

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S GAS : DOCKET NO. 3790
DEMAND-SIDE MANAGEMENT PROGRAM :
FOR 2007 AND 2008 :

REPORT AND ORDER

In 2006, the State of Rhode Island enacted legislation labeled "The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006."¹ Pursuant to this legislation, specifically R.I.G.L. § 39-2-1.2, each gas distribution company shall include, with the approval of the Rhode Island Public Utilities Commission ("Commission"), a charge of up to 15¢ per decatherm to pay for demand-side management ("DSM") programs, including energy efficiency, energy conservation, and weatherization for low-income households. The charge is effective January 1, 2007 and for a period of seven years.² The gas DSM program is administered by the gas distribution company subject to the regulatory reviewing authority of the Commission.³

On December 1, 2006, National Grid's gas division, ("NGrid") filed with the Commission its gas DSM program and proposed surcharge of 6.3¢ per decatherm. On December 15, 2006, the Division of Public Utilities and Carriers ("Division") filed a memorandum recommending approval of the surcharge filed by NGrid. At an open meeting on December 19, 2006, the Commission approved the surcharge on an interim basis, pending further review of NGrid DSM program, in order to comply with the January 1, 2007 effective date mandated by R.I.G.L. § 39-2-1.2(d).

¹ P.L. 2006, ch. 236 and P.L. 2006, ch. 237. For purposes of this Order, this legislation will be referred to simply as the "Act."

² R.I.G.L. § 39-2-1.2(d).

³ R.I.G.L. § 39-2-1.2(e).

I. NGRID'S DECEMBER 1, 2006 FILING

On December 1, 2006, NGrid submitted the pre-filed testimonies of Peter Czekanski, a Principal Analyst for NGrid, and Bruce Johnson, Director of KeySpan's Energy Management Department and a consultant to NGrid for this proceeding. Mr. Czekanski stated that NGrid's proposed DSM program is modeled after KeySpan's DSM programs in Massachusetts and New Hampshire. The funding of the proposed DSM programs in 2007 is \$2.8 million. By February 1, 2007, the final DSM program will be filed, which will include specific budgets, benefit/cost analysis, proposed goals, shareholder incentive mechanism and reporting requirements. Mr. Czekanski explained that the current proposal would not replace NGrid's existing gas DSM program. Instead, the existing gas DSM program will be maintained during the ramping up of the proposed gas DSM program. As soon as the proposed gas DSM program is implemented, the existing DSM rebates would be replaced. The funding of \$2.8 million for 2007 also includes \$500,000 currently in base rates for DSM and low-income weatherization.

The 6.3¢ per decatherm surcharge will apply to all firm and non-firm throughput. Mr. Czekanski noted that the law allows an exception to this surcharge for any gas used for distributed generation or used by a customer with a self-directed energy efficiency program in accordance with a plan approved by the Commission. Mr. Czekanski recommended that the implementation of this aspect of the law be taken up in a separate docket and that the surcharge be charged to all customers. The surcharge of 6.3¢ per decatherm will cost \$6.51 annually for a typical residential heating customer using 1,035 therms.⁴

⁴ NGrid Ex. 1A (Czekanski's direct testimony), pp. 4-9.

NGrid has proposed the following programs: *EnergyWise Program*, Internet Audit Program, High Efficiency Heating Program, High-Efficiency Water Heating Program, ENERGY STAR Programmable Thermostat Program, ENERGY STAR Replacement Windows Program, New Construction and ENERGY STAR Homes Program, Single Family Low-Income Services Program, and Building Practices and Demonstration Program. For multifamily, commercial and industrial customers, NGrid proposed the following programs: Business Energy Analyses Internet Audit Program, Energy Audit and Engineering Services Program, Commercial Energy Efficiency Program, Commercial High-Efficiency Heating Program, Economic Redevelopment Program, Emerald Network Program, Building Practices and Demonstration Program, and Trade Ally Training Program. For residential customers, NGrid is offering six new gas energy efficiency programs, some of which are sponsored by Gas Networks, and to combine these efforts with NGrid's existing electric energy efficiency programs. For commercial and industrial customers, NGrid is offering seven new energy efficiency programs, some of which are sponsored by Gas Networks, and to combine these efforts to NGrid's existing electric energy efficiency programs.

