



Terry L. Schwennesen
General Counsel

November 7, 2003

BY HAND DELIVERY & ELECTRONIC MAIL

Ms. Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**Re: Docket 3463 – 2004 DSM Program Settlement of the Parties
Performance Metrics – Revised Attachment 7**

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company ("Company"), The Division of Public Utilities and Carriers ("Division"), the State Energy Office ("SEO"), the Coalition for Consumer Justice ("CCJ") and the Energy Council of Rhode Island ("TEC-RI") (together, the "Parties") are ten copies of a new Attachment 7 to the Parties' September 12, 2003 settlement in this proceeding setting forth the proposed terms of the Company's Demand-Side Management ("DSM") Program for 2004. As indicated in the earlier filed Settlement, the Parties agreed to set proposed performance metrics once additional data about market conditions became available. The Parties have now been able to set those proposed targets. The Parties' hereby submit this Attachment 7 for the Commission's approval in this proceeding.

Thank you for your attention to our filing. Please contact me if you have any questions concerning this transmittal.

Very truly yours,

Terry L. Schwennesen

Enclosures

C: Docket 3463 Service List

2004 Performance Metrics¹

Introduction

Starting in 2003, performance metrics were established for five initiatives offered in Rhode Island. Four of these metrics were for “market transformation” initiatives and one (Comprehensiveness in Small Business Services) was for a significant improvement in program offerings. In all cases, the metrics were designed to be straightforward measures of progress for initiatives believed worthy of a special targeted focus.

The major structure and delivery of each initiative is not changing for 2004 from the pilot metrics tracked in 2003. The Company proposes the following performance targets for each proposed 2004 metric. These proposed targets reflect current market conditions and are expected to require the Company to “stretch” in order to achieve desired results.

Residential Metric 1: ENERGY STAR Clothes Washers

The metric supports the increased penetration of ENERGY STAR Clothes Washers in Rhode Island.

The Company will achieve an ENERGY STAR qualified Clothes Washer market share for 2004 in Rhode Island that is 7 percentage points above the national average.

Discussion: The chart below provides market share statistics for ENERGY STAR clothes washers for RI and nationally in the period 2001 through the second quarter of 2003.

ENERGY STAR CLOTHES WASHER MARKET SHARE			
Year	Quarter	RI	National
2003	2	27.14%	20.81%
2003	1	20.76%	19.63%
2002	4	20.76%	19.36%
2002	3	18.00%	18.32%
2002	2	16.85%	16.74%
2002	1	12.85%	12.18%
2001	4	16.84%	11.64%
2001	3	12.56%	12.51%
2001	2	11.49%	11.96%
2001	1	9.42%	10.37%

¹ Attachment 7 of the Settlement Agreement of September 12, 2003, did not contain specific numeric targets for the performance metrics. Per the Settlement Agreement, the Parties agreed to set appropriate performance targets for each of the metrics when additional information about market conditions was available to better define these targets. At the Collaborative meeting on November 6, 2003, the Parties reviewed available information and agreed to the revised metrics contained herein. The discussion sections are included to provide support to the revised metric proposals.

This table shows that the market share for qualifying clothes washers in RI in the second quarter of 2003 significantly exceeded the national market share for the first time since late 2001. For the second quarter of 2003, RI achieved a 27.14% ENERGY STAR market share compared to the national market share of 20.51%. This almost 7% differential is a key indicator of significant progress. We believe the increased sales in Rhode Island were due to Narragansett Electric's participation in the national "Double Your Savings with ENERGY STAR" promotion. Eight manufacturers provided a matching \$50 rebate to our rebate, resulting in a \$100 rebate for customers during the time period of April 15th through July 15th, 2003. This promotion was very successful in New England, but manufacturers report that they did not see significant participation in other parts of the country.

The requirements to meet ENERGY STAR standards will tighten up as of January 2004, and 20 popular models will no longer qualify as ENERGY STAR appliances. We expect a period of market adjustment in early 2004. Based on that, we suggest keying the metric to the national average as opposed to setting a goal for a specific percentage market share in the state. This would build on the progress that we have seen with RI exceeding the national average. This is a risky metric for us, since we're basing it on only one quarter of information, and we do not know whether manufacturers will offer the matching rebate again, but we think it is a good indicator of RI specific accomplishment.

The Company will need to report on metric performance in the Year End Report by May 1, 2005. Since we expect to have all data for 2004 by that time, we also think it makes sense to change the metric to include data from all of 2004, not just the first two quarters of 2004.

Residential Metric 2: ENERGY STAR Homes

The metric supports market transformation in the construction of new homes.

The Company will conduct plans analyses and home ratings and sign ENERGY STAR builders agreements with 15% of the new homes built in Rhode Island in 2004.

Discussion: The chart below provides statistics for ENERGY STAR homes for RI in 2001 through the third quarter of 2003.

Year	ENERGY STAR HOMES		
	Permits	Signed	Percent
2001	2346	156	6.6%
2002	2804	233	8.3%
2003	2249	279	12.4%

Signing up builders and home buyers to the ENERGY STAR homes program requires builders to agree to a significant change in their building practices. We expect market transformation to continue to be slow and steady. In 2003, we hoped to achieve 10% and are currently at 12.4% through nine months. Final data for 2003 will not be available until the US Census Department releases information about permits pulled in all states in early 2004.

