

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: RI ENERGY EFFICIENCY AND RESOURCE
MANAGEMENT COUNCIL'S PROPOSED ELECTRIC
AND NATURAL GAS EFFICIENCY SAVINGS TARGETS

DOCKET NO. 4202

REPORT AND ORDER

1. Background

On September 1, 2010 the Rhode Island Energy Efficiency and Resource Management Council (EERMC) filed with the Commission its Electric and Natural Gas Efficiency Savings Targets ("Targets") pursuant to R.I.G.L. § 39-1-27.7.1(e)(4) and R.I.G.L. § 39-1.27.7.1(f) which provide in pertinent part,

"The commission shall review and approve with any necessary amendments performance-based energy savings targets developed and submitted by the Rhode Island energy efficiency and resources management council." R.I.G.L. § 39-1-27.7.1(e)(4).

"The Rhode Island energy efficiency and resources management council shall propose performance-based energy savings targets to the commission no later than September 1, 2010. The targets shall include, but not be limited to, specific energy kilowatt hour savings overall and peak demand savings for both summer and winter peak periods expressed in total megawatts as well as appropriate targets recommended in the opportunities report file with the commission pursuant to subdivision 39-2-27.7(c)(3). The council shall revise as necessary these targets on an annual basis prior to the reconciliation process established pursuant to subsection (c) of this section and submit its revisions to the commission for approval." R.I.G.L. § 39-1.27.7.1(f).¹

The Energy Efficiency Savings Targets, expressed in units of energy² or dollar savings, are estimates of the savings potential to be achieved from energy efficiency programs implemented in years 2012 through 2014, and they form an integral part of the state's policy to promote energy efficiency, system reliability and least cost procurement. The authority for the

¹ R.I.G.L. § 39-1-27.7.1(f) incorrectly cites §39-2-27.7(c)(3) as the statutory mandate for the opportunities report. The correct citation is R.I.G.L. § 39-1-27.7(c)(3) which requires the EERMC to submit to National Grid, the Commission and the Office of Energy Resources and the Joint Committee on Energy a reliability and efficiency procurement opportunity report by July 15, 2008.

² Kilowatts (KW), kilowatt-hour (kWh), megawatt (MW), million British thermal unit (MMBtu).

Energy Efficiency Savings Targets is found in the Decoupling Statute (R.I.G.L. 39-1-27.7.1). The Decoupling Statute mandates the filing of these Targets by the EERMC by September 1, 2010 with annual revisions coinciding with the electric distribution company's revenue decoupling reconciliation; however, the Decoupling Statute is silent as to the purpose of this filing, other than to reference the Commission's discretion to consider the Targets in adopting a shared savings mechanism within a decoupling proposal.³ Also absent from the Decoupling Statute are definitions, thus the term "performance-based energy savings targets" is not defined in the statute. Moving past the legislative origin of the Targets, the Commission is guided by the EERMC's September 1, 2010 letter which states that the proposed savings targets "[comply] with the least cost procurement provisions of R.I. law... [and] provide National Grid and the EERMC with the direction needed to start planning and preparing" the next triennial least cost procurement plan to be filed September 1, 2011. In its September 1 letter to the Commission, the EERMC further claims that the energy savings targets "will provide high-level guidance to National Grid's development of their second 3-year plan for 2012-[2014]".⁴ The within filing thus represents a preview of sorts to National Grid's triennial plan for system reliability, energy efficiency and conservation procurement to be filed on September 1, 2011 which will cover the period 2012 through 2014.⁵ It contains projected energy and economic savings goals for both gas and electricity to be derived from energy efficiency programs.⁶

II. R.I. EERMC's Proposed Electric and Natural Gas Efficiency Targets

³ R.I.G.L. § 39-1-27.1(e)(4)

⁴ EERMC 1, p.7.

⁵ R.I.G.L. § 39-1-27.7(c)(4) requires National Grid to file "a plan for system reliability and energy efficiency and conservation procurement" every 3 years beginning in September 1, 2008.

⁶ The Least Cost Procurement Statute (R.I.G.L. § 39-1-27.2) was amended in the 2010 legislative session to include natural gas.

It should be noted at the outset that the EERMC collaborated with National Grid in developing these proposed Electric and Natural Gas Efficiency Targets, and they are supported by National Grid and all of the parties who participated in this docket. The targets are based on an extensive study performed by a consulting group commissioned by EERMC (KEMA, Inc., hereinafter “KEMA”) which purports to identify the potential for cost-effective energy efficiency measures in the state of Rhode Island, and the savings derived from those measures for the ten year period covering 2011 to 2020. The Study, entitled “The Opportunity for Energy Efficiency that is Cheaper than Supply in Rhode Island- Phase II Report” (“KEMA Study” or “Study”), consists of 450 surveys of residential, commercial and industrial electric customers in the state of Rhode Island, and is touted by KEMA as “the most detailed, comprehensive, and state-specific estimate of the electric efficiency potential conducted in Rhode Island to date.”⁷ In the KEMA Study, potential is measured in terms of “technical potential”, or the potential for applying all energy efficiency measures which are technically feasible; “economic potential”, defined as the potential for technically feasible measures which are cost-effective; and “achievable program potential”, or estimated net savings to be achieved from specific, funded energy efficiency programs.⁸ In quantifying the various forms of energy efficiency potential, an abundance of data was collected in a litany of areas including customer behavioral patterns, load shapes, the availability of existing and future energy efficiency technologies, the current market saturation and cost of these technologies as well as estimated savings derived therefrom.⁹ In the case of economic and technical potential, the data was then inserted into mathematical equations to

⁷ EERMC 2, pgs. 1-1. The KEMA Study does not address gas efficiency potential.

⁸ Id., 1-2.

⁹ Id. pgs. 2-1 to 2-10.

arrive at percentages of savings. ¹⁰In the Study, KEMA concluded that Rhode Island has a technical, economic and achievable potential for electric energy efficiency of 3.4%, 2.9% and 2.7%, respectively. ¹¹ In layman's terms, KEMA explained that the foregoing percentages represented amounts by which energy consumption could be reduced through energy efficiency. ¹² According to KEMA, these are conservative estimates because they mostly reflect currently available energy efficiency measures, and the advent of new technologies will inevitably increase the energy efficiency potential identified in this Study. ¹³

Based on the KEMA Study findings, the EERMC proposed for years 2012, 2013 and 2014, Electric Efficiency Savings Targets of 1.7%, 2.1% and 2.5% of load respectively. Based on gas efficiency potential studies and gas efficiency targets already approved in neighboring New England states, the EERMC proposed annual Gas Efficiency Targets for years 2012, 2013 and 2014 of .75%, 1.0% and 1.2% respectively. ¹⁴ While the Electric Efficiency Targets are lower than the achievable targets identified in the KEMA study, EERMC explained that the proposed Targets would be updated annually and likely increase in years to come as a result of emerging technological advances in areas such as LEDs (light emitting diodes) and OLEDs (organic light emitting diodes), for example, which would eventually bring the Targets in line with the KEMA- identified potential. ¹⁵ That said, EERMC asserted that the proposed Gas

¹⁰ Id., p. 2-6. The Total Resource Cost (TRC) Test was used to measure economic potential. The TRC Test is a cost benefit analysis of energy efficiency measures which incorporates the avoided costs of energy into the benefits side of the equation. Any ratio greater than 1.0 is regarded as cost-effective. EERMC 2, pgs. 2-2 to 2-3, 2-6, 4-1, 4-8 to 4-9; See also, EERMC 2, Appendix A, p. A-9.

¹¹ Id., 1-3.

¹² Id.

¹³ Id., p. 5-25 to 5-31.