Mr. Johnson explained that Gas Networks is a regional collaborative of natural gas distribution companies that coordinate natural gas energy efficiency programs throughout Maine, Massachusetts and New Hampshire. Gas Networks allows each participating company to offer regional programs at a lower overall cost to its customers. Mr. Johnson stated that the purpose of the gas DSM program is to encourage the most

efficient use of natural gas. Also, NGrid will leverage its experience in creating program awareness in its electric programs to ensure success with the proposed gas programs.⁵

II. NGRID'S SUPPLEMENTAL FILING

On January 29, 2007, NGrid submitted the pre-filed supplemental testimony of Bruce Johnson. Mr. Johnson stated the new gas DSM program will include funding for the Smart Growth program, which is NGrid's existing gas DSM program. The Smart Growth program is designed to promote the demand for natural gas during non-peak months of the year, which occurs in the late spring, summer and early fall. The promotion of the use of gas during non-peak periods lowers the average unit cost of gas supply services to all firm and non-firm customers. Thus, the Smart Growth program is based upon customers adding natural gas load during off-peak periods rather than reducing load through conservative efforts. The Commission authorized this program in 1996, and NGrid intends to continue this program as part of its new gas energy efficiency efforts.

In developing the DSM budget, NGrid attempted to align program budgets by sector, residential or commercial and industrial, with the sources of funding coming from each sector. Also, NGrid attempted to provide a balance between services for existing customers and services related to new construction or new equipment purchases. In addition, NGrid indicated that it needed flexibility in managing its proposed gas DSM program, especially during its implementation phase. Thus, NGrid requested permission to transfer funds from one program to another in the same sector without prior approval from the Commission. However, NGrid would seek Commission approval if NGrid

⁵ NGrid Ex. 1B (Johnson's direct testimony), pp. 2-8.

transfers funds from one sector to another if the transfer results in a change of funding within the sector greater than 20 percent of the approved sector budget.⁶

Mr. Johnson indicated that NGrid will coordinate its gas energy efficiency program with its current electric energy efficiency programs. For residential programs, NGrid will add gas incentives for the *Energy Wise* Program currently offered as part of the electric programs. The ENERGY STAR Homes program already offers incentives for gas heated new homes and those will continue. The Single Family Low Income Program will continue to provide funding to support weatherization. Also, the new ENERGY Star Gas Networks rebates for heating equipment, water heaters, thermostats, and replacement windows will be offered to customers. For commercial and industrial programs, there will be coordination with the current Technical Assistance Program for electric customers, and proposed Energy Audit and Engineering Services Programs for natural gas customers. Specifically, as part of the Gas High Efficiency Heating Program, NGrid will offer a \$400 incentive for high efficiency furnaces, which are 92% AFUE, with ECM motors. This program encompasses both gas and electric efforts. As a result, \$200 of the funding for this particular incentive will come from NGrid's electric energy efficiency programs which were approved by the Commission in NGrid's electric DSM program for 2007. ECM motors in gas furnaces save about 600 kWh of electricity per year for consumers.⁷

As for cost effectiveness, Mr. Johnson indicated that the benefit/cost ratio for the proposed gas energy efficiency programs is \$3.19, which means that \$3.19 in benefits is expected to be created for each \$1 invested in the programs. The benefits are calculated

⁶ NGrid Ex. 2 (Johnson's supplemental testimony) pp. 1-4.

⁷ *Id.*, pp. 5-7.

utilizing a Utility Cost Test, which is comparable to the test used for electric energy efficiency programs in Rhode Island. The benefits take into account the value of savings over its expected life. Lifetime gas savings were valued using the avoided gas costs identified in "Avoided Energy Supply Costs in New England" (December 23, 2005) prepared by ICF Consulting for the Avoided Energy-Supply-Component Study Group. As is done for the electric DSM program, the value of other resource benefits has also been included in the analysis of expected benefits such as expected electricity savings that are incremental to the electricity savings expected through the electric efficiency programs. Mr. Johnson estimated that the residential gas DSM programs will serve 3,349 customers and produce 36,419 MMBTU of natural gas savings per year while commercial and industrial gas DSM programs will serve 592 customers and produce 40,598 MMBTU of natural gas savings per year.

