

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

In Re: The Narragansett Electric Company,
Demand-Side Management Programs for 2003

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Docket No. 3463

AMENDED SETTLEMENT OF THE PARTIES

December 17, 2002

Table of Contents

<u>Section</u>	<u>Page</u>
I. Introduction	1
II. 2002 Program Status	2
III. 2003 DSM Programs	3
A. Residential Programs	3
B. Small Business Services Program	3
C. Large Business Services Program	4
IV. Budgets and Funding Sources	5
A. Budgets	5
B. Sector Budgets and Transferring of Funds	5
C. 2003 DSM Program Funding Sources	6
V. Continuation of the Collaborative	8
VI. Public Forum	9
VII. Incentive	10
VIII. Miscellaneous	11
A. Cost-Effectiveness	11
B. Reporting Requirements	11
C. Miscellaneous Provisions	12

Attachments

- 1- Analysis of Narragansett Electric's 2002 Fund Balance
- 2- Summary of Changes to Energy Initiative and Design 2000 Plus for 2003
- 3- Projected DSM Funding Sources in 2003
- 4- Proposed Settlement Budget
- 5- Target Shareholder Incentives
- 6- Calculation of 2003 Cost Effectiveness Test and Goals

I. Introduction

This Stipulation and Settlement (“Settlement”) is jointly submitted and entered into by the Division of Public Utilities and Carriers (“Division”), The Energy Council of Rhode Island (“TEC-RI”), the State Energy Office (“SEO”), the Coalition for Consumer Justice (“CCJ”) and The Narragansett Electric Company (“Narragansett” or “Company”), (hereinafter together the "Parties") and resolves all issues among the Parties concerning the Company’s Demand-Side Management (DSM) Program for the year 2003.

The DSM Collaborative has been meeting regularly since 1991 to analyze and inform the Company’s DSM programs. Since 1997, the Company has been offering its programs pursuant to statute, R.I.G.L. 39-2.1.2(b). With the passage of that statute, the Parties also developed the Rhode Island Renewable Energy Collaborative, which began meeting late in 1996 to develop policies and programs to promote renewable energy resources in Rhode Island. With amendments to this statute in 2002, responsibility for administration of the Renewables Program will be transferred from the Company to the SEO as of January 1, 2003. See R.I.G.L. 39-2.1.2(b). Thus, the Parties have entered in to this Settlement primarily to address the Company’s proposed 2003 DSM Program.

Prior stipulations have set forth criteria for the Company's DSM programs: (1) that they be as cost-effective as possible, (2) that they serve a large number and broad mix of Rhode Island customers, (3) that they maximize the long-term savings, (4) that they capture potential lost opportunities, and (5) that they promote market transformation. Over time, the Company, with the assistance of the DSM Collaborative, has worked to enhance programs for customers by improving the efficiency and quality of energy-efficient products, expanding services to customers, and becoming more involved in statewide and regional initiatives.

On September 6, 2002, the Company submitted direct testimony supporting its proposed 2003 DSM program. On October 22, 2002 the Division submitted its testimony. On October 28, 2002 a technical session was held to provide and exchange information regarding the proposed program. The Parties have had the opportunity to submit direct, supplemental and rebuttal testimony in this proceeding. In addition, the Parties and the Commission have completed the formal discovery process.

On December 4, 2002, the Parties submitted a settlement with the Commission covering the 2003 DSM activities. On December 9, 2002, the Commission held a hearing to review the merits of the proposed settlement. In response to issues raised by the Commission at that hearing, the Parties jointly submit this amended Settlement.

II. 2002 Program Status

Narragansett's final 2002 DSM and renewable energy budget proposed in the 2002

stipulation as amended and approved by the Division and filed with the Commission on May 31, 2002 was \$29,907,300. The projected DSM fund balance at year-end 2002 is shown in Attachment 1.

III. 2003 DSM Programs

The Parties accept the Company's proposed 2003 DSM Programs with the modifications described below:

A. Residential Programs

The Parties agree to continue residential programs with incentives similar to those offered in 2002. The program budget for the ENERGY STAR Products program for 2003 will be \$448,600. The program budget for the ENERGY STAR Lighting program for 2003 will be \$1,168,600. The program budget for the EnergyWise program for 2003 will be \$2,355,000.

The Company will carefully review the performance of the Rhode Island programs and compare their performance with the performance of the Massachusetts programs where the incentive structure has been changed. The results of that comparison will be shared with the Rhode Island Collaborative and will be used to either support continuation of current rebate levels or to modify current rebate levels in 2004 or beyond.

B. Small Business Services Program

The Parties agree that they will increase the funding level originally proposed for Small

Business Services to \$2,699,200. The Parties also agree that the Company will modify its Small Business Services Program by reducing customer co-pay from 35% to 25% and implementing web-based marketing techniques to promote additional customer participation. The Company also agrees to add additional cost-effective measures to the program in 2003.

As part of this proposal, the Parties agree that the Company will conduct a mid-year review of these program changes to evaluate whether they are having the expected effect on customer participation in the Program. If it appears that the program changes do not produce desired results, the Parties agree that the Company may permit customers with maximum demands of up to 150 kW to be eligible to participate in the Small Business Services Program.

