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*Via Hand Delivery and E-mail*

January 22, 2010

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

**Re: Docket 4065: National Grid Application for Rate Adjustment**

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter, please find the Brief of Environment Northeast (one original and 9 copies).

Kindly date-stamp the enclosed return copy and return it in the self-addressed stamped enveloped. If you have any questions or concerns, please do not hesitate to contact me at 617-742-0054 x102.

Sincerely,

A handwritten signature in black ink, appearing to read "Jeremy C. McDiarmid".

Jeremy C. McDiarmid  
Staff Attorney

Enclosure

cc: Service List (via e-mail)

**STATE OF RHODE ISLAND  
PUBLIC UTILITIES COMMISSION**

	)	
NARRAGANSETT ELECTRIC d/b/a	)	
NATIONAL GRID APPLICATION FOR	)	DOCKET NO. 4065
APPROVAL OF A CHANGE IN ELECTRIC	)	
BASE DISTRIBUTION RATES	)	
	)	

BRIEF OF ENVIRONMENT NORTHEAST

Environment Northeast (“ENE”) appreciates the opportunity to submit this brief in support of the adoption of revenue decoupling in this docket. As an organization that researches and advocates innovative policies that tackle our environmental challenges while promoting sustainable economies, ENE believes that adopting revenue decoupling will remove a powerful economic disincentive that stands as an obstacle to National Grid’s (the “Company”) full support for increased investments in cost-effective energy efficiency in Rhode Island that can save consumers hundreds of millions of dollars. Revenue decoupling will help achieve the state’s economic, energy efficiency, and environmental goals. In particular, through its proposed revenue decoupling mechanism, the Company can better align its financial incentives with customer and public policy interests in maximizing investments in energy efficiency opportunities that are cheaper than supply. ENE urges the Commission to adopt revenue decoupling in order to save customers money through increased energy efficiency investments.

## I. STATEMENT OF THE CASE

For ENE, the central issue in this proceeding is whether the Commission should align the incentives of National Grid with those of its customers by adopting the proposed revenue decoupling mechanism. Although the Company has set forth multiple proposals under the umbrella of a single docket, ENE urges the Commission to evaluate the Company's revenue decoupling mechanism independently of all other issues, including the proposed increase in base distribution rates and the proposed annual adjustments to rates for inflation and capital expenditures.

On June 1, 2009, National Grid filed an application for "Approval of a Change in Electric Base Distribution Rates" with the Rhode Island Public Utilities Commission (the "Commission"). See National Grid Transmittal Letter (June 1, 2009). The application contained a number of separate proposals including (1) a petition for a \$75.3 million increase in base distribution revenues; (2) a revenue decoupling proposal; and (3) a series of discrete rate and recovery proposals.<sup>1</sup> The second proposal, the Company's so-called Revenue Decoupling Ratemaking Plan or "RDR Plan," contains four separate and distinct elements: (1) a revenue decoupling mechanism that reconciles actual distribution revenues with a target level set by the Commission; (2) an annual rate adjustment for net inflation; (3) an annual rate adjustment for

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<sup>1</sup> According to the Company's transmittal letter, these included "proposals associated with (1) recovery of commodity-related uncollectible accounts and administrative expense, consistent with Commission treatment for the Company's Rhode Island gas affiliate, (2) adjustment of base distribution rates for significant changes in delivery-related uncollectible accounts that occur because of factors beyond the Company's control, (3) cost recovery for incremental costs associated with the Company's new inspection and maintenance strategy designed to enhance the reliability of its distribution system, (4) a pilot economic development program designed to assist new and expanding businesses in the Company's service area, and (5) a discreet [sic] recovery mechanism for pension and other postretirement benefit plan expenses associated with the Company's work force." See June 1, 2009 Transmittal letter at 2.

“Cumulative Net CapEx [Capital Expenditures];” and, (4) an annual rate adjustment for “Current Year Net CapEx.” See Exh. NGRID-4, Direct Testimony of Dr. Susan F. Tierney, June 1, 2009, at 74-84. The proposed decoupling mechanism would reconcile actual revenues to target revenues through a distribution rate adjustment made uniformly to all rate classes. See National Grid Response to RR-COMM-12, Revenue Decoupling Pro Forma Example, December 4, 2009, at 4-5.

