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Via Hand Delivery and E-mail

January 29, 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 Reply Brief of Environment Northeast (one original and 9 copies).

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)
APPROVAL OF A CHANGE IN ELECTRIC)
BASE DISTRIBUTION RATES)

DOCKET NO. 4065

REPLY BRIEF OF ENVIRONMENT NORTHEAST

Respectfully submitted by:

ENVIRONMENT NORTHEAST
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Dated: January 29, 2009

I. INTRODUCTION

Environment Northeast (“ENE”) appreciates the opportunity to submit this reply brief in response to the briefs of the Division of Public Utilities and Carriers (the “Division”) and the Energy Council of Rhode Island (“TEC-RI”) filed with the Commission on January 22, 2009.¹ In their initial briefs, both the Division and TEC-RI fail to acknowledge the economic and environmental benefits that revenue decoupling can bring Rhode Island ratepayers. ENE urges the Commission to adopt revenue decoupling in order to save customers money through increased energy efficiency investments.

II. ARGUMENT

THE COMMISSION SHOULD APPROVE THE COMPANY’S REVENUE DECOUPLING MECHANISM.

ENE continues to assert that the decoupling mechanism² proposed by the Company will benefit both the environment and the economy of Rhode Island by eliminating the Company’s incentive to maximize its electricity sales. For the reasons articulated below, the Commission should disregard the arguments made in opposition to revenue decoupling because they are supported neither by the evidence in this docket, nor by the policy objectives of Rhode Island.³

¹ ENE incorporates the contents of its initial brief in this docket which was filed with the Commission on January 22, 2009 as if incorporated herein. ENE does not attempt to respond to each and every decoupling argument raised by parties in this docket; nevertheless, ENE’s silence in no way indicates its assent or approval of any position.

² As in its January 22nd brief, ENE focuses this brief on the Company’s proposed reconciliation mechanism, and believes that the Commission should make independent decisions on each element in the Company’s RDR Plan. ENE takes no position on the appropriateness of the proposed inflation or CapEx adjustment mechanisms.

³ See Brief of Environment Northeast, January 22, 2010, at 12-14 (providing a detailed argument for why revenue decoupling is a necessary tool for achieving the least cost procurement mandate).

A. The Evidence Demonstrates a Strong Link Between Revenue Decoupling and Energy Efficiency.

The weight of the evidence in the record in this Docket demonstrates that decoupling and successful energy efficiency programs are inextricably linked. Reliance by the Division and TEC-RI upon isolated statements by the Company's witnesses runs counter to the totality of the evidence in the record. See Post-Hearing Brief of The Energy Council of Rhode Island ("TEC-RI Brief"), January 22, 2009, at 10-12; Post-Hearing Brief of the Division of Public Utilities and Carriers ("Division Brief"), January 22, 2009, at 51-53.

Through a small change in rate structure, revenue decoupling provides significant systematic and structural change in how the Company would be compensated. See November 2, 2009 Tr. 90:8-14 (King); November 4, 2009 Tr. 109:21-110:7 (Tierney); Exh. EERMC-1, Direct Testimony of Dr. Mark N. Lowry, September 15, 2009, at 41:11-15. The goal of decoupling is to change the financial incentives of companies like National Grid; revenue decoupling separates the revenues the Company generates from the amount of electricity it sells. See Exh. CLF-1, Direct Testimony of Shanna Cleveland, September 15, 2009, at 3-5; Exh. EERMC-1, Lowry Direct, at 7-8. As a result, planning and investment processes over the course of time will no longer include a corporate drive to maximize energy sales. See id. As a distribution company, with decoupling, National Grid's fundamental management practices should change for the better by facilitating practices which maximize customer bill savings. See id. While current efficiency commitments may not be dramatically altered, long-term management practices and attitudes towards energy efficiency will change with decoupling. Despite the Company's strong performance in delivering energy efficiency, the record demonstrates that there is plenty of opportunity to enhance National Grid's efficiency efforts, as well as its relative standing among

other states. See November 4th Tr. at 217:1-10 (Stout). The adoption of revenue decoupling will make a significant change in the Company’s approach to efficiency—both in direct ways (*i.e.*, company-administered DSM programs) and indirect ways (*e.g.*, support for stronger energy codes and standards). See Exh. CLF-1, Cleveland Direct, at 3-5; Exh. EERMC-1, Lowry Direct, at 9:10-10:14; 42:1-13.

B. Different Circumstances between This Docket and Docket 3943 Require a Different Result.

The evidence in this docket demonstrates that revenue decoupling is appropriate for National Grid’s electric distribution business. The Commission should not rely upon its decision to reject a revenue-per-customer decoupling mechanism in the natural gas rate case, Docket 3943. See Division Brief at 45-46. Moreover, the Commission should reject the overtures by the Division to simply equate the revenue decoupling proposal in this docket with that in Docket 3943.

