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Via Overnight Delivery and E-mail

July 5, 2011

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

Re: Docket 4206: Brief of Environment Northeast

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter, please find the Brief of Environment Northeast (one original and 10 copies).

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

Sincerely,

A handwritten signature in blue ink that reads "Jeremy C. McDiarmid".

Jeremy C. McDiarmid
Staff Attorney

Enclosures

cc: Seth H. Handy, Handy Law, LLC
Service List (via e-mail)

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

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IN RE: NATIONAL GRID REVENUE)	DOCKET NO. 4206
DECOUPLING MECHANISM PROPOSAL)	
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BRIEF OF ENVIRONMENT NORTHEAST

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

I. STATEMENT OF THE CASE

Revenue decoupling has long been viewed as an effective regulatory tool to eliminate the counter-productive link between a distribution utility's revenue and the volume of sales. In 2010, the General Assembly codified this view in Rhode Island General Laws, section 39-1-27.7.1 in which it found and declared that "electricity and gas revenues shall be fully decoupled from sales" and required companies to implement "a revenue decoupling mechanism that reconciles annually the revenue requirement allowed in the company's base distribution rate case to revenues actually received for the applicable twelve month period."

In response to the recent statutory mandate, the Company has proposed two full revenue decoupling mechanisms ("RDM"). For its electric customers, it has proposed an RDM that would compare and reconcile actual distribution revenues to allowed revenues on a company-wide basis. For its natural gas customers, National Grid has proposed, as required by statute, a revenue-per-customer mechanism designed to encourage the addition of new customers. The Commission should approve both mechanisms not only because both RDMs are consistent with and responsive to the statute, but also because each proposed mechanism will break the counter-productive link between the Company's revenues and its sales. In addition, the Commission should modify the gas RDM to include large and extra large gas customers in order to maximize the effectiveness of decoupling.

The Commission should reject the proposed changes put forth by the Division of Public Utilities and Carriers (the "Division") and the George Wiley Center ("Wiley Center") that would reduce the scope and effectiveness of the proposed RDMs and, in certain instances, run afoul of state law. The Company's proposed decoupling mechanisms come at an important moment in

time, when the state of Rhode Island is redoubling its commitment to energy efficiency as a cost-saving and emissions-reducing strategy.

II. ARGUMENT

A. The Commission Should Approve Full Revenue Decoupling Mechanisms for National Grid Gas and Electric Ratepayers.

1. The General Assembly Set a General Policy Direction that Requires Full Decoupling.

When the General Assembly enacted Public Act chapter 15 of the Acts of 2010 (the “Decoupling Statute”) in May 2010, it signaled a clear policy direction for Rhode Island that decoupling is an essential tool in meeting the state’s energy efficiency goals. (See Public Law c. 15 of the Acts of 2010). Although the Decoupling Statute provides significant discretion to the Commission to regulate the details of the decoupling mechanism, there are several core requirements. First, “[t]he general assembly finds and declares that electricity and gas revenues shall be *fully decoupled* from sales....” (See R.I. Gen. Laws § 39-1-27.7.1 (a)) (emphasis added). Thus, the link between sales and revenue must be completely severed. (See *id.*) Second, the statute requires National Grid to file:

[a] revenue decoupling reconciliation mechanism *that reconciles annually the revenue requirement allowed in the company's base distribution rate case to revenues actually received for the applicable twelve (12) month period, provided that the mechanism for gas distribution shall be determined on a revenue per-customer basis, in a manner typically employed for gas distribution companies in the industry. Any revenues over-recovered or under-recovered shall be credited to or recovered from customers, as applicable.*

R.I. Gen. Laws § 39-1-27.7.1 (c)(1) (emphasis added).

Third, the statute articulates eight purposes for which it is requiring full decoupling:

1. Increasing efficiency in the operations and management of the electric and gas distribution system;
2. Achieving the goals established in the electric distribution company's plan for system reliability and energy efficiency and conservation procurement as required pursuant to subsection 39-1-27.7(c);
3. Increasing investment in least-cost resources that will reduce long-term electricity demand;
4. Reducing risks for both customers and the distribution company including, but not limited to, societal risks, weather risks and economic risks;
5. Increasing investment in end-use energy efficiency;
6. Eliminating disincentives to support energy efficiency programs;
7. Facilitating and encouraging investment in utility infrastructure, safety, and reliability; and
8. Considering the reduction of fixed, recurring customer charges and transition to increased unit charges that more accurately reflect the long-term costs of energy production and delivery.

