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Senior Counsel

October 29, 2008

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 3931 - Least Cost Procurement Plan
National Grid Response to Commission Data Request

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's¹ response to the Commission's Data Request issued on October 27, 2008 in the above-captioned proceeding.

Thank you for your attention to this filing. If you have any questions, please contact me at (401) 784-7667.

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Docket 3931 Service List

¹ Submitted on behalf of The Narragansett Electric Company d/b/a National Grid.

Commission Data Request

Request:

With regard to Table 1, page 4 of 18 of the company's September 2, 2008 filing, please:

- a. Indicate why it is anticipated that TRC Benefit / Cost will decrease from 2008 to 2009 and continue to decrease each year thereafter.
- b. At what point is it expected that the TRC Benefit / Cost ratio will again begin to increase or will begin to approach the 2008 level of 4.00?
- c. Why is it appropriate to invest additional funds in DSM programs given that the TRC Benefit Cost ratio is expected to decline in the short term to levels below the 2008 level, especially considering the state's current economic condition?

Response:

1a. In Table 1, the TRC benefit cost ratio decreases from 2008 to 2009 and continues to decrease thereafter. This is indicative of what might be expected under least cost procurement because the "Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006" ("2006 Energy Act") requires the procurement of all cost effective energy efficiency that costs less than supply and is prudent and reliable. For example, consider that energy efficiency costs \$0.032/lifetime kWh in 2008 and supply costs around \$0.12/kWh (i.e., 3.75 times more expensive) over the same period. The 2006 Act, and the Commission's Standards for Energy Efficiency and Conservation Procurement ("Standards"), requires National Grid to acquire more efficiency resources that may be more expensive than \$0.032/lifetime in 2009 as long as they are less expensive than supply (currently \$0.124/lifetime kWh), prudent and reliable.

The 2009-2011 Least Cost Procurement Plan complies with the 2006 Energy Act and Standards by targeting energy efficiency that is less expensive than supply. Some of the increasing costs for energy efficiency may be associated with expansion of delivery channels needed to acquire these resources and to meet the higher savings goals. Other slightly higher costs are associated with focusing more effort on programs that can go deeper and achieve new savings for customers such as new construction programs, where there are great comprehensive savings opportunities, as opposed to lighting programs which are very inexpensive but in of themselves don't maximize savings for ratepayers.

Commission Data Request (cont.)

1b. It is not known whether the Benefit/Cost ratio will return to the vicinity of 4.00. There are some factors that will tend to drive the Benefit/Cost ratio down such as those mentioned in 1a. On the hand, there are some factors that will tend to drive the Benefit/Cost ratio up. For example, if the cost of electric supply continues to rise, as we have experienced over the past decade, to a price that is higher than \$0.12/kWh, then the avoided costs used in the benefit calculation would increase. This in turn would increase the B/C ratio. (Note: an updated avoided cost study will be prepared in mid-2009 and will be used in the 2010 Energy Efficiency Program Plan and any update to the Least Cost Procurement Plan prepared in the second half of 2009.) Other factors may cause efficiency costs to be less than expected, for example, National Grid will be exploring innovative financing mechanism and partnerships that may result in its cost of efficiency being lower than expected. In addition, if greater volumes of some newer efficiency technologies are installed, it may drive their price down due to a scale effect, which if it occurs, would also cause the B/C ratio to go up.

1c. The Company, as well as the Energy Efficiency and Resource Management Council and the Division of Public Utilities and Carriers—both of which have supported the Energy Efficiency Procurement Plan portion of the Least Cost Procurement Plan—believes that it is appropriate to invest additional funds in DSM programs even with the projected decline in the Benefit/Cost ratio and the state's current economic condition.

First, the General Assembly in the 2006 Energy Act and the Commission in the Standards requires greater investment in the lowest cost energy resources in Rhode Island – energy efficiency – to help electric customers and the state's economy by lowering our energy costs. The Act directs the procurement of all energy efficiency resources that are cost-effective and cost less than supply. As seen in Table 1 of the Plan, the Benefit/Cost ratio for 2009 is projected to be 3.22 from a TRC perspective. This means that consumers will receive over three times more benefits over the life of the projects installed in 2009 than the DSM funds they contribute in that year. The net benefits that will accrue to RI ratepayers from the three years of increased efficiency investments will exceed \$280 million at time of economic hardship. As long as the benefits and savings that are created exceed the costs to create those benefits, the investments are to be supported in order to achieve the objectives of the Act, the Standards, and in the process save hundreds of millions of dollars for RI ratepayers.

One way to think of this by way of analogy is under the old system National Grid was spending \$5 to realize \$20 in energy efficiency savings. The Act now requires National Grid to spend \$10 to realize \$35 of savings. In this example, instead of saving \$15, Rhode Island customers will now save \$25, with a bit more effort.

Commission Data Request (cont.)

Second, we note that the increase in DSM funds for energy efficiency in the short term will result in consumer savings in the long term. What is reflected in the marginally increased cost over the three year plan is the short term cost of acquiring energy efficiency. The cost of energy efficiency is expressed in \$/lifetime kWh because, once the efficient equipment is purchased, it delivers energy savings over the balance of its useful life for essentially no charge. If a device installed in 2009 saves 1 kWh per year at an initial cost of \$0.39 and lasts ten years, the lifetime cost of that device is approximately \$0.039/lifetime kWh. If the customer had to buy the same 1 kWh from an electric supplier, they would pay \$0.124 in 2009 at the current standard offer rate, but they would need to buy it every year over the ten years for a total cost of \$1.24. This means the customer would be spending \$1.24 over ten years compare to only \$0.39 for energy efficiency. Therefore, while in the short term rates will increase to fund the increase in energy efficiency, in the long term, consumers will benefit from avoiding the purchase of electric supply and bills will decline substantially. This scenario is what the General Assembly pursued when they unanimously passed least cost procurement in 2006.

Third, as noted above in (b), in 2009 and following years, National Grid and its Collaborative partners will be exploring ways to mitigate these costs to consumers—or deliver more energy efficiency per dollar spent—through innovative financing and delivery mechanisms.

Fourth, investments in energy efficiency reduce the flow of dollars spent on energy supply that leave the state. This means as Rhode Island ratepayers' electric bills go down, there is more money in the state to circulate and be productive in the local economy.

Fifth, the expanded energy efficiency efforts will create local jobs associated with energy audits, installation, and energy contracting that will be a benefit to the local economy.

For all these reasons, National Grid believes that increased investment in energy efficiency beginning in 2009 is in the long term economic benefit of the consumers of Rhode Island.

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 10/3/08

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