nationalgrid

Jennifer Brooks Hutchinson
Senior Counsel

October 19, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4284 - Report on a Process for EERMC Input and Review 2012-2014 Energy Efficiency Procurement Plan
Responses to Record Requests

Dear Ms. Massaro:

Enclosed are an original and eleven (11) copies of National Grid's[1] responses to Record Requests that were issued at the Commission's technical session held on October 6, 2011 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) 784-7288.

Very truly yours,

Jennifer Brooks Hutchinson

Cc: Docket 4284 Service List
Jon Hagopian, Esq.
Steve Scialabba, Division

---

[1] The Narragansett Electric Company d/b/a National Grid.

Record Request 1

Request:

Referring to the discussion of economic growth and job-training programs on page 28-29 of the Plan, please elaborate on the existing job training programs.

Response:

National Grid provides building energy code trainings for residential and commercial code officials, architects, builders, engineers, contractors, design, and construction professionals. The trainings offer Continuing Education Units and are free to attendees. In 2011, multiple training sessions attracted 415 attendees.

National Grid is also a member of a partnership with 9 regional schools to develop energy auditor training programs at vocational schools. The Company has supported the programs and donated materials such as Duct Blaster and Blower Door testing equipment to the Warwick Area Career and Technical Center.

The Company's Residential HVAC program offers contractor trainings and has negotiated attractive pricing software that assists contractors who install efficient HVAC systems. Training is also provided for sizing HVAC systems, correct charging of AC systems, installation of high efficiency blower motors, duct sealing and ENERGY STAR® Quality Installation practices.

The Company's Commercial programs have also hosted a number of Trade Ally trainings and events. The various events are intended to inform Trade Allies about the opportunities that energy efficiency offers for various vendors or to train Trade Allies on electric and gas energy efficiency services. In 2011, National Grid sponsored the New England Energy Efficiency Conference and Expo which was attended by over 700 people.

Prepared by or under the supervision of: Jeremy Newberger

Record Request 2

Request:

On page 35 of the Plan, the Company indicates that the shareholder incentive is the "smallest after-tax incentive on a percent-of-spending basis offered to investor owned utilities in the country." Please provide the Company's analysis to support this statement.

Response:

The report "Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency" by the American Council for and Energy-Efficient Economy (ACEEE), cited on page 35, provides information on the shareholder incentive for eighteen states. Details on the shareholder incentive mechanism are presented in that report, beginning on page 22. The table below summarizes the information by state.

State	Design Incentive for Savings	Recent year award as % of Cost
Arizona	10% of net benefits	14%
California	9% to 12% of net benefits	7.50%
Colorado	10-12% of net benefits	17.40%
Connecticut	5% of program costs	4.70%
Georgia	15% of net benefits	NA
Hawaii	5% of net benefits	NA
Idaho	for homes pilot only	NA
Kentucky	10% of net benefits	5.50%
Massachusetts	5.5% of program costs	5.16%
Minnesota	$0.09 per kWh saved	11.45%
Nevada	5% additional rate of return for EE expenses	NA
New Hampshire	8% of program costs	10.32%
Ohio	15% of program costs	NA
Oklahoma	25% of net benefits	18.10%
Rhode Island	4.4% of program costs	4.60%
Texas	10% of net benefits	20%
Washington	payout per MWh	6.60%
Wisconsin	return on investment	NA

The ACEEE report does not present information on the presence or absence of decoupling in most of the states listed. The possible connection between decoupling and the shareholder incentive percentage was raised by the Commission at the Technical Session (transcript page

Record Request 2 (continued, p.2)

48). The Company notes, as referenced in the LCPP (page 36), citing a Regulatory Assistance Project source, that "decoupling only removes the throughput incentive; it does not provide an incentive to acquire energy efficiency." Therefore, the information in the table presents a valid comparison of shareholder incentive mechanisms.

