THE RHODE ISLAND
ENERGY EFFICIENCY AND RESOURCE MANAGEMENT COUNCIL

February 29, 2008

Luly Massaro, Commission Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI

RE:

Dear Ms. Massaro:

The accompanying document is the proposed "standards for energy efficiency and conservation procurement and system reliability" ("Standards") that the Energy Efficiency Resource Management Council ("EERMC" or "Council") recommends for adoption by the PUC on June 1, 2008 to guide National Grid ("National Grid") in its Least Cost Procurement Plan and its System Reliability Procurement Plan to be filed by the Company on September 1, 2008.

Consistent with the Rhode Island legislation, this outline breaks the rules into two parts: first, Energy Efficiency Procurement Standards ("LCP Standards") and second, System Reliability Procurement Standards ("System Reliability Standards"). A third section addresses the issues of decoupling, interconnection rules and standby rates which are important to implementation of the Rhode Island law, but need to be addressed in other proceedings.

The Standards as adopted by the PUC will guide the distribution company, National Grid, in developing its Energy Efficiency Procurement Plan ("EE Procurement Plan") and System Reliability Procurement Plan ("Reliability Procurement Plan") to be submitted to the PUC by September 1, 2008 and triennially thereafter. Prior to that, by July 15 the Council will prepare a "reliability and efficiency procurement opportunity report ("Opportunity Report") that shall identify opportunities to procure efficiency, distributed generation, demand response and renewables."

CONTEXT

Rhode Island's 2006 Comprehensive Energy Bill is one of the few instances in which a State has established a comprehensive energy policy to explicitly and systematically maximize ratepayers' economic savings. By placing a requirement on the distribution utility to procure all energy efficiency that is less costly than supply Rhode Island ratepayers of all classes stand to save hundreds of millions of dollars in energy bills over the next decade.

Rhode Island's 2006 Act is also pioneering in its inclusion of a broad definition of "System Reliability" resources as a strategy that parallels low-cost energy efficiency, with the same priority on ratepayer and system benefits. In these two policies "Least Cost Energy Efficiency Procurement" and "System Reliability Procurement" Rhode

Island has placed controlling costs and providing significant customer cost and price stability benefits as a top priority.

In addition the Rhode Island legislation recognizes that the goal of price affordability and stability is intertwined with environmental responsibility. For instance, at such time as action is taken at the federal level to address climate change there will likely be significant and prompt cost impacts on fossil fuel sources that are very likely to be passed rapidly through to customers. Ratepayers in states that have diversified to lower carbon resources including energy efficiency, renewables, distributed generation, and combined heat and power will benefit because they will be relying in greater proportion on sources that are either fixed price[1] or less likely to escalate with increasing greenhouse gas related costs. It is also probable that federal systems could financially reward states that have taken early action and proactive measures to reduce greenhouse gases from the electric sector.

In combination, the Rhode Island priorities place dramatic, and potentially very constructive, new demands on the resource planning process. Despite some language theoretically requiring acquisition of "all cost effective efficiency" in a few other states, these jurisdictions have not procured all efficiency that is less costly than supply as a way to maximize ratepayer savings, but rather "settled" for a level of efficiency and distributed resource acquisition not based on a full assessment of the resources available.

The Council is persuaded that for the Rhode Island strategy to benefit all customers and all classes of customers, effective Energy Efficiency Programs ("EEP") must be designed so that all Rhode Island residents, institutions and businesses have an opportunity to participate in or benefit from programs that will help lower their bills below what they would have been had these initiatives not been in place.

In order to implement the Rhode Island Least Cost Procurement and System Reliability Procurement mandates effectively, the participants in this process will need to bring a new focus and commitment to the planning and acquisition effort and will need to treat the planning process as dynamic and iterative.

INTRODUCTION

It is the position of the Council and the parties consulted in developing these proposed "standards"[2] that the PUC should issue standards that provide a clear framework for

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[1] "fixed price" in this context anticipates that efficiency (which generally has no "fuel cost" associated with it) and some renewable energy sources that do not rely on a fuel may not be subject to price variation based on fuel commodity price (particularly fossil fuel) price changes. In order for any renewable generation to be truly "fixed price" from the customer point of view, it would have to be subject to long-term contracts, or owned by the customer.