¹⁴ EERMC 1, p. 3. See also, EERMC's Response to Commission Data Request 2. Research relied upon by EERMC pertaining to gas efficiency potential in other New England states was performed by EERMC's expert consultants from , VEIC, Inc. and Optimal Energy and also from research and experience of Vermont Gas Systems (VGS). Id.

¹⁵ EERMC 1, p.3; EERMC 2, pgs. 5-28 to 5-31; EERMC 2, Appendix B, pgs. B-12 to B-13 and Appendix H, p. 4-9 and Table 8.

Efficiency Targets “are designed to triple efficiency savings for consumers...by 2014.”¹⁶ To be specific, EERMC predicts that if the proposed Electric and Gas Efficiency Targets are achieved through full implementation of the upcoming Energy Efficiency Procurement Plan to be filed by the Company in September of 2011, ratepayers should save between \$200,000,000 and \$300,000,000 in “net economic benefits” by 2014.¹⁷ EERMC also predicts, based on a 2009 study performed by environmental research and advocacy group, Environment Northeast (ENE), that achieving the proposed Energy Efficiency Savings Targets will increase gross state product by more than \$500,000,000 by 2014.¹⁸ Like predictions were made regarding the positive impact that achievement of the Targets would have on job growth.

III. National Grid’s Comments in Support of the EERMC’s Propose Electric and Natural

On December 3, 2010, National Grid filed a letter in support of the Energy Efficiency Savings Targets proposed by EERMC, pledging to work with EERMC to refine and adjust the Targets, as needed, in the years to come. The Company defined the Targets as “aggressive but reasonable”, noting that achievement of the Targets will require “full funding of effective annual energy efficiency programs plan.”¹⁹ In support of EERMC’s Energy Efficiency Savings Targets, counsel cited the “wide variety of benefits for customers” which come from energy efficiency programs, including “hundreds of millions of dollars of direct benefits, in addition to broader economic benefits to the local economy, through job creation and re-spending, as well as... environmental benefits.”²⁰

¹⁶ EERMC 1, p. 3.

¹⁷ EERMC 1, Figure 3, p. 5. Estimates of net economic benefits are derived from a study performed by Environment Northeast (ENE) of past program results. ENE is an environmental research and advocacy group.

¹⁸ Id.

¹⁹ National Grid 1, p. 1.

²⁰ National Grid 1, p.2. Counsel for National Grid is Thomas Teehan.

IV. ENE's Comments

On December 3, 2010, Environment Northeast wrote to the Commission in support of the EERMC's Proposed Energy Efficiency Savings Targets echoing the belief expressed by EERMC and National Grid that achieving the Targets will produce both economic benefits in the form of monetary savings for ratepayers and job creation as well as environmental benefits from reduced greenhouse gas emissions. ²¹ ENE recommended approval of the Targets based on the perceived benefits associated with the Targets. ENE provided specific estimates of the savings to be ultimately achieved from the Targets which mirrored the savings estimates presented by the EERMC. According to ENE, the Targets have the potential of producing 189,086MWh and 32,759 kW of energy savings and \$500 million in "net lifetime benefits" from reduced energy bills. ²² For natural gas, ENE estimated savings of 427,100 MMBtus and \$ 215 million in "net lifetime benefits". ²³ ENE's estimates were "based on extrapolation from past program results and [would] be revised annually". ²⁴

V. The Division's Comments

The Division's consultant ²⁵ filed a memorandum in support of the EERMC's proposed Electric and Gas Efficiency Targets, finding the Electric Efficiency Targets consistent with the KEMA Study and reasonable in light of the energy efficiency potential findings provided in the KEMA Study. Without relying on the KEMA Study which focused solely on Electric Efficiency Targets, the Division consultant found EERMC's Gas Efficiency Targets reasonable in light of the increased funding available for gas efficiency programs, noting this circumstance would open

²¹ ENE 1, p. 1.

²² Id., p. 1. ENE did not provide mathematical calculations in support of its estimates.

²³ Id., p. 3.

²⁴ Id., p. 3.

²⁵ Bob Fagan of Synapse Energy Economics.

opportunities for more participation from the large commercial and industrial sector which in turn would ultimately lead to increased gas efficiency savings.²⁶

VI. Technical Sessions

Following public notice, the Commission held two Technical Sessions on March 15, 2011 and May 13, 2011 at the Commission's offices located at 89 Jefferson Boulevard, Warwick, Rhode Island wherein the following appearances were entered:

FOR EERMC:	Daniel Prentiss, Esq. Scudder Parker of Vermont Energy Investment Corp. (EERMC Consultant) Abigail Anthony, PhD.
FOR NATIONAL GRID:	Thomas Teehan, Esq. Jeremy Newberger, Esq. Rachel Hanschel
FOR THE DIVISION:	Jon Hagopian, Esq. David Stearns, Rate Analyst Robert Fagan of Synapse Energy Economics (Division Consultant)
FOR THE COMMISSION:	Amy K. D'Alessandro, Esq. Nicholas Ucci, Principal Policy Associate Alan Nault, Utility Rate Analyst Dilip Shah, Special Projects Coordinator

At the March 15 Technical Session, EERMC presented its proposed Electric and Gas Efficiency Savings Targets to the Commission and allowed an opportunity for questioning. The May 13 Technical Session was held for purposes of addressing the EERMC's proposed revisions to the System Reliability Procurement Standards originally promulgated by the Commission in 2008 pursuant to R.I.G.L. 39-1-27.7(a)(1) and scheduled for periodic review every three years

²⁶ Division 1, p. 2, footnote 1.

with recommendations from the commissioner of the EERMC.²⁷ The testimony offered at both sessions is summarized below.

Mr. Scudder Parker opened the session by reviewing the state's policy to promote cost-effective energy efficiency originally established in the Least Cost Procurement Act of 2006 and refined by recent legislative amendments, most notably those enacted in 2010 which extend the state's energy efficiency policy to natural gas, mandate a fully reconciling funding mechanism to fund all cost-effective energy efficiency measures and of course, revenue decoupling, which modifies the utility's existing rate structure to remove the current disincentive to promote energy efficiency.²⁸ Mr. Parker characterized the least cost procurement process (procuring energy efficiency) as a conservative strategy since it ultimately seeks investments which are less expensive than traditional energy supply and also because the Targets are consistent with the energy efficiency potential identified in the KEMA Study (which potential was greater than the Targets).²⁹ Mr. Parker reiterated the importance of setting the Targets for purposes of developing the upcoming energy efficiency plans to be filed by the utility in the fall of this year.³⁰ He further maintained that "the planning and review process will ensure that all investments are made on behalf of customers in a way that directly benefits them..."³¹

Mr. Parker's remarks were followed by questioning from the Commission regarding the accuracy of the savings estimates offered by EERMC, the costs associated with the proposed Targets and the plans (and budgets) that will be proposed by the Company in relation to the Targets. Chairman Germani expressed concern that the projected savings associated with the

²⁷ R.I.G.L. § 39-1-27.7(b) and (c).

²⁸ Transcript, pgs. 3-7 and 13.

²⁹ Id., pgs. 7-12.

³⁰ Id., p. 11. The two plans slated for the fall are a 3-year plan, filed on or before September 1, 2011, and an annual plan filed on or before November 1, 2011.

³¹ Id., p. 12.

Targets were simply projections and that actual savings associated with the Targets could not be verified until after implementation of the energy efficiency measures. In response to the Chairman's concern, both the Division and the Company's witnesses confirmed that the actual customer savings associated with these energy efficiency measures could not be determined until a retrospective analysis could be performed after implementation of the measures, which analysis would presumably occur after the typical lifetime of the measures, or 10 to 13 years from now.

