



April 23, 2008

Via Electronic Mail and First-Class Mail

Rockport, ME
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Providence, RI
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Luly E. Massaro, Commission Clerk
Rhode Island Public Utility Commission
89 Jefferson Boulevard
Warwick, RI 02888

**Re: Docket 3931, RI Energy Efficiency and Resource Management Council's
Proposed Standards for Energy Efficiency and Conservation Procurement and
System Reliability: Comments of Environment Northeast**

Dear Ms. Massaro:

Environment Northeast ("ENE") appreciates the opportunity to provide comments to the Public Utilities Commission ("PUC" or "Commission") in Docket No. 3931, In Re: RI Energy Efficiency and Resource Management Council's ("EERMC" or "Council") Proposed Standards for Energy Efficiency and Conservation Procurement and System Reliability. ENE is an organization that addresses large-scale environmental problems that threaten regional ecosystems, human health or the management of regionally significant natural resources.

ENE believes that the Council's Draft Proposed Standards ("Proposed Standards") lay out a clear structure and path for how Rhode Island can achieve the goals set by the 2006 Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006 ("2006 Act"). ENE urges the Commission to approve and adopt the Proposed Standards which will allow the PUC, the Council and National Grid (the "Utility") to begin the important work of saving Rhode Island consumers millions of dollars by procuring all energy efficiency ("EE") that is less expensive than supply and thus fulfill the 2006 Act's mandate.

Legislative Background

The 2006 Act identified a unique opportunity for Rhode Island to systematically procure least cost energy resources.¹ Recent data show that efficiency programs in Rhode Island are acquiring efficiency resources at a cost of roughly 3 cents per kWh while electric supply costs from 8 to 10 cents per kWh.² Nevertheless, Rhode Island spends more than \$1.3 billion on 8 to 10 cents per kWh electric supply each year³ while only investing roughly \$20 million in 3 cents per kWh efficiency resources.⁴ In

¹ R.I.G.L. §39-1-27.7(a)(2).

² Narragansett Electric DSM filings for efficiency and ISO-NE Reports for supply.

³ Energy Information Administration.

⁴ Narragansett Electric DSM filings for efficiency.

other words Rhode Island is spending fifty times more on a resource that is three times more expensive. Moreover, the roughly \$20 million annual investment in efficiency yields total savings to consumers exceeding \$60 million,⁵ creates non-utility jobs associated with energy services, audits, and installation, and generates millions of dollars in local economic growth. Guided by the statutory direction of R.I.G.L. §39-1-27.7, the EERMC has laid out a set of Standards to help ensure that the Rhode Island distribution utility will seize the opportunity to increase the state's investment in efficiency resources that are less expensive than supply in a manner that will save ratepayers money by reducing their energy bills while at the same time reducing system-wide peak demand, transmission, and capacity costs.

The Proposed Standards

ENE believes that the two-step approach outlined by the EERMC's proposed standards is a sound, logical method that will lead to dramatic increases in Rhode Island's investment in cost-effective energy efficiency. By working with National Grid in developing a 3-year "EE Procurement Plan," the Council will ensure that opportunities for energy efficiency investment are developed and maximized. The Proposed Standards appropriately require detailed budgets for each annual period as well as the projected benefits and energy savings of each program. ENE agrees with the Council's determination that the total resource cost test (TRC) is the best measure of program benefits and costs. As opportunities are identified and pursued, it is essential that the Council, as required by R.I.G.L. §42-140.1, monitor and evaluate the implementation of plans and programs to ensure that the Utility acquires the maximum available potential. Similarly, to ensure transparency and accountability, the Council must report its findings to the PUC, General Assembly, and the public.

Through this systematic process, the Utility will have the ability to save Rhode Island consumers hundreds of millions of dollars over the next decade—both in direct savings to customers who participate in the efficiency program, and in the aggregate system-wide savings associated with lowered demand for energy. Moreover, procuring the least cost energy resource will also lead to dramatic reductions in the emission of greenhouse gases. The EERMC's Standards put Rhode Island firmly on the path towards achieving these economic and environmental goals.

