

May 2, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4202 - System Reliability Procurement Standards
National Grid Comments

Dear Ms. Massaro:

On behalf of National Grid¹, enclosed please find ten (10) copies of the Company's comments in the above-captioned proceeding.

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

Very truly yours,



Thomas R. Teehan

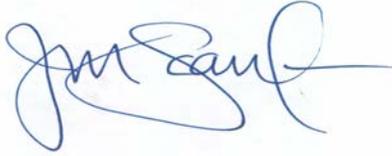
Enclosures

Cc: Docket 4202 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid ("Company").

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

May 2, 2011
Date

**Docket No. 4202 – RI Energy Efficiency and Resource Management Council
("EERMC") – Energy Savings Target
Service List updated on 12/2/10**

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National Grid Comments
Draft Commission Rules for System Reliability Procurement Standards
Docket No. 4202

National Grid submits these comments in response to the Energy Efficiency Resource Management Council's (EERMC) technical amendments regarding Chapter 2, Section 2.1 of the System Reliability Procurement Standards. National Grid supports the overall goal and efforts of the revised Rhode Island System Reliability Procurement Plan standards. However, the Company proposes some edits and additional language that it believes are important.

Section 2.1 (A): Content of Report

The Company agrees that the SRPP should be filed every three years as per the statute, and as specified in Section 2.1 (A). In the annual reports specified in Section 2.1 (H), the Company recommends striking (a) "A summary of projects where NWA were considered". The Company recommends any reports focus on the NWA projects that passed the screening process stated in sections 2.1 (C) and (D). The Commission will perceive greater benefit from investigating successful NWA options rather than reviewing NWA projects which failed the screening test. The Company recommends this language because it facilitates Commission review of the report. Also, the EERMC should recognize that the Commission has the authority to request any information from the Company as part of its review, including a report on the list of projects which failed the screening test. Thus, if the Commission, Division or other parties are concerned, they can request this information as part of the review.

Section 2.1 (E): Financial Analysis Criteria

In section 2.1 (E), the proposal suggests specific financial analysis criteria. The Company recommends striking “through use of net present value of the deferred revenue requirement analysis or the net present value of the alternatives according to the Total Resource Cost Test (TRC),” to allow adaptation and innovation over time. While the two financial analysis methods mentioned here could be used, other financial analysis methods may be identified in the future as NWA projects continue to evolve and the interaction between system reliability procurement and energy efficiency procurement also evolves.

Section 2.1 (G)(i): Clarification Regarding Capital versus Expense Funding

In section G, the proposed regulations contemplate the utility developing a funding plan to identify the sources of funds to implement projects. Sub-paragraph (i) identifies one of the sources as “Capital funds that would otherwise be applied towards traditional wires based alternatives.” It is not entirely clear from the limited wording, what is intended in this clause. However, it appears that it is intended to address those instances where the costs of the NWA can be capitalized and, therefore, are eligible for rate base treatment. If that is the case, the Company proposes that a clarifying clause be added to the end of the sub-paragraph as follows: “Capital funds that would otherwise be applied towards traditional wires based alternatives, where the costs for the NWA are properly capitalized under generally accepted accounting principles and can be properly placed in rate base for recovery in rates along with other ordinary infrastructure investments.”

Having edited the provision, however, it is important to point out that we do not expect most NWAs to be capitalized. When the NWA is employed in lieu of the traditional wires alternatives, the dollars spent on the NWA would not ordinarily be a capital investment under generally accepted accounting principles primarily because such alternatives do not typically involve facilities or plant that is built, owned, and operated by the Company. Thus, the circumstances under which this funding source would be applicable are very limited.

The Company is concerned, however, that the manner in which the provision is worded may contemplate a different application, where there is an assumption that capital dollars would be shifted to cover the cost of an NWA, regardless of whether the cost of the NWA would be capitalized or be expensed. If that is the case, the provision is not appropriate. With respect to ratemaking, when an expense is capitalized, the cost is put into rate base and, when approved by the Commission, the Company begins to earn a return on the investment and a return of the investment through depreciation. In contrast, when the Company incurs an operation and maintenance expense (“Opex”), the expense is not put into rate base, but the entire amount is expensed in the year it is incurred. Absent a special ratemaking mechanism to allow recovery of the Opex, the expense hits the Company’s bottom line and is borne by the shareholder in that year. This is important to take into account, because to the extent the plan to implement an NWA contemplates Opex expenditures, the Company has no financial incentive to employ it, absent a special rate adjustment for the expense. Sub-paragraph (iv) in section G appropriately takes this into account, where it lists an additional funding source for such circumstances, stating: “Utility operating expenses to the extent that recovery of

such funding is explicitly allowed.” Thus, with the edits to sub-paragraph (i) above and existing sub-paragraph (iv), the funding issue would be properly addressed.

In this context, the Company believes it may be important to point out what likely would occur in the engineering and budgeting process. When the Company considers an NWA, it would certainly do so as an alternative to a potential project under consideration. But the Company would not typically budget capital dollars for a potential project, then replace it with an NWA after the capital dollars are budgeted and approved by the Commission for recovery. Rather, the typical sequence of analyzing NWAs would be within the context of considering alternatives to the project in the first instance. That is, the engineering group would analyze and compare the traditional wires based alternative against the NWA prior to requesting authority for spending in the given fiscal year. Thus, a decision would be made in advance of budgeting to employ the NWA instead of the traditional alternative. Once the decision is made, the cost of the NWA would then be budgeted as either a capital expense or Opex, as required by generally accepted accounting principles.

In sum, the Company recommends that sub-paragraph (i) be modified to clarify that it is intended to apply in circumstances where NWA costs are appropriately capitalized under generally accepted accounting principles and are recoverable in rate base with other infrastructure investments. With that clarification, the funding plan section is reasonable and makes sense.

Section 2.1(G)(iii): Edit to Energy Efficiency Funding Language

In section 2.1 (G)(iii), the proposal states another funding stream would be “additional energy efficiency funds to the extent that the NWA can be shown to pass the

TRC test with a benefit to cost ratio of greater than 1.0 and such additional funding is approved.” This should be modified to say, “additional energy efficiency funds for energy efficiency related NWA to the extent that this NWA can be shown to pass the TRC test with a benefit to cost ratio of greater than 1.0 and such additional funding is approved.” This would restrict the use of energy efficiency funds and the TRC test to energy efficiency projects as established under existing Commission rules. In addition, the Company recommends that consideration be given in the development and approval of its energy efficiency plans to whether it would be permissible to target energy efficiency incentives to a specific area.

New Proposed Section 2.1 (J): Outage Exception

As these projects are currently considered “demonstration,” and typically will be within the control of third parties, the Company is concerned that there could be unexpected impacts on the system causing potential outage events that are beyond the control of the Company. As such, the Company believes it is important for it to be able to apply for exclusions for such outages under its Service Quality standards, so the Company is not unfairly penalized for any such events. Accordingly, the Company proposes the addition of a new section J, including the following provision: “To the extent the implementation of a NWA causes an outage event that is beyond the control of the Company, the Company may apply to the Commission for an exclusion of such event in the determination of Service Quality performance.”