R.I. Gen. Laws § 39-1-27.7.1 (a).

Thus, the General Assembly has set a clear course for decoupling in Rhode Island. The Company, in its proposal, has been largely responsive to the new statutory requirements. As a result, the Commission should approve the Company's proposed decoupling mechanisms.

2. The National Grid Proposal is Consistent with the Statutory Requirements of the Decoupling Statute.

National Grid has proposed a pair of full revenue decoupling mechanisms in this docket that would eliminate the link between the Company's distribution revenues and its sales of electricity and natural gas for most of its customers. The Company's proposals are consistent with the Decoupling Statute. The electric proposal "reconciles annually the revenue requirement

allowed in the company's base distribution rate case to revenues actually received for the applicable twelve (12) month period," and would credit to or recover from customers any revenues that are over-recovered or under-recovered. (See R.I. Gen. Laws § 39-1-27.7.1 (c)(1)); Exh. National Grid 1, Direct testimony of Jennifer B. Feinstein and Jeanne A. Lloyd, (October 18, 2010) at 11). Similarly, the gas decoupling mechanism proposed by the Company comports with the statute because it "reconciles annually the revenue requirement allowed in the company's base distribution rate case to revenues actually received for the applicable twelve (12) month period . . . on a revenue-per-customer basis" and would credit to or recover from customers any revenues that are over-recovered or under-recovered. (See R.I. Gen. Laws § 39-1-27.7.1 (c)(1)); Exh. National Grid 1, Feinstein and Lloyd at 12, 13).¹

Although the Decoupling Statute sets a broad policy direction for full decoupling in Rhode Island, the Commission has considerable and important discretion in approving the contours of the Company's decoupling mechanisms. The Commission should use this discretion to ensure that the Company implements revenue decoupling in a fair, efficient and balanced manner. For example, although the statute permits (but does not require) the exemption of large and extra large customers from a natural gas decoupling mechanism, the Commission would be well within its rights and duties to require the Company to fold these customer classes into the gas RDM. Using this discretion, the Commission should require the Company to include as many customer classes as practicable, and should order National Grid to adopt simple, Company-wide reconciliation adjustments across all rate classes, and should reject attempts to

¹ Even the Division's witness agrees that the Company's proposed decoupling mechanisms "conform with the parameters for electric and gas revenue decoupling that are specified in the legislation." (See Exh. Division 1, Direct Testimony of Bruce R. Oliver (March 2, 2011) at 11:5-9).

complicate the decoupling mechanism through a straight-fixed-variable (SFV) scheme that is not permitted by the statute.

B. The Gas Decoupling Mechanism Should Include Large and Extra Large Customers.

The Commission should require National Grid to decouple the sales and revenues of its large and extra large gas customers in order to remove the Company's efficiency disincentive for as many customers as possible. Exempting large and extra large customers from the mechanism leaves in place an economic disincentive to encourage customers in these rate classes to maximize investments in energy efficiency. Under its proposed gas RDM, the Company would continue to make more money if it sold more gas to its large and extra large customers. Considering these are the customers who use the most gas, the Company would be retaining a significant disincentive to assist these customers in reducing their usage through energy efficiency. (See Exh. National Grid 1, Feinstein and Lloyd Direct Testimony at 15:5-9). Moreover, under a revenue-per-customer RDM, if large and extra large customers were included, the Company would still retain the ability to increase its revenue through the addition of new customers to these classes. (See Exh. Comm. 2, Response to Comm. Data Request 1-4 (October 28, 2010)). As a result, the Commission should order the Company to include its large and extra large gas customers in its gas RDM.