Rhode Island adopted an innovative approach to energy resource procurement in 2006 when it passed the Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006 (the “Act”). Under the Act, electric distribution companies are obligated to procure, on behalf of its customers, energy efficiency when it is cheaper than electricity supply. This legislative mandate has the potential to dramatically reduce the amount of costly energy Rhode Island consumer buy, leading to significant economic savings. See R.I. Gen. Laws § 42-140.1-2(b). Pursuant to the Act, in July of 2008, this Commission approved Standards for Energy Efficiency and Conservation Procurement and System Reliability (the “Standards”), which set out detailed utility requirements for efficiency program administration. See R.I.P.U.C. Order 19344, July 18, 2008, at Appendix A. In response to the Act and Standards, National Grid proposed and this Commission approved a three year energy efficiency procurement plan that calls for a near-tripling of investment in energy efficiency from \$14 million in 2008 to \$43 million in 2011. See R.I.P.U.C. Order 19621, April 17, 2009, Appendix A at 4. The projected savings over the three year period are more than \$280 million, real economic benefits for Rhode Islanders. See id. at Appendix A, p. 4.

Under current rate structures, National Grid derives a significant portion of its annual revenue through volumetric distribution rates. See Exh. NGRID-10, Testimony of Howard S. Gorman, Schedule NG-HSG-6, June 1, 2009. As a result, its revenues are affected by the amount of electricity it sells to its customers, giving the Company an incentive to maximize its sales in order to maximize its revenue. See Nov. 2, 2009 Tr. 90:8-11 (King); see also Exh. DIV-5, Direct Testimony of Bruce R. Oliver, September 15, 2009, at 33:11-15 (acknowledging that utilities recover less revenue when customers consume less electricity and there is a financial incentive to restore services rapidly after an electrical outage). Thus, National Grid has an economic disincentive to support programs and policies—such as robust energy efficiency programs that capture all efficiency resources that are cheaper than supply—that would result in reductions in the consumption of electricity and thus reduce their revenue. See id.

The revenue decoupling mechanism, as proposed, will eliminate the incentive every utility that collects revenue from volumetric charges faces to maximize its customers' sales. See Exh. EERMC-1, Direct Testimony of Dr. Mark N. Lowry, September 15, 2009, at 41:11-14. In so doing, it will remove an economic disincentive to efficiency investment by severing the link between the amount of revenue the company realizes and the amount of electricity it sells. See id.; November 4, 2009 Tr. 109:21-110:7 (Tierney). As it does under the current rate structure, the Company would continue to collect a portion of distribution revenue through volumetric rates under the proposed decoupling mechanism. As a result, customers within a rate class who use less electricity will continue to pay less in distribution and commodity charges than a fellow customer who uses more. See Exh. NGRID-4, Tierney, Figure NG-SFT-6; Nov. 4, 2009 Tr. 112:17-114:12 (Tierney); see also December 1, 2009 Tr. 191:16-193:3 (Oliver) (explaining that

volumetric distribution charges help allocate distribution costs among diverse energy users within the same rate class). For customers, this preserves an economic incentive to conserve on both the commodity and distribution side of the bill. See id.; Exh. CLF-1, Direct Testimony of Shanna Cleveland, Esq., September 15, 2009, at 9:18-10:16.

Under the decoupling proposal, at the end of each annual period, the Company would (a) compare actual distribution revenues to the allowed (target) level of revenues from each rate class; (b) take the sum of the revenue differences from all rate classes to arrive at a total differential; and (c) divide the total differential by the company-wide estimate of kWh sales for the upcoming annual period. See Exh. NGRID-4, Tierney, at 76; Attachment to National Grid Response to RR-COMM-12, December 4, 2009, at 4-5. A single annual decoupling adjustment would then be made for each customer and would be reflected in slight adjustments to the customer's volumetric distribution rate. See id. If the overall actual revenue collected is greater than the target revenue, the distribution rate will decrease, returning over-collections to customers. See id. By contrast, if the total actual revenue is less than the target level established by the Commission, customers will see a slight increase in their volumetric distribution rate. See id.