Regarding a shareholder incentive, Mr. Johnson stated that a shareholder incentive will align NGrid's interest with Rhode Island energy efficiency policy objectives. He noted that the DSM program will cause customers to use less natural gas, and thus NGrid will lose revenue. According to Mr. Johnson, a shareholder incentive is necessary to encourage NGrid to implement the DSM program efficiently. The shareholder incentive would be equal to the same percentage of the DSM budget for the shareholder incentive as in the electric DSM program. The total target incentive for 2007 is 4.4 percent of the eligible budget of \$2.7 million, for an incentive of \$119,642. The threshold performance level for energy savings by sector is equal to 60 percent of annual energy savings goals for the sector. NGrid must attain at least this threshold level of savings in the sector before it can earn an incentive related to energy savings in the

sector. NGrid would be able to have the ability to earn an incentive for each MMBTU of gas saved, once threshold savings for the sector are achieved, up to 125 percent of target savings. Since this is the first year of the gas DSM program, NGrid did not recommend including performance metrics.⁸

As for reporting requirements, Mr. Johnson proposed to provide the Commission with quarterly reports on the most currently available program performance, and will include a comparison of budgets and goals by program to actual expenses and savings on a year-to-date basis. The 2007 Year End Report will be provided to the Commission no later than May 1, 2008, which will include a comparison of budgets and goals by program to actual expenses and savings in the year as well as NGrid Gas' calculation of the earned shareholder incentive.⁹

III. SETTLEMENT

On April 2, 2007, the parties filed a settlement agreement. Parties to the settlement agreement included NGrid, the Division, the Energy Council of Rhode Island ("TEC-RI"), the Rhode Island Office of Energy Resources ("OER"), the Energy Consumer Alliance of New England d/b/a People's Power and Light ("People's Power"), and Environment Northeast ("Enviro North"). The settlement established funding and programs for an 18 month period beginning in mid 2007 through the end of 2008. Many of the programs are currently offered by KeySpan, and NGrid anticipates contracting for program support services with KeySpan to expedite the effective roll-out of the proposed programs. Also, because joint delivery of gas and electric efficiency programs might reduce marketing and implementation costs, where flexible, the proposed programs will

⁸ Id., pp. 7-11.

⁹ Id., pp. 11-12.

be integrated with the already approved electric energy efficiency programs in Rhode Island. The existing gas DSM program for commercial and industrial customers labeled Smart Growth, which promotes demand for natural gas during non-peak periods, will continue but will not be incorporated into the new gas DSM program or be funded by the gas DSM surcharge.¹⁰

The settlement sets forth the residential programs. The *Energy Wise* Program provides a free in home assessment for both single and multi-family homes and provides recommendations, technical assistance and incentives for the installation of energy saving measures. This program's budget is \$1,124,900 for 2007 through 2008 with a benefit/cost ratio of 5.95 caused by saving 852,622 MMBTU during its lifetime for 1,888 participants. The Single Family Low Income Program provides free weatherization services to income eligible 1 to 4 unit homes. The funding for this program is, in part, currently built into base rates. This program's budget is \$1,436,000 for 2007 through 2008 with a benefit/cost ratio of 1.45 caused by saving 260,366 MMBTU during its lifetime for 336 participants. The High Efficiency Heating Program will provide incentives ranging from \$100 to \$800 for energy efficient furnaces and boilers. This program's budget is \$670,100 for 2007 through 2008 with a benefit/cost ratio of 5.10 caused by savings of 432,765 MMBTU during its lifetime for 1,475 participants. The High Efficiency Water Heating Program provides incentives of \$300 for certain energy efficient water heating systems. This program's budget is \$207,400 for 2007 through 2008 with a benefit/cost ratio of 2.16 caused by savings of 57,375 MMBTU during its lifetime for 375 participants. The ENERGY STAR Programmable Thermostat program provides a \$25 incentive each for up to two ENERGY Star thermostats. This program's

¹⁰ Joint Ex. 1 (Settlement) pp. 2-3.