C. The Commission Should Approve Decoupling Mechanisms that Reconcile Across all Rate Classes.

The Commission should adopt the Company's proposals to implement decoupling through single, uniform decoupling reconciliations because it will limit the size of adjustments and will simplify the administration of decoupling. The Company has proposed a uniform

revenue decoupling mechanism adjustment factor (See Exh. National Grid 1, JAL-3) on the electric side, and a uniform RDA factor for residential and small and medium C&I customers on the gas side. (See Exh. National Grid 1, JBF-2). As the Company points out in its rebuttal testimony, there are many adjustment factors that are applied uniformly across rate classes, including energy efficiency and several DAC components. (See Exh. National Grid 2, Rebuttal Testimony of Jennifer B. Feinstein and Jeanne A. Lloyd (April 18, 2011) at 11).

The Division argues that reconciliations should happen on a rate class by rate class basis. (See Exh. Division 1, Direct Testimony of Bruce R. Oliver (March 21, 2011) at 16-17, 33:6-8). This would mean that any fluctuations between actual revenues and the target revenues within a single rate class would be absorbed only by customers in that rate class, and there would be years in which some rate classes see a decoupling surcharge while others receive a decoupling credit (See, e.g., Exh. National Grid 1, JBF-2). For example, in JBF-2, actual revenues exceeded target revenues in the Residential Non-Heat and Medium C&I rate classes while actual revenues were less than target revenues in Residential Heating and Small C&I customers. (See id.). Under National Grid's proposal, this would result in a balancing of over-collections and under-collections, and would lead to smaller decoupling adjustments.² (See id.; see also Exh. Commission 4, National Grid's Response to the Commission's 3rd Set of Data Requests (December 10, 2010) at 1, 2). By contrast, if reconciliations were to occur on a rate class by rate class basis, there would be no opportunity for this type of balancing to occur. (See id.). Moreover, as the Company notes, using a uniform RDM reconciliation rate will be administratively efficient both for the company and the Commission, the Division and other

² In the example used in JBF-2, the Revenue Decoupling Adjustment Factor would be \$0.0646 per therm across all participating rate classes. (See Exh. National Grid 1, JBF-2).

stakeholders who will review the operation of the RDM. (See Exh. Comm. 4 at 3). As a result of the foregoing, the Commission should reject the Division’s proposal and retain the Company’s original plan of reconciling across all rate classes.

D. The Commission Should Not Approve a Straight-Fixed Variable Mechanism for any Rate Classes because it is Inconsistent with Rhode Island Law.

Rhode Island General Law, section 39-1-27.7.1(c)(1) requires that the Company propose a “revenue decoupling mechanism that reconciles annually the revenue requirement...to revenues actually received.” Accordingly, National Grid has proposed a reconciling mechanism on both the gas and electric sides of its business. In his testimony, the Division’s witness appeared to be advocating for a “straight-fixed-variable” approach to large and extra large gas and electric customers. (See Exh. Division 2, Surrebuttal Testimony of Bruce R. Oliver (May 6, 2011) at 16-18; Tr. 197:2-198:8). The Commission should reject this approach because it would violate the Decoupling Statute. The statute requires that decoupling proposals included “a revenue decoupling mechanism *that reconciles annually the revenue requirement allowed in the company’s base distribution rate case to revenues actually received for the applicable twelve month period....*” As acknowledged by the Division’s witness, an SFV approach does not include such a reconciling mechanism.³ (See Tr. at 186:12-187:4). Moreover, Section 39-1-27.7.1 (a) cites “the reduction of fixed, recurring customer charges and transition to increased unit charges” as one of the eight core purposes for enacting the decoupling statute. Moving to a SFV framework would contradict the statute’s purpose. (See id.) Thus, the Commission should

³ Mr. Oliver also acknowledged that the “implementation of SFV rate designs for large customers does not appear to be an option within this proceeding.” (See Exh. Division 2, Oliver Rebuttal at 17:21-18:1).

reject any move to SFV; rather it should embrace a reconciling decoupling mechanism for all rate classes, including large and extra large firm gas customers.