C. Large Business Services Program

The Parties agree that the Company should offer programs as proposed in its original filing subject to the modifications specified below. First, the budgets for Energy Initiative (“EI”) and Design 2000*plus* (“D2”) will be reduced by a total of \$150,000 to cover the budget restorations in the Residential programs and by \$350,000 to cover budget restorations in the Small Business Services program. Second, the Company agrees to increase customer contribution to measures in the EI program for 2003 wherever feasible as provided in the Summary of Proposed Changes filed by the Company in this proceeding on November 26, 2002. See Attachment 2.

IV. Budgets and Funding Sources

A. Budgets

The Parties agree that the portfolio of DSM for 2003 will have an overall projected budget of \$22,706,700¹. Updated program budgets calculated in accordance with this Settlement are provided in Attachment 4. In accordance with R.I.G.L. 39-2.1.2(b), a total of \$3,789,018 has been excluded from the proposed DSM budget for 2003 reflecting a transfer of the Company's renewable energy fund to the SEO effective January 1, 2003.²

B. Sector Budgets and Transferring of Funds

The Parties propose to use the same methodology for the transfer of funds from one program to another that was used in 2001 and 2002. The Parties agree to segment the budget into three sectors: residential, small commercial and industrial and large small commercial and industrial. Transfers may occur as follows:

- a. The Company can transfer funds from one program to another within a sector only with prior approval by the Division.

1 The program costs for 2003 continue to include employee incentive compensation costs incurred for the delivery of DSM. The Company maintains its obligation set forth in Section IV of the 2002 Stipulation to notify the Parties of any material changes to the overall structure or funding level of the existing incentive compensation plans as they affect the DSM fund, and will not recover the costs of any new incentive compensation plans that were not in effect for 2002 without the prior approval of the Division.

2 The exact renewables amount to be transferred to the SEO will be based on actual renewable spending determined at year-end 2002.

- b. With Division approval, the Company can transfer funds from one sector to another so long as the transfers from a sector reduce the approved budget for that sector by 20% or less. Transfers that would reduce a sector's budget by more than 20% in aggregate (over the course of the program year) will require Commission approval.

For transfers not requiring Commission approval, the Parties will inform the Commission about all the transfers between sectors as they occur and transfers within sectors periodically in conjunction with regular reporting set forth in Section IV. The parties will regularly review the amount of funds needed and available for each program (as well as any changes to the overall fund balance, as discussed in Section IV.C below) and will transfer monies as needed.

The Company will not be permitted to adjust its incentive target calculations for any transfers between sector budgets.

C. 2003 DSM Program Funding Sources

The sources of funding for the 2003 DSM programs are shown in Attachment 3. The Parties agree that the 2003 budget should continue to be funded from the following sources: (1) the mandatory 2003 DSM charge, (2) carryover of the 2002 fund balance, (3) fund interest earned and (4) funds received from Small Business Program co-payments in 2003. The Small Business

co-payments will be earmarked for the Small Business program. In addition, the total budget available continues to include leasing payments from other utilities in the New England region for the use of Design 2000*plus* and Energy Initiative. The projected amounts are shown in Attachment 3.

The projected 2003 budget for DSM programs is dependent on a number of projections, including projections of kilowatt-hour sales of electricity (which inform the amount of funding), year-end 2002 large commercial and industrial program commitments, year-end 2002 renewable energy commitments, and a projection of year-end 2002 spending. In order to obtain the most accurate budget possible, the Parties agree to true up each of the components of the budget calculation that are currently projected with actual year-end numbers. The true-up will occur when year-end actual amounts become available, but no later than May 2003. The true-up will result in more or less money being available for the 2003 DSM and renewable energy budget. The Parties will review the budget to determine how best to revise the budget in accordance with the results of the true-up. If the difference between the results of the true-up and the filed budget is 20% or less of the total approved budget, the Division shall have the authority to approve the reallocation; otherwise the Parties shall seek the approval of the Commission. If the Division approves the reallocation, the Commission will be provided with the finalized budget after reallocation. The Company will be permitted to adjust the projected spending budgets and savings goals in the shareholder incentive calculation in accordance with the adjustments made in the true-up filing.

In addition, the Parties will again review the components of the budget calculation in June and September 2003 in order to obtain the best information available about the amount of funds available and determine how best to use them. The Parties agree that the Company should make every attempt to spend or commit all the funds available for DSM in a given year, including any increases in the fund balance due to increased sales or other factors. The Company will seek Division or Commission approval of any revisions in accordance with the procedure described above for the May true-up. The parties also agree to review the status of program budgets regularly to assess whether they are likely to come to a successful completion. If not, the parties agree to review the advisability of transferring funds to other programs where the money could be effectively used.

V. Continuation of the Collaborative

The Parties agree that the Collaborative, consisting of the Parties to this Settlement plus any and all Parties identified by the Commission for inclusion, shall meet no less than six times in 2003, including two public forums, to review the status and performance of the Company's 2002 and 2003 DSM programs throughout the year, particularly with respect to performing the duties specified in Section IV.C. above. Second, the Collaborative will provide input to the Company for establishing the format and content of the Company's semi-annual public forums described in Section VI. below. Third, the Collaborative will issue a report to the Commission detailing the results of the semi-annual public forums. Fourth, in 2003, the Parties agree to

review the methodology by which the Company's rebate levels are established. Finally, the Company will review with the Collaborative its proposed 2004 DSM programs, including a proposal for the implementation of so-called performance metrics.³ The Parties will periodically inform the Commission of their progress in developing this proposal. If the Parties are unable to agree on all or part of the Company's 2004 DSM programs, the Company will be free to unilaterally file all or part of its 2004 DSM program proposal for approval by the Commission on or before October 1, 2003.