³² To quote Chairman Germani, "...projections of the savings are merely a projection." ³³ In like fashion, Mr. Newberger stated "...we won't know what the actual savings to consumers will be based on actual prices until events unfold and until you look back over the whole life of those measures." ³⁴ When the Commission questioned the ramifications of approving the Targets and asked whether approval of the Targets would necessitate an approval of the upcoming energy efficiency procurement plans, and the budgets supporting those plans to be filed in September and November, Mr. Parker responded in the negative. ³⁵ When specifically asked whether the Commission would have authority to reevaluate the Targets once the upcoming plans and budgets are filed in the fall, Mr. Parker initially replied by pointing out the Commission's statutory authority to review the upcoming plans and budgets. ³⁶ When questioned further about the Commission's authority to revisit the Targets, Mr. Parker cited the standard of review to be used by the Commission in evaluating the upcoming plans. ³⁷ Specifically, Mr. Parker testified that in reviewing the energy efficiency plans to be filed in the fall, the Commission would need to determine whether the plans, and the programs that comprise those plans, are cost-effective

³² Id., pgs. 14- 22.

³³ Id., p. 17.

³⁴ Id., p. 22.

³⁵ Id., pgs. 24- 25.

³⁶ Id., pgs. 25-26.

³⁷ Id., p. 27-29

based on the statutorily approved Total Resource Cost (TRC) test.³⁸ This point was later echoed by Mr. Fagan who, when asked about the costs associated with the Targets, succinctly stated, “It all goes back to what is cost effective, that is key.”³⁹ Mr. Parker, Mr. Prentiss and Mr. Teehan all acknowledged that the Targets currently under review could be revised at some point in the future.⁴⁰ Mr. Parker and Mr. Prentiss seemed to believe such a revision was an improbable event while Mr. Teehan pointed out that the Targets are subject to annual review according to statute.⁴¹

As noted above, a discussion ensued over the costs to ratepayers associated with these Targets. The Commission was particularly concerned about whether an analysis had been performed on the rate impact of the Targets. Both of the Division’s witnesses testified they had not performed an analysis of the cost or rate impact of the Targets.⁴² Mr. Fagan said that such an analysis would be performed when the efficiency plans are filed in the fall, and that at this stage of the efficiency procurement planning process, the appropriate question to ask is whether the Targets are consistent with the procurement of cost effective supply which Mr. Fagan believed they were.⁴³ Mr. Stearns testified his analysis was limited by the controlling statute in this matter (R.I.G.L. § 39-1-27.7.1) which does not allow for a review of costs associated with the Targets.⁴⁴ The Technical Session concluded with Mr. Teehan expressing the Company’s

³⁸ Id. The Total Resource Cost (TRC) Test, though not identified as such, and not per se defined in the general laws, is codified at 39-1-27.7(c)(5) which requires the Commission to approve all efficiency measures that are cost effective and lower cost than acquisition of additional supply.

³⁹ Id., p. 42.

⁴⁰ Id., 27, 29, 33-34.

⁴¹ Id. The statute Mr. Teehan refers to in his testimony at Transcript, p. 34, is R.I.G.L. 39-1-27.7.1(f) which states, “The council shall revise as necessary these targets on an annual basis prior to the reconciliation process established pursuant to subsection (c)...and submit its revisions to the commission for approval.”

⁴² Id., pgs. 38-41.

⁴³ Id., pgs. 41-42.

⁴⁴ Id., pgs. 40-41

support of the Energy Efficiency Savings Targets and assuring its commitment to continue working with the EERMC in developing the three-year plan to be filed this September.

The May 13 Technical Session was held for purposes of reviewing the EERMC's proposed revisions to the System Reliability Procurement Standards ("Standards"). The System Reliability Procurement Standards, established in June of 2008 pursuant to the Least Cost Procurement Statute (R.I.G.L. § 39-1-27.7) ("LCP Statute" "LCP Act"), are intended to ensure certain reliability standards are met by the utility in the efficiency procurement process.⁴⁵ The LCP Statute requires that the Standards address diversity of energy resources, including renewable energy, distributed generation and demand response and are subject to periodic review by the Commission at least every three years.⁴⁶ Accordingly, the EERMC filed its proposed revisions to the Standards on March 1, 2011, the first proposed revision since the Standards were first approved on June 12, 2008. The EERMC filed several edited versions of its proposal in April and May of 2011, to correct formatting and other non-substantive errors, and on May 31, 2011, the EERMC submitted to the Commission its final draft of proposed revisions to the Standards which addressed issues raised by the Division and the Company.

At the May 13 Technical Session devoted to System Reliability Standards, Mr. Parker explained the purpose behind the Standards is to achieve reliability of electric services in a manner that incorporates energy efficiency.⁴⁷ He explained that the proposed revisions to the Standards would continue this purpose through a more clearly defined process of incorporating

⁴⁵ The System Reliability Procurement Standards were initially proposed by the EERMC on February 29, 2008 and adopted by the Commission with revisions on June 12, 2008. See Order No. 19344 (Docket 3931), Appendix A, Chapter 2, issued July 18, 2008. (Appendix A, Chapter 1, of this Order contains the Standards for Energy Efficiency Procurement to which the EERMC proposed slight revisions in the within Docket; however, these revisions were not addressed at the May 13 Technical Session because they were regarded as minimal.)

⁴⁶ R.I.G.L. 39-1-27.7(a) and (b)

⁴⁷ Transcript, pgs. 6-8

non-wires alternatives (NWAs) into the utility's distribution planning process.⁴⁸ Non-wires alternatives, dubbed NWAs, is an industry term to denote the use of various non-traditional mechanisms which promote system reliability while enabling the Company to defer or avoid major transmission and/or distribution investments.⁴⁹ These methods are non-traditional in the sense that they differ from the traditional method of ensuring system reliability which is to invest in system-wide upgrades which typically cost a utility millions of dollars, which cost is normally passed on to ratepayers. Examples of NWAs would be demand response programs, energy efficiency programs or any program, strategy or technology which decreases load from the system without a physical system upgrade.⁵⁰ The Company, he explained, has already begun to incorporate NWAs into its planning process, and the proposed revisions to the Standards would hopefully provide "more sophisticated analytical tools" for the Company to use in this process.

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Mr. Newberger clarified that pursuant to Section 2.1H of the Standards, the Company will file a System Reliability Procurement (SRP) Plan report on November 1 of each year providing a summary and analysis of NWA projects that were implemented in the previous year. This report will include "how the Company plans to proceed" with implementing the preferred non-wires alternative and will be separate from the Company's demand side management (DSM) plan filed on November 1.⁵²

The Commission inquired about the level of specificity provided in the Standards to which the Company and EERMC explained that the Standards were drafted in such a way as to allow a certain amount of flexibility in the application of non-wires alternatives going forward.

⁴⁸ Id., pgs. 7-9.

⁴⁹ Id., pgs. 7-8.

⁵⁰ Id. and p. 19.

⁵¹ Id., pgs. 9-11.

⁵² Id., pgs. 17-18.

