



Laura S. Olton  
General Counsel

March 28, 2005

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket 3635 – 2005 Demand-Side Management Programs  
Performance Metrics – Revised Attachment 7**

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company, the Division of Public Utilities and Carriers, the State Energy Office, the Coalition for Consumer Justice, The Energy Council of Rhode Island, and People's Power and Light (together, the "Parties") are ten copies of a revised Attachment 7 to the Parties' September 30, 2004 Settlement in this proceeding. As indicated in the Settlement, which the Commission approved by Bench Decision on November 29, 2004 and in Commission Order No. 18152, the Parties agreed to provide final goals for each metric by March 31, 2005, with the final goals informed by relevant available year-end 2004 data. The Parties have agreed to the updated performance metrics in this attachment.

Thank you for your attention to this filing. Please contact me if you have any questions concerning this transmittal at (401) 784-7667.

Very truly yours,

Laura S. Olton

Enclosures

cc: Docket 3635 Service List  
RI Collaborative Members (w/attachment)

## **2005 PERFORMANCE METRICS**

### **Introduction**

In 2004, incentivized 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 Company once again proposes performance metrics for five initiatives in 2005. The major structure and delivery for four of the initiatives is not changing from the metrics established in 2004. This reflects the fact that, for many of these initiatives, progress is achieved over time and that it is worthwhile to maintain the focus of program implementation on the policy objective defined by the metric over more than one year. The exception is the creation of a new performance target focusing on the delivery of *EnergyWise* services to special segments of the Residential sector.

The Company proposes the following performance targets for each proposed 2005 metric. The proposed targets reflect current market conditions and will require significant Company effort to achieve desired results. The Parties agree that partial credit will be awarded for performance that does not meet the specific numeric target, in recognition of the Company’s effort and in recognition that Rhode Island consumers benefit from even partial progress toward the metric’s objective. No extra incentive will be awarded for exceeding the numeric target.

The performance level at which partial achievement will be credited is the “threshold”. For those metrics that existed in 2004, the threshold will be equal to final 2004 performance. This provides continuity in the structure of the metric at the same time as creating a clear standard for the Company from which it must improve in order to receive

an incentive. For those metrics that did not exist in 2004, the threshold is developed based on available program data.

The performance level at which the full incentive will be credited is the “target.” The incentive for most metrics will be scaled between the threshold and the target. For the schools metric that does not allow for scaling, the incentive will be credited for incremental levels of performance.

**Residential Metric 1: ENERGY STAR® Homes**

Metric: In 2005, the Company will conduct plans analyses and home ratings and sign ENERGY STAR® builders agreements with new homes built in Rhode Island. It will increase the penetration of signed builders agreements in 2005 by 3 percentage points compared to the penetration achieved in 2004.

Objective: The metric supports market transformation in the construction of new homes by giving an incentive for an increase in market penetration.

Discussion: The chart below provides statistics for ENERGY STAR® homes for RHODE ISLAND in 2001 through 2003.

| ENERGY STAR® HOMES <sup>1</sup> |         |        |         |
|---------------------------------|---------|--------|---------|
| Year                            | Permits | Signed | Percent |
| 2001                            | 2346    | 156    | 6.6%    |
| 2002                            | 2804    | 233    | 8.3%    |
| 2003                            | 2347    | 323    | 13.8%   |
| 2004                            | 2493    | 756    | 30.3%   |

Signing up builders and home buyers to the ENERGY STAR® homes program requires builders to agree to a significant change in their building practices. As seen in the chart,

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<sup>1</sup> Permits for the ENERGY STAR homes includes permits for the entire state, while ENERGY STAR homes signed are just for the Narragansett territory. This is the same for all years in the table and the Company will continue this accounting practice in 2005.

progress continues to be made in market transformation. We attribute the 2004 performance to vendor staff increasing outreach to builders.

For 2005, we propose an increase of 3 percentage points over the penetration achieved in 2004. We do not expect to repeat the quantum jump in performance observed in 2004. We believe a more realistic target is to continue the trend of an annual increase of approximately 3 percentage points, as seen in 2001- 2003.

Partial Performance: The following is proposed for partial achievement toward the target of a 3 percentage point increase in penetration. The incentive for performance between the threshold and the target will be scaled proportionately.

| ENERGY STAR® HOMES |   |           |                |
|--------------------|---|-----------|----------------|
|                    | Penetration %                           | Incentive | % of Incentive |
| Threshold          | 30%<br>(Equal to 2004)                  | \$10,000  | 67%            |
| Target             | 33%<br>(3 percentage points above 2004) | \$15,000  | 100%           |

**Residential Metric 2: EnergyWise Targeting.**

Metric: The Company will actively target the 2,550 customers currently receiving the benefit due to the HEM program that have not previously been served through EnergyWise. The Company will also actively offer EnergyWise services to the approximately 10,200 customers who (a) are not low income, (b) who have previously been shut-off for non-payment over the past three years, and (c) have not previously participated in the EnergyWise program. The Company will serve a total of 100 customers from these two groups.