budget is \$109,000 for 2007 through 2008 with a benefit/cost ratio of 4.85 caused by saving 61,600 MMBTU during its lifetime for 1,400 participants. The Building Practices and Demonstration program provides demonstration projects that apply new or underutilized technologies. This program's budget is \$58,700 for 2007 through 2008 with a benefit/cost ratio of 1.27 caused by saving 5,370 MMBTU during its lifetime for 5 participants. The New Construction and ENERGY Star Homes provides free building plans review and certification for new ENERGY STAR residential construction. This program's budget is \$216,200 for 2007 through 2008. The Energy Analysis: Internet Audit program provides a free online energy analysis service that makes customized energy efficiency recommendations based on a customer's energy consumption profile. This program's budget totals \$136,900 for 2007 through 2008. However, the cost of this program is included in the budgets for the previously identified residential DSM programs.¹¹

The settlement sets forth the commercial and industrial programs. The Commercial Energy Efficiency Program provides incentives for more sophisticated systems for eligible combined heat and power ("CHP") projects. The program's budget is \$1,221,200 for 2007 and 2008 with a benefit/cost ratio of 5.94 caused by saving \$1,010,096 MMBTU during its lifetime for 176 participants. The Commercial High Efficiency Heating program provides incentives up to \$6,000 for high-efficiency furnaces or steam boilers and incentives up to \$300 for qualified efficient water heating measures. The budget for this program is \$411,500 for 2007 through 2008 with a benefit/cost ratio of 2.78 caused by saving 166,676 MMBTU during its lifetime for 225 participants.

¹¹ Id. at p. 3; Attachment 1, p. 1; Attachment 6, p. 1; and Attachment 8.

The Economic Redevelopment Program provides matching grants up to \$100,000 for energy saving measures in commercial properties in designated Economic Redevelopment areas. The budget for this program is \$355,600 for 2007 through 2008 with a benefit/cost ratio of 1.08 caused by saving 53,394 MMBTU during its lifetime for 10 participants.

The Trade Ally Training program provides energy management training sessions targeted to individuals responsible for the maintenance and operation of equipment and systems in commercial buildings, industrial plants, and public facilities. The information and training in energy efficiency issues is provided to plumbing and heating contractors, builders, architects, engineers, realtors, appraisers and others. The budget for this program is \$111,700 for 2007 through 2008 with an estimated 500 participants.

The Building Practices and Demonstration program provides funding for demonstration projects that apply to new or underutilized technologies. The budget for this program is \$308,800 for 2007 through 2008 with a benefit/cost ratio of 3.68 caused by saving 138,093 MMBTU during its lifetime for 4 participants. The Emerald Network provides incentives and services to customers focused on developing new green buildings or increasing green aspects of existing buildings. The budget for this program is \$180,800 with a benefit/cost ratio of 1.60 caused by saving 40,174 MMBTU during its lifetime for 7 participants. The Energy Audit and Engineering services provides, at no cost, energy auditing services to help customers evaluate energy efficiency improvements in their facilities or 50 percent matching funds up to \$10,000 for outside studies that evaluate more complex technologies. The cost of this program, which is \$267,100 for 2007 through 2008, is incorporated in the budget for the Commercial Energy Efficiency

program. The Business Energy Analyzer provides a free online energy analysis service that makes customized energy efficiency recommendations based on the customer's energy consumption profile. The total cost of this program, which is \$159,100 for 2007 through 2008, is incorporated in the budget for the *Energy Wise* and Commercial Energy Efficiency program.¹²

The parties requested to increase the energy efficiency surcharge to \$0.114 per decatherm effective July 1, 2007 through December 2008. The gas DSM budget would be funded through this surcharge, interest accrued on this fund balance, and the current base rate collections for Low Income weatherization. The overall projected gas DSM budget for 2007 and 2008 is approximately \$7.5 million. NGrid will be able to transfer up to 10 percent of proposed funding for a program to another program within a sector, but transfer of more than 10 percent will require prior Division approval. Division approval is also required for transfer of funds from one sector to another sector if it reduces the approved budget for that sector by 20 percent or less. Transfers that would reduce a sector's budget by more than 20 percent in aggregate over the course of the program year will require Commission approval. The parties will inform the Commission of all transfers requiring Division approval.¹³

The shareholder incentive will be equal to 4.4 percent of the eligible budget. The total target incentive for 2007 to 2008 is \$288,734. The threshold performance level for energy savings by sector will be set at 60 percent of the annual energy savings goal for the sector. Only when the threshold savings for the sector are achieved will NGrid have the ability to earn an incentive up to 100 percent of targeted savings. To determine the

¹² *Id.*, p. 3; Attachment 2, p. 1; Attachment 6, p. 2; and Attachment 8.