⁵³ Mr. Parker was asked if the EERMC agreed to the revisions that were proposed by the Company and the Division prior to the technical session, and Mr. Parker indicated that they agreed in concept with the Company's proposals and were negotiating a final draft reflecting their agreement. ⁵⁴ Mr. Teehan confirmed this point and said a final red-lined draft would be filed prior to the Open Meeting. ⁵⁵ When asked if the EERMC agreed with the Division's recommendations, Mr. Parker indicated that the parties were in the process of negotiating a revision that would be agreeable to all parties. ⁵⁶ Both he and the Division's consultant, Mr. Fagan, were optimistic about the EERMC prospect of reaching agreement on the Division's recommendations. ⁵⁷ The one point that was thought to be a disagreement between the EERMC and the Division turned out to be more of a disagreement over form rather than substance. The issue was whether Section 2.1C of the Standards should require transmission or distribution projects to have a 36 month lead time as one of the criteria for considering a non-wires alternative. The Division recommended that the Company use 24 months as the appropriate time frame for considering a non-wires solution. ⁵⁸ At the May 13 Technical Session, the Division's consultant, Mr. Fagan, explained that he recommended a shorter time period for consideration of NWA simply to allow more opportunities for implementing NWAs. ⁵⁹ He felt that the 36-month criterion proposed by EERMC, and agreed to by the Company, might serve to limit potential opportunities for NWAs. ⁶⁰ The Company expressed agreement "in aspiration" with Mr. Fagan but felt that 36 month was a "prudent" time frame for implementing NWAs and that a shorter

⁵³ Id., pgs. 18-19, 21-22, 25-26.

⁵⁴ Id., pgs. 22-23 and 27.

⁵⁵ Id., pgs. 23-25.

⁵⁶ Id., p. 27.

⁵⁷ Id., pgs. 28-30.

⁵⁸ Id., Division 1 (May 13 Exhibit List), p.2.

⁵⁹ Transcript, p. 29.

⁶⁰ Id.

time frame might have the opposite effect of ruling out certain projects.⁶¹ The Company added however, that it might be appropriate in the future to revise the time frame to 24 months.⁶²

The EERMC answered questions posed by the Commission about the appropriate cost benefit analysis to be applied to non-wires solutions, incentivizing efficiency and how to credit savings to the customer in the process of implementing non-wires alternatives.⁶³ Energy efficiency measures have typically been evaluated using the total resource cost (TRC) test; however, as Mr. Parker pointed out, this test may not be sufficient to evaluate the unique elements of a non-wires solution analysis which may involve interruptible service or on-site generation which would be difficult to measure.⁶⁴ The Company had similar qualms with the TRC test and recommended striking language from the Standards which promoted the use of the TRC test in evaluating NWAs. Ultimately, Mr. Parker testified that the process of determining the appropriate cost benefit analysis for evaluating non-wires alternatives was still evolving.⁶⁵ Addressing the issue of how to create incentive for the Company to be the most efficient in its pursuit of NWAs, Mr. Parker seemed to revert to the TRC test in saying “ultimately the test is is this measure lower cost than the traditional...capital investment?”.⁶⁶ He also alluded to decoupling as a means of motivating the utility to be cost-effective in this process.⁶⁷ Responding to the question of how much savings should be credited to a particular customer, Mr. Parker stated that the Company should pay the customer the value which compensates them for “loss of production, reliability or convenience.”⁶⁸

⁶¹ Id., pgs. 32-33.

⁶² Id., p. 42.

⁶³ Id., pgs. 50-55.

⁶⁴ Id., p. 50.

⁶⁵ Id., p. 51.

⁶⁶ Id., p. 52.

⁶⁷ Id., p. 55.

⁶⁸ Id. 54.

Discussion ensued over the outage exception proposed by the Company which allows the Company to seek an exemption from penalties for service outages which are beyond the control of the Company. Commission staff expressed concern over the Company's request for what appeared to be leniency in delivering system reliability.⁶⁹ In response, the Company explained in detail the inherent risks assumed by the Company in the implementation of NWAs not the least of which is the customer's behavior, or more appropriately the lack of consistency and predictability in the customer's behavior.⁷⁰ The success of non-wires solutions, he explained, depends very much on the behaviors of the specific group of participating customers which tend to fluctuate during extreme weather patterns or other circumstances.⁷¹ The Company cannot, for example, rely with 100% accuracy on back up generators to meet system reliability needs when dealing with variables beyond the control of the Company such as management turn-overs and specific, individual behaviors. By way of illustration, Mr. Zschokke relayed an experience he had with a customer who regarded interruptible service and real time pricing as a ploy to get him to pay for a service which the Company ought to pay for and provide.⁷² Similarly, Mr. Roughan testified that multi-day heat waves will frequently cause customers who have agreed to interruptible service to revert to traditional consumption patterns.⁷³ He further explained that these circumstances could potentially lead to an outage, and for this reason, the Company ought to be allowed to request an exemption from the imposition of penalties resulting from such an outage.⁷⁴

V. Post-Hearing Brief

⁶⁹ Id., p. 75.

⁷⁰ Id., pgs. 75-82.

⁷¹ Id.

⁷² Id., pgs. 76-77.

⁷³ Id., p. 79.

⁷⁴ Id., pgs. 80-82.

Following the March 15 Technical Session, Commission counsel requested clarification from the parties regarding Scudder Parker's testimony that the cost-effectiveness standard prescribed in R.I.G.L. § 39-1-27.7(c)(5) applied to the Energy Efficiency Savings Targets.⁷⁵ The cost-effective standard states that the Commission shall approve "all energy efficiency measures that are cost effective and lower cost than acquisition of additional supply..."⁷⁶ On April 1, 2011, the parties jointly filed a short brief in response to the Commission's request, clarifying Mr. Parker's testimony and unequivocally stating that the cost-effectiveness standard prescribed in § 39-1-27.7(c)(5) does not apply to the Energy Efficiency Savings Targets.⁷⁷ The parties clarified rather that the cost-effectiveness standard applies to the 3-year efficiency procurement plan and annual efficiency plans.⁷⁸

VI. Commission Findings

On June 7, 2011, the Commission voted unanimously to approve the EERMC's proposed Electric and Natural Gas Efficiency Savings Targets, as well as EERMC's proposed revisions to the Energy Efficiency Procurement Standards and System Reliability Procurement Standards, finding both the Targets and the Standards consistent with the policies and provisions of the Revenue Decoupling and Least Cost Procurement Acts.⁷⁹ The Energy Efficiency Procurement Standards and System Reliability Procurement Standards approved by the Commission are attached to this Order (Appendix A).

The Commission finds that its authority in this matter is limited to the terms of the Decoupling and Least Cost Procurement Acts. In addressing the Targets, the Commission is guided by the Decoupling Statute which contains two general mandates regarding the Targets. It

⁷⁵ Transcript, pgs. 22-24.

⁷⁶ R.I.G.L. § 39-1-27.7(c)(5).

⁷⁷ Joint Brief of EERMC, National Grid, the Division of Public Utilities and Carriers and Environment Northeast

⁷⁸ Id., p.3.

⁷⁹ R.I.G.L. § 39-1-27.7.1 (e)(4) and (f); R.I.G.L. § 39-1-27.7

requires the Commission to approve the Targets without apparent discretion given to the Commission, and it provides an inclusive description of the Targets that they “shall include but not be limited to” kilowatt hour savings and peak demand megawatt hour savings.⁸⁰ The Decoupling Statute also provides that the Targets shall include “appropriate targets recommended in the opportunities report”.⁸¹ Thus the Commission’s authority, based on the aforementioned statute, appears to be limited to a review of whether or not the Targets contain the elements provided in the statute, or “specific energy kilowatt hour savings overall and peak demand savings for both summer and winter peak periods expressed in total megawatts as well as appropriate targets recommended in the opportunities report”.⁸² After carefully reviewing the Targets proposed by EEMRC and the KEMA Study, the Commission finds that the Targets proposed by EEMRC conform to the Decoupling Statute in estimating overall energy savings, peak demand savings and numerous other savings referenced in the opportunities report, to be derived from energy efficiency programs.⁸³ The Commission notes that although the EEMRC’s September 1, 2010 letter to the Commission provided estimates of summer and winter kilowatt demand savings, the accompanying KEMA Study contains several estimates of demand savings expressed in megawatts, as required by statute.⁸⁴ The Commission also notes that the KEMA Study’s estimates of megawatt peak demand savings from energy efficiency are divided into multiple categories including sector (residential, commercial, industrial), type (technical, economic and achievable savings, savings by end use⁸⁵ and program type)⁸⁶, and that the extensive analysis devoted to demand savings in the KEMA Study leaves no reason for the

⁸⁰ R.I.G.L. § 39-1-27.7.1 (e)(4) and (f)

⁸¹ R.I.G.L. § 39-1-27.7.1(f)

⁸² *Id.*

⁸³ The EEMRC provided the opportunities report (KEMA Study) as Attachment B to its proposal dated September 1, 2010.