VI. Public Forum

The Parties agree that the Company will implement in 2003 two public forums for the purpose of both educating interested members of the public about its DSM programs and receiving input about its DSM programs. The Company will publish an agenda for each forum and provide notice to the public. In addition, the Company will provide to the Parties and to the Commission a transcript of each meeting. Finally, the Parties agree to submit a report or reports to the Commission summarizing the content of the forum and proposed actions to address feedback received. The purpose of these public forums will not only be to inform the public, but also to receive feedback to evaluate the effectiveness of the Company's DSM programs.

³ Performance Metrics are defined as performance based incentives, other than the current energy savings method, that can be used to measure the Company's success in implementing measures that reflect other public policy interests in the DSM programs. For example, a performance metric might measure the change in market share achieved under a particular program.

VII. Incentive

Rather than base its incentives on actual expenditures as originally proposed in the Company's direct filing, the Parties agree that the Company will base its incentives on budgeted expenditures. The incentive percentage cap for each sector will be as follows: 5% for Residential Programs, 6% for the Small Business Services Program and 3.5 % for the Large Business Services Program. The Company will not seek any type of bonus incentive above the caps. The threshold level of annual energy savings will be set at 45 percent of the annual kWh savings goal for the sector.

There are three circumstances that would necessitate the recalculation of the threshold, calculated cap, and incentive rate for a particular sector. First, if budgets are adjusted as a consequence of the Company's true-up filing in May 2003 (with Division or Commission approval, as appropriate), the threshold and incentive rate for the affected sectors will be adjusted as would each of the sector's incentive caps. Second, an adjustment will be made at the end of 2003 in the large C&I sector to adjust the threshold, incentive rates, and the sector incentive levels by any change in the spending and commitment budgets from those filed in this Settlement . All uncommitted funds will be considered part of the spending budget for doing this final calculation. Third, if the assumptions used to develop savings goals change as a result of completed evaluation studies, the Company will recalculate savings goals to account for those evaluation findings and will report actual savings on the same basis. In addition, the Parties

agree that, as a condition to restricting recalculation of sector-specific incentive targets in the case of transfers between sector budgets as described in Section IV.B., above, and agreeing to conduct open forums as specified in Section VI. above, all Planning and Evaluation costs, except those associated with the Home Energy Management Program, will be included in the calculation of the incentive. Any transfers of funds to or from evaluation activities will be made in accordance with Section IV. B. of this Settlement. An updated calculation of shareholder incentives as amended by this Settlement is provided in Attachment 5.

VIII. Miscellaneous

A. Cost-Effectiveness

The Parties agree not to change the cost-effectiveness analysis except to include non-electricity resource savings in the current cost-effectiveness test. An update to reflect the agreed 2003 cost effectiveness analysis and goals of this Settlement is provided in Attachment 6.

B. Reporting Requirements

The Company will make reports to the Division and the Commission on the most currently available program performance at the regularly scheduled Collaborative meetings. The Company will provide to the Parties a summary of evaluation results along with a memo summarizing the impact of those results on Narragansett's programs no later than early September 2003. The Company will provide to the Parties and file with the Commission its 2002 Year-End Report no later than May 1, 2003.

C. Miscellaneous Provisions

1. Other than as expressly stated herein, this Settlement establishes no principles and shall not be deemed to foreclose any Party from making any contention in any future proceeding or investigation.
2. This Settlement is the product of settlement negotiations. The content of those negotiations is privileged and all offers of settlement shall be without prejudice to the position of any Party.
3. This Settlement is submitted on the condition that it be approved in full by the Commission, and on further condition that if the Commission does not approve the Settlement in its entirety, the Settlement shall be deemed withdrawn and shall not constitute a part of the record in any proceeding or used for any purpose.
4. Other than as expressly stated herein, the approval of this Settlement by the Commission shall not in any respect constitute a determination as to the merits of any issue in any other proceeding.
5. For all matters brought before the Collaborative, the Parties intent is to make unanimous decisions. In some cases in this Settlement, however, such as fund transfer, only Division approval of a proposal is required. In the event that the Parties do not reach a unanimous decision on a matter requiring Division approval, and the Division approves a Company proposal that TEC-RI does not

support, TEC-RI shall have the right to appeal the Division's approval to the Commission.

The Parties respectfully request the Commission approve this Stipulation as a final resolution of all issues in this proceeding.

Dated as of this 17th day of December, 2002.

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY

Terry L. Schwennesen, Esq.

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ATTACHMENT 1
THE NARRAGANSETT ELECTRIC COMPANY

Revised 2002 Start of Period Fund Balance

1	2002 Start of Period Fund Balance	\$11,151,397
2	2001 Incentive	<u> \$0</u>
3	Revised 2002 Start of Period Fund Balance	\$11,151,397

Notes:

- 1 As filed in the 2001 Year End Fund Balance, April 2002.