As seen in the table, where information was presented that allowed a comparison of incentives by program cost, the incentive mechanism in Rhode Island yielded the lowest incentive as a percentage of program cost of any of the states compared, either in the incentive design or in recent year actual achieved incentive. The Company's statement on the record was based on this comparison. (For comparison purposes with states where the incentive is a percentage of net benefits, the three year electric incentive proposed in the Least Cost Procurement Plan is about 2.4% of net benefits, where net benefits are calculated as Total Benefits minus Utility Implementation and Evaluation Expenses minus Customer Costs.)

The Company acknowledges that the ACEEE report did not contain information on all of the states with performance incentives offered to investor-owned utilities. Therefore, while the Company has no information to suggest that there other jurisdictions that offer lower incentives on a percent of spending basis (or percent of net benefits), it is possible that such a mechanism exists. The Company should have qualified the statement that its incentive "is the smallest after- tax incentive on a percent-of -spending basis" by saying that the statement was "based on the information in the report" or "among the states surveyed in the report." The Company appreciates the opportunity to clarify the statement in the LCPP.

In addition, the Company wishes to clarify a point made by Mr. Newberger during the Technical Session during questioning by Mr. Nault about the potential variability in the incentive rate, as noted on page 38 of the LCPP (Transcript at p. 43, et seq.). The Company should have added, in clarification, that the Collaborative considered for the LCPP what would be an appropriate incentive percentage for achieving savings targets that were essentially double or greater than 2011 savings target. There was recognition that to achieve increased savings, the Company would not just be able to do more of what it had been doing in 2011 and previous years. Rather, the Company would have to provide a substantial amount of savings by implementing new measures, or delivering current programs more effectively. The Collaborative agreed that, under the current mechanism with a target set at 4.4% of the spending budget, as the spending budgets would increase, the dollar amount of the shareholder incentive would increase and that should be a sufficient incentive for the

Record Request 2 (continued, p.3)

innovations necessary to achieve the higher savings targets. Nevertheless, the Collaborative agreed to revisit the incentive percentage in subsequent years based on actual experience with achieving higher savings targets.

Prepared by or under the supervision of: Jeremy Newberger

Record Request 3

Request:

Please explain whether the 10% incentive for securing outside funding is consistent with R.I.G.L. 39-1-27.7(e).

Response:

Yes, the 10% incentive for securing outside funding is consistent with R.I.G.L. 39-1-27.7 (e). This provision states that "The commission shall conduct a contested case proceeding to establish a performance based incentive plan which allows for additional compensation for each electric distribution company and each company providing gas to end-users and/or retail customers based on the level of its success in mitigating the cost and variability of electric and gas services through procurement portfolios."

The Company interprets R.I.G.L. 39-1-27.7 (e) to allow for an incentive for meeting energy savings targets as well as for reducing the cost to customers of providing energy efficiency services.

"Procurement portfolios" refer to system reliability and energy efficiency and energy conservation procurement as defined elsewhere in 39-1-27.7. Subsection (e) therefore anticipates that the cost of electric and gas service can be mitigated through energy efficiency. As long as an energy efficiency portfolio is cost-effective and less expensive than the cost of supply, it will, by definition, mitigate the cost of electric or gas service. Therefore, performance in the delivery of energy efficiency savings is eligible for an incentive.

A second interpretation of "electric and gas services" is energy efficiency services. Under this interpretation, if the Company can reduce the cost of providing energy efficiency services to customers, this may be eligible for an incentive as well. Therefore, the Company's proposal for a 10% incentive for securing outside funding would be eligible for an incentive if it can be shown that it has mitigated the cost of providing energy efficiency services to customers.

These two interpretations are not mutually exclusive. The first interpretation supports an incentive for performance in achieving cost-effective energy efficiency savings, while the second supports an incentive for performance in mitigating the cost to customers of paying for those savings. Both interpretations are consistent with the concept of "least cost procurement."

Record Request 3 (continued, p.2)

The Company recognizes that its presentation in the LCPP and at the Technical Session of the other funding element of the shareholder incentive mechanism needed further clarification. Below is a list of exclusions and qualifications to the other funding component that the Company intends to propose in its 2012 Energy Efficiency Program Plan that will be submitted to the Commission on November 1, 2011.