The first significant difference is that the Company has a least cost procurement mandate for electric service, and investments in electric energy efficiency are not statutorily capped. See R.I. Gen. Laws § 39-1-27.7 (a)(2); compare to § 39-2-1.2(f) (capping gas DSM revenue collection at \$0.15 per deca therm). Determining what level of energy efficiency investment is “lower cost than acquisition of additional supply” requires the Company to exercise good judgment and objectivity. See RI Gen Laws § 39-1-27.7 (a)(2). When the Company has an economic incentive to increase its sales of electricity, objectivity in evaluating efficiency resources versus supply resources will suffer, and Rhode Island consumers may not receive the maximum benefit of cost-saving energy efficiency investments.

Second, Rhode Island general laws explicitly contemplate a reconciliation mechanism in the context of least cost procurement. See R.I. Gen. Laws 39-1-27.7(d). The General Assembly acknowledged a conflict between a utility’s economic motivation to maximize sales and its obligation under least cost procurement. See id. To alleviate this conflict, it adopted a statutory provision that allows this Commission to create a “mandatory rate adjustment clause” to provide “full recovery of reasonable and prudent overhead and fixed costs.” See id. The Company’s decoupling mechanism will achieve this goal.

Third, unlike the natural gas industry, the Company has not experienced a dramatic decline in use-per-customer on the electric side of its business; some years have seen slight increases in sales, while there have been slight declines in others. See R.I.P.U.C. Docket 2943, Order 19563, January 29, 2009 at 68. Overall, the Company has seen growth in electricity sales since 1990, with an average of 1.3% over the past 10 years. See Schedule NG-APM-1 at 1. This modest growth in sales enhances the probability that revenue decoupling adjustments will be symmetrical, leading to small credits to the distribution rates in some years and modest surcharges in others. See Exh. CLF-2, Cleveland Surrebuttal, October 27, 2009, at 3-4; Exh. CLF-1, Cleveland Direct at Exh. A, Lesh Report, at 4.

Fourth, as described in ENE’s January 22nd brief, this rate case comes during a period of time when the federal government is disbursing millions of dollars to Rhode Island via the stimulus bill. In order to receive funds from the federal Department of Energy, Governor Carcieri assured the Secretary of Energy that he had requested this Commission “consider additional actions to promote energy efficiency consistent with the Federal statutory language contained in H.R. 1.” See CLF-1, Cleveland Direct, Exh. C, Letter of Governor Carcieri to Secretary of Energy Chu, February 26, 2009. Adopting revenue decoupling will unquestionably

satisfy the obligation Rhode Island has to implement “a general policy that ensures that 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.” See H.R. 1 at 33; see also Exh. CLF-1, Cleveland Direct, at 22-23.

For the above reasons, the Commission should not rely on its reasoning or its conclusions in Docket 3943 in evaluating the Company’s revenue decoupling proposal in the instant docket. The evidence in this docket presents differing circumstances and requires a different outcome.

C. In States that Lead in Energy Efficiency, Decoupling is the Rule, not the Exception.

The evidence in the record shows a strong correlation between states that lead in cost-saving energy efficiency efforts and the adoption of revenue decoupling. Although the Division claims that decoupling is a minority position among the states, a closer look at states leading the charge for investing in cost-effective energy efficiency demonstrates an undeniable correlation between decoupling and robust efficiency policies. See Division Brief at 42-44. Of the top 12 states in the most recent ACEEE efficiency scorecard, 9 have made a commitment to revenue decoupling. See National Grid, Response to Commission Record Request 15 (December 4, 2009); see also Tr. 185:7-20 (Lowry) (concluding that “every single top five state [for energy efficiency programs]...either already has decoupling for virtually all gas or electric utilities or is required to implement it soon by law). Far from being marginalized as an “experiment,” decoupling accompanies efficiency in leading states more often than not.

Moreover, the Division’s heavy reliance on the Maine experience with decoupling is stale and misplaced. See Division Brief at 44. As detailed in the testimony of Dr. Tierney, comparisons between National Grid’s proposed decoupling mechanism in this proceeding and

that seen in Maine are inapposite and inapt for several reasons. See Exh. NG-19, Tierney Rebuttal at 48, n.93. Of particular note is the fact that unlike the proposal here, the Central Maine Power decoupling mechanism applied to generation (commodity) charges as well as distribution charges and resulted in significant deferrals due to a low reconciliation cap. See id.

The Commission should recognize that decoupling is increasingly viewed as a complementary policy to strong cost-saving efficiency plans. The evidence supports the conclusion that decoupling should accompany robust efficiency efforts.

D. If the Commission Adopts Revenue Decoupling, it Should Eliminate Back-up Rates for Large C&I Customers.

Should the Commission approve the Company's revenue decoupling mechanism, ENE believes that it is appropriate to eliminate back-up rates for onsite generation. TEC-RI argues that the Commission should eliminate the proposed back-up rates. See TEC-RI Brief at 2-5. As pointed out by TEC-RI, Rhode Island energy policy supports the deployment of efficient, cost-effective distributed generation. Back-up rates stand as an impediment to this policy goal. If decoupling is adopted, the Company will no longer suffer an economic loss when customers install efficient distributed generation. As a result, with decoupling, back-up rates should be eliminated.

III. 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,



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January 29, 2010

CERTIFICATE OF SERVICE

I hereby certify that on January 29, 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".

Jeremy C. McDiarmid