STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY d/b/a/ NATIONAL GRID'S 2012 – 2014 ENERGY EFFICIENCY AND SYSTEM RELIABILITY PROCUREMENT PLAN AND 2012 ENERGY EFFICIENCY PROGRAM PLAN	DOCKET NO. 4284 DOCKET NO. 4295

REPORT AND ORDER

I. Introduction

The Narragansett Electric Company d/b/a National Grid ("National Grid" or "Company") filed a 2012-2014 Energy Efficiency and System Reliability Procurement Plan ("EE-SRP Plan" or "3 Year Plan") on September 7, 2011. The 3-Year Plan is filed pursuant to the System Reliability and Least Cost Procurement Act ("LCP Act") (R.I.G.L. §39-1-27.7) and consists of 2 parts: an Energy Efficiency Procurement Plan and a System Reliability Procurement Plan. The EE-SRP Plan represents the Company's long-term goals for achieving least cost procurement consistent with the LCP Act. The EE-SRP Plan is followed by two separate filings on November 1, the 2012 Energy Efficiency Program Plan ("EEP Plan" or "Plan") and the 2012 System Reliability Plan ("SRP"). The 2012 EEP Plan and 2012 SRP Plan provide the details of the energy efficiency and system reliability procurement plans for the upcoming program year (2012). The 3-Year Plan and the 2012 EEP Plan were filed in separate dockets (4284 and 4295 respectively), both of which are addressed in this Order due to the proximity of issues and timing of decisions.[1] A separate Order will follow, addressing the 2012 SRP Plan (Docket 4296) following a decision in that docket.

II. National Grid's 3 Year EE-SRP Plan (2012-2014)

National Grid's 2012-2014 EE-SRP Plan is intended as a roadmap for achieving least cost procurement over the next three years in accordance with R.I.G.L. §39-1-27.2 and the

[1] Docket 4296 and 4284 were decided at the same open meeting on December 21, 2011.

Energy Efficiency Savings Targets approved in Docket 4202. The 3-Year plan is intended to provide a comprehensive strategy for delivering electric and natural gas energy efficiency programs to Rhode Island customers in years 2012 through 2014, and it is endorsed by the Energy Efficiency Resource Management Council ("EERMC"), The Energy Council of R.I, ("TEC-RI") and the R.I. Division of Public Utilities and Carriers. The Company establishes energy savings targets for years 2012 through 2014, a projected budget and defined strategies for implementing these targets. The electric savings targets proposed by the Company are the same as those approved by the Commission in Docket 4202 (1.7%, 2.1% and 2.5% for years 2012 – 2014 respectively) and are designed to make Rhode Island a national leader in energy efficiency.[2] The Company proposed natural gas savings targets which are slightly lower than those approved in Docket 4202 (0.6%, 0.8% and 1.0%).[3] The gas savings targets approved in Docket 4202 were 0.8%, 1.0% and 1.2%. The Company explained that the slight deviation in gas targets results from a combination of factors which include limited funding, rapid market transformations and the continuing decline in gas supply costs.[4] The Company noted, however, that despite the current discrepancy in gas targets, it may still be possible to achieve the original gas targets approved by the Commission for 2013 and 2014 if and when more certainty in the state's energy efficiency potential is gained from improved technologies, updated program evaluation studies and gas supply forecasts.[5]

The 3 Year Plan is guided by the findings established in the in depth Opportunity Report, issued by KEMA in 2010.[6] The Opportunity Report revealed among other things that,

[2] National Grid 1, p.13.
[3] Id., p. 5 (Table 1).
[4] Id., p. 6, 15-16.
[5] Id., p. 6.
[6] The Opportunity for Energy Efficiency that is Cheaper than Supply in Rhode Island, by KEMA Inc. This study was completed by energy efficiency consultant firm, KEMA, Inc., at the request of the EERMC. See Docket 4202.