- 3 Line 1 + Line 2

PREPARED BY: J. Lloyd
 Date: 16-Dec-02

**ATTACHMENT 1
 THE NARRAGANSETT ELECTRIC COMPANY
 DEMAND - SIDE MANAGEMENT ANALYSIS OF 2002 FUND BALANCE**

7 Months Actual , 5 Months Estimated 2002

FIRST HALF 2002 - Total C&LM Revenue/Expense for Jan-June 2002

	<u>Actual JAN</u>	<u>Actual FEB</u>	<u>Actual MAR</u>	<u>Actual APRIL</u>	<u>Actual MAY</u>	<u>Actual JUNE</u>	<u>6MTHS Y.T.D</u>
1. DSM Factor Revenue	\$1,512,193	\$1,442,097	\$1,304,781	\$1,303,370	\$1,243,886	\$1,298,253	\$8,104,579
1a. Leasing Revenues	\$19,375	\$18,762	\$0	\$0	\$0	\$0	\$38,137
2. <u>Customer Co-Payments</u>	<u>\$80,644</u>	<u>\$77,951</u>	<u>\$65,714</u>	<u>\$58,088</u>	<u>\$55,281</u>	<u>\$61,856</u>	<u>\$399,534</u>
3. Total Revenue	\$1,612,212	\$1,538,810	\$1,370,495	\$1,361,457	\$1,299,167	\$1,360,108	\$8,542,250
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4. Total Expenses	\$541,177	\$1,227,809	\$1,698,106	\$1,232,206	\$1,353,723	\$1,175,888	\$7,228,909
5. DSM Incentive	\$0	\$0	\$0	\$0	\$0	\$0	\$0
6. Cash Flow Over/(Under)	\$1,071,035	\$311,001	(\$327,611)	\$129,251	(\$54,556)	\$184,220	\$1,313,341
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7. Start of Period Balance	\$11,151,397	\$12,268,693	\$12,628,873	\$12,350,603	\$12,528,998	\$12,523,928	\$11,151,397
8. End of Period Balance Before Interest	\$12,222,432	\$12,579,694	\$12,301,262	\$12,479,854	\$12,474,442	\$12,708,149	\$12,464,738
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9. Approximate Interest on Fund	\$46,261	\$49,179	\$49,341	\$49,144	\$49,486	\$49,938	\$293,349
10. End of Period Balance After Interest	\$12,268,693	\$12,628,873	\$12,350,603	\$12,528,998	\$12,523,928	\$12,758,087	\$12,758,087

Line 1: Applicable kWh Sales x \$0.00230 per kWh (factor does not include any Gross Earnings Tax)

Line 1a: Lease payments from other utilities for use of programs

Line 2: Customer payments less Gross Earnings Tax.
 (Customer co-payments from Small C&I and Technical Assistance programs)

Line 3: Line 1 + Line 1a + Line 2

Line 4: Source DSM Evaluation and Planning. Expenses include spending on Renewable Energy Projects and Evaluation Costs.

Line 5: Estimated 2002 Incentive

Line 6: Line 3 - (Line 4 + Line 5)

Line 7: Line 10 of Previous Month
 January Start of Period Balance: 2001 Year End Balance as filed in April 2001.

Line 8: Line 6 + Line 7

Line 9: Interest Rates: Jan. = 4.75% Feb. = 4.75% Mar. = 4.75% Apr. = 4.75%
 May = 4.75% Jun. = 4.75% Jul. = 4.75% Aug. = 4.75% Sep. = 4.75%
 Oct. = 4.75% Nov. = 4.75% Dec. = 4.75%

Line 10: Line 8 + Line 9

Date: 16-Dec-02

**ATTACHMENT 1
 THE NARRAGANSETT ELECTRIC COMPANY
 DEMAND - SIDE MANAGEMENT ANALYSIS OF 2002 FUND BALANCE**

7 Months Actual , 5 Months Estimated 2002

SECOND HALF 2002 - Total C&LM Revenue/Expense for July-December 2002

	<u>Actual JULY</u>	<u>Estimated AUG</u>	<u>Estimated SEPT</u>	<u>Estimated OCT</u>	<u>Estimated NOV</u>	<u>Estimated DEC</u>	<u>ANNUAL TOTAL</u>
1. DSM Factor Revenue	\$1,516,927	\$1,565,302	\$1,465,551	\$1,302,168	\$1,378,586	\$1,504,485	\$16,837,597
1a. Leasing Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$38,137
2. Customer Co-Payments	\$45,571	\$70,979	\$88,724	\$118,299	\$27,192	\$38,717	\$789,015
3. Total Revenue	\$1,562,498	\$1,636,281	\$1,554,275	\$1,420,467	\$1,405,778	\$1,543,202	\$17,664,749
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4. Total Expenses	\$1,909,556	\$1,472,668	\$1,731,780	\$1,922,328	\$1,863,736	\$2,413,230	\$18,542,207
5. DSM Incentive	\$0	\$0	\$0	\$0	\$0	\$705,600	\$705,600
6. Cash Flow Over/(Under)	(\$347,058)	\$163,613	(\$177,505)	(\$501,861)	(\$457,958)	(\$1,575,628)	(\$1,583,058)
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7. Start of Period Balance	\$12,758,087	\$12,460,842	\$12,674,103	\$12,546,415	\$12,093,223	\$11,682,228	\$11,151,397
8. End of Period Balance Before Interest	\$12,411,028	\$12,624,455	\$12,496,598	\$12,044,553	\$11,635,265	\$10,106,600	\$9,568,339
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9. Approximate Interest on Fund	\$49,814	\$49,648	\$49,817	\$48,670	\$46,963	\$43,124	\$581,385
10. End of Period Balance After Interest	\$12,460,842	\$12,674,103	\$12,546,415	\$12,093,223	\$11,682,228	\$10,149,724	\$10,149,724
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11. Year-end Commitments for Design 2000 & Energy Initiative							\$6,150,000
11a. Year-end Commitments for Renewable Energy							\$3,789,018
12 FUND BALANCE AT YEAR-END							\$210,706