Objective: This metric supports outreach and delivery of services to segments of the residential customer who have not previously participated in the program and whose economic circumstances—either the loss of the HEM credit or their past shut-off

history—warrant special attention. These customers will benefit from the long term value provided by the *EnergyWise* program.

Discussion: The key issue with this metric is defining the target market and the likely response.

The HEM market is targeted because the Company is proposing to end the HEM program, and 4,000 customers will no longer receive a benefit through the controlled water heating rate. HEM customers are high use customers and have been marketed to in the past and about 1,500 of them have received *EnergyWise* services. However, with the rate credit going away, prior non-participants may be receptive to receiving *EnergyWise* services.

Non low income customers with a history of shut-offs are targeted because the shut-off history indicates some economic hardship. When this history is linked together with a tailored marketing effort, prior non-participants may be receptive to receiving *EnergyWise* services. However, the customer response may be influenced by other factors that outweigh the value of the energy benefits.

Because of the uncertainty in the responsiveness of at-risk customers, and because the Company has already served a good portion of HEM, the Parties agreed to set the target at 100 customers for this metric.

Low income customers (whether or not on HEM) are served by the AMP program instead of *EnergyWise* and therefore not covered by this metric. However, the Company and the SEO will investigate, and if appropriate, implement targeting the AMP program similar to the manner described here by the Company for *EnergyWise*.

Partial Performance: The following is proposed for partial achievement toward the target of 100 customers. The incentive for performance between the threshold and the target will be scaled proportionately.

| ENERGYWISE TARGETING |              |           |                |
|----------------------|--------------|-----------|----------------|
|                      | Participants | Incentive | % of Incentive |
| Threshold            | 60           | \$9,000   | 60%            |
| Target               | 100          | \$15,000  | 100%           |

**C& I Metric 1: Building Operator Training and Certification (BOTC)**

Metric: In 2005, the Company will enroll 25 Rhode Island facility building engineers, technicians, contractors, or operators in the Northeast Energy Efficiency Partnerships - Level 2- O&M training and certification course.

Objective: The metric tracks the BOTC Level 2 training and certification program for building operators to develop skills to maintain building systems and optimize system performance to create safe, healthy, and efficient work environments. It increases customer education and supports market transformation.

Discussion: In 2004, a similar metric targeted the participation of 25 facility professionals working in Rhode Island in Level I BOTC training. With the attainment of this metric, a total of approximately 105 Rhode Island building operations professionals had completed the Level 1 class in the period 2000 through 2004. This critical mass of trained professionals provides the platform to now focus on Level 2 BOTC training. Rhode Island operators have participated in Level 2 training before but it has not been the target of recruitment efforts. Level 2 builds on the training of Level 1 and focuses on maintenance and operation practices to optimize system performance.

Facility professionals who participate in the Level 2 training make a commitment to participate in training given in 8 full day sessions over a protracted 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 recruit the target number of professional building operators to attend these classes.

The target is on the number of Rhode Island participants. The Company will attempt to offer the training in Rhode Island for the convenience of local building operators, but if Rhode Island operators elect to attend the same course offered in Massachusetts, their participation will still count toward the performance metric.

Partial Performance: Based on the size of the pool of potential participants in BOTC training, the following is proposed for partial achievement toward the target of 25 participants.

| BOTC TRAINING LEVEL 2 |              |           |                |
|-----------------------|--------------|-----------|----------------|
|                       | Participants | Incentive | % of Incentive |
| Threshold             | 20           | \$12,000  | 80%            |
| Target                | 25           | \$15,000  | 100%           |

The incentive for performance between the threshold and the target will be scaled proportionately.

### **C&I Metric 2: High Performance Schools**

Metric: The Company will contract with new public or private 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. It shall contract with 2 schools more than it contracted with in 2004.

Objective: This market capitalizes on the window of opportunity available when school facilities are being built or renovated to increase program participation and energy savings. It assists a portion of the municipal sector that faces continuing funding challenges.

Discussion: 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.

According to documents from the Department of Education, on average, funding is approved for approximately 15 public school projects per year. In the period 2001 through 2003, 9 schools, or 20% (of 45 schools), have participated in the Schools Initiative.<sup>2</sup>

In 2004, the Company placed under contract 1 school, indicating the difficulty in recruiting customers to this initiative considering the small number of new schools built each year, the long project development schedules, and the current economic climate, particularly for municipalities. In this context, the Company's proposal to increase this amount by 2 projects in 2005 is a reasonable challenge.

For 2005, the Company will continue to work with the Rhode Island Department of Elementary and Secondary Education to help identify additional participants. The Company has not been able to identify a single source of data that tracks funding of private school construction. Nevertheless, the Company will use the same level of effort to offer the program to private schools as to public schools and include contracts with private schools in the performance metric for 2005.

Partial Performance: Based on historic performance, the small size of the eligible market and the uncertainty about the potential in the private school sector, the following is proposed for partial achievement toward the target increase of 2 schools.

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<sup>2</sup> Some of the approved public school projects 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. These may be for partial facility construction, renovations, or equipment replacement at the end of its useful life. Many of these have received rebates through the Design 2000*plus* program. In fact, 35 schools, or about 78% of the funded public school projects received Design2000*plus* rebates in this period.



| SCHOOLS INITIATIVE |                          |           |                |
|--------------------|--------------------------|-----------|----------------|
| Performance        | Participants             | Incentive | % of Incentive |
| Threshold          | 1 School<br>(2004 level) | \$10,000  | 67%            |
| Intermediate       | 2 Schools<br>(2004 +1)   | \$12,500  | 83%            |
| Target             | 3 Schools<br>(2004 +2)   | \$15,000  | 100%           |

Because of the integer nature of school buildings, the incentive for performance between the threshold and the target will be not scaled proportionately, but will be awarded as shown above.

### **C&I Metric 3: Comprehensiveness in Small Business Installations**

Metric: The Company will achieve 2 percentage points greater comprehensiveness in Small Business Services in 2005 than it achieved in 2004. The percentage will be calculated as the number of completed non prescriptive lighting or other custom energy efficiency applications (excluding custom walk-in cooler applications) divided by the total number of applications (excluding walk-in cooler applications) in 2005.

Objective: This metric continues to encourage the Company to add other electrical efficiency opportunities beyond lighting retrofits to the Small Business Services program. These improvements to program design support more comprehensiveness in customers' facilities and expand the depth and appeal of the program.

Discussion: In 2004, the Parties established a metric target of 5% comprehensiveness, based on the inaugural offering of comprehensive services in 2003. In 2004, the Company completed 30 non-cooler custom projects, 37 cooler projects, and 632 total projects in 2004, yielding a comprehensiveness index of  $30/(632-37) = 5.0\%$ , using the

definition contained in the metric description above<sup>3</sup>. The key factors influencing the delivery of comprehensive services were education of implementation staff to identify non-lighting measures and establishment of effective delivery channels.

The Company proposes to set the target at 2 percentage points greater comprehensiveness in 2005 compared to 2004. The Company believes that good progress has been made in small business comprehensive implementation, but that more progress remains to be made. Although the metric structure is the same as 2004, there are a number of new factors that will affect performance, and will make the 2 percentage point increase a challenge:

- Implementation in 2005 may be affected by the new vendor contracts that are scheduled to take effect on January 1, 2005.
- The increase in the program eligibility ceiling to 200 kW may offer more comprehensive opportunities among the larger, more diverse customers in the 100 kW to 200 kW size range.
- The Company will need to manage the offering of comprehensive services to these larger customers, as larger comprehensive projects will increase pressure on the budget for this sector.
- The Company will exclude from this metric and assessment of its performance toward the target customers in the 100 kW to 200 kW range who participate in the SEO's ESCO program.

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<sup>3</sup> The 2004 metric definition was slightly different. It was calculated as the number of custom measures divided by participant locations, both excluding coolers. Using this formula, the Company achieved 5.2% Comprehensiveness. The difference between the two results is in the counting of participants who completed multiple applications, which results in a smaller denominator in the 2004 formula. In 2005, due to changes in its tracking system, the Company is no longer counting participant locations, but is counting applications and participating account numbers. The Company chose to restate comprehensiveness using application count to make the numerator and denominator consistent and thus make the objective easier to comprehend.

**THE NARRAGANSETT ELECTRIC COMPANY**

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As in 2004, the metric specifies completed projects to put the tracking of comprehensiveness on equal footing with other results that are tracked throughout the years, and to eliminate the potential for counting a comprehensive project in two years.

Walk-in cooler have been excluded from 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 developed and offered for the small business refrigeration end use.

Partial Performance: Based on historic performance, the following is proposed for partial achievement toward the target.

| SBS COMPREHENSIVENESS |  |           |                |
|-----------------------|--|-----------|----------------|
| Performance           | Comprehensiveness %                      | Incentive | % of Incentive |
| Threshold             | 5.0%<br>(Equal to 2004)                  | \$9,000   | 60%            |
| Target                | 7.0%<br>(2 percentage points above 2004) | \$15,000  | 100%           |

The incentive for performance between the threshold and the target will be scaled proportionately.

### Certificate of Service

I hereby certify that a copy of the cover letter and accompanying material(s) have been hand-delivered or sent via U.S. mail to the parties listed below.



**Joanne M. Scanlon**  
The Narragansett Electric Company

March 28, 2005  
Date

**Narragansett Electric Co. – Demand Side Management – Dkt. 3635**  
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