E. The Commission Should Apply Decoupling to Low-Income Ratepayers and Should Reject the Wiley Center Proposal.

The soundest and simplest approach to decoupling includes the maximum number of ratepayers. The Commission should therefore reject the Wiley Center's complicated proposal that would allow low-income customers to benefit from decoupling, but would shift much of the low-income customer risk onto customers in other rate classes. (See Brief of George Wiley Center (June 22, 2011) at 2). The Wiley Center, in its brief, requests "some relief from the increase in rates that the RDM will cause." (Id. at 2; see also Tr. 14-20). Specifically, the Wiley Center proposes a complex system in which low-income customers get all of the benefit of a decoupling related rate credit, but only pay "the increase in rates only on that portion of their usage which exceeds a reasonable level set by the Commission." (Id.). Under their proposal, whenever the Company over-collects and issues a credit back to customers, low-income ratepayers would receive the benefit of the lower distribution rate. (See Wiley Center Brief at 2). By contrast, in the event that the Company under-collects and issues a corresponding distribution rate surcharge, the full surcharge would not apply to low-income customers; rather it would be, as best as ENE can understand, absorbed by other rate classes.⁴ While we understand the intent of safeguarding low income ratepayers and appreciate the effort that went into the Wiley Center's proposal, such an imbalanced mechanism would be difficult to administer, and would have the potential to disadvantage other rate classes. In addition, it is our experience, that the

⁴ During the hearing, the Chairman aptly described the proposal as, "heads I win, tails you lose." (See Tr. at 19:20-21).

rate adjustments due to decoupling have been miniscule. For example, in a recent two year decoupling pilot with United Illuminating Company in Connecticut, the decoupling adjustments were less than \$0.0003/kWh per year (a surcharge in year 1 and a credit in year 2).⁵ (See Connecticut Department of Public Utility Control Docket No. 08-07-04RE02, Decision, “Application Of The United Illuminating Company To Increase Its Rates And Charges - Review Of Decoupling Pilot, Pension Tracker, Roe Sharing Mechanism And Get Adjustment” (September 1, 2010) at 15;⁶ United Illuminating, Filing, “Application of The United Illuminating Company to Increase its Rates and Charges,” DPUC Docket No. 08-07-04 (April 5, 2011) at 1;⁷ see also, Pamela Lesh, Rate Impacts and Key Design Elements of Gas and Electric Decoupling: A Comprehensive Review, (June 30, 2009) at 4 (cited in Exh. Division 1, Oliver Direct Testimony, at 49 n.10). In ENE’s view, a key goal of decoupling is to make the mechanism as simple to administer and understand as possible. For these reasons, we urge a common decoupling mechanism for all ratepayers, while monitoring the bill impacts over time.

⁵ Actual decoupling adjustments were a surcharge of charge of \$0.0002907/kWh in year 1 and a credit of \$0.000253/kWh in year 2. (See(See Connecticut Department of Public Utility Control Docket No. 08-07-04RE02, Decision, “Application Of The United Illuminating Company To Increase Its Rates And Charges - Review Of Decoupling Pilot, Pension Tracker, Roe Sharing Mechanism And Get Adjustment” (September 1, 2010) at 15;⁵ United Illuminating, Filing, “Application of The United Illuminating Company to Increase its Rates and Charges,” DPUC Docket No. 08-07-04 (April 5, 2011) at 1).

⁶ Available at <http://www.dpuc.state.ct.us/dockhist.nsf/8e6fc37a54110e3e852576190052b64d/67346a5d8c88ec9d852577d10057939f?OpenDocument>

⁷ Available at <http://www.dpuc.state.ct.us/dockhist.nsf/8e6fc37a54110e3e852576190052b64d/10693fb5ce66234c8525786900669fba?OpenDocument>

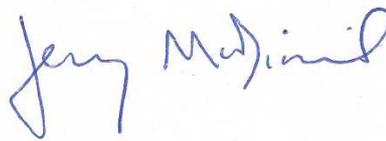
III. CONCLUSION

For the foregoing reasons, the Commission should adopt National Grid's proposed full decoupling mechanisms for all of its firm gas and electric customers.

Respectfully submitted,

ENVIRONMENT NORTHEAST

By its attorneys,



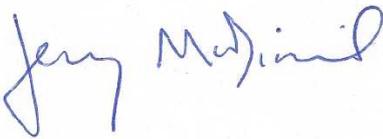
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CERTIFICATE OF SERVICE

I hereby certify that on July 5, 2011, I caused a true copy of the foregoing document to be delivered either by first class mail and/or by electronic mail to the Docket 4206 Service List.

A handwritten signature in blue ink that reads "Jeremy C. McDiarmid". The signature is written in a cursive style with a horizontal line underneath the name.

Jeremy C. McDiarmid