cumulatively over a ten year period, 29% of Rhode Island's energy needs can be met through cost-effective energy efficiency measures that are cheaper than supply options.[7] This study also revealed that a large economic potential exists in the state of Rhode Island which can be met through the pursuit of existing energy efficiency programs and the addition of new technologies and behavioral and price response programs.[8] The Company developed the 3 Year Plan based on these findings and identified three main objectives of the Plan. The Plan is designed to establish the savings targets consistent with those already established in Docket 4202; identify strategies to achieve these savings targets; and establish a funding plan. As previously noted, the savings targets established in the 3 Year Plan are the same as those established in Docket 4202 for electric energy efficiency but slightly lower than the approved natural gas efficiency targets. The strategies identified by the Company to achieve the savings targets are designed to reach as many Rhode islanders as possible by removing any obstacles that currently prevent customers from participating in energy efficiency programs.[9] A brief summary of the strategies proposed in the 3 Year Plan is provided herein.

The Company is proposing new financing options for customers who may want to participate in energy efficiency programs but lack the financial ability to do so.[10] The financing options will include increasing capital for revolving loan funds for large C&I customers, a new shareholder incentive for securing outside funding and collaboration with public agencies and private, financial institutions to secure financing for residential customers.[11] The Company will offer long-term energy efficiency strategies to large C&I customers that may require a multi-year approach to energy efficiency to be consistent with their financial planning and budgetary

[7] National Grid 1, pgs. 10-11.
[8] Id., p. 11.
[9] Id., p. 16.
[10] Id., pgs. 16-17.
[11] Id., pgs. 18-19.

needs.[12] The Company will increase incentives to wholesalers and distributors to promote the sale of energy efficient technologies and appliances and increase marketing campaigns to increase customer knowledge of these programs.[13] The Company intends to develop programs that specifically address the energy efficiency barrier that exists in the landlord-tenant relationship. The so called "split incentive barrier" arises out of a landlord's disincentive to invest in energy efficiency solutions where he/she is not responsible for paying the utility bill.[14] The Company is proposing a low-income split incentive pilot and various multi family programs designed to address this barrier and will also enlist the aid of non-profit agencies in developing and implementing these innovative programs.[15] The Company will incorporate and promote emerging technologies in its energy efficiency programs through the use of incentives, as already discussed, but also through active participation with other state agencies in establishing more efficient building energy standards.[16] Finally, in implementing the 3 Year Plan, the Company will strive to demonstrate the benefits of its energy efficiency programs on the local economy.[17] To that end, it will continue energy efficiency job training; attempt to quantify job creation from energy efficiency programs; identify savings opportunities for local businesses in effort to keep them from leaving the state; and use energy efficiency as a non-wires alternative to defer transmission and distribution upgrades.[18]

In order to deliver the many diverse programs set forth in the 3 Year Plan, the Company proposed an overall combined budget of $282 million for its electric and gas efficiency programs

---

[12] Id., p. 20.
[13] Id., p. 22-23.
[14] Id., pgs. 17-18.
[15] Id., p. 18.
[16] Id., p. 25.
[17] Id., pgs. 28-29.
[18] Id., p. 29.

over the three year period from 2012 through 2014.[19] Of this $282 million budget, an estimated sum of $228,600,799 is designated for electric energy efficiency programs, and $54,337,188 is projected for natural gas efficiency.[20] For 2012, the Company estimated a budget of $64.4M for electric efficiency and $13.7M for gas efficiency.[21] The Company identified four funding sources for its electric efficiency program budget. These sources were an EEP (Energy Efficiency Procurement) Charge of $0.0069/kWh to appear on customers' bills; projected large C&I commitments; forward capacity market revenues; and revenues from RGGI auctions.[22] The two funding sources identified for natural gas programs were an EEP Charge of $0.439/Dth and low income weatherization funds from base rates.[23] Due to uncertainties in a number of factors that impact the amounts of these funding sources (energy sales, customer co-payments, commitments made for future years, the amount and allocation of future RGGI funds and forward capacity market auctions), the Company pointed out that these figures are estimates subject to change when the annual 2012 budget is filed on November 1. As previously noted, the Company's goal of expanding financing options includes increased efforts to secure outside funding. To encourage the securing of outside funding, the Company proposed an additional component to the current shareholder incentive which would allow the Company to retain 10% of any future outside funding resulting in a lower incremental energy efficiency charge.[24] The Company defines outside funding as any new funding source that does not come from customers and does not include known outside funding sources such as RGGI, FCM and current ARRA projects including Deliverable Fuels and EDC LC&I Finance.[25] This incentive was described in

