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August 22, 2008

Via First-Class Mail and Electronic Mail

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

Re: Docket 3943, In Re: National Grid Gas Application to Implement New Rates

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter, please find the Response of Environment Northeast to the Commission's First Data Request to the Division and Intervenors (one original and 7 copies).

Kindly date stamp the enclosed extra copy and return it in the enclosed self-addressed stamped envelope. If you have any questions or concerns, please do not hesitate to contact me at 617-742-0054.

Sincerely,

Jeremy C. McDiarmid
Staff Attorney

cc: Jeffrey H. Gladstone, Esq.
Robert K. Taylor, Esq.

Enclosures

STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID GAS APPLICATION TO IMPLEMENT NEW RATES	)	DOCKET NO. 3943

RESPONSE OF ENVIRONMENT NORTHEAST
TO THE COMMISSION'S FIRST DATA
REQUEST TO DIVISION AND INTERVENORS

On August 7, 2008, the Commission issued the following data request to the Division and all intervenors in Docket 3943:

> *As an addendum to the Division's and Intervenors' surrebuttal testimony, please include a list of each item where the party disagrees with the positions of the Company or other parties to the docket. Include the financial impact of each item in dispute.*

Environment Northeast ("ENE") appreciates the opportunity to submit a response to the Commission's request.[1]

I. THE TESTIMONY OPPOSING NATIONAL GRID'S DECOUPLING PROPOSAL IGNORES THE OVERWHELMING CUSTOMER INTEREST IN REDUCING ENERGY CONSUMPTION AND ENERGY COSTS.

In this proceeding, ENE has the largest and most fundamental difference of opinion with the Division of Public Utilities and Carriers (the "Division"), the Energy Council of

[1] Although ENE did not submit pre-filed testimony, it did file Comments concerning the Company's decoupling proposal. See "Comments of Environment Northeast Concerning the National Grid Decoupling Proposal," Docket 3943, July 25, 2008.

Rhode Island ("TEC-RI"), and the George Wiley Center ("Wiley") over the appropriateness of a decoupling mechanism like that proposed by the Company. As it stated in its initial comments filed on July 25, 2008, ENE supports the adoption of a decoupling mechanism along the lines of National Grid's proposal. See ENE Comments at 2. By contrast TEC-RI, Wiley and the Division have opposed the adoption of a revenue decoupling mechanism. See Testimony of John Farley at 33; Testimony of Bruce R. Oliver at 80; Wiley Center Testimony at 2. As set out in its July 25th comments, ENE believes that, with minor modifications, the Company's revenue decoupling mechanism can lead to a productive rate structure that eliminates an economic disincentive to cost-saving energy efficiency investments.

The testimony submitted by the Division, TEC-RI and Wiley generally focuses on the likelihood that the revenue decoupling mechanism (RDM) proposed by National Grid may result in distribution rate increases for National Grid because customers will continue to reduce their consumption. See, e.g., Oliver at 17-18; Farley at 20, 26-27; Wiley at 2, 10. These parties would apparently prefer that National Grid's current financial incentive to increase sales and customer consumption of natural gas be maintained.

However, the interests of customers and of the Rhode Island economy lie in reducing the overall costs of energy, rather than the relative level of rate components. In essence, the appropriate focus should be on controlling the cost of a customer's entire bill (commodity charges and distribution charges), not just distribution rates. Since commodity charges have grown dramatically over the last eight years and now comprise approximately 70% of customer bills, the most effective way to reduce bills is to reduce consumption by using natural gas more efficiently. See Rebuttal Testimony of James Simpson at 17-18. In addition, reducing consumption of natural gas carries environmental benefits, including those associated with reductions in greenhouse gas emissions.

Although trends suggest that use per customer has been declining, there is no evidence that Rhode Island has reached its limit in cost-effective energy efficiency investments. To the contrary, ENE believes that there are significant and substantial opportunities to further reduce gas UPC through aggressive deployment of cost-saving efficiency resources.

Under National Grid's decoupling proposal, customers who reduce the amount of natural gas they consume, all else equal, will reduce the size of their overall bills. To the extent that decoupling opens the door to increases in energy efficiency investments, it will help facilitate an expansion of efficiency savings for greater numbers of customers. Thus, contrary to the Wiley Center's claim that "if a customer conserves greatly, s/he still pays the same amount until the end of the year," a customer who reduces consumption will see a direct and immediate reduction in his or her bill compared to what the bill would have been without the reduction. See Wiley at 10. Moreover, retaining a volumetric component to the distribution portion of the bill *increases* the economic signal to reduce consumption because both the commodity and distribution portion of the bill will be less with lower consumption.[2]

[2] Mr. Simpson demonstrates this phenomenon for each rate class in his Rebuttal Attachment NG-JDS-3, filed with his rebuttal testimony on August 15, 2008.

