



May 7, 2008

Via Electronic Mail and First-Class Mail

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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 Resources Management Council's Proposed Standards for Energy Efficiency and Conservation Procurement and System Reliability: Reply Comments of Environment Northeast in Response to the Comments of the Division of Public Utilities and Carriers.

Dear Ms. Massaro:

Environment Northeast ("ENE") appreciates the opportunity to provide reply comments to the Public Utilities Commission ("PUC" or "Commission") in Docket No. 3931 in response to the Comments of the Division of Public Utilities and Carriers ("Division") as prepared by Synapse Energy Economics and filed with the Commission on April 23, 2008. 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 appreciates the Division's comments and believes that they represent a great deal of common ground between the Council, ENE and the Division. ENE is in agreement with many of the points made in the Division's Comments, including supportive comments regarding the EE Plan Filing three-year schedule, the use of the Total Resource Cost test, the need for new approaches to making capital available, the need to assess the incentive plan, and support for the System Reliability Standards. However, we respectfully disagree with its position regarding Section 3.1 entitled "Remove the Link between Sales Volume and Utility Profits." In short, ENE believes that this Section is properly part of the proposed standards and urges the Commission to adopt it.

Energy efficiency and decoupling are inextricably linked. Under current rate structures, a utility has a strong financial disincentive to invest in efficiency resources because when it sells less energy, it makes less money. Decoupling eliminates this disincentive by severing the link between utility sales and utility revenue through reconciliations or "true-ups" that ensure that actual utility revenues do not exceed allowed revenues set by the Commission during a rate case. Decoupling is essential for the success of Rhode Island's energy efficiency programs¹ and even much more so under Least Cost Procurement. Therefore, ENE believes that the Council properly included decoupling in its proposed standards.

¹ Indeed, the Division's comments acknowledge that "the issues of decoupling and energy efficiency are clearly related." See Comments of Division, at 1 (April 23, 2008).

Including decoupling as a consideration within the EERMC Standards does not replace the need for a separate PUC proceeding to determine the contours of a decoupling mechanism and to ensure that it is properly implemented. Nevertheless, inclusion of decoupling within the proposed Standards allows the Council to carry out its statutory obligations to “participate in proceedings that pertain to...least-cost procurement” and “consider such other matters as it may deem appropriate to the fulfillment of its purposes.”²

At its core, decoupling breaks an important economic link between the utility’s sales volume and the utility’s revenue. By contrast, the Division’s call for closer scrutinizing of load forecasts “during rate cases to more carefully discern the effect of EE programs” does not break the link. Higher scrutiny of load forecasts is tantamount to a “lost-base revenue” scheme that has been abandoned by many states as ineffective.³ Such an approach does not break remove the disincentive; rather it creates a perverse incentive for utilities to maximize sales while promoting efficiency programs that sound attractive and ostensibly offer demand reductions, but actually save little energy. As a result, decoupling is an entirely proper policy issue for the EERMC to include in its proposed Standards, especially considering the limited fashion it has done so, and the importance of articulating a role for the Council to provide stakeholder input.

Again, ENE welcomes and supports the Division’s comments in general, but believes that decoupling is not only a proper policy tool for the Council to address and believes that Commission should approve Section 3.1 of the EERMC’s Proposed Standards. ENE thanks the Commission for the opportunity to provide these reply 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)

² See RIGL § 42-140.1-5 (d), (g).

³ See Kushler, York and Witte, Aligning Utility Interests with Energy Efficiency Objectives: A Review of Recent Efforts at Decoupling and Performance Incentives, American Council for an Energy-Efficient Economy, Report No. U061, Oct. 2006. , at 8

CERTIFICATE OF SERVICE

I hereby certify that on the 8th day of May, 2008, I have served the foregoing document upon all parties of record in this proceeding via electronic mail.

/s/ Jeremy C. McDiarmid

Jeremy C. McDiarmid