⁸⁴ EEMRC 2, pgs. 1-7, 1-11, 4-2, 4-6, 4-13, 4-15, 4-19, 4-21, 4-25, 4-27, 5-4.

⁸⁵ *Id.*, pgs. 4-13, 4-25

⁸⁶ *Id.*, p. 5-4

Commission to conclude that the KEMA Study omitted either winter or summer peak periods. Rather, the Commission finds that the demand savings included in the KEMA Study include both summer and winter peak periods as required by R.I.G.L. § 39-1-27.7.1(f). In so finding, the Commission relies in part on the KEMA Study's explanation of its use of baseline data including "end use load shapes (that describe the amount of energy used or power demand over certain times of the day and days of the year)".⁸⁷ The Commission finds nothing in this language or elsewhere in the KEMA Study that reveals an intent by its authors to distinguish winter peak periods from summer peak periods. Conversely, the Commission does not find that the KEMA Study entirely excludes winter peak savings because certain peak period data was "calibrated to the summer peak."⁸⁸ In future filings, however, the Commission urges the EERMC and its consultants to provide estimates of demand savings in a manner that more clearly demonstrates compliance with the statute's mandate of providing "peak demand savings for both summer *and* winter peak periods *expressed in total megawatts*" (emphasis added).⁸⁹

In addressing the EERMC's proposed revisions to the Energy Efficiency Procurement Standards and System Reliability Procurement Standards, the Commission is similarly limited in its review by the Least Cost Procurement Act which simply requires that the Standards include guidelines for various components of least cost procurement and system reliability. These components include the following for System Reliability: diversity of resources, including renewable energy resources; distributed generation and demand response.⁹⁰ The Least Cost Procurement Act requires that the Least Cost Procurement Standards include "procurement of energy efficiency and energy conservation measures that are prudent and reliable and when such

⁸⁷ EERMC 2, p. 3-1.

⁸⁸ Id., p. 3-4.

⁸⁹ R.I.G.L. § 39-1-27.7.1(f).

⁹⁰ R.I.G.L. § 39-1-27.7(a)

measures are lower cost than acquisition of additional supply...”⁹¹ The System Reliability Procurement Standards and Least Cost Procurement Standards were first proposed by the EERMC on February 29, 2008 and approved by the Commission on June 12, 2008.⁹² This filing represents the first revision of the original filing and remains consistent with the general goal of the Least Cost Procurement Act (“LCP Act”) of “meeting electrical and natural gas energy needs in Rhode Island, in a manner that is optimally cost-effective, reliable, prudent and environmentally responsible.”⁹³ The Commission finds not only that the EERMC’s proposed revisions to the System Reliability Procurement Standards are consistent with statutory goal of acquiring least cost procurement but that they also provide the appropriate guidelines enunciated in the LCP Act for achieving this goal. Specifically, the revised System Reliability Procurement Standards proposed by EERMC and uniformly supported by the parties, contain provisions which are intended to promote non-wires alternatives which include renewable energy resources, distributed generation and demand response consistent with the LCP Act.⁹⁴ The Commission is further satisfied that the parties collaborated at great length in this Docket producing multiple drafts of the System Reliability Procurement Standards to incorporate the specific concerns and recommendations of the parties, and the final result of this collaboration is a revised set of Standards that are mutually agreeable to the parties and promote the policies and provisions of the LCP Act.

The Commission notes that EERMC’s proposed revisions to the Least Cost Procurement Standards are much less detailed than its System Reliability revisions, due to the fact that they

⁹¹ R.I.G.L. § 39-1-27.7(a)(2)

⁹² Written Order No. 19344 issued July 18, 2008 (Docket 3931). The Least Cost Procurement Standards and System Reliability Procurement Standards approved by the Commission on June 12, 2008 are contained in Appendix A of Order No. 19344.

⁹³ R.I.G.L. § 39-1-27.7.

⁹⁴ System Reliability Procurement Standards, Section 2.1, Appendix A of this Order.

are simply designed to achieve consistency with recent legislative amendments which further promote energy efficiency by incorporating natural gas into the LCP Statute and authorizing a fully reconciling funding mechanism to fund investments in energy efficiency.⁹⁵ The Commission likewise finds these revisions to be consistent with the policies and provisions of the LCP Act insofar as they continue to promote “the procurement of energy efficiency and energy conservations measures that are prudent and reliable” and cheaper than additional supply.⁹⁶

Accordingly, it is hereby

(20419) ORDERED:

1. The Electric and Natural Gas Efficiency Savings Targets proposed by the Energy Efficiency and Resource Management Council (EERMC) on September 1, 2010 are hereby approved.
2. Based upon estimates of the average annual energy efficiency potential for the state of Rhode Island identified in KEMA’s Phase II Opportunity Report, the Commission hereby approves annual Energy Efficiency Savings Targets for years 2012, 2013 and 2014 of 1.7%, 2.1% and 2.5% of load respectively. Accordingly, the Narragansett Electric Company d/b/a National Grid shall premise its upcoming energy efficiency plans on the goal of reducing energy consumption by 1.7%, 2.1% and 2.5% in years 2012, 2013 and 2014.
3. These Energy Efficiency Savings Targets are intended to achieve energy savings of 128,570 MWhs (128,570,000 kWhs), 158,820 MWhs (158,820,000kWhs) and 189,068 MWhs (189,068,000 kWhs) in years 2012, 2013 and 2014, respectively. The

⁹⁵ R.I.G.L. § 39-1-27.7(c)(5)

⁹⁶ R.I.G.L. § 39-1-27.7(a)(2)

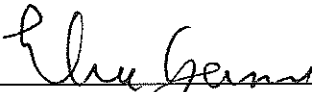
Commission approves these Savings Targets as well as the following Peak Demand Savings Targets: Summer demand savings derived from energy efficiency programs in years 2012, 2013 and 2014 are estimated to be 23,204 KWs (23.204 MWs), 28,664 KWs (28.664 MWs) and 32,759 KWs (32.759 MWs) respectively. Winter demand savings derived from energy efficiency programs in years 2012, 2013 and 2014 are estimated to be 21,556 KWs (21.556 MWs), 26,628 KWs (26.628 MWs) and 30,432 KWs (30.432 MWs) respectively. Narragansett Electric Company d/b/a National Grid shall premise its upcoming energy efficiency plans for years 2012, 2013 and 2014 on the goal of producing the foregoing energy and peak demand savings.

4. Based upon estimates of the average annual natural gas efficiency potential for the state of Rhode Island identified by the Energy Efficiency Resource Management Council (EERMC), and research performed by EERMC's expert consultants, the Commission hereby approves annual Natural Gas Efficiency Savings Targets for years 2012, 2013, and 2014 of .75%, 1.0% and 1.2% of load respectively. Accordingly, the Narragansett Electric Company d/b/a National Grid shall premise its upcoming Gas Efficiency Plans on the goal of reducing natural gas consumption by .75%, 1.0% and 1.2% in years 2012, 2013 and 2014 respectively.
5. These Natural Gas Efficiency Savings Targets are intended to achieve annual savings of 263,738 MMBtus, 338,120 MMBtus and 427,100 MMBtus in years 2012, 2013 and 2014. Accordingly, the Narragansett Electric Company d/b/a National Grid shall premise its upcoming Natural Gas Efficiency Plans for years 2012, 2013 and 2014 on the goal of producing the foregoing savings.

6. The revisions to the System Reliability Standards proposed on March 1, 2011, and further revised on May 31, 2011, by the Energy Efficiency and Resource Management Council are approved and attached herein (Appendix A).
7. The revisions to the Energy Efficiency Procurement Standards proposed by the Energy Efficiency and Resource Management Council on February 24, 2011 are approved and attached herein (Appendix A).

EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 7, 2011 PURSUANT
TO AN OPEN MEETING DECISION ON JUNE 7, 2011. WRITTEN ORDER ISSUED
JULY 25, 2011.


PUBLIC UTILITIES COMMISSION



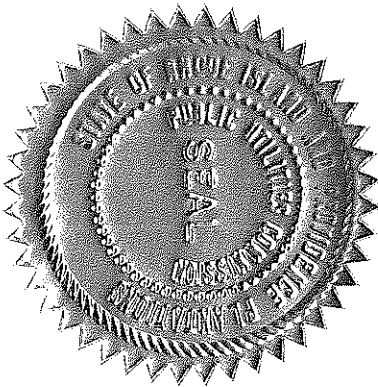
Elia Germani, Chairman



Mary E. Bray, Commissioner



Paul J. Roberti, Commissioner



APPENDIX A

STANDARDS FOR ENERGY EFFICIENCY AND CONSERVATION PROCUREMENT AND SYSTEM RELIABILITY

CHAPTER 1- Energy Efficiency Procurement

Section 1.1 Plan Filing Dates

- A. The Utility Energy Efficiency Procurement Plan (“The EE Procurement Plan”) submitted on September 1, 2008 and triennially thereafter on September 1, shall propose overall budgets and efficiency targets for the three years of implementation beginning with January 1 of the following year.
- B. The Utility shall prepare and file a supplemental filing on November 1, 2008 and annually thereafter on November 1, containing details of implementation plans by program for the next program year (“The EE Program Plan”). The November 1 filings shall also provide for adjustment, as necessary, to the remaining years of the EE Procurement Plan based on experience, ramp-up, and increased assessment of the resource levels available.
- C. Simultaneously with the November 1, 2008 filing the Council and the Utility shall report to the commission regarding the question of whether supply-side sources, in addition to the demand-side source addressed in this version of the standards, should be incorporated into future versions of the standards and the Least Cost Procurement Plan. In preparing this report, the Council shall solicit comment and information from all parties to Docket No. 3931, and any others as the Council may determine. In adopting these standards prior to receiving such a report, the Commission reserves the right to order revisions to the standards, and the Procurement Plan, prior to the next September 1, 2011 filing date.

Section 1.2 EE Procurement Plan Components

- A. The EE Procurement Plan shall identify the strategies and an approach to planning and implementation of programs that will secure all cost-effective energy efficiency resources that are lower cost than supply and are prudent and reliable.
 1. Strategies and approaches to planning.
 - a. The Utility shall use the Council’s Opportunity Report as issued on July 15, 2008 (and as it may be subsequently supplemented) as one resource among others in developing its EE Procurement Plan. ⁹⁷ The Utility may include in

⁹⁷ The Opportunity Report is essential because it is required by law and because it provides part of the analysis upon which the PUC will base its decisions as to the level of investment required to acquire all cost-effective efficiency that is lower cost than supply.

its Plans an outline of proposed strategies to supplement and build upon the initial Opportunity Report.

- b. The EE Procurement Plan shall describe the recent energy efficiency programs offered by the Utility and highlight how the EE Procurement Plan supplements and expands upon these offerings, including but not limited to new measures, implementation strategies, new strategies to make capital available to effectively overcome market barriers, and new programs as appropriate.
- c. The EE Procurement Plan shall include a section describing a proposal to investigate new strategies to make available the capital needed to implement projects in addition to the incentives provided. Such proposed strategies shall move beyond traditional financing strategies and shall include new capital availability strategies that effectively overcome market barriers in each market segment in which it is feasible to do so.
- d. The EE Procurement Plan shall address how the Utility plans to integrate gas and electric energy efficiency programs to optimize customer energy efficiency.

2. Cost-effectiveness

- a. The Utility shall assess measure, program and portfolio cost-effectiveness according to the Total Resource Cost Test ("TRC").⁹⁸ The Utility shall, after consultation with the Council, propose the specific benefits and costs to be reported and factors to be included in the Rhode Island TRC test.
- b. That test shall include the costs of CO2 mitigation as they are imposed and are projected to be imposed by the Regional Greenhouse Gas Initiative. They shall include any other costs associated with greenhouse gas reduction that are actually being imposed on energy generation and can be identified and quantified.
- c. The Utility shall provide a discussion of the carbon impacts efficiency and reliability investment plans will create.

3. Prudence and Reliability

- a. In the initial three-year EE Procurement Plan, a ramp-up to achieve all cost-effective efficiency lower cost than supply shall be proposed by the Utility that is both aggressive in securing energy, capacity, and system cost savings and is also designed to ensure the programs will be delivered successfully and cost-effectively over the long term.⁹⁹ The proposed ramp-up will

⁹⁸ Since the focus of the Rhode Island legislation is on securing customer benefits, not just Utility benefits from energy efficiency procurement, the TRC test is recommended.

⁹⁹ The Utility may propose a study or studies to investigate and document current energy efficiency program infrastructure in Rhode Island; to assess the ability of the infrastructure to meet increased demand for energy efficiency services; and to make recommendations for increasing capacity if needed. Any such report should address: staffing levels and ability to expand staffing; training and experience of staff; current workloads; interest in working with Utility program sponsors; statewide coverage of serves; and other relevant factors. Where appropriate, the Utility may partner with research efforts of this sort that are regional in nature or in other jurisdictions, so long as

appropriately balance the significant cost saving efficiency investment opportunity that is identified and the near-term capacity and staffing issues within the Utility and vendor community with an emphasis on ensuring an aggressive and sustainable ramp-up of program investments over time.

- b. EE Procurement Plan efficiency investments shall be made on behalf of all customers. This will ensure consistency with existing program structure under which all customers pay for and benefit from today's efficiency programs.
- c. The EE Procurement Plan should describe how it interacts with the System Reliability Procurement Plan.

4. Funding Plan and Initial Goals

- a. The Utility shall develop a funding plan based on the following sources to meet the budget requirement of the EE Procurement Plan. The Utility shall utilize as necessary to fulfill the statutory mandate, the five following sources of funding for the efficiency program investments among others:
 - i. the existing System Benefits Charge ("SBC");
 - ii. forward capacity market ("FCM") revenues should be invested to help cover program costs;
 - iii. auction of Regional Greenhouse Gas Initiative ("RGGI") allowances pursuant to 23-82.6 of the General Laws which states allocation of RGGI proceeds shall be for that which "best achieves the purposes of the aw, namely, lowering carbon emissions and minimizing cost to customers over the long term";
 - iv. funds from any federal or international climate or cap and trade legislation or policy including but not limited to revenue or allowances allocated to expand energy efficiency programs;
 - v. funds from the fully reconciling funding mechanism established in the 2010 revision to § 39-1-27.7.7(c)(5) of the General Laws, namely, a requirement to fully fund cost-effective 3-year plans for energy efficiency procurement, reviewed and approved by the Energy Efficiency Resource Management Council, and any related annual plans.
- b. The Utility shall include a preliminary budget for the EE Procurement Plan covering the three-year period that identifies the projected costs, benefits, and initial energy saving goals of the portfolio for each year. The budget shall identify at the portfolio level, the projected cost of efficiency resources in cents/lifetime unit of energy. The preliminary budget and initial energy saving goals may be updated in the Utility's EE Program Plan.