[2] The consultant to the EERMC, Vermont Energy Investment Corporation (VEIC) has consulted with the Council itself, with TEC-RI, Environment Northeast, the Office of Energy Resources, the URI Partnership for Energy, and National Grid to develop these Draft Standards. In addition, the consultant and members of the EERMC have held informational meetings with the Rhode Island Division of Public Utilities and Carriers.

National Grid's Energy Efficiency and System Reliability Procurement Plans, defining their basic structure, ground rules and goals.

It is also the Council's position that it is important not to "over-specify" what should be in the Procurement Plans, but: A) leave a significant level of detailed design to the Utility as it builds on its resource acquisition and efficiency implementation experience; and B) simultaneously recognize in the standards a continuous process of consultation and collaboration presided over by the Council.

The Council intends, consistent with the Rhode Island "Comprehensive Energy Conservation, Efficiency & Affordability Act of 2006," to play an active role with National Grid to guide, facilitate and support public and independent expert participation in the review and evolution of utility procurement and programs. The Council believes this input will be critical to having the programs and new mechanisms evolve into resource acquisition tools that can effectively implement the Rhode Island law. As a first step to accomplish this goal the EERMC intends to broaden the current Collaborative process and invite it to function as a subcommittee of the Council. This will enable the critical expertise and experience of the existing group to be leveraged to help meet the Council's statutory responsibility of monitoring, evaluating, and proposing changes to existing programs and new procurement and program strategies.

By developing a variety of strategies for input, the Council will foster and oversee an ongoing consultation process. The Council is convinced that through this approach the specifics of program design, new measure inclusion, and the development of new strategies can proceed in a manner that will be flexible and intelligent over time and truly responsive to conditions in the Rhode Island marketplace.

While the EERMC intends to play this role in a flexible, ongoing and cooperative manner, a limited number of formal interactions between the Council and National Grid are proposed in the Standards to ensure a framework of clear expectations and deliverables.

COORDINATED ELECTRIC AND GAS ENERGY EFFICIENCY PLANNING

The Council is persuaded that Rhode Island has a unique opportunity to gain increased customer benefits and increased Energy Efficiency Program ("EEP") delivery effectiveness by moving (to the extent possible) to coordinated electric and gas EEP program delivery.

In that regard, the Council proposes that the Utility be required, following the legislatively prescribed September 1 date for 2008, to file revised EE Program Plans on November 1 annually. The Council believes this will help promote coordination of electric and gas program design, implementation and budgeting.

Finally, it will be vital to ensure that all efforts to ramp up program capability to increase customer savings shall be done in a way that ensures quality delivery and is economical and efficient. The Council will report on how well the utility has performed on EE

program delivery to ensure that while cents/kWh may go up to acquire more cost savings from efficiency, the efficiency and effectiveness of programs continues to improve. The Council will report to the General Assembly and PUC on how well the utility is achieving the objectives of efficient and cost-effective procurement of all efficiency resources that are lower cost than supply.

Sincerely,

Andrew C. Dzykewicz
Executive Secretary

DRAFT PROPOSED STANDARDS

CHAPTER 1 – Energy Efficiency Procurement

1. **Section 1.1 Plan Filing Dates**

   A. The Utility Energy Efficiency Procurement Plan ("The EE Procurement Plan") submitted on September 1, 2008 and triennially thereafter on September 1, shall propose overall budgets and efficiency targets for the three years of implementation beginning with January 1 of the following year.

   B. The Utility shall prepare and file a supplemental filing on November 1, 2008 and annually thereafter on November 1, containing details of implementation plans by program for the next program year ("The EE Program Plan"). The November 1 filings shall also provide for adjustment, as necessary, to the remaining years of the EE Procurement Plan based on experience, ramp-up, and increased assessment of the resource levels available.