Mr. Farley's claims that decoupling would remove the utility's motivation to be concerned about the state's economic health are inaccurate. See Farley at 19. The state's economic health is directly related to its competitive position, which in turn is strongly affected by its energy costs. The commodity price for natural gas is set by national and international markets, not by National Grid. However, National Grid can play a significant role in reducing consumption and can do that most effectively if it does not face financial penalties from losing sales. No party has disputed the fact that current practices result in revenue losses when sales are reduced.

II. ALIGNING NATIONAL GRID'S FINANCIAL INCENTIVES WITH CUSTOMER INTERESTS IN REDUCING CONSUMPTION IS SUPPORTED BY STATE ENERGY POLICY AND CRITICALLY IMPORTANT.

Mr. Oliver's testimony for the Division suggests that National Grid's role promoting consumption reductions is not of great importance because there are third parties who market efficiency services and equipment and because customers make the final decisions to invest in efficiency. See Oliver, p. 13. Accordingly, he does not support revenue decoupling which would remove the current financial disincentive to encouraging energy efficiency. See id. at 80.

This view, which is not supported by any evidence, is contrary to the experience in Rhode Island and many other states that demonstrates that utility programs are highly effective in encouraging investments in efficient equipment and buildings through their provision of information, advice and incentives to customers.[3] Utilities are uniquely positioned to assume this role because of their access to customers and knowledge of usage patterns. They are generally viewed as credible sources of information and advice, and ENE's experience as a member of the collaborative of stakeholders that work with National Grid on their efficiency plans suggests that the Company fits this pattern. See, e.g., ACEEE, The State Energy Efficiency Scorecard for 2006, Report No. EO 75, June 2007 at iii, iv.[4] In short, ratepayers and suppliers of efficient equipment and services alike can benefit greatly from the support provided by the utility programs.

Moreover, state energy policies incorporated in statutes support the development and effective implementation of utility efficiency programs and the adoption of adjustment clauses to ensure full recovery of overhead and fixed costs. See ENE Comments at 4-5. While ENE agrees that the Company does not have a monopoly on energy efficiency products and services, because National Grid collects and disburses ratepayer funds for efficiency purposes, it is in a unique position to effect positive ratepayer decisions regarding efficiency investments. Cf, Oliver at 13. For this reason, there is a strong public interest in aligning National Grid's financial incentives with those of customers in supporting consumption reductions through the adoption of revenue decoupling.

[3] Although National Grid's gas efficiency programs are relatively young, the Company has run successful electric efficiency programs in Rhode Island for many years. See, e.g., ACEEE, The State Energy Efficiency Scorecard for 2006, Report No. EO 75, June 2007 at iii, iv, available at http://www.aceee.org/pubs/e075.htm. Similarly, Keyspan (which National Grid has since acquired) has run successful efficiency programs in Massachusetts. Thus, it is likely that National Grid's gas efficiency programs in Rhode Island will push achieve similar results.

[4] The report is available at http://www.aceee.org/pubs/e075.htm

III. THE REVENUE PER CUSTOMER MECHANISM PROPOSED BY NATIONAL GRID IS REASONABLE AND CONSISTENT WITH THE CURRENT REGULATORY ENVIRONMENT.

In his testimony, Mr. Oliver expresses concern that the revenue per customer decoupling mechanism proposed by National Grid would introduce a new element (customer count) into the determination of the Company's revenues which he believed was not appropriate. See Oliver at 19. Although Mr. Oliver is correct that this is a new element, it is also true that current conditions warrant a revision in regulatory policy and this is an entirely reasonable approach.

Current regulatory policies were developed at times when energy consumption of natural gas and electricity was generally increasing and these increases were viewed as positive benefits to customers and to the economic development of the state. Rates were established based upon current costs, and revenues increased as consumption and sales grew. These increases offset the increased costs which utilities faced due to inflation and the required infrastructure improvements. Since the match between increased costs and increased revenues was only approximate, periodic rate cases would redress the balance.