Line 1: Applicable kWh Sales x \$0.00230 per kWh (factor does not include any Gross Earnings Tax)

Line 1a: Lease payments from other utilities for use of programs

Line 2: Customer payments less Gross Earnings Tax.

(Customer co-payments from Small C&I and Technical Assistance programs)

Line 3: Line 1 + Line 1a + Line 2

Line 4: Source DSM Evaluation and Planning. Expenses include spending on Renewable Energy Projects and Evaluation Costs.

Line 5: Estimated 2002 Incentive

Line 6: Line 3 - (Line 4 + Line 5)

Line 7: Line 10 of Previous Month

January Start of Period Balance: 2001 Year End Balance as filed in April 2001.

Line 8: Line 6 + Line 7

Line 9: Interest Rates:	Jan. = 4.75%	Feb. = 4.75%	Mar. = 4.75%	Apr. = 4.75%
	May = 4.75%	Jun. = 4.75%	Jul. = 4.75%	Sep. = 4.75%
	Oct. = 4.75%	Nov. = 4.75%	Dec. = 4.75%	

Line 10: Line 8 + Line 9

Line 11: Per the DSM database

Line 11a: Per the DSM database

Line 12: Line 10 - Line 11 - Line 11a

I. Summary of Proposed Changes to Energy Initiative (EI) and Design 2000 Plus (D2) Programs for 2003

Lighting:

Fluorescent Fixtures	<ol style="list-style-type: none"> 1. Add Tandem Wired Energy Conservation Measure (ECM) for pairs of fixtures with a total of 4 lamps and a single tandem wired ballast. (A group of 3 or 4 fixtures tandem wired with 1 ballast would also be eligible). Code 11: \$24 EI incentive only 2. Add High efficiency T-8 lamps and ballast combination Code 12: for EI, \$5 per ballast and is applied in addition to the incentive for all other fluorescent product codes. Code 12: for D2, \$5 per ballast and is applied in addition to the incentive for all other fluorescent product codes. Product Code 10, which offers an incentive of \$10 per fixture for high efficiency T-8 lamp and ballast will still be available to <50 kW customers.
LED Traffic Light Fixtures	<ol style="list-style-type: none"> 1. Add flashing amber traffic light retrofit. Code 27: for EI, \$90 per lamp. 2. Remove LED traffic signal ECM's from D2 applications, and have all LED traffic signal projects use EI applications for incentives.
High Bay/ Low Bay Fluorescent Fixtures (also called "high intensity fluorescent" or "HIF")	<p>Increase high intensity fluorescent fixture incentives for D2</p> <ol style="list-style-type: none"> 1. Code 56: for D2 increase incentive from \$22 to \$30 per unit 2. Code 57: for D2 increase incentive from \$30 to \$40 per unit
Exterior Lighting Retro-fits	Pulse Start MH or HPS retrofits or replacements for exterior fixtures will no longer be allowed, as they do not pass company program B/C test. Exterior lighting may be considered under Custom approach, to determine if cost effective for particular projects.
Specialty Lighting	<p>Decrease incentive for metal halide track lighting</p> <p>Code 70: for EI decrease incentive from \$110 to \$90 per fixture Code 70: for D2 decrease incentive from \$140 to \$130 per fixture</p>
D2 Occupancy Sensors	Due to changes in State Energy Codes, occupancy sensors will not be eligible for New Construction or Major Renovations.
Controls for HID/HIF Lighting Fixtures	<p>Decrease incentive for occupancy controlled ON/OFF for high intensity fluorescent (HIF) and high intensity discharge (HID) fixtures</p> <ol style="list-style-type: none"> 1. Code 68: for both EI and D2 decrease the incentive from \$90 to \$60 per control

Custom Worksheet

General (Energy Initiative only)	Maximum eligible incentive reduced from 50% of total measure cost to 45% (10% reduction in the incentive)
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II. Summary of Proposed Changes to the Small Business Services Program for 2003

The following measures will be added:

Domestic Hot Water Pump Time Clock	This measure proposes to install a time clock to turn off the domestic hot water circulating pump during unoccupied hours. The pump would be turned on shortly before scheduled occupancy to warm the distribution piping.
Efficient Evaporator Fan Motors	The measure will replace existing shaded-pole evaporator fan assemblies in walk-in coolers and freezers with unitary fan assemblies containing efficient motors.
Condensate Evaporators	This measure is aimed at retrofitting electrically heated condensate evaporators in roll-in refrigerators and coolers with models having condensate level controls on the heating element. The heaters are used to boil off collected condensate.
Automatic Door Closers on Walk-in Equipment	This measure proposes to install automatic door closers on walk-in cooler and freezer doors that do not close automatically.