[19] Id., p. 30.
[20] National Grid 1, p. 30, Appendix A.
[21] Id., Appendix A
[22] Id., p. 33.
[23] Id., p. 33 and Appendix A.
[24] Id., p. 38.
[25] Id.

the Company's Plan as "the first shareholder incentive mechanism of its kind in the country", and during discovery, the Company stated that it was unaware of any other jurisdictions which had implemented a similar type of incentive.[26]

The Company offered several reasons in support of its proposed 10% incentive for securing outside funding, including the self-evident fact that receipt of outside funding reduces the amount of funds needed to be collected from customers.[27] The Company further pointed out that increased demands to expand energy efficiency due to recent legislative amendments have created exceptional challenges to the Company. It claimed that in order to achieve the legislative mandates associated with the System Reliability and Least Cost Procurement Act in the context of a struggling economy, it is incumbent upon the Company to receive the 10% incentive of outside funding.[28] Such an incentive, according to the Company, would presumably provide "constant motivation to improve implementation, with a focus on exceeding established savings targets at below estimated costs."[29] The Company claimed that the present regulatory framework, even with decoupling in place, did not provide the "constant motivation" noted above or an otherwise "meaningful shareholder incentive" to enable the Company to fulfill the statutory mandates without raising the energy efficiency charges too high.[30] The Company described the 10% incentive as an additional component of the already existing 4.4% shareholder incentive.[31] The 4.4% incentive has been in place for approximately 10 years and allows the Company to receive 4.4% of its energy efficiency spending budget.[32] The spending budget is defined as the amount of funds the Company spends in a given year to achieve energy efficiency

[26] Id.; National Grid's Response to Commission 1-14.
[27] Id., p. 35.
[28] Id., p. 38.
[29] Id., p. 37.
[30] Id., pgs. 36-38.
[31] Id., p. 38.
[32] Id., p. 35.

savings and is equal to the total budget minus commitments, funding of customer copayments, EERMC costs and the shareholder incentive.[33] The existing 4.4% incentive is tied to the Company's performance in achieving energy efficiency savings with a threshold allowance of 60% and a cap of 125% of savings. This means that in any given year, the Company can earn a minimum incentive of 2.64% (60% x 4.4%) and a maximum incentive of 5.5% (125% x 4.4%) depending on the percentage of savings achieved that year.[34] Thus, if the Company achieves only 60% of its energy savings goal, it would earn an incentive of 2.64% of its energy efficiency spending budget.[35] The new "component" of the shareholder incentive proposed by the Company would allow the Company to earn, in addition to the 4.4% of the energy efficiency spending budget noted above, a shareholder incentive equal to 10% of any outside funding secured by the Company for energy efficiency purposes which results in a lower incremental EEP Charge.[36] The Company defines outside funding as any new funding source that does not come from the customer and lowers the customer EEP Charge.[37] Initially, the Company described the 10% incentive as being tied only to securing the outside funding, stating that it would earn the incentive upon securing the funds.[38] The Company would demonstrate the impact of the outside funds on the Energy Efficiency Charge when the Company files its next energy efficiency procurement plan the following year.[39] It would not be necessary for the Company to show an absolute reduction in the EEP Charge but a relative reduction from the hypothetical EEP Charge that would have resulted if the Company had not secured the funding.[40] The Company later clarified in a record request and in the 2012 Plan that it would not earn the

[33] Id.
[34] Id., pgs. 35-36.
[35] Id.
[36] Id., p. 38.
[37] Id. In its initial filing, the Company
[38] National Grid's Response to Commission 1-11.
[39] Id.; see also National Grid's Response to Commission 1-10.
[40] Transcript, p. 66; National Grid's Response to Record Request 3.

incentive until it had demonstrated the impact of the outside funding on the following year's EEP Charge.[41]

Finally, as part of the 3 Year Plan, the Company described at a very high level its intent to devise a system reliability portfolio consistent with the mandates prescribed in the System Reliability and Least Cost Procurement Act and the System Reliability Standards approved by the Commission on June 7, 2011.[42] The Company intends to use non-wires alternatives including baseline and geographically focused energy efficiency, as well as demand response, direct load control and distributed generation as a means of deferring transmission and distribution investments.[43] The Company did not include a 3 year budget for system reliability due to the uncertainty in a number of factors involved in identifying non-wires alternatives but stated that it would provide an annual budget for system reliability in its upcoming System Reliability Plan Report to be filed November 1, 2011.[44] The annual System Reliability Plan Report, to be filed November 1, 2011, would also include full details of the Company's plan to incorporate non-wires alternatives in transmission and distribution planning.