As an investor-owned utility, National Grid is a for-profit company. As such, it has a fiduciary duty to its shareholders to maximize its profits and must respond to financial incentives and disincentives. See Exh. CLF-1, Cleveland, at 12:5-11. The current rate structure under which the company realizes more revenue when it sells more electricity creates an economic disincentive to facilitating the investment in activities, equipment and programs that will lead to lower electricity usage and hundreds of millions of dollars in customer savings. See Exh.

NGRID-4, Tierney, at 30-32. The revenue decoupling mechanism will eliminate this economic disincentive. See Exh. EERMC-1, Lowry, at 41:11-15.

## II. PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. National Grid has combined four separate proposals into its so-called “revenue decoupling ratemaking plan” (“RDR Plan”), including (1) a revenue decoupling mechanism that reconciles actual distribution revenues with a target level set by the Commission; (2) an annual rate adjustment for net inflation; (3) an annual rate adjustment for “Cumulative Net CapEx [Capital Expenditures];” and, (4) an annual rate adjustment for “Current Year Net CapEx.” See Exh. NGRID-5, Tierney, at 74-84. The Commission should evaluate and judge each proposal separately. See November 4, 2009 Tr. 99:9-100:5, 101:18-102:14 (Tierney).
2. While National Grid’s decoupling proposal has been paired with proposed mechanisms for annual adjustments to distribution rates in the RDR plan, these are distinct and separate issues. See Exh. DIV-5, Oliver, at 14:3-23; Exh. TEC-RI-2, Surrebuttal Testimony of John Farley, October 27, 2009, at 22:9-12; November 4, 2009 Tr. 179:23-180:22 (Tierney).
3. The Commission is able to approve the decoupling mechanism without approving the proposed annual adjustments for inflation or capital expenditures. See id.
4. As all for-profit companies, investor-owned utilities like National Grid respond to financial incentives and disincentives. See Exh. CLF-1, Cleveland, at 12:5-11.
5. Under the current rate structure, customer reductions in consumption directly reduce company revenues. See November 2, 2009 Tr. 90:8-11 (King). As a result, the Company faces a clear and direct financial disincentive to encouraging or assisting its customers in

lowering their usage through energy efficiency programs, tighter codes and standards, or other approaches. See Exh. EERMC-1, Lowry, at 42:1-13.

6. The proposed revenue decoupling mechanism removes the financial disincentive for National Grid to promote energy efficiency. See November 2, 2009 Tr. 90:8-14 (King); November 4, 2009 Tr. 109:21-110:7 (Tierney); Exh. EERMC-1, Lowry, 41:11-15.
7. So-called “partial” decoupling mechanisms fail to remove the Company’s financial disincentive to promote energy efficiency because they fail to sever the link between utility sales and revenues. See December 1, 2009 Tr. 190:1-3 (Oliver).
8. The electricity commodity portion of a customer’s bill is roughly 70%, while the delivery/distribution portion is roughly 30%. As a result, savings that result from lowering usage come primarily from the commodity side of the bill. See Exh. NGRID-19, Rebuttal Testimony of Dr. Susan F. Tierney, October 6, 2009, at 14; November 4, 2009 Tr. 111:24-112:9 (Tierney); Exh. CLF-1, Cleveland, at 9:18-10:16.
9. For all rate classes, 70% or more of the Company’s distribution revenue comes from per-kWh or per-kW charges that would be potentially reduced through the implementation of energy efficiency measures. See Exh. NGRID-19, Tierney, at 12:2-9; Exh. DIV-5, Oliver, Schedule DIV-BRO-1.
10. Implementing the decoupling mechanism would not remove the financial incentive for customers to conserve. See Exh. CLF-1, Cleveland, at 9:18-10:16. As under current rate structures, lowering usage under the proposed decoupling mechanism would reduce bills compared to what they would otherwise be without reduced usage. See id.