¹³ *Id.*, pp. 3-7.

cost-effectiveness of the gas DSM programs, the parties used a Utility Cost Test, which is comparable to the test used for electric DSM programs in Rhode Island. The lifetime gas savings have been valued using avoided gas costs identified in “Avoided Energy Supply Costs in New England” prepared by ICF Consulting, which is the same source to value electricity savings for electric DSM programs. The value of other resource benefits has also been included in the analysis of expected benefits from program efforts such as electricity savings. There is a benefit/cost ratio of 3.43 for the gas DSM programs. Also, the parties agreed to review alternatives to the current utility cost test for use in 2009. NGrid will provide quarterly reports to the parties on current program performance, which will include a comparison of budgets and goals by program to actual expenses and savings on a period-to-date basis. NGrid will file a report summarizing its 2007 through 2008 gas energy efficiency program efforts with the Commission by May 31, 2009. The report will provide a comparison of budgets and goals to actual expenses and savings by program and document NGrid’s performance under the proposed shareholder incentive mechanism.¹⁴

A DSM Collaborative has been meeting regularly since 1991 to analyze and discuss NGrid’s electric DSM program. The Collaborative will be expanded to include all the parties in this proceeding and to focus on the gas DSM program. The parties will assess filing a coordinated gas and electric DSM program and assess filing a multi-year gas and electric DSM program. By November 1, 2008, the parties will file with the Commission an agreement regarding NGrid’s 2009 gas DSM program or the parties will file their individual proposals for 2009 gas DSM programs. If the Commission does not

¹⁴ Id., pp. 7-9.

review the 2009 DSM program by December 31, 2008, NGrid will continue to offer the 2008 program until the Commission review has occurred.¹⁵

In Attachment 5 to the settlement, the parties agreed to guidelines. These guidelines will facilitate the filing, review and approval of self-directed gas DSM programs initiated by manufacturing customers of NGrid in order to have an exemption from the gas DSM surcharge. The guidelines require a self-directed DSM program to be in effect for a minimum of two years and to be cost-effective using the total resource cost test. To be eligible for the exemption, a self-directed DSM program must be approved by the Commission, and once approved, annual reports must be filed regarding the self-directed DSM program. Also, gas used for distributed generation will not be subject to the gas DSM surcharge when the gas used for that purpose can be clearly identified through uniquely metered use and when requested in writing by the customer.¹⁶

IV. PARTIES' TESTIMONY

On April 3, 2007, various parties submitted pre-filed testimony in support of the settlement. The Division submitted the pre-filed testimony of Timothy Woolf, an outside consultant. He explained that the gas residential DSM programs have a benefit/cost ratio of 3.25 and the gas commercial and industrial DSM programs have a benefit/cost ratio of 3.68. The programs are expected to result in total benefits of \$22.8 million and net benefits of roughly \$16 million. Mr. Woolf noted that the requested surcharge is less than the maximum allowed under the law. He explained that the programs are properly balanced across customer classes. Also, Mr. Woolf indicated that several of the gas DSM programs are already being provided by KeySpan, and NGrid will employ KeySpan staff

¹⁵ Id., pp. 9-10.

¹⁶ Id., p 5 and Attachment 5.

to assist with the development and implementation of these DSM programs. In addition, he explained that the proposed shareholder incentive is similar to NGrid's incentive in the electric DSM program. However, there are no metrics associated with the incentive because the gas DSM programs are being ramped-up. Also, NGrid will not be eligible to earn shareholder incentives beyond those associated with 100 percent of the efficiency savings goal.¹⁷

TEC-RI submitted the pre-filed testimony of John Farley, TEC-RI's Executive Director. First, he noted the settlement recognizes that distributed generation is exempt from the gas DSM surcharge. Second, he explained that the settlement establishes an administratively simple procedure to certify and verify gas used for manufacturing to be exempt from the gas DSM surcharge due to the existence of a self-directed DSM program. Third, he stated that the proposed commercial DSM program includes a combined heat and power program. Fourth, he asserted that the budgets for each sector, residential versus commercial/industrial, are balanced and are equivalent to the amount of funding contributed by that sector from the surcharge. Fifth, he supported expanding the focus of the Rhode Island Collaborative to gas efficiency programs as well as electricity.¹⁸

Enviro North submitted the pre-filed testimony of Sam Krasnow. Mr. Krasnow discussed the savings from the gas DSM programs as well as promoting energy independence, job and economic growth, and reduced carbon dioxide emissions. Also,

¹⁷ Div. Ex. 1 (Woolf's direct testimony), pp. 3-6.