III. EERMC and TEC-RI Approval of National Grid's 3 Year EEP/SRP Plan

On September 20, 2011, the EERMC recommended approval of the Company's 3 Year Plan in accordance with R.I.G.L. § 39-1-27.7 (c)(5). The EERMC retained expert consultants to review the 3 Year Plan and determine whether it passed the Total Resource Cost ("TRC") Test. The TRC Test is the methodology approved by the Commission in Docket 4202 for determining the cost-effectiveness of the Company's annual and triennial energy efficiency plans.[45] An

[41] National Grid's Response to Record Request 3.
[42] R.I.G.L. §39-1-27.7; System Reliability Procurement Standards were approved in Order No. 20419 (Appendix A) (Docket 4202).
[43] National Grid 1, p. 46.
[44] Id., p. 49.
[45] Order No. 20419 (Dkt. 4202), Appendix A, Section 1.2A (2)(a) of the Energy Efficiency Procurement Standards.

energy efficiency program passes the TRC Test and is considered cost-effective if it has a benefit-cost ratio ("BCR") of greater than 1.0. The benefits that are factored into the TRC Test are monetized based on avoided costs or the true cost to society of delivering each unit.[46] Benefits included in the TRC Test include reduced energy, reduced capacity and reduced fossil fuels.[47] Costs, according to the TRC Test, are any costs incurred by the customer and the utility to support energy efficiency programs and include program implementation costs, program evaluation costs and customer contributions.[48] Costs and benefits are discounted to present-value using a real discount rate to reflect the future value of money. Noting that the 3 Year Plan has a projected BCR of 2.47, 2.20 and 2.26 in years 2012, 2013 and 2014 respectively, the EERMC's consultants found that the 3 Year Plan passed the TRC Test and was cost-effective pursuant to R.I.G.L. §39-1-27.7(c)(5) and the Energy Efficiency Procurement Standards approved in Docket 4202.[49] Based on this finding, the EERMC recommended approval of the 3 Year Plan.

TEC-RI (The Energy Council of R.I.) filed a letter in support of the 3 Year Plan on September 19, 2011. Although it supported the 3 Year Plan, TEC-RI expressed concern over the cost impacts of the plan and the Company's ability to achieve the higher savings targets. TEC-RI felt that close monitoring of the plan was important to ensure necessary adjustments would be made, if necessary, to ensure the effectiveness of the plan.[50]

IV. National Grid's 2012 Energy Efficiency Program Plan

On November 1, the Company filed its 2012 Energy Efficiency Program Plan ("EEP Plan" or "Plan"). National Grid's 2012 EEP Plan is a settlement agreement between National

[46] EERMC 1, VEIC Report, p. 12.
[47] Id.
[48] Id.
[49] Cost-Effectiveness Report of VEIC (Vermont Energy Investment Corporation), p. 13.
[50] TEC-RI 1, p.1.

Grid and the following parties: R.I. Division of Public Utilities and Carriers, Energy Council of Rhode Island ("TEC-RI"), Environment Northeast ("ENE") and the Energy Efficiency Resources Management council ("EERMC"). The Plan is filed pursuant to the LCP Act and the Energy Efficiency Procurement Standards approved in Docket 4202.[51] Consistent with the law and Standards, the Plan is designed to create annual savings of 128,570 MWh and 231,548 MMBtu and lifetime savings of 1,431,379 MWh and 3,643,336 MMBtu.[52] The electric and natural gas savings targets for 2012 are consistent with those proposed in the 3 Year Plan, namely 1.7% of the 2009 electric load and 0.6% of the natural gas load.[53] As already noted in the 3 Year Plan, the natural gas targets are slightly lower than projected in Docket 4202. Both the electric and gas targets pass the TRC Test for cost-effectiveness with a 2.57 benefit-cost ratio for electric energy efficiency programs and a 2.05 benefit-cost ratio for natural gas energy efficiency programs.[54]