11. Changes in rates arising from revenue decoupling are likely to be small compared to changes from other factors. See Exh. NGRID-4, Tierney, at 41-44, 41 n.37; see also CLF-1, Cleveland, Exhibit A, Pamela Lesh, “Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling” (“Lesh Report”), June 30, 2009, at 4 (concluding that, based upon a survey of 40 decoupling mechanisms in 17 states, rate adjustments from decoupling tend to be small, even “miniscule”).
12. Under the current rate structure, which includes volumetric distribution rates, a customer who uses more electricity will pay more for distribution than a customer within the same class who uses less electricity. See Exh. CLF-1, Cleveland, at 10:13-16. Under the company’s revenue decoupling proposal, this will not change because customers will still pay a portion of distribution revenue through volumetric distribution rates. See id.
13. Through its administration of energy efficiency programs, the Company can have a significant influence on a customer’s decision to invest in energy efficiency. See Exh. NGRID-5, Direct Testimony of Timothy Stout, June 1, 2009, at 3-6. With decoupling, the Company can better encourage cost-effective conservation and efficiency efforts for which it may not get credit. See Exh. EERMC-1, Lowry, at 42:1-13. There are other activities a utility can support beyond the scope of the current least-cost procurement mandate, including advocating for stricter codes and standards, and facilitating third party delivery of efficiency services. See id. at 9:10-10:14, 42:1-13.
14. Decoupling does not obviate the need for rate cases to ensure that the Company’s costs are just and reasonable. See November 2, 2009 Tr. 91:9-92:7 (King).

15. States have increasingly adopted decoupling in recent years. To date, at least 20 states have approved revenue decoupling mechanisms for at least 42 companies, with the majority of this group adopting decoupling within the past 5 years. See Exh. CLF-1, Cleveland, Exhibit A, Lesh Report at 3; see also Exh. NGRID-4, Tierney, at 49:4-50:13, Schedule NG-SFT-2; December 2, 2009 Tr. 184:18-185:3 (Lowry).
16. California electric utilities have had extensive experience with decoupling. See Exh. CLF-1, Lesh Report at 10-14. Decoupling was introduced in California since 1978. See id. at 10. California's electric utilities have not seen increased rate volatility due to decoupling. See Exh. NGRID-38, National Grid Response to DIV 6-10, July 14, 2009.
17. The proposed decoupling mechanism does not dilute the company's financial incentive to prudently manage costs. See November 4, 2009 Tr. at 129:20-130:10; 131:20-133:5 (Tierney).
18. The proposed decoupling mechanism does not guarantee profits for the company. See Exh. EERMC-1, Lowry, at 12:18-22.

### III. ARGUMENT

THE COMMISSION SHOULD APPROVE NATIONAL GRID'S DECOUPLING MECHANISM TO CREATE ALIGNMENT OF THE COMPANY'S ECONOMIC GOALS AND THE EFFICIENCY AND COST SAVING GOALS OF ITS CUSTOMERS.

Because the proposed decoupling mechanism will better align the Company's economic interests with its customers' interest in cost-saving energy efficiency, the Commission should approve it. National Grid is a for-profit corporation serving as a regulated electric distribution

company in Rhode Island. As such, its managers must balance their regulatory obligations to provide safe, reliable and affordable service to their customers with their fiduciary duty to earn a profit for the Company's shareholders. Ideally, these dual goals often work in concert with each other. Financial incentives and disincentives affect the way the Company acts, and, when possible, the Commission should shape regulatory policy in a way that aligns those financial incentives with the interests of Rhode Island ratepayers. In this proceeding, the Commission has an opportunity to take an important step in this direction. By approving the Company's proposed revenue decoupling mechanism, the Commission can align the Company's economic incentives with the customer and societal interest in maximizing investment in cost-effective energy efficiency that can save consumers hundreds of millions of dollars.

A. Revenue Decoupling Can be Implemented Independently of the Company's Proposed Inflation and Capital Expenditure Adjustments.

The Commission should approve the Company's revenue decoupling mechanism independently of its decisions on the proposed inflation and capital expenditure rate adjustment. Although the Company has packaged its proposed revenue decoupling mechanism within a broader "RDR Plan" that includes proposals for annual rate adjustments for inflation and capital expenditures, it is a separate mechanism that can stand alone and, therefore, it should be judged on its own merits.

The decoupling witnesses of the Division, TEC-RI and the Company all agree that the RDR Plan is comprised of multiple components. See Exh. DIV-5, Oliver, at 14:3-23; Exh. TEC-RI-2, Farley, at 22:9-12; November 4, 2009, Tr. 179:23-180:22 (Tierney). Indeed the Company's witness, Dr. Tierney, testified that not only would it be possible for decoupling to be

implemented without the inflation or capital adjustments, but that revenue decoupling—which supports energy efficiency—has a different purpose than the proposed rate adjustment mechanisms.<sup>2</sup> See November 4, 2009 Tr. 179:23-180:22 (Tierney). Similarly, Mr. Farley, TEC-RI’s witness, states in his surrebuttal testimony:

The fact is that this revenue decoupling ratemaking plan is really three proposals in one. It is called revenue decoupling, but that is actually only one part of it. The plan includes (1) revenue decoupling, (2) a capital tracker, and (3) a request to adjust rates every year for the impact of inflation.