B. Efficiency Performance Incentive Plan

they provide pertinent information for building the Rhode Island infrastructure. The costs of these plans and the actions to implement them may be included as program costs.

1. Utility shall have an opportunity to earn a shareholder incentive that is dependent on its performance in implementing the approved EE Procurement Plan.
 - a. The Utility, in consultation with the Council, will propose in its EE Procurement Plan, an incentive proposal that is designed to promote superior Utility performance in cost-effectively and efficiently securing for customers all efficiency resources lower cost than supply
 - b. The Performance Incentive should be structured to reward program performance that makes significant progress in securing all cost-effective efficiency resources that are lower cost than supply while at the same time ensuring that those resources are secured as efficiently as possible.
 - c. The Utility incentive model currently in place in RI should be reviewed by the Utility and the Council. The Utility and Council shall also review incentive programs and designs in other jurisdictions including those with penalties and increasing levels of incentives based on higher levels of performance.
 - d. The Incentive may provide incentives for other objectives that are consistent with the goals including but not limited to comprehensiveness, customer equity, increased customer access to capital and market transformation.
 - e. The incentive should be sufficient to provide a high level of motivation for excellent Utility performance, but modest enough to ensure that customers receive most of the benefit from EEP implementation.

Section 1.3 EE Program Plan Components

A. Principles of Program Design

1. The EE Program Plan shall identify the specific energy efficiency programs proposed for implementation by the Utility, pursuant to the EE Procurement Plan.
2. The Utility should consistently design programs and strategies to ensure that all customers have an opportunity to benefit comprehensively, where appropriate, from expanded investments in this low-cost resource and the programs should be designed and implemented in a coordinated fashion by the Utility, in active and ongoing consultation with the Council
3. The Utility shall propose a portfolio of programs in the EE Program Plan that is cost-effective. Any program with a benefit cost ratio greater than 1.0 (i.e. where benefits are great than costs), should be considered cost-effective. While all programs should be cost-effective, the portfolio must also be determined to be cost-effective.
4. The Utility shall be allowed to direct a portion of proposed funding to conduct research and development and pilot program initiatives. These efforts will not be

subject to cost-effectiveness consideration. However, the costs of these initiatives shall be included in the assessment of portfolio level cost-effectiveness.

5. All efforts to ramp-up program capability as identified in Section 1.2A(3)(a) shall be done in a manner that ensures quality delivery and is economical and efficient. The Utility shall include wherever possible and practical partnerships with existing educational and job training entities.
6. The portfolio of programs proposed by the Utility should be designed to ensure that different sectors and all customers get opportunities to secure efficiency resources lower cost than the cost of supply.
7. While it is anticipated that rough parity among sectors can be maintained, as the limits of what is cost-effective are identified, there may be more efficiency opportunities identified in one sector than another. The Utility should design programs to capture all resources that are cost-effective and lower cost than supply. The Utility should consult with the council to address ongoing issues of Parity.
8. The Utility shall explore as part of its plan, new strategies to make available the capital needed to effectively overcome market barriers and implement projects that move beyond traditional financing strategies.

B. Final funding Plans and Budget Amounts, Cost-Effectiveness and Goals

1. The Utility shall include a detailed budget for the EE Program Plan covering the annual period beginning the following January 1, that identifies the projected costs, benefits, and energy saving goals of the portfolio and of each program. The budget shall identify at the portfolio level, the projected cost of efficiency resources in cents/lifetime unit of energy.
2. The EE Program Plan filed November 1, will reflect program ramp-up experience and anticipated changes, shifts in customer demand, changing market costs, and other factors, as noted in Section 1 above. The annual detailed budget update shall include the projected costs, benefits, and energy saving goals of each program as well as the cost of efficiency resources in cents/lifetime unit of energy.
3. The Utility, in consultation with the Council, may propose specific non-energy benefits (“NEBs”) in its Residential Low Income program cost-effectiveness analysis in addition to the benefits included in the TRC test for all other programs.
4. The EE Program Plan shall identify the energy cost savings that RI ratepayers will realize through its implementation.
5. In order to assess the potential effect of greenhouse gas reduction costs, the Utility, upon consultation with the Council, shall conduct and report in the EE Procurement Plan filing a sensitivity analysis of the propose portfolio of programs that includes a “potential” cost for CO2 mitigation that is greed upon among the parties.

C. Program Descriptions

1. Utility program development shall proceed by building upon what has been learned to date in utility program experience, systematically identifying new opportunities and pursuing comprehensiveness of measure implementation as appropriate and feasible.
2. The Utility shall, as part of its EE Program Plan, describe each program, how it will be implemented and the total costs and benefits associated with the efficiency investments.
3. The Utility plan shall describe in each appropriate program section a plan to devise new strategies to make available the capital needed in addition to the incentives provided to implement measures.
4. In addition to the basic requirements, the plan shall address, where appropriate, the following elements:
 - a. Comprehensiveness of opportunities addressed at customer facilities
 - b. Integration of electric and natural gas energy efficiency implementation and delivery (while still tracking the cost-effectiveness of programs by fuel).
 - c. Integration of energy efficiency programs with renewable and other system reliability procurement plan elements
 - d. Promotion of the effectiveness and efficiency levels of Cods and standards and other market transforming strategies. If the Utility takes a proactive role in researching, developing and implementing such strategies, it may, after consultation with the Council, propose a mechanism to claim credit for a portion of the resulting savings.
 - e. Implementation, where cost-effective, of demand response measures or programs that are integrated into the electric and natural gas efficiency program offerings. Such measures/programs will be designed to supplement cost-effective procurement of long-term energy and capacity savings from efficiency measures.

D. Monitoring & Evaluation (M&E) Plan

1. The Utility shall, after consultation with the Council, include a Monitoring and Evaluation (“M&E”) component in its EE Program Plan.
2. This M&E component shall cover the three years of the Plan, with a focus on the first year, and address at least the following:
 - a. A component that addresses savings verification including, where appropriate, analysis of customer usage;
 - b. A component that will address issues of ongoing program design and effectiveness;
 - c. Any other issues, for example, efforts related to market assessment and methodologies to claim savings from market effects, among others;
 - d. A discussion of Regional and other cooperative M&E efforts the Utility is participating in or plans to participate in.
3. The Utility shall include in its M&E component any changes it proposes to the frequency and level of detail of utility program plan filing and subsequent reporting of results.

E. Reporting Requirements

1. The Utility, in consultation with the Council, will propose the content to be reported and a reporting format that is designated to communicate clearly and effectively the benefits of the efforts planned and implemented, with particular focus on energy cost savings, to secure all EE resources that are lower cost than supply.