The Company identified four major strategies for achieving the electric and gas savings targets: 1) making energy efficiency available to everyone; 2) expanding marketing and customer outreach; 3) technological innovation; and 4) economic growth.[55] The strategies, which are described in depth in the Plan, encompass increased financing options, weatherization incentives, stream-lined delivery of energy efficiency, implementation of new technologies, such as heat pump hot water heaters and Wi-Fi thermostats, and job training for contractors to install these technologies.[56] The overall intent behind all of these strategies is to remove existing barriers that currently prevent customers from participating in the Company's energy efficiency

---

[51] R.I.G.L. §39-1-27.2; Standards for Energy Efficiency and Conservation Procurement were approved by the Commission in Order No. 20419, Appendix A (Docket 4202).
[52] National Grid 1, p.1.
[53] Id., p. 2.
[54] Id.
[55] Id., p. 5.
[56] Id., pgs. 5-6.

programs. To cover the cost of these programs for 2012, the Company proposed a budget of $61.4M for the electric energy efficiency programs and $13.7M for natural gas energy efficiency programs.[57] The budget is divided into three sectors: residential low-income, residential non-low-income and C&I.[58] As previously noted, the budget also includes a 4.4% shareholder incentive and a 10% incentive for energy efficiency funds secured from outside sources. The 4.4% shareholder incentive, as previously described in the 3 Year Plan, would allow the Company to earn 4.4% of its energy efficiency spending budget in a given year. There is a designated threshold performance level of 60% and a maximum performance level of 125%.[59] In other words, the Company has to achieve at least 60% of the designated savings goals before it is eligible to earn an incentive. Conversely, the Company is not allowed to earn more than 125% of the savings targets.[60]

The energy efficiency budget of $61.4M would be met by increasing the existing Energy Efficiency Program ("EEP") Charge from $0.00526/kWh to $0.00589/kWh (an increase of $0.00063/kWh) and accessing other funding sources such as forward capacity market revenues and Regional Greenhouse Gas ("RGGI") funds.[61] The natural gas efficiency budget of $13.7M would be achieved by imposing an EEP Charge of $0.384/Dth and projected carryovers and under recoveries from the year-end 2011 fund balance.[62] The natural gas EEP Charge of $0.384/Dth includes a fully reconciling funding mechanism credit of $0.027/MMBTU.[63] The reason for the credit was an increase in the Company's 2012 sales forecast.[64] The budgets are based on a number of projections including commodity sales, customer commitments, capacity

[57] Id., Tables E-2(Attachment 5) and G-2(Attachment 6).
[58] Id., p. 16.
[59] Id., p. 20.
[60] Id.
[61] Id., p. 12.
[62] Id.
[63] Id.
[64] Id.

payments received from ISO-NE and year end spending levels for 2011.[65] The budgets are slightly lower than those proposed for 2012 in the 3 Year Plan and are subject to variation as experience informs these projections. The Plan allows the Company to deviate from the projected budget by up to 10% on the condition that it provides the EERMC and the Commission with a written explanation for the deviation and the expenditures are reasonably consistent with the original plan.[66] At any time during the program year, if the Company anticipates that actual expenditures will exceed the projected budget by more than 10%, it will request approval from the EERMC to so deviate from the budget.[67] The Company would have to provide a reasonable explanation for any unanticipated budget deviations of more than 10%, and it would have to demonstrate in its Year End Report that the expenditures are reasonably consistent with the original plan.[68] All deviations would ultimately be subject to the Commission's review.