Exh. TEC-RI-2, Farley, 22:9-12.<sup>3</sup>

Thus, even if the Commission were to modify or reject the annual adjustments within the RDR plan, the decoupling mechanism would still operate in the exact same manner. The only difference would be in how the annual target revenues are set—eliminating the annual adjustments would actually simplify the decoupling true-up process because the target revenues set in this proceeding would not be adjusted. See November 4, 2009, Tr. 141:17-142:19 (Tierney).

As discussed below, the only component of the company’s RDR plan that aligns the Company’s economic interests with the interests of its customers is the revenue decoupling mechanism. Because of the economic and environmental value that it will bring to Rhode

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<sup>2</sup> Although ENE believes that, in some circumstances, a modest annual adjustment can be an appropriate complement to a revenue decoupling mechanism, it does not take a position as to the appropriateness or reasonableness of the adjustment mechanisms proposed in this docket.

<sup>3</sup> During the hearings, Mr. Farley also identified the (a) inflation adjustment and (b) the capital adjustments as the two components of the RDR Ratemaking Plan that concerned him the most. See December 2, 2009 Tr. 78:1-8 (Farley).

Island, the Commission should approve the Company's revenue decoupling proposal independently and regardless of how it decides the issues relating to the annual inflation and capital rate adjustment proposals in the RDR Plan.

**B. Revenue Decoupling is an Essential Tool for Achieving the Least-Cost Procurement Mandate.**

The Commission should approve the Company's decoupling mechanism because it will advance the state's policy goals to invest in cost-saving energy efficiency. With the passage of the Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006, Rhode Island increased its commitment to promote cost-saving investments in energy efficiency. See R.I. Pub. Laws of 2006, Chapters 236, 237 (June 29, 2006). Specifically, least cost procurement "shall include procurement of energy efficiency and energy conservation measures that are prudent and reliable and when such measures are lower cost than acquisition of additional supply, including supply for periods of high demand." See R.I. Gen. Laws § 39-1-27.7 (a)(2).

The Act authorized National Grid to administer efficiency programs in order to achieve the least cost procurement mandate. See id. Under the statute, every three years National Grid must submit a procurement plan for meeting its least-cost procurement obligations. See id. at (c)(4). In addition, under the Standards the Company must submit an annual efficiency program plan and budget. As a result, the Company, with Commission approval, has wide discretion to propose spending levels and specific programs. In practice, this has led to settlement discussions with members of the DSM collaborative. With this flexibility, it is imperative that the Commission align the company's financial interests with the efficiency policy goals articulated

in the Act. The Commission can and should achieve this alignment by adopting the Company's proposed decoupling mechanism.

Although the Company does not have a monopoly on energy efficiency products and services, National Grid is in a unique position to effect positive ratepayer decisions regarding efficiency investments because it has regular contact with customers (*e.g.*, monthly billing) and collects and disburses ratepayer funds for efficiency. The Commission has an opportunity to assist in optimizing the Company's energy efficiency efforts by approving decoupling in this proceeding.

C. Revenue Decoupling Will Eliminate the Counter-Productive Economic Disincentive to Investment in Efficiency.

The Commission should adopt National Grid's revenue decoupling mechanism in order to remove the Company's financial disincentive to helping customers reduce their electricity consumption. Today, National Grid derives a significant portion of its annual revenue through volumetric distribution rates. . See Exh. NGRID-10, Gorman, Schedule NG-HSG-6. Through these volumetric rates, the Company generates more revenue when it sells more electricity, creating economic signals that are counter-productive to robust energy efficiency investments that reduce electric usage, as mandated by the 2006 Act. As a result, its revenues are affected by the amount of electricity it sells to its customers, giving the Company an incentive to maximize its sales in order to maximize its revenue. See November 2, 2009 Tr. 90:8-14 (King). National Grid has an economic disincentive to support programs and policies, such as robust energy efficiency programs that capture all efficiency resources that are cheaper than supply, and would

result in reductions in the consumption of electricity. See id. In order to eliminate this powerful economic disincentive, the Commission should approve National Grid's decoupling proposal.