Performance Incentives

ENE believes that the Council's proposed standards appropriately acknowledge the importance of performance incentives to stimulate excellence in utility program administration and implementation. Performance incentives for efficiency excellence allow demand side programs to compete with other utility revenue generating priorities such as transmission and distribution infrastructure. As discussed in Section 1.2 B of the Standards, removing the efficiency disincentive through decoupling, while crucial, will not be sufficient to secure aggressive utility implementation of least cost procurement of cheap energy efficiency resources.⁶ To maximize ratepayer savings, the Commission should approve and adopt the portion of the Council's Standards relating to performance incentives for "securing all cost-effective efficiency resources [that are] lower cost than supply."

Decoupling

ENE supports the inclusion of Section 3.1 in the Proposed Standards. Under current rate structures, least cost procurement of energy efficiency would have a negative impact on the company's

⁵ Narragansett Electric DSM filings.

⁶ See Martin Kushler, Dan York and Patti White, *Aligning Utility Interests with Energy Efficiency Objectives: A Review of Recent Efforts at Decoupling and Performance Incentives*, American Council for an Energy-Efficient Economy, 8 (October 2006).

ability to recover fixed costs because the Utility's distribution revenues are tied to its energy sales. An explicit recognition and correction of this perverse disincentive is essential to creating a regulatory environment that will ensure least cost procurement works to maximize savings for Rhode Island ratepayers.

Additional Materials

ENE supports the efforts of the General Assembly, the EERMC, and the Commission in pursuit of all cost-effective efficiency resources that are lower cost than supply. The attached Appendix contains several charts and graphs that illustrate the importance of procuring low-cost Rhode Island energy resources. Efficiency programs save about three dollars for every dollar invested, return savings to consumers that can be invested in other parts of the economy, substitute expenditures on out-of-state fossil fuels with local energy service jobs, reduce the demand for new power plants, reduce emissions, and allow any carbon cap and trade programs to be implemented at lower cost.

Environment Northeast thanks the Commission for the opportunity to provide these comments.

Respectfully submitted,

/s/ Jeremy C. McDiarmid

Jeremy C. McDiarmid
Staff Attorney

cc: Paul J. Roberti, Office of the Attorney General (via electronic mail)
Service List (via electronic mail)

CERTIFICATE OF SERVICE

I hereby certify that on the 23rd day of April, 2008, in accordance with Rule 1.7 of the Commission's Rules of Practice and Procedure, I have served the foregoing document upon all parties of record in this proceeding via electronic mail.

/s/ Jeremy C. McDiarmid

Jeremy C. McDiarmid

Figure 1: Electric prices have been increasing sharply in New England over the past seven years:

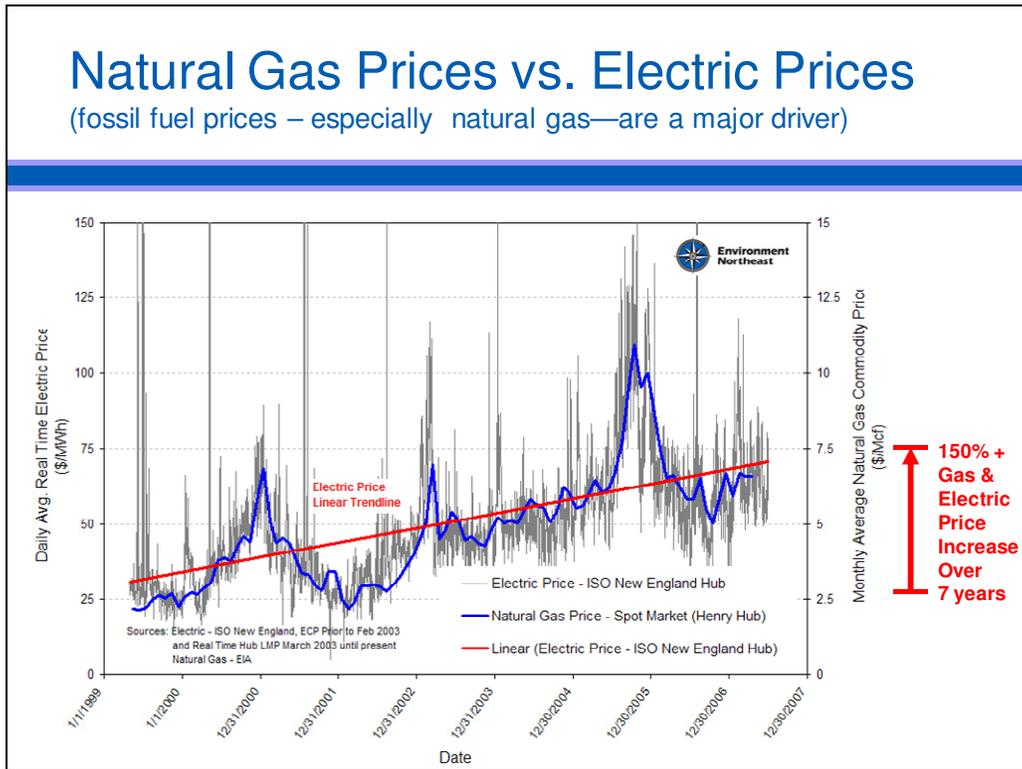


Figure 2: New England ratepayer spending on fossil fuels for generation has increased dramatically:

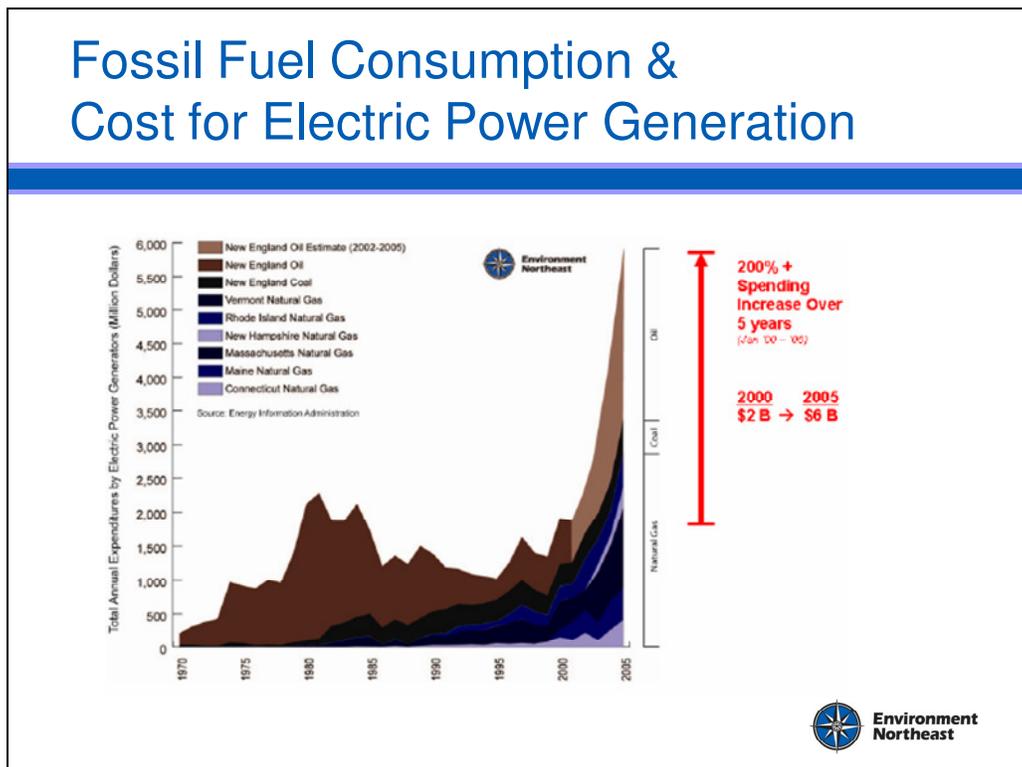


Figure 3: The price of electricity is largely determined international markets for natural gas—Rhode Island has much more ability to control quantity in order to reduce energy cost:

Fundamental Law of Economics Applies to Energy

Cost = Price x Quantity

Sharp increase in Price is driving energy Cost up in RI. As a result:

- **\$1.35 Billion** leaves RI's economy each year for commodity energy
 - Sharp rise from **\$700M in 2003** → **\$1.35 Billion in 2006**
- **50%+ increase** in commodity cost portion of electric bills since 2003
- **90%+ increase** in cost for natural gas & fuel oil since 2003
- **Goal:** Making energy more affordable, reliable, and sustainable for all Rhode Islanders
 - Large users, Medium sized users, Residential users
 - Increased Local Energy Resources and Lower Energy \$ Exports
- We can't control energy supply prices of fossil fuels as the markets are national and transnational,
 - But we can control quantity (efficiency) and local renewable energy supply (wind, wave, tidal, solar, biomass, etc)

Figure 4: The price of electric supply is \$80+ per MWh while efficiency is \$30 per MWh resources:

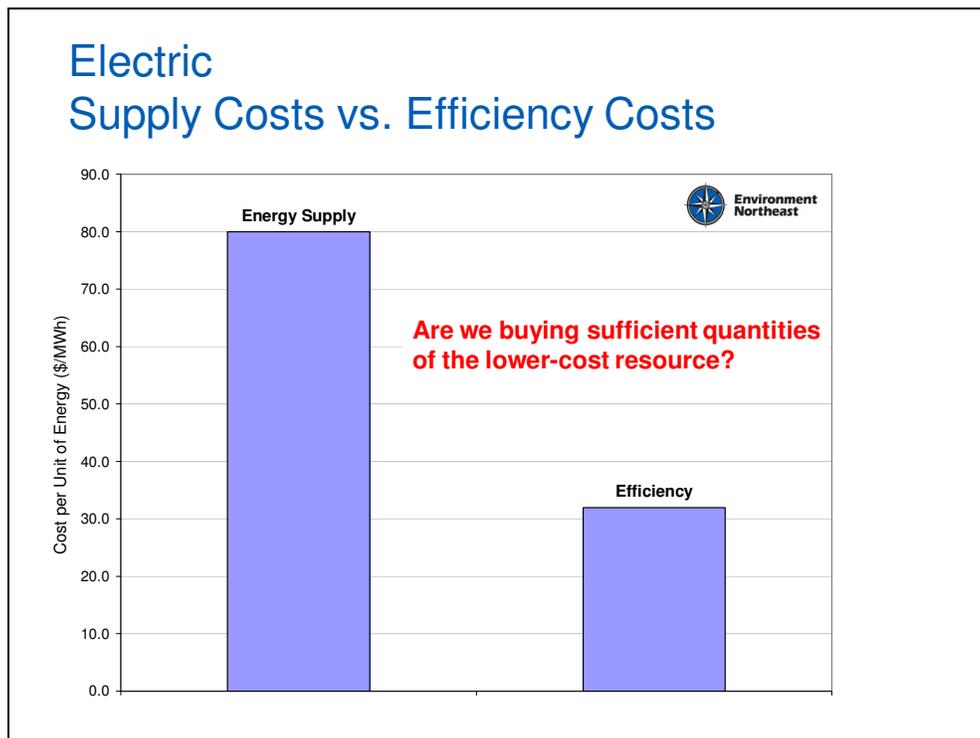


Figure 5: Rhode Island is spending much more on high cost supply than it is on low cost efficiency:

