. Tr. Vol. 3 at 392–93. Therefore, in terms of pursuing electrification, the Program Administrators will want to keep electric costs as low as possible. *Id.*

example, there is significant reporting requirements both to the EEAC and the Department that provide transparency in the Program Administrators expenditures. *See* Tr. Vol. 3, at 290–91. More importantly, the mid-term modification requirements limit unfettered spending by requiring a Program Administrator to seek a modification to its budget for over or under spending. *See* Energy Efficiency Guidelines at § 3.8.

The AGO supports the approval of the performance incentive mechanism as proposed in the Statewide Plan.

VI. THE CAPE LIGHT COMPACT (the "COMPACT")

A. Plan Enhancements

The Compact serves as a municipal aggregator, offering opt-out power supply services to the electric customers on Cape Cod and Martha's Vineyard. The Compact is also an energy efficiency Program Administrator, providing energy efficiency services to all electric customers on Cape Cod and Martha's Vineyard (regardless of their source of electric service). Under its statutory authority as a municipal aggregator, the Compact has proposed, and the Department has approved, certain enhancements to the Compact's energy efficiency plan that further the offerings of that provided under the statewide plan. *See, e.g.*, D.P.U. 09-119 (2010); D.P.U. 12-107 (2013); D.P.U. 15-166 (2016); D.P.U. 18-116 (2019).

For the 2022–2024 term, the Compact proposes two enhancements, one each under its residential programs and commercial and industrial programs.[18] *See* Exh. Compact-2, at 132. The Compact states that its Governing Board reviewed the enhancements and approved them to be proposed as part of the Compact-specific plan filing. *See id.* In addition, the EEAC reviewed

[18] The Compact also proposes its Cape and Vineyard Electrification Offering as a plan enhancement. Discussion of CVEO is provided *infra* at VI-(C).

and supported the Compact's proposed enhancements. *Id.* at 141. Further, the Compact states that its residential program enhancements will promote equitable service to low- and moderate-income customers and are consistent with the GCA as they are programs for strategic electrification. *Id.* at 140. Similarly, the Compact asserts that its commercial and industrial enhancement will address a customer class identified by a nonparticipant study as having historically lower participation and is consistent with the GCA as they are intended to reduce energy consumption for municipalities or other governmental entities. *See id.* at 142.

The AGO supports the Compact's proposed enhancements as they are both consistent with the GCA and are designed to better serve identified customer classes that are high priorities during the 2022–2024 term.

B. Shared Costs

As a municipal aggregator, the Compact has two sources of funding. One as the energy efficiency program administrator and the other as the administrator of power supply programs for the residents of Cape Cod and Martha's Vineyard. While these functions are distinct and separate, for administrative and cost efficiency, the Compact shares certain operational costs. *See* Compact Exhibit-2 at 144. For example, the Compact shares the cost of office space, certain staff salaries that support both functions, and the cost of information technology. *Id.* The Compact proposes to share 2022–2024 term costs pursuant to allocation factors reviewed and established by its Governing Board. *Id.* at 145–46.

There are multiple open dockets pending before the Department relating to the Compact's shared cost allocations. *See* D.P.U. 19-136 (Compact's 2020 EES); D.P.U. 16-127 (2013-2015 Term Year Report); D.P.U. 19-96 (2016-2018 Term Year Report). The AGO has reviewed previous cost sharing allocation factors approved by the Department in D.P.U. 18-116, as well as the revised allocation proposed in D.P.U. 19-136. The Compact's allocation methodologies proposed here, as well as previously, are the same and consistent with the Department's directives to transparently allocate shared costs between the Compact's operating and energy efficiency budgets, while ensuring that only energy efficiency related costs are paid through the energy efficiency budget. *See* D.P.U. 18-116, at 140–43.

As the ratepayer advocate, the AGO appreciates the Department's diligence in ensuring that costs charged to ratepayers for energy efficiency are the direct result of providing energy efficiency services and benefits to ratepayers. *See* Tr. Vol. 4 at 548-72 (making inquiry on proposed allocation factors for 2022-2024 term and shared costs). The AGO also further recognizes the reconciling nature of energy efficiency surcharges so that, should an over-recovery or under-recovery occur as of the result of the shared cost allocation factors, the Compact can reconcile these costs through its next energy efficiency surcharge filing.