V. EERMC Approval of National Grid's 2012 Energy Efficiency Plan

On November 16, 2011, the EERMC filed a letter in support of the Company's 2012 EEP Plan, pursuant to R.I.G.L. §39-1-27.7(c)(5), along with a report of the Vermont Energy Investment Corporation ("VEIC"). The VEIC consultants conducted an in-depth analysis of the Company's 2012 Plan which included a review of the Company's Technical Reference Manual; a review of the Company's program design and cost effectiveness projections; a review of the individual programs as well as the portfolio of programs presented in the 2012 Plan; a review of the cost-effectiveness screening model; and a comparison of the goals contained in the 2012 Plan to those identified in prior annual plans, the 3 Year Plan and historical quarterly and annual performance reports. The VEIC consultants concluded that the 2012 Plan in its entirety,

---

[65] Id., p. 13.
[66] Id., p. 13.
[67] Id., p. 13.
[68] Id.

including all of the programs that comprise the Plan as well as the portfolio of programs presented in the Plan, were cost-effective in accordance with the TRC Test.[69]

VI. <u>Technical Sessions</u>

A technical session was held on October 6, 2011 at the office of the Commission located at 89 Jefferson Boulevard, Warwick, Rhode Island, wherein National Grid presented its 3 Year Energy Efficiency Procurement Plan. The following appearances were entered:

FOR NATIONAL GRID: Jennifer Brooks Hutchinson, Esq.

FOR THE DIVISION: Jon Hagopian, Esq.

FOR THE COMMISSION: Amy K. D'Alessandro, Esq.

Also present at the October 6 hearing were Bob Fagan, consultant for the Division; Bill Ferguson of TEC-RI; and Commission staff, Alan Nault and Dilip Shah. A technical session was also held on December 13, 2011 at which time National Grid explained the details of the 2012 Energy Efficiency Program Plan. The following appearances were entered on December 13:

FOR NATIONAL GRID:	Jennifer Brooks Hutchinson, Esq.
FOR THE DIVISION:	Jon Hagopian, Esq.
FOR EERMC:	Daniel Prentiss, Esq.
FOR CLF:	Jerry Elmer, Esq.
FOR THE COMMISSION:	Amy K. D'Alessandro, Esq.

Also present at the December 13 hearing were Timothy Roughan, Director of Distributed Resources, and Michael McAteer, Director of Program Strategies for National Grid; Jeremy Newberger, Rachel Henschel and Ian Springsteel from National Grid; Abigail Anthony, Chris Powell and Scudder Parker from the EERMC; Tim Woolf of Synapse Energy Economics for the

[69] EERMC 1.

Division; Bill Ferguson from TEC-RI; and Commission staff, Alan Nault, Dilip Shah and Nicholas Ucci.

A. October 6, 2011 Technical Session

After reviewing the electric and gas efficiency savings targets, pointing out the slight reduction in gas targets, Jeremy Newberger reviewed the four strategies for achieving the targets. Much of the presentation was a review of details already explained in the 3 Year Plan. Considerable discussion, however, was devoted to the mechanics of the Company's proposal to earn a 10% shareholder incentive for securing funds from outside sources. The Commission inquired whether the existing 4.4% shareholder incentive would apply to outside funds secured by the Company.[70] The Company responded, it "could argue it both ways," claiming that the Company would be justified in earning both the 10% incentive and the 4.4% incentive on outside funds since the two incentives are for separate and distinct purposes.[71] The 10% incentive, Mr. Newberger argued, is earned for securing the funds, and the 4.4% is earned for spending the funds to achieve energy savings.[72] The Division was unequivocally opposed to the notion of the Company earning two incentives on the same source of funds, calling it "double dipping."[73] The Company later clarified, however, that it would exclude outside funding from the spending budget, so that the Company would *not* be entitled to earn the 4.4% target energy savings incentive on outside funds (for which it had already claimed a 10% incentive) thereby prohibiting the "double dipping" scenario.[74] The Company also reiterated the rationale for seeking the 10% incentive is to keep the EEP Charge from increasing too high.[75]

[70] Transcript, pgs. 70-75.
[71] Id., p. 71.
[72] Id..
[73] Id., p. 73.
[74] Transcript, p.100; National Grid's Response to Commission's Record Request No. 3, p. 2.
[75] Transcript, p. 45, 72.