¹⁸ TEC-RI, Ex. 1 (Farley's direct testimony), pp. 2-7.

he indicated that the settlement lays the foundation for the integration of gas and electric DSM programs.¹⁹

V. HEARING

Following published notice, a public hearing was conducted on May 1, 2007, at the Commission's offices on 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

FOR NGRID	:	Laura Olton, Esq.
FOR DIVISION	:	William Leuker, Esq. Special Assistant Attorney General
FOR OER	:	John McDermott, Esq.
FOR TEC-RI	:	Michael McElroy, Esq.
FOR COMMISSION	:	Steven Frias, Esq. Executive Counsel

The witnesses for the parties were presented as a panel. The witnesses for NGrid were Bruce Johnson, Carol White, Laura McNaughton, Michael McAteer, and Peter Czekanski. The witness for the Division was Robert Fagan, who adopted Mr. Woolf's pre-filed testimony. The witness for OER was William Ferguson. The witness for TEC-RI was John Farley. The witness for Enviro North was Roger Koortz, who adopted Mr. Krasnow's pre-filed testimony. Under cross-examination by the Commission, Ms. White indicated there is funding in the proposed gas DSM budget for the Energy Efficiency and Resources Management Council ("EERMC"). Mr. Ferguson stated that the EERMC is not currently in existence. Mr. Czekanski explained that the \$200,000 included in the proposed gas DSM budget for the current low-income weatherization program will not come from the surcharge but from base rates. Mr. Czekanski concurred that gas

¹⁹ Enviro North Ex. 1 (Krasnow's direct testimony), pp. 3-5.

consumption for NGrid declined for the year ending October 31, 2006 by 5 percent even with gas usage normalized for weather and that gas usage has remained at this level. He admitted that the decline in usage was due, in part, to higher prices and the actions of consumers on their own to conserve without a gas DSM surcharge. However, Ms. White explained that the DSM program funded through this surcharge will encourage customers to conserve even more.

Regarding the shareholder incentive for NGrid, Ms. White justified it by arguing that an incentive encourages the company to design and implement DSM programs and to mitigate lost revenues due to increased conservation and efficiency. However, Ms. White agreed NGrid would implement the legislative mandate to administer a DSM program without an incentive. Ms. White also indicated that no analysis has been performed to determine if a shareholder incentive of 4.4 percent of budget equates to the loss of profits from reduced revenues due to conservation and efficiency.²⁰

Ms. White noted that the amount of lifetime gas savings would go away in a rate proceeding where rates are adjusted. Also, Ms. White indicated that the total resource cost test is a stricter test than the utility cost test used in Rhode Island. In addition, Ms. White indicated that “NA” means NGrid cannot quantify any energy savings associated with a program. She explained that the trade and ally program has an NA but it is necessary to create an infrastructure to support the delivery of energy efficiency services for gas. She also explained that ENERGY STAR Homes Program has an NA because the savings are already included in the electric DSM program. Furthermore, Ms. White indicated that the internet programs in the DSM program will provide specific information about programs for which customers may benefit from participating. Also,

²⁰ Tr. 5/1/07, pp. 31-43.

Ms. White indicated that when NGrid provides regular updates on the results of the DSM programs to the Collaborative it will also provide this information to the Commission.²¹

VI. POST-HEARING DEVELOPMENTS

After the hearing, NGrid provided record responses and responded to various post-hearing data requests. At an open meeting held on May 23, 2007, the Commission reviewed the evidence and adopted the proposed settlement with two modifications. First, funding for two internet programs totaling approximately \$296,000 was eliminated. Second, the shareholder incentive was reduced by the elimination of the two internet programs and by not basing the incentive on funding the EERMC. On May 31, 2007, the parties made a compliance filing accepting the modifications to the settlement. At an open meeting on June 14, 2007, the Commission reviewed and approved the compliance filing, which implemented a gas DSM surcharge of 10.7¢ per decatherm for effect July 1, 2007.