ATTACHMENT 3
The Narragansett Electric Company
DSM Funding Sources in 2003 by Sector

Projected kWh Sales:	
Residential	2,728,290,360
Small Commercial & Industrial	1,314,375,741
Large Commercial & Industrial ²	<u>3,453,165,785</u>
Total	7,495,831,886
DSM Revenue per kWh:	\$0.002
Projected DSM Revenues (\$000's)	
Residential	\$5,500.0
Small Commercial & Industrial	\$2,600.0
Large Commercial & Industrial	<u>\$6,900.0</u>
Total	\$15,000.0
Other Sources of DSM Revenues (\$000's)¹:	
Projected Large C&I Program Leasing Revenues - 2003	\$14.0
Projected DSM Fund Balance Interest in 2003	\$576.0
Residential	\$218.9
Small C&I	\$103.7
Large C&I	\$253.4
Projected Co-payments by Customers in 2003	\$756.0
Residential	\$0.0
Small C&I	\$716.0
Large C&I	\$40.0
Projected DSM Commitments in 2002	\$6,150.0
Residential	\$0.0
Small C&I	\$0.0
Large C&I	\$6,150.0
Projected 2002 Fund Balance	\$210.7
Residential	<u>\$141.2</u>
Small C&I	<u>\$115.9</u>
Large C&I	<u>(\$46.4)</u>
Subtotal - Other Sources	\$7,706.7
Total Funding Available in 2003³	\$22,706.7
Residential	\$5,860.1
Small C&I	\$3,535.6
Large C&I	\$13,311.1

Notes:

1 The projected renewables fund balance is not included here. The Company anticipates turning those funds over to the State Energy Office who will be responsible for administering the renewables funds beginning in 2003.

2 Includes projected kWh by large C&I customers as well as projected streetlighting sales.

3 Because of a spreadsheet error, Total Funding Available in 2003 shown on Schedule TFH-2 of Mr. Horan's testimony was understated by the \$14,000 shown for Projected Program Total Leasing Revenues - 2003. As a result, the proposed 2003 budget was also understated by \$14,000. The Company proposes to make this \$14,000 available to support the State Energy Office in its efforts to develop renewable energy resources in RI.

NARRAGANSETT ELECTRIC COMPANY**2003 Proposed Settlement Budget**

	PAYROLL (\$000)	EXPENSE (\$000)	ADVERTISING (\$000)	TOTAL (\$000)
RESIDENTIAL PROGRAMS				
IN-HOME SERVICES				
Energy Wise	\$27.7	\$2,322.3	\$5.0	\$2,355.0
Appliance Management Program (Low Income)	\$19.1	\$927.9	\$5.0	\$952.0
Home Energy Management	\$3.8	\$155.5	\$0.0	\$159.4
ENERGY EFFICIENT PRODUCTS				
Energy Star Products	\$17.4	\$301.2	\$130.0	\$448.6
Energy Star Heating System	\$6.3	\$131.9	\$20.0	\$158.2
Energy Star HVAC	\$12.7	\$174.7	\$58.5	\$245.8
Energy Star Lighting	\$19.1	\$949.5	\$200.0	\$1,168.6
INFORMATION & EDUCATION				
Energy Efficiency Educational Programs	\$6.3	\$100.6	\$0.0	\$106.9
NEW CONSTRUCTION				
Energy Star New Construction	\$22.3	\$449.0	\$50.0	\$521.3
Subtotal Residential	\$134.8	\$5,512.5	\$468.5	\$6,115.8
C&I PROGRAMS				
LARGE C&I PROGRAMS (1)				
Design 2000plus	\$414.0	\$4,983.5	\$16.9	\$5,414.4
Energy Initiative	\$411.7	\$6,969.2	\$10.0	\$7,390.9
SMALL C&I PROGRAMS				
Small Business	\$28.7	\$2,658.5	\$12.0	\$2,699.2
Subtotal C&I	\$854.4	\$14,611.2	\$38.9	\$15,504.5
Total Res and C&I Programs	\$989.2	\$20,123.6	\$507.4	\$21,620.3
OTHER DSM EXPENSE ITEMS				
Company Incentive	\$0.0	\$684.5	\$0.0	\$684.5
Renewables Support	\$0.0	\$0.0	\$0.0	\$0.0
Load Response Program	\$0.0	\$25.9	\$0.0	\$25.9
Program Design, Evaluation & Planning	\$114.8	\$261.2	\$0.0	\$376.0
Subtotal Other Items	\$114.8	\$971.6	\$0.0	\$1,086.4
TOTAL DSM BUDGET	\$1,104.0	\$21,095.3	\$507.4	\$22,706.7

1) Includes commitments for Design 2000plus and Energy Initiative of \$2,100,000 and \$3,550,000, respectively.