The AGO maintains that sufficient oversight of the allocation percentages appears to be provided as a result of the Compact's Governing Board review process and the Department's review through the Compact's annual energy efficiency surcharge filing. Accordingly, the AGO supports the Compact's proposed methodology and allocation of shared costs as presented in its 2022–2024 filing.

C. Cape and Vineyard Electrification Offering

The Compact includes in its 2022–2024 Three-year Energy Efficiency Plan a limited measure designed to promote the strategic electrification of building heating in low- and moderate-income housing currently heated by oil, propane, or electric resistance heat. Termed by the Compact the Cape and Vineyard Electrification Offering (or "CVEO"), the measure addresses the large, capital-intensive investments in new heating technology that impose for many a financial barrier to the adoption of clean, renewable, lower emission heating technology. CVEO combines the installation at reduced cost of efficient cold-climate air source heat pumps, with behind the meter solar PV and behind the meter battery storage technologies to perform in tandem to assure reliable, cost-effective, renewable, and affordable building heating with curtailed GHG emissions. Exh. Compact-2, at 133. CVEO requires participants to install all three technologies.

The Compact first proposed an incentive package targeted toward electrifying building heating as part of its 2019-2021 Three-Year Plan. The Department declined to approve the CVEO, out of concern the initial proposal needed further development before the Council prior to implementation. D.P.U. 18-116, Order, at 133. Accordingly, the Department directed the Compact to pursue the CVEO incentive measures at the Council, and if the Council approves, it can be added (by mid-term modification) to the remaining years of the 2019-2021 Three-year Term.

The Compact substantially redesigned its proposed CVEO measure and submitted it first to the Council and subsequently to the Department for review and approval in D.P.U. 20-40. The AGO supported the redesigned CVEO in D.P.U. 20-40 for several reasons.

CVEO is designed to address several significant environmental and economic concerns. First, fostering the transition of residential heating away from delivered fossil fuels to renewable energy heat pumps is an imperative toward achieving the Commonwealth's 2030 and 2050 carbon emission reduction requirements. In addition, the Compact has limited the participation in the revised CVEO proposal to low-income (households earning less than 60 percent of State median-income (SMI)) and moderate-income (between 60 and 80 percent of SMI) residential customers. These residential customers face the greatest financial obstacles in providing the upfront capital costs to transition away from fossil fuel heating systems and are customers that have proven difficult to serve under existing energy efficiency programs. The inclusion of residential solar PV and battery storage systems also promote strategies for active demand reduction and demand side management, which also play a key role in the migration of the grid towards the electrification of energy uses.

In addition, behind the meter solar and battery storage work in tandem to reduce the monthly, ongoing electric energy cost of heat pump operation. With electricity rates in Massachusetts among the highest in the nation, the monthly operating cost of heat pumps can substantially increase the participating consumer's monthly electricity bill. Although higher electricity bills will be offset by energy savings in delivered fuels, the increased electricity cost can frequently be perceived by the public as a deterrent to adoption of heat pump heating technology.

Because the Department's resolution of D.P.U. 20-40 was pending while the Compact prepared and filed its 2022–2024 Three-Year Plan, the budgets submitted in this case include amounts (with minor modifications) already submitted in D.P.U. 20-40. *See* Exh. Compact-2; Exh. Compact-9. On November 5, 2021, however, the Department denied approval of CVEO in D.P.U. 20-40-A and subsequently in this proceeding directed the Compact to remove CVEO expenditures from the 2022–2024 three-year budget. DPU Memorandum, dated November 12, 2021 (requesting Compact remove CVEO budget). The Department's Order in D.P.U. 20-40-A finds, among other things, that spending from Energy Efficient funding sources for the solar PV equipment and battery storage components of CVEO is not authorized by the Energy Efficiency statute, specifically G.L. c. 25, §§ 19, 21-22. D.P.U. 20-40-A, at 21. However, the Department's order characterizes the features of the CVEO offering and construes the governing energy efficient funding statute too narrowly, and the AGO respectfully requests that the Department to reconsider and approve the amounts requested by the Compact in this proceeding for CVEO.