COMMISSION FINDINGS

In 2006, the Rhode Island General Assembly mandated the creation of a gas DSM surcharge to fund gas DSM programs to reduce gas consumption. Ironically, prior to the implementation of the gas DSM surcharge, weather normalized natural gas sales for NGrid declined by 5 percent.²² However, this gas DSM surcharge is a legislative mandate which the Commission is required to implement. Furthermore, a new gas DSM program should further reduce natural gas consumption beyond the initiatives taken by ratepayers in the absence of specific DSM programs. Fortunately, the R.I. General Assembly granted the Commission the discretion regarding the appropriate level of the

²¹ Id., pp. 49, 54, 76-77, 82, 118-119.

²² Order No. 18879.

gas DSM surcharge up to 15¢ per decatherm. This gives the Commission flexibility in establishing the surcharge level so that it will not be excessive and will only be sufficient to pay for programs which will efficiently provide benefits to ratepayers.

In determining whether ratepayers' funds are being efficiently and properly spent on a DSM program, it must be determined if the economic benefit ratepayers receive is greater than the amount spent. Overall, utilizing a Utility Cost Test which is also currently used for NGrid's electric DSM programs, NGrid's proposed DSM programs have a benefit/cost ratio of 3.43. However, it is important to review the individual DSM programs included to determine if each program or aspect of a program has an appropriate benefit/cost ratio.

Two programs proposed by NGrid did not have a benefit/cost ratio. They are the Energy Star Homes program and the Trade Ally Training program. NGrid provided a reasonable explanation that there is no benefit/cost ratio for Energy Star Homes because the benefit/cost ratio for gas savings from this program was already included in NGrid's electric DSM program.²³ Also, NGrid provides a reasonable explanation that although the Trade Ally Training program did not have a benefit/cost ratio, it was necessary because it provided training and education to various building professions and trades so as to encourage the utilization of gas efficient products and techniques.²⁴ Since the gas DSM program is a new initiative, it is reasonable to have some training and education. However, over time, this program should become unnecessary or substantially less costly as individuals become more familiar with the pertinent gas efficient products and techniques.

²³ Tr. 5/1/07, p. 77.

²⁴ Id., pp. 76-78.

Not only should individual DSM programs be reviewed, but also specific aspects of these DSM programs should be scrutinized. In its proposal, NGrid included two internet programs entitled Energy Analysis: Internet Audit program and the Business Energy Analyzer. These two internet program are components of various residential and commercial and industrial DSM programs. The Energy Analyzer program costs approximately \$136,900 and the Business Energy Analyzer costs approximately \$159,100 for a total of approximately \$296,000. NGrid indicated that KeySpan had similar internet programs in other jurisdictions.²⁵ However, NGrid could not identify a single customer who utilized the Business Energy Analyzer and went on to use a gas efficiency program. Also, NGrid could only identify 1.4 percent of customers who used the Energy Analysis: Internet Audit programs and went on to use a gas efficiency program.²⁶ NGrid has failed to demonstrate that the expenditure of \$296,000 in ratepayer funds is justified and would result in a quantifiable amount of gas savings to ratepayers. In the future, NGrid could request funding for these internet programs if it can demonstrate there will be real gas savings to justify the expenditure of these funds.

Overall, it appears that the proposed gas DSM programs are justified on a benefit/cost basis. As these programs are implemented, the Commission can better assess how these ratepayers' funds can be utilized through these DSM programs to maximize gas savings to ratepayers. Furthermore, in 2009, the parties have agreed to review the benefit/cost test for DSM programs. This will provide an opportunity for the Commission and interested parties to ensure the accuracy of these estimated gas savings to ratepayers from this ratepayer funded gas DSM program.

²⁵ *Id.*, p. 85.

²⁶ PUC Rec. Res. 1-3 and 1-4.