2. **Section 1.2 EE Procurement Plan Components**

   A. The EE Procurement Plan shall identify the strategies and an approach to planning and implementation of programs that will secure all cost-effective energy efficiency resources that are lower cost than supply and are prudent and reliable.

      i. Strategies and approaches to planning.

         a. The Utility shall use the Council's Opportunity Report as issued on July 15, 2008 (and as it may be subsequently supplemented) as one resource among others in developing its EE Procurement Plan[1]. The Utility may include in its Plans an outline of proposed strategies to supplement and build upon the initial Opportunity Report

         b. The EE Procurement Plan shall describe the recent energy efficiency programs offered by the Utility and highlight how the EE Procurement Plan supplements and expands upon these offerings, including but not limited to new measures, implementation strategies, new strategies to make capital available to effectively overcome market barriers, and new programs as appropriate.

         c. The EE Procurement Plan shall include a section describing a proposal to investigate new strategies to make available the capital needed to implement projects in addition to the incentives provided. Such proposed strategies shall move beyond traditional financing strategies and shall include new capital availability strategies that effectively overcome market barriers in each market segment in which it is feasible to do so.

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[1] The Opportunity Report is essential because it is required by law, and because it provides part of the analysis upon which the PUC will base its decisions as to the level of investment required to acquire all cost-effective efficiency that is lower cost than supply.

d. The EE Procurement Plan shall address how the utility plans to integrate gas and electric energy efficiency programs to optimize customer energy efficiency

ii. Cost-effectiveness

a. The Utility shall assess measure, program and portfolio cost-effectiveness according to the Total Resource Cost test ("TRC")[2]. The Utility shall, after consultation with the Council, propose the specific benefits and costs to be reported and factors to be included in the Rhode Island TRC test.

b. That test shall include the costs of CO2 mitigation as they are imposed and are projected to be imposed by the Regional Greenhouse Gas Initiative. They shall include any other costs associated with greenhouse gas reduction that are actually being imposed on energy generation and can be identified and quantified.

c. The utility shall provide a discussion of the carbon impacts efficiency and reliability investment plans will create.

iii. Prudency and Reliability

a. In the initial three-year EE Procurement Plan, a ramp-up to achieve all cost-effective efficiency lower cost than supply shall be proposed by the Utility that is both aggressive in securing energy, capacity, and system cost savings and is also designed to ensure the programs will be delivered successfully and cost-effectively over the long term[3]. The proposed ramp-up will appropriately balance the significant cost saving efficiency investment opportunity that is identified and the near-term capacity and staffing issues within the utility and vendor community with an emphasis on ensuring an aggressive and sustainable ramp-up of program investments over time.

b. EE Procurement Plan efficiency investments shall be made on behalf of all customers. This will ensure consistency with existing program structure under which all customers pay for and benefit from today's efficiency programs.

c. The EE Procurement Plan should describe how it interacts with the System Reliability Procurement Plan.

iv. Funding Plan and Initial Goals

a. The Utility shall develop a funding plan based on the following sources to meet the budget requirement of the EE Procurement Plan. The Utility shall utilize as necessary to fulfill the statutory mandate, the five following sources of funding for the efficiency program investments among others:

(1) the existing System Benefits Charge ("SBC");

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[2] Since the focus of the Rhode Island legislation is on securing customer benefits, not just Utility benefits from energy efficiency procurement, the TRC test is recommended.

[3] The Utility may propose a study or studies to investigate and document current energy efficiency program infrastructure in Rhode Island; to assess the ability of the infrastructure to meet increased demand for energy efficiency services; and to make recommendations for increasing capacity if needed. Any such report should address: staffing levels and ability to expand staffing; training and experience of staff; current workloads; interest in working with utility program sponsors; statewide coverage of services; and other relevant factors. Where appropriate, the Utility may partner with research efforts of this sort that are regional in nature or in other jurisdictions, so long as they provide pertinent information for building the Rhode Island infrastructure. The costs of these plans and the actions to implement them may be included as program costs.

