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September 17, 2004

***VIA ELECTRONIC MAIL AND FIRST CLASS MAIL***

Luly E. Massaro  
Commission Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick RI 02888

*Re: Narragansett Electric Company: Comprehensive Distribution Rate  
Settlement -- Docket No. 3617*

Dear Ms. Massaro:

People's Power & Light ("PP&L") submits this statement (the "Statement") in support of the Amended Stipulation and Settlement (the "Amended Settlement") filed today by Narragansett Electric Company ("Narragansett") in the above-captioned proceeding. PP&L is pleased to report that it is a party to the Amended Settlement and appreciates the flexibility of the Commission in allowing PP&L additional time to devote its resources to active, constructive and ultimately successful negotiations. Any capitalized term not defined in this Statement shall have the meaning assigned to such term in the Amended Settlement.

PP&L seeks to reduce the negative environmental and economic impacts of energy in Rhode Island. PP&L especially seeks to reduce the economic burden of energy on the state's low-income residents. To these ends, by way of example, PP&L offers an electricity option that enables residents to source their electricity from renewable sources. PP&L also operate a heating oil buyers' group that enables any heating oil user to reduce its oil costs, and provides emergency oil deliveries to low-income consumers.

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PP&L intervened in this proceeding because the Distribution Rate Plan Stipulation and Settlement (the “Original Settlement”) filed on June 29, 2004 did not adequately protect low-income customers and did not appropriately treat on-site, “behind the meter” renewable energy generation. As a result of negotiations with Narragansett and the other parties to the Original Settlement, amendments have been made, and PP&L is now satisfied that these issues have been addressed adequately in the context of a negotiated settlement. Therefore, PP&L respectfully urges the Commission to approve the Amended Settlement as filed.

*Low-income Rate.* PP&L’s principal concern with the design of the A-60 low-income rate as proposed in the Original Settlement was that there was only one discounted block, of up to 500 kWh per month, that applied to all customers regardless of actual need. As a result, the low-income discount was not targeted very efficiently. This would have blunted the protection available to low-income ratepayers who are hardest hit by heating season electric bills, and who are therefore more susceptible to falling off the system and creating increased costs for all ratepayers. The rate design in the Original Settlement also provided limited incentive for conservation, and was simply unfair in some regards. For example, a customer who happened to heat with gas or oil might see his entire electric bill discounted, providing limited incentive for conservation. Meanwhile, a customer in an electrically heated home would of necessity need to use more electricity during the cold months, and would quickly expend the discount available to her no matter how much effort she put into conservation and efficiency.

The low-income rate in the Amended Settlement better targets low-income discounts. Instead of a single discounted block of up to 500 kWh per month, the A-60 rate is now composed of three blocks. The first block provides a 50% discount over the regular residential rate for the first 450 kWh each month. The second block provides a 10% discount for the next 750 kWh in each month (*i.e.*, up to 1200 kWh). The third block – which is in place only during the heating season -- provides a 25% discount for any use over 1200 kWh per month.

This multiple block design will not only better encourage efficiency but also provide continued protection to those hit hardest by electric heating bills. Lowering the level of the first block may encourage more efficiency, but more importantly allows funds to be redirected to the very highest winter time users, who presumably are those that heat with electricity, are financially or legally (if renters) unable to convert from electric heat to another system and are therefore limited in their ability to conserve on a proportionate basis— and ultimately are at greater risk for shutoffs and consequent expenses for all ratepayers.

In addition, for those low-income customers whose involuntarily high usage is attributable to electric water heating, the Amended Settlement also provides that, for those customers, Narragansett will not eliminate the controlled water heater credit but will instead gradually phase out the credit over the Rate Freeze Period.

While the new A-60 rate contained in the Amended Settlement is an improvement over the A-60 rate proposed in the Original Settlement, some of the parties agreed that there is room for further improvement to target the low-income discount in an even more effective manner. At the same time, none of the parties (including PP&L) wanted to delay the implementation of other aspects of the Amended Settlement that are unaffected by decisions concerning the A-60 rate. Accordingly, the Amended Settlement calls for a Low-Income Working Group to begin meeting within approximately 60 days of the Effective Date of the Settlement in order to examine whether benefits to Narragansett's low-income customers can be provided more effectively and efficiently.

*Back-up Rates.* The back-up rates in the Original Settlement provided no exemption for on-site renewable generation, thereby ignoring the potential system and societal benefits from such generation (*e.g.*, reduced environmental impacts, deferral of distribution system upgrades, reduction of localized congestion, increase of system reliability), the need for an increased supply of renewable energy generation to satisfy the renewable portfolio standard contained in 2004 R.I. Public Laws 205 and the similarity of load profile of a customer with on-site renewable generation (which is generally intermittent) and that of a customer without on-site generation.

The Amended Settlement provides for an exemption from back-up rates for customers with on-site renewable generation. In order to guard against unforeseen consequences, the Amended Settlement provides that the exemption will only apply to the first 3 MW of installed nameplate capacity of renewable generation installed in the Narragansett system. Because it is possible that the distribution system can tolerate a higher system cap or that the types of distributed generation eligible for a back-up rate exemption should be narrower or broader, the Amended Settlement calls for Narragansett to participate actively in a DG Working Group that will review data concerning installed distributed generation with the goal of better understanding the costs and benefits of distributed generation. These data will be used by Narragansett and other parties to determine if the above-mentioned cap can be increased. These data will also be used to generate information that may be considered in connection with any proposed discounting of back-up rates pursuant to G.L. § 39-2-1.4(c) (which allows the Commission to permit or require discounted back-up rates "in order to encourage economically efficient cogeneration or small power production projects if it finds these discounts to be in the public interest"). PP&L believes this is a prudent approach to enabling the development of on-site renewable energy projects, and so agreed to the amendments made to the Original Settlement in this regard.

Given the modifications incorporated into the Amended Settlement as described above and outlined in the Amended Settlement, PP&L is satisfied that the settlement has improved protection for low-income ratepayers, and provides more rational treatment for on-site renewable energy generation. The Amended Settlement also contains provisions for later improvements relating to both of these areas. Therefore, PP&L supports the Amended Settlement, and respectfully requests that the Commission approve the Amended Settlement as filed.

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Thank you for your attention to this matter.

Sincerely,

Jonathan S. Klavens  
Counsel to People's Power & Light

cc: Erich Stephens, People's Power & Light (via e-mail and first class mail)  
Carolyn A. Mannis, Esq. (via e-mail and first class mail)  
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