Additionally, the implementation of the company's decoupling mechanism will allow the Company to be a forceful advocate for efficiency in less direct ways. See Exh. EERMC-1, Lowry, at 9:10-10:14, 42:1-13. As has been acknowledged in the proceeding, in addition utility-administered efficiency programs, there are other forces that reduce electricity consumption, including improved efficiency codes and standards, technological improvements, and competitive marketplace for efficient products. See id. Because it is in a unique position to interact and advise customers and policymakers, National Grid can and should be a strong advocate for cost-saving energy efficiency measures that occur outside the scope of its DSM programs. For these reasons, there is a strong public interest—both in terms of cost savings and environmental goals—in aligning National Grid's financial incentives with those of customers in supporting consumption reductions through the adoption of its revenue decoupling mechanism.

**D. Decoupling Rate Adjustments are Likely to be Relatively Small and Symmetrical.**

The Commission should find that the benefits of revenue decoupling will greatly outweigh decoupling rate impacts because the rate adjustments associated with revenue decoupling are likely to be small and symmetrical. See National Grid Response to TEC-RI RR 1, December 4, 2009; see also Exh. CLF-1, at Exh. A, Lesh Report at 4. Indeed, the Company's analysis shows that customers would have experienced very small increases and decreases in distribution rates had its revenue decoupling mechanism—without inflation and capital expenditure adjustments—been in place between 2003 and 2008. See National Grid Response to

Div RR 5, Figure Div-5-1, December 4, 2009. For residential<sup>4</sup> (A-16) customers, the distribution rate would have risen from 4.00 cents/kWh to 4.07 cents/kWh over the 5 year period—an average annual increase of 0.35%. See id. Moreover, decoupling rate adjustments would have been symmetrical—leading to surcharges in some years and refunds in others. See id.

Such findings echo trends seen in other jurisdictions that have approved decoupling. Dr. Tierney’s analysis of other state decoupling mechanisms demonstrates that “revenue decoupling adjustments have generally been small relative to customers’ total electricity rates,” having never exceeded 3.0%. See National Grid Response to TEC-RI RR 1, Dec. 4, 2009. Indeed, of those electric utility decoupling mechanisms analyzed, the majority experienced rate adjustments less than 1.0%. See id. Moreover, adjustments have been symmetrical in these jurisdictions. See id. As a result of the foregoing, the adoption of the Company’s revenue decoupling mechanism is not likely to result in large or asymmetrical rate adjustments.

E. Revenue Decoupling is Contemplated by Rhode Island Statute and by the American Recovery and Reinvestment Act.

The 2006 Act recognizes that an increase in DSM programming could affect the revenues of the utility and contemplates the adoption of revenue decoupling. Section 39-1-27.7 (d) of the General Laws 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

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<sup>4</sup> Rate Class A-16.

order to provide for full recovery of reasonable and prudent overhead and fixed costs.

The Commission should apply these principles in this docket by approving the revenue decoupling mechanism. Adopting decoupling is consistent with this statutory language because “energy efficiency and conservation...is likely to cause under or over-recovery” of fixed costs necessitating a “mandatory rate adjustment clause” (*i.e.*, decoupling) to allow “full recovery”—and disallow over-recovery—“of reasonable and prudent overhead and fixed costs.” See id. at (d).

In addition, in passing the American Recovery and Reinvestment Act (“ARRA”), Congress acknowledged the importance of aligning utility interests with that of their customers. As a pre-condition to accepting ARRA funds, state governors were required to issue certifications that his or her state has implemented “a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities.”<sup>5</sup> See Exh. CLF-1, Cleveland, Exh. B, H.R. 1 at 33; see also Exh. CLF-1 at Exh. D, Governor Carcieri’s February 26, 2009 letter to the Public Utilities Commission (requesting that the Commission consider appropriate steps to implement appropriate incentives for energy efficiency programs.). Rhode Island can unequivocally meet the ARRA requirement by adopting the Company’s revenue decoupling mechanism in this proceeding. See id.