- Outside funding is defined as any new funding source that does not come from a customer surcharge .
- New funding does not include known outside funding sources such as RGGI, FCM, current ARRA projects including Deliverable Fuels and EDC Large C&I Finance.
- National Grid must play a significant role in identifying and securing the outside funding and manage any resulting initiatives.
- Funds obtained for financing would be eligible for this incentive treatment if such financing lowers the incentive offered to customers, thus lowering the budget.
- The incentive for funds obtained in 2012 would be credited in 2013 after the Company submits, as part of its 2013 Energy Efficiency Program Plan, a calculation of the Energy Efficiency Program Charge comparing the proposed 2013 EE Program Charge with what the charge would have been without the outside funding; such calculation would be subject to the Commission's review and consideration.[1].
- If the requirements or criteria of the funding agency restrict the use of the funds as an incentive to National Grid, no incentive will be claimed from the obtained funds.
- If not specified by the funding agency, application of outside funding to natural gas or electric energy efficiency programs shall be at the discretion of the Company.
- If an incentive is collected on outside funding, the 90% of the funds applied to program implementation will be excluded from the spending budget for the purposes of determining the target incentive for achieving energy savings.

The requirement in subsection (e) that ties the performance incentive with the Company's success in "mitigating the cost" of energy efficiency services encompasses not only an absolute reduction of the Energy Efficiency Program Charge ("EE Charge") as a direct result of the other funding, but also a reduction from what the EE Charge would have been if the other funding had not been obtained. The table below illustrates the point, using data for 2013 from the LCPP, Attachment A. A new row 4(g) has been inserted to show other funding. The Company envisions that this sort of illustration might be used in future EE Program Plans to demonstrate the reduction of the EE Program Charge.

[1] This is a change from the proposal included in the Least Cost Procurement Plan submitted in Docket 4284, where it was proposed that the incentive be collected when the funds are received.

Record Request 3 (continued, p.3)

Rhode Island Energy Efficiency Procurement Plan 2012-2014
Electric Funding Plan Illustration

		2013 base case	2013 with other funding
PART A: TOTAL FUNDING AND GOALS			
1)	Projected kWh Sales:	8,023,273,332	8,023,273,332
2)	2011 EE Charge per kWh	$0.00526	$0.00526
3)	**Projected DSM Revenues from DSM Charge = (1) x (2)**	**$42,218,464**	**$42,218,464**
4)	Other Sources of DSM Funding		
4a)	Projected DSM Fund Balance Interest	$400,000	$400,000
4b)	Projected Co-Payments by Customers received in Pgm Year	$0	$0
4c)	Projected Commitments from prior year	$2,000,000	$2,000,000
4d)	Projected Entering Fund Balance:	$0	$0
4e)	Projected Capacity FCM Payments from ISO-NE:	$2,165,900	$2,165,900
4f)	Projected RGGI Proceeds	$2,785,709	$2,785,709
4g)	Other Funding	$0	$4,500,000
4)	**Subtotal Other Sources of DSM Funding**	**$7,351,608**	**$11,851,608**
5)	**Projected Funding Available from Traditional Sources = (3) + (4)**	**$49,570,073**	**$54,070,073**
6)	**Program Implementation + Evaluation Expenses to Achieve Goals**	**$70,079,358**	**$70,079,358**
7)	**Subtotal Additions to Implementation + Evaluation Expenses**	**$5,899,215**	**$5,899,215**
8)	**Total Funding Required = (6) + (7)**	**$75,978,573**	**$75,978,573**
PART B: POTENTIAL INCREMENTAL FUNDING NEEDED			
9)	Projected Funding Available = (5)	$49,570,073	$54,070,073
10)	**Fully Reconciling funding needed from additional source (8) - (10)**	**$26,408,501**	**$21,908,501**
11)	**Fully Reconciling funding needed per kWh = (10) / (1)**	**$0.0033**	**$0.0027**
12)	Total EE Program Charge Funding per kWh = (2) + (11)	$0.0086	$0.0080

The illustration shows the effects of securing $5,000,000 of other funding in 2013. Other funding of $4,500,000 is shown in line 4(g) after the setting aside of 10% (or $500,000) as an incentive. The Total Amount of Funding Required (line 8) to achieve energy savings in 2013 is still the same, but the application of other funding lowers the amount of funds required from the fully reconciling funding mechanism (line 10) and the EE Program charge (line 12). The projected energy efficiency program charge would have been $0.0086 without other funding, but would be reduced to $0.0080 with the allocation of $5,000,000 of other funding.