The Commission asked the Company to comment on whether the 10% incentive for securing outside funding qualified as a performance based incentive plan as defined in R.I.G.L.§39-1-27.7(e). That section of law requires the commission to establish a "performance based incentive plan which allows for additional compensation for each electric distribution company…*based on the level of its success* in mitigating the cost and variability of electric and gas services through procurement portfolios."[76] In response to this question, Mr. Newberger said "the performance [is] for getting the money…not for the reduction- looking at an absolute value reduction of energy efficiency program charges, that's the way we're looking at it."[77] Mr. Newberger later said, "…[W]hat we're trying to do is mitigate the cost of doing these cost procurements. So, I think it would… qualify by that reading."[78] Mr. Newberger weighed in yet again saying, "the performance based incentive plan in general is an incentive plan for just like the general mechanism that we were talking about for achieving a certain amount of savings to achieve a certain incentive."[79] The issue raised by the Commission was whether the Company's earning of the proposed 10% shareholder incentive for outside funding was conditioned upon its success in mitigating the cost and variability of electric and gas services through procurement portfolios, consistent with the Least Cost Procurement Act. Mr. Newberger's somewhat contradictory testimony at the hearing was non-dispositive of the issue indicating, on the one hand, that the incentive was conditioned only upon securing the funds, thus answering the above question in the negative, and then later claiming that the incentive was in fact consistent with the terms of the statute.[80] The issue was ultimately addressed in a record request wherein the Company argued that the 10% incentive is authorized by the Least Cost Procurement Act

[76] R.I.G.L. §39-1-27.2(e) (emphasis added).
[77] Transcript, p. 61.
[78] Id., p. 63.
[79] Id.
[80] Id., p. 61.

because 1) the delivery of cost-effective energy efficiency programs, by definition, (since cost-effective programs are cheaper than supply) mitigate the cost of providing gas and electric services, thereby entitling the Company to an incentive, and 2) the statute allows for an incentive which mitigates the cost of providing energy efficiency services, and the incentive would so qualify if it in fact resulted in an EEP Charge that was lower than what the EEP Charge would have been without the outside funding.[81] The aforementioned arguments were based on two separate interpretations of subsection (e) of the Least Cost Procurement Act (R.I.G.L. §39-1-27.2) which the Company claimed were not mutually exclusive but "consistent with the concept of least cost procurement."[82]

Scudder Parker reiterated the EERMC's strong support of the 3 Year Plan and explained that the Plan was the subject of substantial negotiation among the Company, the EERMC, TEC-RI and the Division. Mr. Parker said that in developing the 3 Year Plan, there was an emphasis on looking at the utility's costs since this ultimately determines the ratepayers' cost.[83] With this in mind, the parties reviewed costs of neighboring jurisdictions to ensure "a result that is very good for Rhode Island."[84] Mr. Parker and Mr. Ferguson of TEC-RI spoke about the Company's 10% shareholder incentive proposal, claiming it would be fairly difficult for the Company to secure outside funding for energy efficiency purposes and that if the Company were successful in securing these funds, it would result in a lower EEP Charge, and in that case, the Company deserved the incentive.[85] Similarly, the Division said that it supported the 10% incentive because of its potential to lower the EEP Charge with the caveat already mentioned that the Company

[81] National Grid's Response to Commission's Record Request 3.
[82] Id.
[83] Transcript, p. 96.
[84] Id., p. 97.
[85] Id., p.78, 81, 94.

should not be allowed to earn the 4.4% incentive on the so-called 90%, or the balance of funds secured from outside sources, after the 10% incentive is taken.[86]

B. December 16, 2011 Technical Session

The Company reviewed the details of the 2012 Energy Efficiency Program Plan pointing out that the Company is projecting more than a 50% increase in customer participation.[87] The Company felt this target was reasonable considering the high expectations associated with lighting programs.[88] In addition to "upstream incentives" or "upstream lighting" in which the Company offers incentives to distributors, as opposed to customers, to lower the cost of energy efficient technology, the Company explained several new technologies in lighting, especially innovations in LED technology, that will be targeted to all customer groups through the use of incentives and rebates.[89] Rachel Henschel of National Grid highlighted the updates in residential programs. She reviewed the changes to the Energy Wise program which is the Company's home energy audit. She explained that starting in 2012, the Company will offer to customers the ability to schedule their home audits on-line.[90] The Company will also offer oil heating system replacement rebates or weatherization for oil or propane heated homes.[91] She also reviewed some of the Company's creative marketing strategies for promoting the Energy Wise program, including its refrigerator recycling program, and relayed an individual success story demonstrating the benefits of attic insulation and air sealing.[92] She reported extremely positive

