



State of Rhode Island and Providence Plantations

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December 22, 2008

VIA ELECTRONIC AND REGULAR MAIL

Luly E. Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889-1046

**Re: The Narragansett Electric Company d/b/a National
Grid's System Reliability Procurement Plan – PUC
Docket No. 3931**

Dear Ms. Massaro:

On December 15, 2008, the Public Utilities Commission (Commission) conducted a public hearing on The Narragansett Electric Company d/b/a National Grid's (National Grid) Energy Efficiency Program Plan For 2009 (Commission Docket No. 4000). As part of National Grid's presentation during that hearing, it presented a briefing and testimony on National Grid's proposed System Reliability Procurement Plan (part of Phase II of Commission Docket No. 3931). The Division of Public Utilities and Carriers (Division) was not aware that National Grid intended to raise the System Reliability Procurement Plan at the December 15, 2008, hearing and was not prepared to address the particulars of that plan. The Commission asked the Division to provide a position statement with regards to the System Reliability Procurement Plan as soon as possible. This letter, prepared with the assistance of the Division's staff and consultants, is intended to satisfy the Commission's request.

A brief recapitulation of the pertinent procedural history concerning the proposed System Reliability Procurement Plan is in order. On October 27, 2008, during the course of the technical session held to discuss National Grid's Least Cost Procurement Plan (Phase II of Commission Docket No. 3931), Commission staff asked the Division whether the Division supported National Grid's proposed System Reliability Procurement Plan. The Division responded that, while it had been involved in substantive discussions concerning the Least Cost Procurement Plan, it had not been involved in any discussions concerning National Grid's System Reliability Plan; it asked for, and was granted, 24 hours in which to formulate a position statement.

On October 28, 2008, the Division submitted a letter to the Commission reiterating that it had not been involved in substantive discussions with National Grid concerning the particulars of National Grid's System Reliability Procurement Plan and simply had not had sufficient time to formulate a well-reasoned position on that plan. Instead, the Division recommended that

Commission open a new docket for the System Reliability Procurement Plan and defer all discussions on the proposed plan to that docket. National Grid, in a letter issued the same date, agreed to the Division's proposal to defer all discussions on the System Reliability Procurement Plan to a separate docket. However, no new docket has been opened and no substantive discussions (at least, discussions involving the Division) have occurred.

Nevertheless, the Division will offer a few substantive comments at this time. We would very respectfully request that, in considering our comments, the Commission keeps in mind that the Division would still prefer that the System Reliability Procurement Plan be considered in the context of its own docket after a process of formal discovery and discussion. This, we believe, is essential to allowing all parties and the Commission to arrive at some better-informed conclusions regarding the various elements of the proposed plan. Subject to this caveat, and in the absence of the formal review process the Division would greatly prefer, the Division offers the following comments.

The Division recommends conditional approval of National Grid's application for a System Reliability Procurement Plan (SRPP) charge to address reliability issues on Aquidneck Island. The two conditions pertain to the time period of funding, and the establishment of a process to assess the program's cost-effectiveness and possibly modify the proposed mix of measures.

Time Period of Funding

The Division believes a one-year trial period beginning January 1, 2009, to provide funding for system reliability procurement initiatives is reasonable. Continuation of the SRPP charge in 2010 and 2011 can be implemented pending an assessment of the progress of the program in 2009.

Process to Assess Cost-Effectiveness and Possibly Modify Measure Mix for Aquidneck Pilot Program

The Division's attention, along with that of the Energy Efficiency Resource Management Council (EERMC) and other interested parties in Rhode Island, has been focused on the Energy Efficiency (DSM) Program Plan details since the filing of the Least Cost Procurement Plan on September 2, 2008. The Division recommends that a process be established to allow at least an initial independent assessment (in cooperation with National Grid) of the relative cost-effectiveness of National Grid's proposed SRPP, especially including a careful review of the particulars of costs and savings as represented in Table 3 (page 20) of the SRPP filing, reproduced in part below.