NARRAGANSETT ELECTRIC COMPANY**Comparison of 2003 Proposed Settlement Budget to Originally Filed 2003 Budget**

	SETTLEMENT (\$000)	ORIGINAL (\$000)	DIFFERENCE (\$000)
RESIDENTIAL PROGRAMS			
IN-HOME SERVICES			
Energy Wise	\$2,355.0	\$2,505.0	(\$150.0)
Appliance Management Program (Low Income)	\$952.0	\$952.0	\$0.0
Home Energy Management	\$159.4	\$159.4	\$0.0
ENERGY EFFICIENT PRODUCTS			
Energy Star Products	\$448.6	\$398.6	\$50.0
Energy Star Heating System	\$158.2	\$158.2	\$0.0
Energy Star HVAC	\$245.8	\$245.8	\$0.0
Energy Star Lighting	\$1,168.6	\$918.6	\$250.0
INFORMATION & EDUCATION			
Energy Efficiency Educational Programs	\$106.9	\$106.9	\$0.0
NEW CONSTRUCTION			
Energy Star New Construction	\$521.3	\$512.0	\$9.3
Subtotal Residential	\$6,115.8	\$5,956.5	\$159.3
C&I PROGRAMS			
LARGE C&I PROGRAMS (1)			
Design 2000plus	\$5,414.4	\$5,614.4	(\$200.0)
Energy Initiative	\$7,390.9	\$7,690.9	(\$300.0)
SMALL C&I PROGRAMS			
Small Business	\$2,699.2	\$2,349.2	\$350.0
Subtotal C&I	\$15,504.5	\$15,654.5	(\$150.0)
Total Res and C&I Programs	\$21,620.3	\$21,611.0	\$9.3
OTHER DSM EXPENSE ITEMS			
Company Incentive	\$684.5	\$679.8	\$4.7
Renewables Support	\$0.0	\$0.0	\$0.0
Load Response Program	\$25.9	\$25.9	\$0.0
Program Design, Evaluation & Planning	\$376.0	\$375.9	\$0.1
Subtotal Other Items	\$1,086.4	\$1,081.6	\$4.8
TOTAL DSM BUDGET	\$22,706.7	\$22,692.7	\$14.0

1) Commitments for Design 2000plus and Energy Initiative in the Original filing of \$2,300,000 and \$3,850,000 were changed for the Settlement to \$2,100,000 and \$3,550,000 respectively.

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3463
Attachment 5

Calculation of Target Shareholder Incentives Under Proposed Settlement

<u>Sector</u>	(1) Spending <u>Budget</u>	(2) Incentive <u>Rate</u>	(3) Target <u>Incentive</u>	(4) Savings Goal <u>(Annual kWh)</u>	(5) Threshold Savings <u>(Annual kWh)</u>	(6) Above Threshold <u>kWh</u>	(7) Incentive Per Above Threshold <u>kWh</u>
Residential	\$6,142,561	5.0%	\$307,128	12,452,223	5,603,500	6,848,723	\$0.0448
Small Commercial & Industrial	\$2,000,051	6.0%	\$120,003	4,724,796	2,126,158	2,598,638	\$0.0462
Large Commercial & Industrial	<u>\$7,354,117</u>	3.5%	<u>\$257,394</u>	<u>25,297,189</u>	11,383,735	13,913,454	\$0.0185
Total	\$15,496,729		\$684,525	42,474,209			

- Column 1: Equal to the sector spending budget plus an allocated share of "other" expenses. Expenses associated with the Home Energy Management Program, Renewables Support, Design 2000plus Commitments of \$2,100,000, Energy Initiative commitments of \$3,550,000, and Small Business Copays of \$716,000 are excluded.
- Column 2: Incentive rates as supported by the Company and the Division at the December 9, 2002 hearing.
- Column 3: Column 1 x Column 2.
- Column 4: Annual kWh savings for all program efforts applicable to the sector. See Attachment 6 page 3 of 3.
- Column 5: 45% of Column 4.
- Column 6: Column 4 - Column 5.
- Column 7: Column 3/Column 6.

Calculation of 2003 Program Year Cost-Effectiveness and Goals Under Proposed Settlement

2003 RI BENEFIT COST TEST

Summary of Benefit, Expenses, Evaluation Costs (\$000)

Narragansett Electric Company

	Rhode Island Benefit/ Cost (2)	Rhode Island Benefit Total	Program Implementation Expenses	Customer Contribution	Customer Costs from Spillover	Evaluation Cost	Shareholder Incentive (3)
Large Commercial/ Industrial							
Design 2000plus	2.84	\$9,668.1	\$3,314.4	N/A	N/A	\$91.4	NA
Energy Initiative	3.95	15,407.7	3,840.9	N/A	N/A	62.4	NA
SUBTOTAL	3.31	\$25,075.9	\$7,155.3	N/A	N/A	\$153.8	\$257.4

Small Commercial/ Industrial

Small Business (1)	2.35	\$5,065.4	\$2,138.9	N/A	N/A	\$16.9	NA
SUBTOTAL	2.23	\$5,065.4	\$2,138.9	N/A	N/A	\$16.9	\$120.0

Residential Programs

IN-HOME	1.24	\$4,324.2	\$3,466.4	N/A	N/A	\$13.9	NA
Appliance Management Program	1.21	1,154.9	952.0	N/A	N/A	0.0	NA
Energy Wise	1.21	2,863.3	2,355.0	N/A	N/A	13.8	NA
Home Energy Management	1.92	306.0	159.4	N/A	N/A	0.1	NA
PRODUCTS	2.59	\$5,529.9	\$2,021.2	N/A	N/A	\$117.4	NA
Energy Star Appliances	3.22	1,583.4	448.6	N/A	N/A	43.5	NA
Energy Star Lighting	2.88	3,578.1	1,168.6	N/A	N/A	73.9	NA
Energy Star Heating System	1.18	186.8	158.2	N/A	N/A	0.0	NA
Energy Star Air Conditioning	0.74	181.6	245.8	N/A	N/A	0.0	NA
NEW CONSTRUCTION	2.53	\$1,409.6	\$521.3	N/A	N/A	\$36.9	NA
SUBTOTAL	1.74	\$11,263.8	\$6,008.9	N/A	N/A	\$168.2	\$307.1