Record Request 3 (continued, p.4)

The illustration above contemplates that the other funding would be received close to the end of 2012 and would be fully available in 2013. Another scenario would be if the funds were received and completely spent in 2012. In this case, there would be zero other funding shown in line 4(g) for 2013 because the funds would have been spent in the prior year. However, all other things being equal, the fund balance for 2013 in line 4(d) would show a surplus of $4,500,000 (with $500,000 being set aside as the prospective shareholder incentive), and the effect on the EE Program Charge would be the same as shown in the illustration. Under either scenario, the 10% shareholder incentive would be credited in the same program year as the calculation of the EE Program Charge. In all cases, the illustration of the reduction of the EE Program Charge would be accompanied by documentation of the received amount of other funding.

As a final point, the first paragraph of R.I.G.L. 39-1-27.7 states "Least-cost procurement shall … have as common purpose meeting electrical and natural gas energy needs in Rhode Island, in a manner that is optimally cost-effective, reliable, prudent and environmentally responsible." It has been the intent of the EERMC (and supported by the Standards that have been approved by the Commission) to secure all cost-effective resources in part by finding ways to leverage greater customer co-payment, financing, and other sources of funding. The 10% incentive is designed to reward the Company for reaching out and finding new sources of funding, and is consistent with the overall purpose and intent of R.I.G.L. 39-1-27.7.

Prepared by or under the supervision of: Jeremy Newberger

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

October 19, 2011
Date

Docket No. 4284 - National Grid's 2012-2014 Energy Efficiency & System Reliability Plan
Service List – Updated 9/22/11

Name/Address	E-mail Distribution List	Phone/FAX
Jennifer Brooks Hutchinson, Esq. National Grid 280 Melrose St. Providence, RI 02907	Jennifer.hutchinson@us.ngrid.com Thomas.teehan@us.ngrid.com Joanne.scanlon@us.ngrid.com Jeremy.newberger@us.ngrid.com	401-784-7288
R. Daniel Prentiss, P.C. (for EERMC) Prentiss Law Firm One Turks Head Place, Suite 380 Providence, RI 02903	dan@prentisslaw.com	401-824-5150
S. Paul Ryan (for EERMC)	spryan@eplaw.necoxmail.com	
Scudder Parker	sparker@veic.org	
Jon Hagopian, Esq. (Division/AG) Dept. of Attorney General 150 South Main St. Providence, RI 02903	Jhagopian@riag.ri.gov Dstearns@ripuc.state.ri.us Sscialabba@ripuc.state.ri.us Acontente@ripuc.state.ri.us mcorey@riag.ri.gov dmacrae@riag.ri.gov	401-222-2424
Jeremy McDiarmid, Esq. (ENE) Environment Northeast 101 Tremont St., Suite 401 Boston, MA 02108	jmcdiarmid@env-ne.org aanthony@env-ne.org	617-742-0054
Seth H. Handy, Esq. (ENE) HANDY LAW, LLC 42 Weybosset Street Providence, RI 02903	seth@handylawllc.com	401 626.4839

Bob Fagan Synapse Energy Economics 22 Pearl Street Cambridge, MA 02139	rfagan@synapse-energy.com	617-661-3248
Jerry Elmer, Esq. Conservation Law Foundation 55 Dorrance Street Providence, RI 02903	JElmer@clf.org	401-351-1102
Original & 11 copies to be filed w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Lmassaro@puc.state.ri.us Adalessandro@puc.state.ri.us Anault@puc.state.ri.us Dshah@puc.state.ri.us Nucci@puc.state.ri.us	401-780-2107 401-941-1691
Karina Lutz	karina@ripower.org	
David Brown, PPL	david.brown210@verizon.net	
Bill Ferguson, Executive Director TEC-RI	bferguson2010@cox.net	
Michael Townsley	michael.w.townsley@gmail.com	