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<sup>5</sup> As CLF witness Cleveland notes in her direct testimony, Rhode Island’s governor did not certify to the Department of Energy that such policy existed here, only that the Governor had sent a letter to this Commission requesting consideration of such policies. See Exh. CLF-1, Cleveland, at 22:3-23:4; see also Cleveland Exh. D, Governor Carcieri’s letter to Secretary Chu (assuring the Department of Energy that he had written to the Commission requesting they consider additional actions to promote energy efficiency). In addition, Ms. Cleveland raises the possibility that failure to adopt decoupling could jeopardize ARRA funding for Rhode Island. See id. at 22:3-9.

F. Commissions Across the United States are Increasingly Adopting Revenue to Decoupling.

Although decoupling has been deployed in California for decades, in recent years, public utility commissions across the country have approved decoupling mechanisms at an increasing rate. See Exh. EERMC-1, Lowry, at 18:4-10. According to a June 2009 report, as of last spring, 17 states had approved decoupling mechanisms for 12 electric utilities and 28 gas utilities. See Exh. CLF-1, Exh. A, Lesh Report at 3. Since then, other states, including Minnesota, Massachusetts and Michigan have adopted decoupling mechanisms. See December 2, 2009 Tr. 184:15-185:4 (Lowry). This decoupling trend has been accompanied by increased attention on energy efficiency as a valuable cost-saving resource. See Exh. EERMC-1, Lowry, at 18:4-10.

Commissions in the Northeast have increasingly turned to decoupling. PUCs in Massachusetts, Connecticut, New Jersey and New York have approved decoupling mechanisms that are currently effective. See id. at 19. Vermont has a rate structure that is functionally equivalent to decoupling. See id.; Exh. CLF-1, Lesh Report at 32-33. Indeed, in the most recent American Council for an Energy Efficient Economy (“ACEEE”) annual efficiency scorecard, Rhode Island is one of only three states ranked in the top 12 that has not yet adopted revenue decoupling. See National Grid Response to Commission Record Request 15 (December 15, 2009).<sup>6</sup> By adopting decoupling in this docket, this Commission would not be putting Rhode Island out on a limb; rather, it would be recognizing the value of aligning utility incentives with customer incentives as at least 20 other states have done.

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<sup>6</sup> EERMC witness Lowry cites to a different ACEEE report that puts Rhode Island at number 13. See December 2, 2009 Tr. 185:7-20 (Lowry). According to Dr. Lowry, each state in the top 10 has some decoupling for at least one gas or electric utility and “every single top five state...either already has decoupling for virtually all gas or electric utilities or is required to implement it soon by law.” See id.

G. Adoption of National Grid’s Proposed Decoupling Mechanism Will Not Guarantee Profits.

Because the Company, under its proposed decoupling mechanism, will need to manage its costs carefully and prudently in order to earn its allowed return on equity, the Commission should conclude that the decoupling mechanism does not “guarantee” utility profits. See Exh. EERMC-1, Lowry, at 12:18-22. For each applicable rate class, the mechanism would set a target revenue based on test year billing determinants. The result is a decoupling mechanism that does not guarantee the company profits—in this regard, the Company’s motivation to reduce expenses and remain fiscally efficiency is no different from current practice because the better it is able to manage and reduce its costs, the better its chances of achieving its allowed ROE. See id.; November 4, 2009 Tr. at 129:20-130:10; 131:20-133:5 (Tierney). Accordingly, the Commission should conclude that the decoupling mechanism does not guarantee Company profits.

IV. CONCLUSION

For the foregoing reasons, the Commission should adopt National Grid's proposed full decoupling mechanism, independent of any decision it renders regarding base distribution rates or annual inflation and capital expenditure rate adjustments.

Respectfully submitted,

ENVIRONMENT NORTHEAST

By its attorneys,

A handwritten signature in black ink, appearing to read "Jeremy C. McDiarmid". The signature is fluid and cursive, with the first name "Jeremy" being the most prominent part.

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CERTIFICATE OF SERVICE

I hereby certify that on January 22, 2010, I caused a true copy of the foregoing document to be delivered either by first class mail or by electronic mail to the Docket 4065 Service List.

A handwritten signature in black ink, appearing to read "Jeremy C. McDiarmid". The signature is written in a cursive style with a large initial "J" and a distinct "C" and "M".

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Jeremy C. McDiarmid