Other

NEED Program	NA	NA	106.9	NA	NA	NA	NA
Load Response	NA	NA	25.9	NA	NA	NA	NA
Renewables Support	NA	NA	0.0			NA	NA
Other Program Design, Evaluation and Planning	NA	NA	NA	NA	NA	37.1	NA
SUBTOTAL	NA	NA	\$132.8	NA	NA	\$37.1	NA

TOTAL	2.51	\$41,405.1	\$15,436.0	N/A	N/A	\$376.0	\$684.5
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- (1) Small Business program expenses are net of the projected customer co-pay for 2003 installations (\$560,211).
- (2) RI B/C Test = (Energy + Capacity + MDC + Participant Resource Benefits) / (Program Implementation + Evaluation Costs + Shareholder Incentive)
- (3) Incentives earned for the three program sectors have been allocated by program spending (implementation + evaluation expenses).

Calculation of 2003 Program Year Cost-Effectiveness and Goals Under Proposed Settlement

Summary of 2003 Expenses, Benefit, kW, and kWh by Program for RI Benefit/Cost Test

Narragansett Electric Company

Large Commercial/ Industrial	Program Imp Expenses (000's)	Benefit (000's)						Load Reduction in kW				MWh Saved	
		Total	Capacity	On Peak	Off Peak	MDC	Participant Resource	Maximum Annual	Summer	Winter	Lifetime	Maximum Annual	Lifetime
Design 2000plus	\$3,314	\$9,668	\$1,995	\$3,989	\$2,514	\$1,171	\$0	2,228	1,785	1,275	35,930	10,458	161,408
Energy Initiative	3,841	15,408	3,473	6,297	3,581	2,056	\$0	3,288	2,851	2,265	57,306	14,839	242,070
SUBTOTAL	\$7,155	\$25,076	\$5,468	\$10,286	\$6,094	\$3,227	0	5,515	4,636	3,540	93,236	25,297	403,478

Small Commercial/ Industrial

Small Business (1)	\$2,139	\$5,065	\$1,344	\$2,157	\$779	\$786	\$0	1,553	1,396	895	21,089	4,725	65,475
SUBTOTAL	\$2,139	\$5,065	\$1,344	\$2,157	\$779	\$786	\$0	1,553	1,396	895	21,089	4,725	65,475

Residential Programs

IN-HOME	\$3,466	\$4,324	\$704	\$1,077	\$1,017	\$721	\$805	3,455	1,873	3,454	12,797	4,138	50,304
Appliance Management Program	952	1,155	124	247	232	113	\$439	130	96	129	1,864	849	12,212
Energy Wise	2,355	2,863	447	830	785	436	365	707	285	707	8,314	3,289	38,092
Home Energy Management	159	306	133	0	0	173	0	2,618	1,492	2,618	2,618	0	0
PRODUCTS	\$2,021	\$5,530	\$850	\$1,290	\$1,258	\$860	\$1,272	2,483	592	2,263	20,358	8,173	64,363
Energy Star Appliances	449	1,583	144	121	114	115	1,089	184	184	60	2,325	417	5,774
Energy Star Lighting	1,169	3,578	622	1,146	1,124	685	0	2,201	312	2,201	16,262	7,696	57,515
Energy Star Heating System	158	187	1	1	1	1	182	2	0	2	30	4	60
Energy Star Air Conditioning	246	182	83	21	19	59	0	97	97	0	1,742	56	1,014
NEW CONSTRUCTION	\$521	\$1,410	\$108	\$59	\$54	\$94	\$1,095	108	90	33	2,543	141	2,925
SUBTOTAL	\$6,009	\$11,264	\$1,554	\$2,426	\$2,330	\$1,675	\$3,171	6,046	2,556	5,751	35,698	12,452	117,593
TOTAL	\$15,303	\$41,405	\$8,366	\$14,869	\$9,203	\$5,688	\$3,171	13,115	8,587	10,186	150,023	42,474	586,546

(1) Small Business program expenses are net of the projected customer co-pay for 2003 installations (\$560,211).

**Calculation of 2003 Program Year Cost-
Effectiveness and Goals Under Proposed
Settlement**

PROGRAM GOALS

<u>Program</u>	<u>Annual Energy Savings (MWh)</u>
Large Commercial/ Industrial	
Design 2000 <i>plus</i>	10,458
Energy Initiative	<u>14,839</u>
SUBTOTAL	25,297
Small Commercial/ Industrial	
Small Business (1)	<u>4,725</u>
SUBTOTAL	4,725
Residential Programs	
<i>IN-HOME</i>	
Appliance Management Program	849
Energy Wise	3,289
Home Energy Management	0
<i>PRODUCTS</i>	
Energy Star Appliances	417
Energy Star Lighting	7,696
Energy Star Heating System	4
Energy Star Air Conditioning	56
<i>NEW CONSTRUCTION</i>	
	<u>141</u>
SUBTOTAL	12,452
TOTAL	42,474