Table 3. Aquidneck Pilot Budget and Savings, 2009-2011

	Population	Penetration	kW per customer	Total kW	Cost per customer	Total Cost
Demand Response						
Residential DLC *	5168	20%	1	1033.6	\$2,000	\$2,067,200
Small Commercial DLC *	670	20%	5	670	\$5,000	\$670,000
Medium Commercial **	98	25%	15	367.5	\$7,000	\$171,500
Large Commercial **	6	50%	75	225	\$25,000	\$75,000
Demand Response Totals				2296.1		\$2,983,700
Renewable Energy						
Solar PV	5942	2%	4.2	500	\$25,200	\$3,000,000
Wind	1	100%			\$100,000	\$100,000
Renewable Energy Total				500		\$3,100,000
Grand Total				2796.1		\$6,083,700

The table provides summary detail of the three-year “pilot” project, with costs and savings for demand response and renewable energy measures. However, National Grid has provided no assessment of relative cost-effectiveness, or possible modifications to the proposed plan based on such an assessment.

For example, fully two-thirds of the cost of the demand response proposal is for the residential sector. The savings associated with the residential demand response “DLC” (or direct load control) appears to be premised on customer behavior in response to an hourly pricing option tariff. No such support for that level of savings has been provided for a “behavioral” measure, especially, for example, when compared to more traditional (and less expensive) air conditioning cycling programs that do not depend on demand audits and sophisticated metering technology. However, even assuming these savings were likely, the per unit costs of peak savings from demand response options varies by a factor of six: from \$2,000 per kW for the residential alternative, to just \$333/kW for the large commercial sector.

	Total kW	Total Cost	Cost per kW
Residential	1,034	2,067,200	2,000
Small Commercial	670	670,000	1,000
Medium Commercial	368	171,500	467
Large Commercial	225	75,000	333

When combined with the information provided in the plan (which illustrates, as expected, that much of the peak load on Aquidneck Island comes from larger customers), it does appear that a focus first on the “best buys” such as demand response for the larger customer group, might be a more reasonable first approach to attaining system reliability for the Island, rather than a focus on a relatively expensive residential mechanism.

This is just one example of the type of information that needs to be assessed. Another important area, addressed in the filing, is the fact that some of the larger customers may be enrolled in ISO NE demand response programs. If the most cost-effective demand response potential exists at large customer sites, it would make sense that National Grid's program address the overlap that may exist between ISO NE demand response programs (implemented generally through a market-based approach) and those that National Grid may be best positioned to implement.

The plan provides critical discussion of larger-customer demand response actions taken by National Grid in Rhode Island and Massachusetts, but it is not clear that the proposal applies the lessons learned from those actions when considering what to do first in Newport. At a minimum, the Division would like to see additional information forthcoming to allow for examination of the program cost-effectiveness, such as the detailed assumptions behind the peak kW savings estimates, and the components of cost for the programs proposed.

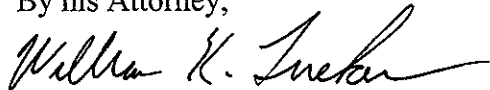
Lastly, the Division recognizes the higher costs associated with photovoltaic technologies, and supports in general increasing the level of use of solar-based renewable resources. We also note that photovoltaic systems may provide more certainty of demand reduction than systems that depend upon customer behavioral actions. However, the Division would like assurance that the most cost-effective approach to increasing investment in solar photovoltaic resources has been considered by National Grid. For example, ongoing programs in New Jersey and California may illustrate how National Grid could pay less than the \$6,000/kW to achieve increased penetration of PV on Aquidneck Island.

Once again, we would prefer to have the issues we have discussed above developed and considered more fully through the hearing process prior to the Commission makes a decision on the System Reliability Procurement Plan now before it. Should that not be possible, the Division respectfully requests that the Commission be mindful of the fact that many of the details in that Plan are not fully developed.

Sincerely,

Thomas Ahern
Administrator
Division of Public Utilities and Carriers

By his Attorney,

A handwritten signature in black ink, appearing to read "William K. Lueker".

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cc: Docket 3931 & 4000 Service Lists

Docket No. 3931 – RI Energy Efficiency and Resource Management Council (“EERMC”) – Proposed Standards for Least Procurement Plan and System Reliability Procurement Plan
Service List updated on 11/3/08

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Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate was electronically submitted, hand delivered, and mailed to the individuals listed below.



Joanne M. Scanlon
National Grid

November 26, 2008
Date

National Grid - 2009 Energy Efficiency Program Plan - Docket No. 4000
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