The next significant issue is NGrid's shareholder incentive for administering the gas DSM program. Currently, R.I.G.L. § 39-2-1.2 does not require NGrid to receive an incentive for administering the gas DSM program. Furthermore, NGrid has indicated that even if it did not receive a shareholder incentive it would comply with the law and administer the gas DSM program.²⁷ However, a shareholder incentive will help ensure that NGrid does its utmost to efficiently administer this gas DSM program, which is legislatively mandated, so as to maximize the benefit to ratepayers. Thus, in order to provide the efficient use of ratepayer funds, NGrid should receive a shareholder incentive for administering the gas DSM program. As for the amount of the incentive, NGrid has proposed \$288,734 or 4.4 percent of the eligible DSM budget, which is the same method of calculating the incentive for the electric DSM budget. Furthermore, NGrid calculated an annual loss in profits of \$330,200 from the implementation of the gas DSM program, which approximates the proposed shareholder incentive.²⁸ Therefore, at this time, it is appropriate to follow the approach taken in the electric DSM program for setting the amount of a shareholder incentive.

However, two small adjustments must be made to the shareholder incentive. First, the incentive must be reduced since the Commission is eliminating funding for the internet programs. Since the shareholder incentive is based on 4.4 percent of the eligible DSM budget, elimination of funding for the internet programs will result in a commensurate reduction in the shareholder incentive. Second, the shareholder incentive is based on funding the EERMC, which is a public agency currently not functioning. Although R.I.G.L. § 39-2-1.2 (h) requires 2 percent of the gas DSM budget to fund the

²⁷ Tr. 5/1/07, p. 40.

²⁸ PUC Rec. Resp. 2-1.

EERMC, there is no requirement that NGrid's shareholder incentive be based on funding the EERMC. Also, there is no incentive necessary for NGrid to properly fund a public agency. In addition, funding the EERMC, unlike other DSM programs, will not cause NGrid to lose profits from conservation or greater energy efficiency. Thus, the EERMC budget is to be excluded from the calculation of the shareholder incentive. These two adjustments cause a reduction in NGrid's shareholder incentive from \$288,734 to \$269,109. The elimination of the funding for the internet funding and the reduction in the shareholder incentive reduces the overall gas DSM budget by \$332,700 from \$7,500,900 to \$7,168,200.²⁹ As a result, the gas DSM surcharge will be 10.7¢ per decatherm effective July 1, 2007. This is an annual increase of \$12 from \$1,609 to \$1,621 for a typical residential heating customer using 1,035 therms.³⁰

With adjustments previously mentioned, the overall settlement appears just and reasonable. Since this is the initial implementation phase of a new gas DSM program, the Commission may, in the future, alter these programs or funding for these programs after the results become apparent. The provision in the settlement for transferring funds within and between sectors should give NGrid the flexibility to properly implement these programs. Furthermore, the reports which will be provided to the parties and filed with the Commission will give all interested parties and the Commission the ability to monitor this new gas DSM program and make changes to the gas DSM program in the future.

Accordingly, it is

(19024) ORDERED:

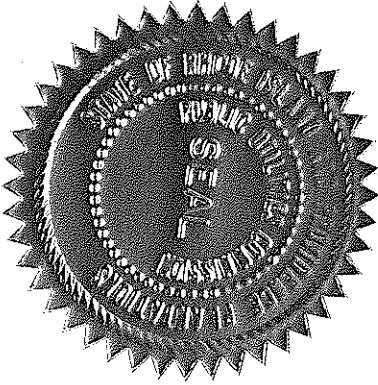
²⁹ Compare Joint Ex. 1, Attachment 6 to the Compliance Filing, Attachment 6.

³⁰ Compare Order No. 18879, and the Compliance Filing, Attachment 3.

1. A gas demand-side management charge of \$0.063 per decatherm is hereby approved for usage from January 1, 2007 through June 30, 2007.
2. A gas demand-side management charge of \$0.107 per decatherm is hereby approved for usage from July 1, 2007 through December 31, 2008.
3. The settlement filed on April 2, 2007 is hereby approved with the following modifications:
 - a. elimination of funding for the Energy Analysis: Internet Audit Program and the Business Energy Analyzer; and
 - b. a reduction in the Shareholder Incentive reflecting the elimination of funding for internet programs and exclusion of the funding for the Energy Efficiency Management Council from the calculation of the incentive.
4. The compliance filing of May 31, 2007 is hereby approved.
5. The parties shall act in accordance with all other findings and instructions contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISIONS ON MAY 23, 2007 AND JUNE 14, 2007. WRITTEN ORDER ISSUED JULY 23, 2007.

PUBLIC UTILITIES COMMISSION



Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner