STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE:	**THE NARRAGANSETT ELECTRIC COMPANY DEMAND SIDE MANAGEMENT PROGRAM FOR 2003**	**)** **)** **)**	**DOCKET NO. 3463**

DIRECT TESTIMONY

OF

DR. JONATHAN RAAB

ON BEHALF OF THE

THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

Before the

RHODE ISLAND PUBLIC UTILITIES COMMISSION

OCTOBER 2002

Q. Please state your full name and business address.

A. My name is Dr. Jonathan Raab. My address is 280 Summer St., Boston, MA 02210.

Q. By whom are you employed and in what position.

A. I am President of Raab Associates, Ltd. – an energy, environmental, and regulatory consulting and dispute resolution firm.

Q. Please describe your background and training.

A. I am an experienced mediator, facilitator, trainer and consultant and a national leader in applying consensus-building processes to energy, environmental, and regulatory issues. I authored a seminal book, Using Consensus Building to Improve Utility Regulation (ACEEE: Washington, D.C., 320 pages, foreword by Susan Tierney) and am on both the mediation and arbitration panels for the PJM Power Pool, and on the dispute resolution rosters of the US Environmental Protection Agency and the US Institute for Environmental Conflict Resolution.

Prior to starting Raab Associates, I was the Assistant Director of the Electric Power Division at the Massachusetts Department of Public Utilities. I have a Ph.D. from the Massachusetts Institute of Technology (Energy and Environmental Policy, and Resource Economics), an M.S. from Stanford University's Civil Engineering Department (Infrastructure Planning and Management), and an A.B. (distinction) in Social Sciences also from Stanford. I have taught courses at the University of Oregon, Stanford, UMass (Boston) and MIT.

I have been working as a consultant for the Division on energy efficiency and renewable energy matters for more than seven years.

Q. Have you previously testified before the Commission?

A. Yes, on numerous occasions as the Division's expert witness on energy efficiency and renewable energy matters.

Q. What is the purpose of your testimony?

A. To provide the Commission with the Division's positions with respect to NECo's DSM filing. In particular we want to comment on their proposed changes to the company's incentive, to the proposed DSM budgets by customer class, to the specific design of several programs, and to the benefit-cost test

Q. What's your overall view of the Company's current DSM programs?

A. The Division has stated on numerous occasions and continues to believe that NECO's programs, in no small part due to extensive and continuous input from other parties to the Collaborative process, represent a well-designed and well-implemented portfolio of programs that provide substantial benefits to participants and to all Rhode Islanders. These programs and the supporting structure (i.e., the cost-effectiveness analysis framework and the Company's incentive formula) have by-and-large been very effective, and remain among the most successful portfolios of programs in the nation.

Q. Is there anything in the Company's current filing that concerns the Division?

A. Overall, the programs being proposed by the Company represent a continuation of the existing, relatively successful portfolio of programs and we support this. However, we think the proposed changes to the incentive structure are unnecessary and most are counter-productive. We are also concerned about the Company's proposal to funnel budget away from residential and small commercial customers to large commercial and industrial customers. Moreover, we are concerned with certain program design changes (or the lack thereof) in several programs. Finally, the changes proposed to the benefit-cost test create a different test that should supplement but not replace the existing test.

Q. Does the Division support the Company's recommendation to increase its incentive cap from 4.25% to essentially 6%?

A. No, the Division believes that the incentive cap should remain at 4.25% or, if anything, be lowered to reflect lower interest rates and less risk to the Company generally.

Historically, there were two reasons for providing incentives to the Company. The first was to help coax the Company to increase its DSM budget. The second was to encourage the Company to deliver the best programs possible, regardless of the budget level. While the second rationale for an incentive remains, the first rationale is no longer relevant now that the annual budget is effectively set by the Legislature, and the DSM monies are clearly not utility or shareholder funds, but ratepayer and citizen funds. Given this change and reduced interest rates (and therefore expected returns), higher incentive rates are not justified.

Potential annualized lost distribution revenue have held fairly steady since 1999 (and are effectively predicted to drop by around $300k from 2002 to 2003) and do not justify any increased incentive.

The Division also believes that putting in any type of stretch incentive system is unnecessary and could lead to gaming. Each year the Company's program budgets and estimated energy savings are set at the beginning of each year based on a predicted mix of measures and the savings per measure. For the Company to save more energy than predicted at the beginning of the year they either have to spend more money (which they can't do with a fixed budget) or get more savings per dollar (which they either do by changing the measure mix or increasing customer contributions – neither of which should be done without Division or Commission approval anyway).

Q. What about the other changes to the incentive structure requested by the Company?

A. There are only two changes that the Company requests that the Division could consider supporting. First, if the Commission continues to direct the Company to pursue programs that have non-electric resource benefits (e.g., fuel oil, propane, natural gas, water), then those benefits should be recognized both in the benefit-cost analysis and in the Company's incentive. All this means is that the Company should monetize these potential benefits and include them in the ex ante incentive calculation and track them for the ex post calculation (they don't change the potential incentive which is still set on budgets).

The second recommendation that the Division could support is raising the threshold before the Company can earn an incentive in each of the sectors to 55%. We believe this is justified since most of the programs are now steady state, and the Company should be spending close to its entire budget for each sector each year at this stage. We believe all the other changes are unnecessary and would, in fact, be counter-productive to the Division's and the Commission's objectives.

Basing incentives on budget rather than expenditures actually provides a higher incentive to spend the entire budget than what the Company suggests.

The Company should not earn incentives on administration and evaluation costs. Although the Division recognizes the necessity to spend money in these areas, the Company should be encouraged to only spend monies on those activities that contribute to achieving actual savings. As such, not including those expenditures in the incentive formula will incentivize the Company to minimize those expenditures and only spend on studies and planning that are truly justified (i.e., translate in the near term to savings for customers which the Company is rewarded for).

The Division is strongly against combining the Large C&I and Small C&I customers into a single bucket for purposes of calculating the incentive, to reduce the likelihood that the Company will not provide adequate attention to smaller commercial customers.

Q. Does the Division support the Company's overall budget break-down?

A. Not at first blush. The Company appears to be shifting resources away from residential customers and small business customers to large commercial and industrial customers (see the two tables below). We are not convinced that this is necessary or represents sound public policy. Budget distribution should more closely parallel splits in the past. Also, as described above the incentive shown by the Company should be reduced from the 4.5% base incentive shown to 4.25% or less.

2002 Budget %	**2003 Budget %**	**Difference**	**Customer Class**
29%	26%	-3%	Residential Customers
12%	10%	-2%	Small Business
54%	59%	+5%	Large Commercial and Industrial Customers

Data from Company response to Div. 1-4 (rounded to nearest percent).

This is reinforced by the number of customers the Company hopes to serve in 2003 in each sector as shown in Company response to Div. 1-3.

2002 Act. Cust.	**2003 Proj. Cust.**	**Difference**	**Customer Class**
62,513	40,200	-22,313	Residential Customers
760	716	-44	Small Business
477	565	+88	Large Commercial and Industrial Customers

Q. What programs designs does the Division have concerns over?

A. The Division has some potential concerns with design issues related to the Energy Star Appliance, residential lighting, small business, and larger commercial and industrial programs.

Q. What is the Division's concern with respect to the Energy Star Appliance program?

A. It is not clear why the Company proposes to drop the continuous rebates for clothes washers. Rhode Island began offering such rebates several years after utilities in neighboring states, and the last data the Company shared with the Collaborative showed Rhode Island still lagging behind the other states. If that still holds true, the Division is not sure it supports dropping a continuous rebate for now. Also, the Division, while supporting the introduction of a rebate for Energy Star air conditioners, does not know whether $25 is sufficiently high and whether the rebate needs to be further differentiated by air conditioner size or efficiency. We welcome further discussion on these points.

Q. What is the Division's concern with respect to the residential lighting program?

A. The Division does not believe that the Company should completely eliminate standard rebates for CFLs in 2003. While the Division supports also having targeted promotional rebates on "innovative or specialized" CFL screw-ins, the Company has provided no evidence that the markets for traditional screw-in CFLs have been sufficiently transformed to warrant abruptly dropping this long-standing program strategy. To the contrary, when the Company reduced the rebate from $5 in 2001 to $3 in 2002, the number of CFL's dropped from 218,468 to approximately 113,000 (Div. Data Request 1-16) – hardly a sign that markets have been transformed. Without evidence of such transformation, the Division supports continuation of an on-going incentive program, at least at the $3 level for 2003.

We also note that this is an important gateway program for all residential customers (and particularly those without electric heat) who otherwise have few opportunities to participate in DSM programs paid for by all ratepayers in Rhode Island. The Company's unilateral decision to drop these rebates, by its own projection, would reduce the number of residential ratepayers participating in DSM programs in 2003 by over 35%!

Q. What is the Division's concern with respect to the small business program?

A. As stated above the Division is concerned that the Company proposes to unilaterally cut the budget in this program by over 20%. We have not seen any analysis about why the Company doesn't expect to hit its targets in this program this year. Furthermore, it is not clear to us that the Company has fully explored all avenues to boost participation in this program, including using a different vendor or approach, adding new measures, and even providing additional incentives to customers, if necessary. We have also not seen any evidence for the 2002 participants to substantiate the Company's claim that increasingly smaller customers have been participating, on average. We would welcome a full analysis of this program in terms of who participated in 2002, audits to completion, measure mix, etc.

Q. What is the Division's concern with respect to the large commercial and industrial programs?

A. The Company has not provided the Division, other Collaborative members, or the Commission with its proposed measure mixes and process incentives for these programs and claims they won't be available until at least November 27th. Without this, the Division does not know what the Company plans to offer or what the rebates will be for different measure classes. The Division is particularly interested in whether rebates can be decreased and participant contributions increased for certain measures, particularly in the Energy Initiative program. This would allow the Company to increase its savings per dollar spent in this program, allowing it to serve more customers in this, other programs, or both. The Division finds the Company's tardiness particularly problematic given that it is asking the Commission to increase the relative budget of these programs, and that the Division has clearly let the Company know of its interest in pursuing this matter for the 2003 programs. The Commission should probably not approve these programs until these details can be produced by the Company and adequately reviewed by all.

Q. What is the Division's perspective on the Company's recommendations to change the cost-effectiveness analysis that Rhode Island has used for the past half decade?

A. While we would support adding the non-electricity resource savings as we stated above, adding customer costs would distort the current ratepayer type test's ability to show how Rhode Island's SBC funds leverage cost-effective investments. As such, we would recommend not including customer costs in the analysis. However, if the Commission wants to also look at more of a societal test, it should require the Company to do both tests for each program.

Q. Does this conclude your testimony?

A. Yes.