For 2004, we recommend a goal of 15%. We suggest that 15% will be a stretch, but achievable, given the penetration seen in 2002 and thus far in 2003. This is our best estimate as of September 30th, based on our estimate of how many permits will be pulled in Rhode Island in 2004 and our count of homes that are signed up for the program.

C& I Metric 1: Building Operator Certification (BOC) Training

Improving building performance represents a major opportunity to increase energy efficiency and effect peak demand reductions in the C&I sector. The BOC is a competency based training and certification program for building operators designed to improve the energy efficiency of commercial and industrial buildings. The metric tracks BOC Level 1 for building operators to develop skills to evaluate building energy use, foster better work environments, increase customer education, and support market transformation.

The Company will enroll in 2004 an additional 25 Rhode Island facility building engineers, technicians, contractors, or operators in the NEEP- Level 1- O&M training and certification course.

Discussion: Prior to 2003, 50 facility professionals working in Rhode Island had completed the Level 1 class. By the end of 2003, 25 additional facility professionals from Rhode Island will have been trained at Level 1, with 23 attending a Rhode Island based class and two attending in Massachusetts.

Facility professionals who participate in the Level 1 training make a commitment to participate in training given in 8 full day sessions over a 7 month period, a significant commitment for a business to make during this current economic climate where staffing levels have been reduced. The Company expects that it will be challenging to increase the numbers of professional building operators who attend these classes beyond the level of participation achieved in 2003.

C&I Metric 2: High Performance Schools

Schools present unique opportunities to not only adopt energy efficiency but to enhance student learning through better classroom design. This metric provides technical and

financial support from the very beginning of school construction projects, emphasizes thermal, acoustic, and visual comfort, especially in lighting design, and helps cities and towns construct new schools that are high quality, environmentally sensitive, and cost less to operate.

The Company will contract with three new school projects through Design 2000*plus* to provide full incremental cost for high performance design and construction practices with a special focus on high quality energy efficient lighting.

Discussion: We have recently obtained the annual “Approval of Necessity of School Construction” funding approval letters from the Department of Education for the years 1998 through 2003. The annual letters give the names of the towns and generally what is being funded. On average, funding has been approved for approximately 15 projects per year. Some of this funding may be for projects that may not be suitable for the Schools Initiative, in other words, projects that do not involve construction of an entirely new school building.

The Company provides incentives for energy efficiency school construction through the Design 2000*plus* program (as well as retrofits under Energy Initiative). A total of 35 school construction projects have been funded through the Design 2000*plus* program since the beginning of the Schools Initiative: six projects were funded in 2001, 13 in 2002 and 16 thus far in 2003. These may have been full or partial facility construction, renovations, or equipment replacement at the end of its useful life. Of the 35 projects, 9 have participated in the Schools Initiative: one contract was completed in 2001, 6 in 2002 and 1 in 2003 with one additional one anticipated by the end of 2003.

The Company’s proposal of three completed contracts will be a challenge when considering the small number of new schools built each year, the long project development schedules, and the current economic climate, particularly for municipalities. For 2004, the Company will work with the Rhode Island Department of Elementary and Secondary Education to help identify additional participants.

C&I Metric 3: Comprehensiveness in Small Business Installations

While the potential for significant energy savings in small businesses rests on improving lighting energy use, this metric encourages the Company to add other electrical efficiency opportunities including-- but not limited to-- HVAC tune-ups and other non-prescriptive measures to the Small Business Services program. In combination, these improvements to program design support more comprehensiveness in customers’ facilities and expand the depth and appeal of the program.

The Company will achieve 14% comprehensiveness in Small Business Services in 2004. The percentage will be calculated as the number of non prescriptive lighting, HVAC tune-ups or other custom energy efficiency measures (excluding custom

walk-in cooler measures) divided by the total number of participant locations (excluding walk-in cooler only participants) in 2004. The recommended performance target for this metric is predicated on an assumption that the current evaluation effort underway to assess savings from HVAC tune-ups will demonstrate that this measure is cost-effective. If evaluation findings indicate that this measure is not cost-effective, the Company proposes to work with the Collaborative to modify the target for this metric and will include the modified target in its True-Up Filing in May 2004.

Discussion: Through October 2003, the Company has substantially completed 92 comprehensive small business installations. These include six custom small business installations (one project is complete with custom treatment; another site consisting of two measures is in progress; and three more are awaiting approval) and 86 HVAC tune-ups. However, the Company has yet to determine if the HVAC tune-ups are cost effective. Samples of projects are being evaluated and findings from this effort are expected before year-end.

The 92 comprehensive small business installations substantially completed through October 2003 is also the total the company expects to fully complete by year end 2003: no additional installations will be made in the tune-up pilot and the custom projects will be fully completed. This is 13% of the total of 689 small business participant locations expected to be served in Rhode Island in 2003. Walk-in cooler have been excluded from this calculation (and the metric) because they are delivered by a different vendor from the rest of the services and because comprehensive measures are just beginning to be offered for the small business refrigeration end use.

Our proposal is to target 14% in 2004, slightly higher than the level expected for 2003. We believe that it will be a challenge to maintain penetration in 2004 as tune-up services are moved from a pilot to being integrated into the program. This is because selected customers were target-marketed for the tune-up pilot in 2003 based on prior SBS participation and high summer demand. We believe that this created a highly receptive market for 2003 and may have boosted the comprehensiveness penetration for this year over what might be achieved without special marketing.