(2) forward capacity market ("FCM") revenues should be re-invested to help cover program costs.

(3) auction of Regional Greenhouse Gas Initiative (RGGI) allowances pursuant to § 23-82.6 of the General Laws which states allocation of RGGI proceeds shall be for that which "best achieves the purposes of the law, namely, lowering carbon emissions and minimizing cost to customers over the long term";

(4) funds from any federal or international climate or cap and trade legislation or policy including but not limited to revenue or allowances allocated to expand energy efficiency programs;

(5) distribution rates, which is a funding mechanism to be relied upon after the other sources to ensure the legislative mandate to procure all cost effective efficiency that is lower cost than supply is met.

b. The Utility shall include a preliminary budget for the EE Procurement Plan covering the three-year period that identifies the projected costs, benefits, and initial energy saving goals of the portfolio for each year. The budget shall identify at the portfolio level, the projected cost of efficiency resources in cents/ lifetime kWh. The preliminary budget and initial energy saving goals may be updated in the Utility's EE Program Plan.

B. Efficiency Performance Incentive Plan

i. The Decoupling of utility earnings from its revenues (discussed in Section 3.1) removes a disincentive for aggressive pursuit of EE Procurement; but a financial incentive will permit the Utility to view efficiency investments as a business opportunity and not just a cost center. Without such an incentive the opportunity for making money is all related to Transmission and Distribution ("T&D") investments and the rate of return the utility may derive from those investments

ii. Utility shall have an opportunity to earn a shareholder incentive that is dependent on its performance in implementing the approved EE Procurement Plan

a. . The Utility, in consultation with the Council will propose in its EE Procurement Plan, an incentive proposal that is designed to promote superior Utility performance in cost-effectively and efficiently securing for customers all efficiency resources lower cost than supply.

b. The Performance Incentive should be structured to reward program performance that makes significant progress in securing all cost-effective efficiency resources that are lower cost than supply while at the same time ensuring that those resources are secured as efficiently as possible.

c. The Utility incentive model currently in place in RI should be reviewed by the Utility and the Council. The Utility and Council shall also review incentive programs and designs in other jurisdiction including those with penalties and increasing levels of incentives based on higher levels of performance.

d. The Incentive may provide incentives for other objectives that are consistent with the goals including but not limited to comprehensiveness, customer equity, increased customer access to capital, and market transformation.

e. The incentive should be sufficient to provide a high level of motivation for excellent Utility performance, but modest enough to ensure that customers receive most of the benefit form EEP implementation.

3. **Section 1.3 EE Program Plan Components**

A. Principles of Program Design

i. The EE Program Plan shall identify the specific energy efficiency programs proposed for implementation by the Utility, pursuant to the EE Procurement Plan.

ii. The Utility should consistently design programs and strategies to ensure that all customers have an opportunity to benefit comprehensively, where appropriate, from expanded investments in this low-cost resource and the programs should be designed and implemented in a coordinated fashion by the utility, in active and ongoing consultation with the Council.

iii. The Utility shall propose a portfolio of programs in the EE Program Plan that is cost-effective. Any program with a benefit cost ratio greater than 1.0 (i.e., where benefits are greater than costs), should be considered cost-effective. While all programs should be cost-effective, the portfolio must also be determined to be cost-effective.

iv. The Utility shall be allowed to direct a portion of proposed funding to conduct research and development and pilot program initiatives. These efforts will not be subject to cost-effectiveness considerations. However, the costs of these initiatives shall be included in the assessment of portfolio level cost-effectiveness.

v. All efforts to ramp-up program capability as identified in Section 1.2 A iii (a) shall be done in a manner that ensures quality delivery and is economical and efficient. The utility shall include wherever possible and practical partnerships with existing educational and job training entities.

vi. The portfolio of programs proposed by the Utility should be designed to ensure that different sectors and all customers get opportunities to secure efficiency resources lower cost than the cost of supply

vii. While it is anticipated that rough parity among sectors can be maintained, as the limits of what is cost-effective are identified, there may be more efficiency opportunities identified in one sector than another. The Utility should design programs to capture all resources that are cost-effective and lower cost than supply. The Utility should consult with the Council to address ongoing issues of Parity

viii. The Utility shall explore as part of its plan, new strategies to make available the capital needed to effectively overcome market barriers and implement projects that moves beyond traditional financing strategies.

B. Final Funding Plan and Budget Amounts, Cost-Effectiveness and Goals

i. The Utility shall include a detailed budget for the EE Program Plan covering the annual period beginning the following January 1, that identifies the projected costs, benefits, and energy saving goals of the portfolio and of each program. The budget shall identify at the portfolio level, the projected cost of efficiency resources in cents/ lifetime kWh.

ii. The EE Program plans filed November 1, will reflect program ramp-up experience and anticipated changes, shifts in customer demand, changing market costs, and other factors, as noted in Section 1 above. The annual detailed budget update shall include the projected costs, benefits, and energy saving goals of each program as well as the cost of efficiency resources in cents/ lifetime kWh.

iii. The Utility, in consultation with the Council may propose specific non-energy benefits (NEBs) in its Residential Low Income program cost-effectiveness analysis in addition to the benefits included in the TRC test for all other programs.

iv. The EE Program Plan shall identify the energy cost savings that RI ratepayers will realize through its implementation.

v. In order to assess the potential effect of greenhouse gas reduction costs, the Utility, upon consultation with the Council, shall conduct and report in the EE Procurement Plan filing a sensitivity analysis of the proposed portfolio of programs that includes a "potential" cost for CO2 mitigation that is agreed upon among the parties.

C. Program Descriptions

i. Utility program development shall proceed by building upon what has been learned to date in utility program experience, systematically identifying new opportunities and pursuing comprehensiveness of measure implementation as appropriate and feasible.

ii. The Utility shall, as part of its EE Program Plan, describe each program, how it will be implemented, and the total costs and benefits associated with the efficiency investments

iii. The Utility plan shall describe in each appropriate program section a plan to devise new strategies to make available the capital needed in addition to the incentives provided to implement measures.

iv. In addition to these basic requirements, the plan shall address, where appropriate, the following elements:

a. Comprehensiveness of opportunities addressed at customer facilities

b. Integration of electric and natural gas energy efficiency implementation and delivery (while still tracking the cost-effectiveness of programs by fuel).

c. Integration of energy efficiency programs with renewables and other system reliability procurement plan elements

d. Promotion of the effectiveness and efficiency levels of Codes and standards and other market transforming strategies. If the utility takes a proactive role in researching, developing and implementing such strategies, it may, after consultation with the Council, propose a mechanism to claim credit for a portion of the resulting savings.

e. Implementation, where cost-effective, of demand response measures or programs that are integrated into the electric and natural gas efficiency program offerings. Such measures/programs will be designed to supplement cost-effective procurement of long-term energy and capacity savings from efficiency measures.

D. Monitoring & Evaluation (M&E) Plan

i. The Utility shall, after consultation with the Council, include a Monitoring and Evaluation ("M & E") component in its EE Program Plan.

ii. This M & E component shall cover the three years of the Plan, with a focus on the first year, and address at least the following:

a. a component that addresses savings verification including, where appropriate, analysis of customer usage;

b. a Component that will address issues of ongoing program design and effectiveness;

c. any other issues, for example, efforts related to market assessment and methodologies to claim savings from market effects, among others;

d. a discussion of Regional and other cooperative M & E efforts the Utility is participating in or plans to participate in.

iii. The Utility shall include in its M & E component any changes it proposes to the frequency and level of detail of utility program plan filing and subsequent reporting of results.

E. Reporting Requirements

i. The Utility, in consultation with the Council, will propose the content to be reported and a reporting format that is designed to communicate clearly and effectively the benefits of the efforts planned and implemented, with particular focus on energy cost savings, to secure all EE resources that are lower cost than supply.

4. <u>Section 1.4 Role of the Council</u>

A. The Council shall take a leadership role in ensuring that Rhode Island ratepayers get excellent value from the EE Procurement Plan being implemented on their behalf. The Council shall do this by collaborating closely with the Utility on design and implementation of the Monitoring and Evaluation efforts presented by the Utility under the terms of Section 1.3 D, and if necessary, provide recommendations for modification that will strengthen the assessment of utility programs.

B. As part of the Council's April 15 annual report required by 42-140.1-5 the Council shall report on program performance and whether program costs are justified, given the intent of the enabling legislation. The Council shall also report on the effectiveness of any performance incentive approved by the PUC in achieving the objectives of efficient and cost-effective procurement of all efficiency resources lower cost than supply and the level of its success in mitigating the cost and variability of electric service by reducing customer usage.

C. In addition to the other roles for the Council indicated in this filing, the Utility shall seek ongoing input from, and collaboration with the Council on development of the EE Procurement and Program Plans, and on development of the annual update to the Plan.

D. The Utility and the Council shall report to the PUC a process for Council input and review of its 2008 EE Procurement Plan and EE Program Plan by July 15, 2008 and triennially thereafter.

E. The Council shall vote whether to endorse the EE Procurement Plan by August 15, 2008 and triennially thereafter. If the Council does not endorse the Plan then the Council shall document the reasons and submit comments on the Plan to the PUC for their consideration in final review of the Plan.

F. The Utility shall, in consultation with the Council, propose a process for Council input and review of its EE Procurement Plan and EE Program Plan. This process is intended to build on the mutual expertise and interests of the Council and the Utility, as well as meet the oversight responsibilities of the Council.

G. The Utility shall submit a draft annual EE Program Plan to the Council for its review and comment annually by October 1.

H. The Council shall vote whether to endorse the annual EE Program Plan by October 15, annually. If the Council does not endorse the annual EE Program Plan, the Council shall document its reasons and submit comments on the Plan to the PUC for its consideration in final review of the Plan.

CHAPTER 2 – System Reliability Procurement

The system reliability procurement standards need to be flexible enough to achieve the statutory goals and allow for innovation in the process. It is likely that the standards will need to be revised over time. The Council will provide supplemental filings to the PUC as it facilitates further discussion among parties and the Utility on the numerous issues to be addressed in the System Reliability Procurement Plan.

Section 2.1 Distributed/Targeted Resources in Relation to T&D Investments

(a) The Utility shall propose pilot distribution and, if appropriate, transmission projects in their first system reliability procurement plan for which they will examine alternative resource strategies as alternatives or enhancements to the distribution or transmission upgrade. These pilot projects should be used to inform or revise the system reliability procurement process in subsequent plans.

(b) Alternative Resource Technologies (ART) shall include but not be limited to:

(1) Distributed generation generally

(2) Combined heat and power

(3) Renewables (predominantly wind and solar, but not constrained)

(4) Demand response

(5) Peak demand and geographically focused energy efficiency programs

(6) In order to meet the statute's environmental goals, unless a compelling showing to contrary technologies selected or supported should:

(i) achieve a CO_2 emissions rate equal to or better than the ISO New England marginal emissions rate on an output basis (thermal and electric) – current rate ~1,100 lbs/MWh; and

(ii) utilize best available control technology for NOx emissions

(c) For each pilot the utility should identify an evaluation process that allows for input from the Council and other stakeholders and includes elements such as the following:

(1) Identification and description of the T&D investment

(2) Description of the need, requirements, and drivers such as demand growth (load curve and timing issues)

(3) Description of the business as usual upgrade in terms of technology, costs (capital and O&M), and schedule for the upgrade

(4) Identification of the level of peak demand savings required to avoid the need for the upgrade

(5) Development of ART alternative investment scenario(s)

(i) Specific ART characteristics

(ii) Development of an implementation plan, including ownership and contracting considerations or options

(iii) Development of a detailed cost estimate (capital and O&M) and implementation schedule

(6) Reporting and recommendations

(i) Compare the investment options from a cost perspective – cost assessed on a net-present-value basis to the state's ratepayers (common assumptions across scenarios)

(ii) Include a summary of environmental impacts and a discussion of any co-benefits such as benefits to local businesses or industry

(iii) Recommend preferred solutions

(d) The utility pilot program(s) should be reviewed and approved by the PUC as part of the System Reliability Procurement Plan submitted on September 1.

Section 2.2 Renewables

(a) The utility shall consider opportunities to integrate renewable energy resources with measurable benefits into the system reliability plan and in a coordinated fashion with the implementation of efficiency procurement. Activities may include but not be limited to:

1. Small to medium scale renewable energy projects that compliment the distribution and transmission pilot projects or provide other system benefits;
2. Small-scale distributed renewable energy projects such as photovoltaics wind or solar thermal; and
3. Where appropriate, the Utility should coordinate its programs with the renewable energy fund.

(b) The utility plan shall document current activities and commitments to increase renewable energy production and contracting and how those activities affect costs, benefits, price stability, fuel diversity, and environmental goals.

(c) Renewable projects may benefit from changes to existing standby rates and improved interconnection standards.

Section 2.3 Combined Heat and Power

(a) The electric and natural gas efficiency programs should support and expand programs for CHP applications that are cost-effective, deliver net reductions in energy consumption, and provide environmental benefits.

(b) The utility plan shall include discussion of CHP potential in the state based on the Opportunity Report and should set targets or goals for CHP penetration and if necessary propose new programs to support the development of CHP. The plan should describe how those activities affect costs, benefits, price stability, fuel diversity, and environmental goals.

(c) CHP programs or projects supported by the Utilities should be sited at facilities with adequate thermal loads to ensure high levels of efficiency on an annual basis

(d) CHP projects may benefit from changes to existing standby rates and improved interconnection standards.

Section 2.4 Demand Response

(a) The Utility shall examine and implement where cost-effective, demand response measures or programs in coordination with the electric and natural gas efficiency program offerings. Such measures and programs will be designed to supplement cost-effective procurement of long-term energy and capacity savings from efficiency measures.

(b) The Demand and capacity value of CHP and other distributed generation strategies shall be identified and quantified.

Chapter 3: Aligning Utility Incentives & Reforming Rates

Section 3.1 Remove the Link between Sales Volume and Utility Profits

(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.

(5) While the Council has just begun deliberations on this topic, relevant issues to be worked out in the design of any decoupling plan include:

(i) Reconciling mechanisms to adjust actual revenues to the allowed distribution revenue requirement, the symmetry of such reconciling mechanisms in terms of over and under recovery, the frequency of such true-up mechanisms, whether or not to reconcile on a company-wide basis, whether to use actual sales or normalized sales, and whether to use billed revenue vs. payments received.

(ii) Any changes in the risk the utility faces and any implications for return on equity.

(iii) The completeness of a decoupling mechanism in terms of severing the link between utility revenues and utility sales of electricity.

(iv) The Council will report further on these issues to supplement this submission by May 1st, 2008.

(6) In its September 1, 2008 Plans the Utility will address how the lack of a decoupling mechanism could affect the achievement of energy efficiency procurement and programs and reliability procurement and programs.

Section 3.2 Review of Standby Rates

(1) In order to facilitate increased fuel diversity and increased development of distributed resources in the state, standby rates for customers with on-site generation should be re-examined and adjusted if appropriate.

(2) The Utility Reliability Procurement Plan should include a discussion of this issue.

Section 3.3 Streamlined Interconnection Standards

(1) Interconnection standards that are streamlined and consistent with standards in neighboring states and national "best practices" reduce cost and delay for distributed generation developers. Given National Grid's involvement in Massachusetts, Rhode Island should adopt the interconnection standards developed by the DG Collaborative, modified as necessary to be compatible with Rhode Island law.

(2) There is currently a docket at the PUC in which National Grid is participating.

(3) The Utility Reliability Procurement Plan should include a discussion of this issue.