The Order in D.P.U. 20-40 does not fully capture the breadth of the changes in the Energy Efficiency statute made by the Legislature in the 2018 amendments, as part of An Act to Advance Clean Energy (St. 2018, c. 227) ("Energy Act of 2018"). The Energy Act of 2018 first amends G.L. c. 25, §21(b)(1) to direct that the intended scope of the electric PAs plans will no longer be "electric" efficiency investment programs, but to now pursue the broader "energy" efficiency investment plans. This broadening of purpose by the Legislation was intentional, as Section 21(b)(2) now includes several new permissible features to the Plan, including, but not limited to, programs for "energy storage and other active demand management technologies, and strategic electrification, such as measures that are designed to result in cost-effective reductions in greenhouse gas emissions through the use of expanded electricity consumption while minimizing ratepayer costs." The Energy Act of 2018 further amends Section 21(b)(2) by expressly authorizing "programs that result in customers switching to renewable energy sources or other clean energy technologies …."

Taken together, the changes to the Energy Efficient statute enacted as part of the Energy Act of 2018 empower each of the featured components of CVEO. CVEO does not support stand-alone solar PV, but only solar *when paired with* energy storage and air source heat pumps. *See* Exh. Compact-9 (noting CVEO requires installation of the three measures). The solar PV and energy storage components of CVEO serve to reduce the increased load added behind the meter by the air source heat pumps. All three components are required to embody a cost-effective, affordable, clean heating alternative that takes maximum advantage of "renewable energy [and] other clean energy technologies" as expressly permitted by Section 21(b)(2), as amended. Similarly, all three components of CVEO are essential to overcome substantial financial barriers faced by low- and moderate-income households in utilizing "strategic electrification," which is achieved through "expanded electricity consumption" but with offsetting demand reduction advantages of behind the meter solar generation and battery storage attained "while minimizing ratepayer costs." It is through the unified integration of all three components that the Compact expects CVEO to attract low- and moderate-income households to afford not only the reduced upfront capital costs of clean energy heating, but also defer the ongoing electricity operating costs occasioned by strategic electrification. Incentives for air source heat pumps and energy storage are already approved by the Department as permitted applications for energy efficiency funding under the statute. The inclusion of solar PV behind the meter in the CVEO arrangement, to partially offset the energy needs on the grid otherwise imposed through strategic electrification and to make the clean heating technology more affordable to participating low/moderate income Residential customers, does not render the CVEO's strategic electrification offering ineligible for energy efficiency funding. In short, the economic, financial, and environmental advantages of behind the meter solar PV are a cardinal attribute of CVEO and is necessary to promote adoption of renewable air source heat pumps among low- and moderate-income residential households.

Accordingly, the proposed spending on all three components of CVEO is fully supported by the Energy Act of 2018 amendments to the energy efficiency statute. The Department should approve the Compact's requested funding of CVEO as part of its 2022–2024 Three-Year Plan.

VII. CONCLUSION

For the reasons set forth above, the AGO supports approval of the 2022–2024 Joint Statewide Electric and Gas Energy Efficiency Plans, and the individual PA components.

Respectfully Submitted,

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COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF PUBLIC UTILITIES

The Berkshire Gas Company; Eversource Gas Company of Massachusetts d/b/a Eversource Energy; Fitchburg Gas and Electric Light Company d/b/a Unitil (Gas); Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty; Boston Gas Company d/b/a National Grid; NSTAR Gas Company d/b/a Eversource Energy; The Cape Light Compact; Fitchburg Gas and Electric Light Company d/b/a Unitil (Electric); Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid; NSTAR Electric Company d/b/a Eversource Energy	)	**D.P.U. 21-120 through D.P.U. 21-129**

CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing document to be served upon all parties of record in these proceedings in accordance with the requirements of 220 C.M.R. §1.05 (1) of the Department's Rules of Practice and Procedure. Dated at Boston, Massachusetts this 29th day of December, 2021.

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