

**STATE OF RHODE ISLAND  
PUBLIC UTILITIES COMMISSION**

<b>IN RE: RI ENERGY EFFICIENCY AND</b>	)	
<b>RESOURCES MANAGEMENT</b>	)	
<b>COUNCIL’S PROPOSED STANDARDS</b>	)	<b>DOCKET NO. 3931</b>
<b>FOR ENERGY EFFICIENCY AND</b>	)	
<b>CONSERVATION PROCUREMENT</b>	)	
<b>AND SYSTEM RELIABILITY</b>	)	

REPLY COMMENTS OF THE RHODE ISLAND ENERGY EFFICIENCY  
RESOURCES MANAGEMENT COUNCIL, ENVIRONMENT NORTHEAST,  
AND NATIONAL GRID IN RESPONSE TO THE COMMENTS OF THE  
RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS ON THE  
ENERGY EFFICIENCY RESOURCE MANAGEMENT COUNCIL’S  
PROPOSED STANDARDS FOR ENERGY EFFICIENCY,  
CONSERVATION MANAGEMENT AND SYSTEM RELIABILITY

The Energy Efficiency and Resources Management Council (“EERMC” or the “Council”), Environment Northeast, and National Grid (collectively, the “Group”) appreciate the thoughtful and supportive comments prepared by Synapse Energy Economics, Inc. and filed by the Division of Public Utilities and Carriers (the “Division”) on the EERMC’s proposed standards for energy efficiency and conservation procurement and system reliability that were submitted to Commission on February 29, 2008.

The EERMC, Environment Northeast, and National Grid appreciate the Division’s support on issues addressed by the proposed Standards including: (1) EE Plan Filing Dates (including overall budgets and targets for three years); (2) EE Procurement Plan Components (including the use of the Total Resource Cost test, that a ramp-up of efficiency activity will be required, the funding plan, new capital availability strategies, and reviewing the existing incentive plan); (3) EE Program Plan Components (including cost-saving synergies associated with EE and reliability procurement and between electric and gas programs, market transformation, comprehensiveness, and a sensitivity analysis to address potential CO2 mitigation costs that might arise over and above RGGI); (4) the Role of the Council (including reporting on program performance and cost effectiveness, the effectiveness of the performance incentive, and collaboration with the utility on design and implementation of monitoring and verification efforts), and (5) stating the System Reliability Procurement proposed Standards appear to address the section of law on such reliability resources adequately.

The Division's comments also address the fact that the EERMC included in its proposed Standards a chapter entitled: "**Aligning Utility Incentives & Reforming Rates.**" In Section 3.1, *Remove the Link between Sales Volume and Utility Profits*, the Council stresses the need to address the disincentive embedded in current ratemaking practice to secure all efficiency resources that are lower cost than supply, and the reliability resources required by the 2006 legislation. The Council's filing quotes the enabling legislation and provides the following comments and recommendations:

(1) *Section 39-1-27.7(d) of the enabling legislation states:*

*"if the commission shall determine that the implementation of system reliability and energy efficiency and conservation procurement has caused or is likely to cause under or over-recovery of overhead and fixed costs of the company implementing said procurement, the commission may establish a mandatory rate adjustment clause for the company so affected in order to provide for full recovery of reasonable and prudent overhead and fixed costs."*

(2) *This suggests the General Assembly was attempting to address the fact that today Utility fixed cost recovery and thus profits increase with sales, which may be a barrier to robust implementation of Energy Efficiency and System Reliability Procurement.*

(3) *It is likely that revenue reduction associated with the procurement of all EE resources that are lower cost than supply and system reliability procurement will reduce sales significantly and have a negative impact on the company's ability to recover fixed costs. Therefore, consistent with the provisions of Section 39-1-27.7(d) the Utility will consult with the Council regarding any proposed solution prior to any filing with the PUC.*

(4) *It is important to the success of EE and Reliability Procurement to remove the Utility's current incentive to maximize sales, through the implementation of a decoupling mechanism that removes any disincentive to efficiency and distributed generation investments. **Whatever the appropriate setting for accomplishing it**, the Council will continue to work with the Utility to develop a proposal for properly aligning incentives to promote full implementation of cost-effective EE resources and reliability resources [emphasis added].*

The EERMC, Environment Northeast, and National Grid are persuaded that it is important to include this language in the final Standards. The Group recognizes that the actual design of any "decoupling" or "rate adjustment" mechanism clearly must be approved through a separate action, in another proceeding, by the Commission. Accordingly, the EERMC's comments in the proposed Standards intentionally include the concept there will be another appropriate setting for accomplishing this goal. Working with other interested parties in Rhode Island to address this fundamental structural issue and current barrier to the energy cost saving potential of least cost procurement implementation is an essential part of Council's responsibilities. Direction by the PUC for the Council and the Utility to work together on properly aligning incentives will be important to the success of Least Cost Procurement and will ensure broad stakeholder input, understanding, and support.

In subdivisions (d) and (g) of RIGL § 42-140.1-5, powers and duties, the Council is charged to:

*(d) Participate in proceedings of the public utilities commission that pertain to the purposes of the council, including but not limited to proceedings regarding least-cost procurement as provided for in § 39-1-27.7.*

*(g) Consider such other matters as it may deem appropriate to the fulfillment of its purposes, and may advise the governor, the general assembly, other parties, and the public with regard to matters pertaining to its purposes and duties, which advice may include findings and recommendations.*

These actions are essential to carrying out the Council's purpose as defined in RIGL § 42-140-1.3 (b).

This role for the Council is somewhat different from the (very important and useful) role played by the collaborative process that has been in place in Rhode Island. The Council, while not charged with direct regulatory responsibilities, like the Commission, or efficiency implementation responsibility, like the utility, is charged with being a strong advocate for Least Cost Procurement, and to provide a forum for broad public input and education on the issues that will affect the implementation of the 2006 statute.

Thus, the Council is required by 2006 legislation to address in a wide variety of contexts, issues of policy, practice and ratemaking that affect Least Cost Procurement even if those policies are not specifically or exclusively tied to energy efficiency program implementation.

On page 4, paragraph three of the Division's filing Synapse states: "System reliability and EE procurement standards could be considered without directly addressing decoupling issues. *The current DSM collaborative approach has...not addressed the larger picture of general ratemaking principles and a comprehensive mechanism such as decoupling that can be used for recovery of fixed and overhead costs* (emphasis added). This is an example of precisely the difference between the collaborative and the Council. The legislation cited above intends that the Council be charged with playing an appropriate role in such matters related to Least Cost Procurement.

The Council, Environment Northeast, and National Grid recommend that the Commission adopt the language in Chapter 3 as an expression of the Council's intention to address the current ratemaking disincentive to the cost savings opportunities that could be provided by effective Least Cost Procurement implementation that both Rhode Island law and the Council have identified.

In the proposed Standards, the Council expresses its intention to continue to communicate with National Grid on proposals to address the disincentive created by current ratemaking practice. The Group believes that the Commission should adopt this language in the final Standards. In doing so, the Commission will not thereby have pre-

judged the outcome of any future proceeding over which it may preside, but will have simply articulated an appropriate role for the Council as envisioned by the 2006 legislation.

The Group does not disagree with the last paragraph on page 5 of the Division's filing. It recognizes that decoupling concepts have impacts in areas of ratemaking other than on Least Cost Procurement and System Reliability, and it accepts its responsibility to participate intelligently and respectfully in the process of designing a decoupling mechanism that will be appropriate for Rhode Island ratepayers across the board.

Finally, in regard to the next-to-last paragraph on page 5, the Group has four responses to the assertion that "...third party provision of EE removes the 'need' to even consider 'decoupling'":

First, Vermont, the cited state in which third party implementation is most completely implemented, *does* have legislation requiring regulators to consider decoupling mechanisms, and versions of decoupling for Vermont Gas and Green Mountain Power, have already been adopted.

Second, the reason for this is that while removal of efficiency implementation from the utility may take away a direct implementation "disincentive," it does not remove potential utility resistance to other strategies such as those included in Rhode Island's requirement for "reliability resource acquisition" including distributed generation and CHP.

Third, one of the primary purposes of third party implementation in Vermont was to address the complexity, confusion, and inefficiency of having 22 utilities in a state that has about half the population of Rhode Island running non-identical, conflicting, duplicative, and generally inefficient programs. Rhode Island, on the other hand, effectively has a single implementation entity.

Fourth, there is no proposal the Group is aware of to adopt a third party implementation system in Rhode Island. National Grid is a capable and high-performing implementer of programs at the current level of investment. The Group acknowledges that the anticipated increase in the level of efficiency investment and resulting savings will present a challenge to National Grid going forward and that innovative steps will need to be taken to meet that challenge. However, it is the Group's position that a shift to third-party implementation as a way to address this concern would create regulatory proceedings and disruptions in the markets that would delay rather than accelerate energy efficiency acquisition, disrupt Least Cost Procurement irrevocably and deny Rhode Island ratepayers of energy cost savings.

In summary, the Council, Environment Northeast, and National Grid appreciate the supportive comments of Synapse filed by the Division as detailed above. In addition, however, because of the critical relationship between decoupling and the successful implementation of the Least Cost Procurement legislative mandate, the Group urges the

Commission to approve Chapter 3—along with Chapters 1 and 2—of the Council’s proposed Standards.

CONCLUSION

WHEREFORE, for the above-stated reasons, the EERMC, Environment Northeast, and National Grid ask that the Commission adopt the comments set forth above and reflect those comments in the final standards to be adopted by this Commission.

Respectfully submitted, **the Rhode Island Energy Efficiency Resource Management Council (EERMC), Environment Northeast, and National Grid**

By Its Attorneys,

*/s/ R. Daniel Prentiss*

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R. Daniel Prentiss  
Counsel for EERMC



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Thomas R. Teehan  
Counsel for National Grid

*/s/ Jeremy C. McDiarmid*

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Jeremy C. McDiarmid  
Counsel for Environment Northeast

CERTIFICATE OF SERVICE

I hereby certify that on the 8th day of May, 2008, I emailed a copy of this document to all persons providing email addresses and sent a paper copy by regular mail to any remaining persons, all as designated in the official service list compiled by the Commission Clerk in this proceeding.

*/s/ R. Daniel Prentiss*

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R. Daniel Prentiss