However, conditions in the natural gas utility market are markedly different today. As is discussed above, increased consumption is detrimental for consumers, the state, and the environment. Moreover, as has been noted by several witnesses, natural gas use per customer is in fact declining. See Direct Testimony of James Simpson, April 1, 2008 at 15-17; Oliver at 10-11. Accordingly, it is highly desirable from a policy standpoint to eliminate sales volume as a determinant of total distribution revenues because such elimination aligns the utility incentives with those of customers.

As Mr. Oliver states, the governing ratemaking principle is whether the rates provide the utility a reasonable opportunity to earn a fair rate of return. See Oliver at 19. This principle requires that there be some mechanism which will likely allow for revenue increases to offset the increased costs over those in the rate year due to inflation, capital improvements and new customer connections. The revenue per customer approach proposed by National Grid provides a reasonable method of accomplishing this goal. Again, it will not be a perfect match, but it provides a reasonable opportunity to earn a fair return over time, subject to periodic rate case review by the Commission. This approach also provides an incentive for National Grid to add new customers in all rate classes, which would contribute to economic development in the state. Cf, Farley at 19.

IV. COMMENTS ON NATIONAL GRID'S RESPONSE TO ENE'S PROPOSED MODIFICATIONS

A. True-ups across all rate classes will reduce rate volatility and cross-subsidization risks can be minimized.

In its July 25, 2008 Comments, ENE suggests that modifying the National Grid decoupling proposal to true-up across all rate classes would help reduce rate volatility. See ENE Comments at12. Moreover, Mr. Farley in his testimony articulates a similar concern about the rate impacts of National Grid's decoupling proposal upon large and extra large customers. See Farley at 30, 32, 33. ENE's proposed modification would help to reduce the decoupling rate impacts—both decreases and increases—of customers in small, heterogenous classes. See ENE Comments at 12.

In his rebuttal testimony, Mr. Simpson states that ENE's proposed modification "could also result in a workable decoupling mechanism." See Simpson Rebuttal at 43. However, he articulates concerns about cross-subsidization between classes with different weather dependency factors. See id. at 41-42. While ENE agrees that the Commission should be mindful of issues of potential cross-subsidization, ENE believes that the risk of cross-subsidization under its proposed modification would be low, and would pale in comparison to the reduced volatility that would result from an annual reconciliation that spans all participating rate classes.

B. New, Large Customers Should Not be Excluded from the Decoupling Mechanism.

Mr. Simpson also expresses concerns with ENE's recommendation that new large and extra large customers be included in the RDM within 12 months on the grounds that it "would discourage certain new customers from locating in the Company's service territory, or would encourage potential customers to use another—more environmentally harmful—fuel."[5] See Simpson Rebuttal at 43-44. To alleviate this concern, Mr. Simpson articulates a proposed modification to ENE's recommendation. See id. at 44. Specifically, Mr. Simpson states:

> [T]he Company's concern about the impact of decoupling on CIAC calculations would be addressed if Large and Extra Large Target RPCs were adjusted to account for new customers that required additional Company investments to serve that load.

[5] ENE is not fully persuaded by National Grid's argument that there is a direct correlation between the level of contributions in aid of construction (CIAC) it seeks from new large and extra large customers and the inclusion (or exclusion) of these new customers in its decoupling mechanism. See Simpson Direct Testimony at 4-7.

> Specifically, at the end of the first twelve months of full service to a [sic] new customers, the company would re-calculate the RPC targets for the rate class based on the addition of the new customer and the base revenues collected from that customer in the first twelve months of full service.
>
> See id.

While ENE believes that the Company's proposed modification requires some additional details, it could help alleviate ENE's concerns related to the exemption of new large and extra large customers. As ENE understands the Company's proposed modification, new large and extra large customers would be immediately included in the RDM and after twelve months of service, the company would re-calculate target revenues per customer taking into account base revenues generated by the new customers. Depending on the base revenues generated by the new customer(s), the revenue per customer targets would either be increased or decreased—it is essential that this calculation be symmetrical and that all existing customers in a rate class receive the benefit of a lower RPC if the newly added customers bring the average down. If these calculations occur in this manner, the financial impact to ratepayers could result in either an increase or decrease to distribution rates, but, as always, the total bill impact depends on a customer's overall consumption.

V. CONCLUSION

For the foregoing reasons, the Commission should adopt a modified version of National Grid's proposed full decoupling mechanism.

Respectfully submitted,

ENVIRONMENT NORTHEAST

By its attorneys,

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CERTIFICATE OF SERVICE

I hereby certify that on August 22, 2008, I delivered a true copy of the foregoing document either by first class mail or by electronic mail to the Docket 3943 Service List.

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Jeremy C. McDiarmid