Section 1.4 Role of the Council

- A. The Council shall take a leadership role in ensuring that Rhode Island ratepayers get excellent value from the EE Procurement Plan being implemented on their behalf. The Council shall do this by collaborating closely with the Utility on design and implementation of the Monitoring and Evaluation efforts presented by the Utility under the terms of Section 1.3D, and if necessary, provide recommendations for modification that will strengthen the assessment of utility programs.
- B. As part of the Council's April 15 annual report required by 42-140.1-5 the Council shall report on program performance and whether program costs are justified, given the intent of the enabling legislation. The Council shall also report on the effectiveness of any performance incentive approved by the PUC in achieving the objectives of efficient and cost-effective procurement of all efficiency resources lower cost than supply and the level of its success in mitigating the cost and variability of electric service by reducing customer usage.
- C. In addition to the other roles for the Council indicated in this filing, the Utility shall seek ongoing input from, and collaboration with, the Council on development of the EE Procurement and Program Plans, and on development of the annual update to the Plan.
- D. The Utility and the Council shall report to the PUC a process for Council input and review of its 2008 EE Procurement Plan and EE Program Plan by July 15, 2008 and triennially thereafter.
- E. The Council shall vote whether to endorse the EE Procurement Plan by August 15, 2008 and triennially thereafter. If the Council does not endorse the Plan then the Council shall document the reasons and submit comments on the Plan to the PUC for their consideration in final review of the Plan.
- F. The Utility shall, in consultation with the Council, propose a process for Council input and review of its EE Procurement Plan and EE Program Plan. This process is intended to build on the mutual expertise and interests of the Council and the Utility, as well as meet the oversight responsibilities of the Council.
- G. The Utility shall submit a draft annual EE Program Plan to the Council for its review and comment annually by October 1.

- H. The Council shall vote whether to endorse the annual EE Program Plan by October 15, annually. If the Council does not endorse the annual EE Program Plan, the Council shall document its reasons and submit comments on the Plan to the PUC for its consideration in final review of the Plan.

CHAPTER 2- System Reliability Procurement

Section 2.1 Distributed/Targeted Resources in Relation to T & D Investments

- A. The Utility System Reliability Procurement Plan (“SRP Plan”) to be submitted for the Commission’s review and approval on September 1, 2011 and triennially thereafter on September 1, shall propose general planning principles and potential areas of focus that incorporate non-wires alternatives (NWA) into National Grid’s (“the Company”) distribution planning process for the three years of implementation beginning January 1 of the following year.
- B. Non-Wires Alternatives (NWA) may include but are not limited to:
- a. Least Cost Procurement energy efficiency baseline services
 - b. Peak demand and geographically-focused supplemental energy efficiency strategies
 - c. Distributed generation generally, including combined heat and power and renewable energy resources (predominately wind and solar, but not constrained)
100
 - d. Demand response
 - e. Direct load control
 - f. Energy storage
 - g. Alternative tariff options
- C. Identified transmission or distribution (T&D) projects with a proposed solution that meet the following criteria will be evaluated for potential NWA that could reduce avoid or defer the T & D wires solution over an identified time period.
- a. The need is not based on asset condition;
 - b. The wires solution, based on engineering judgment, will likely cost more than \$1 million;
 - c. If load reductions are necessary, then they are expected to be less than 20 percent of the relevant peak load in the area of the defined need;
 - d. Start of wires alternative is at least 36 months in the future;
 - e. At its discretion the utility may consider and, if appropriate, propose a project that does not pass one or more of these criteria if it has reason to believe that a viable NWA solution would be cost-effective.

¹⁰⁰ In order to meet the statute’s environmental goals, generation technologies must comply with all applicable general permitting regulations for smaller-scale electric generation facilities.

A more detailed version of these criteria may be developed by the distribution utility with input from the Council and other stakeholders.

D. Feasible NWAs will be compared to traditional solution based on the following:

- a. Ability to meet the identified system needs;
- b. Anticipated reliability of the alternatives;
- c. Rids associated with each alternative (licensing and permitting, significant risks of stranded investment, sensitivity of alternatives to differences in load forecasts, emergence of new technologies);
- d. Potential for synergy savings based on alternatives that address multiple needs;
- e. Operational complexity and flexibility;
- f. Implementation issues;
- g. Customer impacts;
- h. Other relevant factors.

E. Financial analyses of the preferred solution(s) and alternatives will be conducted to the extent feasible. The selection of analytical model(s) will be subject to Public Utilities Commission review and approval. Alternatives may include the determination of deferred investment savings from NWA. The selection of an NWA shall be informed by the considerations approved by the Public Utilities Commission which may include, but not be limited to, those issues enumerated in (D), the deferred revenue requirement savings and an evaluation of costs and benefits according to the Total Resource Cost test (TRC).¹⁰¹ Consideration of the net present value of resulting revenue requirements may be used to inform the structure of utility cost recovery of NWA investments and to assess anticipated ratepayer rate and bill impacts.

F. For each need where a NWA is the preferred solution, the distribution utility will develop an implementation plan that includes the following:

- a. Characterization of the need
 - i. Identification of the load-based need, including the magnitude of the need, the shape of the load curve, the projected year and season by which a solution is needed, and other relevant timing issues.
 - ii. Identification and description of the T & D investment and how it would change as a result of the NWA

¹⁰¹ The TRC test may be appropriately modified to account for the value of reliability and other site-specific and NWA-appropriate costs, benefits and risks.

- iii. Identification of the level and duration of peak demand savings and/or other operational functionality required to avoid the need for the upgrade
 - iv. Description of the sensitivity of the need and T&D investment to load forecast assumptions.
- b. Description of the business as usual upgrade in terms of technology, net present value, costs (capital and O&M), revenue requirements, and schedule for the upgrade
 - c. Description of the NWA solution, including description of the NWA solution(s) in terms of technology, reliability, cost (capital and O&M), net present value, and timing.
 - d. Development of NWA investment scenario(s)
 - i. Specific NWA characteristics
 - ii. Development of an implementation plan, including ownership and contracting considerations or options
 - iii. Development of a detailed costs estimate (capital and O&M) and implementation schedule.

G. Funding Plan

The Utility shall develop a funding plan based on the following sources to meet the budget requirement of the system reliability procurement plan. The Utility may propose to utilize funding from the following sources for system reliability investments:

- i. 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;
- ii. Existing Utility EE investments as required in Section 1 of these Standards and the resulting Annual Plans;
- iii. Additional energy efficiency funds to the extent that the energy efficiency-related 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;¹⁰²
- iv. Utility operating expenses to the extent that recovery of such funding is explicitly allowed;
- v. Identification of significant customer contribution or third party investment that may be part of a NWA based on benefits that are expected to accrue to the specific customers or third parties;

¹⁰² See Section 2.1E Footnote 5.

- vi. Any other funding that might be required and available to complete the NWA.
- H. Annual SRP Plan reports should be submitted on November 1. Such reports will include but are not limited to:
- a. Identification of projects which passed the initial screening in section (C);
 - b. Identification of projects where NWA were selected as a preferred solution and a summary of the comparative analysis following the criteria outlined in sections (D) and (E) above;
 - c. Implementation plan for the selected NWA projects;
 - d. Funding plan for the selected NWA projects;
 - e. Recommendations on pilot distribution and transmission project alternatives for which it will utilize selected NWA reliability and capacity strategies. These proposed pilot projects will be used to inform or revise the system reliability procurement process in subsequent plans;
 - f. Status of any previously selected and approved projects and pilots;
 - g. Identification of any methodological or analytical tools to be developed in the year;
 - h. Total SRP Plan budget, including administrative and evaluation costs.
- I. The Annual SRP Plan will be reviewed and funding approved by the Commission prior to implementation.
- J. To the extent the implementation of a NWA may contribute to 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.

CHAPTER 3- Aligning Utility Incentives & Reforming Rates

Section 3.1 Review of Standby Rates

- A. In order to facilitate increased fuel diversity and increased development of distributed resources in the state, standby rates for customers with on-site generation should be re-examined and adjusted if appropriate.
- B. The Utility Reliability Procurement Plan should include a discussion of this issue.