---

[86] Id, p. 74.
[87] Id., pgs. 12-13.
[88] Id., p.13, 16-17.
[89] Id., pgs. 16-22.
[90] Id., p. 23.
[91] Id., p. 24.
[92] Id., pgs. 24-26.

results of the Company's heat pump hot water pilot, claiming the heat pump hot water units were highly cost-effective with individual savings on a per customer basis of approximately $300.[93]

Mr. McAteer reviewed the Company's energy efficiency plans for the C&I customers, highlighting the Company's efforts to work with these customers to develop long-term strategic energy efficiency management plans. The Company will collaborate with Rhode Island businesses to develop multi-year plans to incorporate energy efficiency on a much broader and deeper level than in the past.[94] The Company also reviewed its plans to collaborate with energy code agencies and officials in updating codes to ensure that they reflect "better practices" and also in training code officials in compliance issues.[95] The Company will also focus on customer segmentation and streamlining applications in hopes of discerning the specific energy efficiency needs that are unique to various customer groups (i.e. hospitals, colleges etc.) and also in reducing transaction time in general for customers overall.[96] Mr. McAteer expressed the hope that these programs would enable businesses to save money, be more competitive and thus "more healthy financially", which in turn will allow the Company to improve its financial health as well.[97]

Jeremy Newberger reiterated that the budgets and some of the energy efficiency program charges are lower than projected in the 3 Year Plan. Mr. Newberger explained this reduction was due to upstream lighting in electric programs, updating implementation and evaluation costs for both electric and gas, and also because of a higher gas sales forecast.[98] Mr. Newberger addressed the 10% incentive and the so called "double dipping" issue raised in Docket 4284 and

[93] Id., p. 28.
[94] Id., pgs. 31-32.
[95] Id., pgs. 34-35.
[96] Id., p. 32, 36.
[97] Id., p. 30
[98] Id., pgs. 50-51

assured the Commission that the Company would earn *either* the 4.4% shareholder incentive *or* the 10% incentive for outside funding, but that it would not earn both incentives on the same funds.[99] He further reiterated that the Company would earn the 10% incentive for securing outside funding for energy efficiency when the impact on the EEP Charge is demonstrated.[100] Mr. Newberger was asked to identify the specific sources of funds the Company would be seeking for the 10% incentive. He replied that the most likely candidates are granting organizations and foundations whose missions are consistent with energy efficiency.[101] He also reiterated that if one of these organizations objected to the incentive, the Company would still pursue the funds.[102]

Scudder Parker of the EERMC, Division consultant, Tim Woolf, and Bill Ferguson of TEC-RI all spoke in support of the Company's 2012 Energy Efficiency Procurement Plan. Mr. Parker reiterated that the purpose of the incentive is to reduce the cost of these programs to ratepayers, and to that extent, it is worthy of support. He added, however, that the effectiveness of the proposal should be reviewed at the end of the program year.[103] Mr. Ferguson felt the Plan was the subject of substantial negotiations which he felt portrayed a fair and reasonable process which allowed his organization (TEC-RI) to provide meaningful input in the development of the Plan.[104] Similarly, the Division's attorney expressed approval of the Plan, saying that all of the Company's programs are cost effective, and with regard to the 10% incentive, "there's no downside to the ratepayers…"[105]

---

[99] Id., p. 52. See also, pgs.53-54.
[100] Id.
[101] Id., p. 84.
[102] Id., p. 87. See also National Grid's Response to Commission 1-9 ("[I]f an agency…made the condition that prohibited the use of their funds for the Company's incentive, the Company would agree to that condition.") (Dkt.4295)
[103] Id., p. 65, 90.
[104] Id., p. 119.
[105] Id., p. 117

VII. Commission Findings

On December 21, 2011, the Commission voted to approve National Grid's 2012-2014 Energy Efficiency and System Reliability Procurement Plan and National Grid's 2012 Energy Efficiency Program Plan. The Least Cost Procurement Act ("Act") requires the Commission to approve all energy efficiency measures that are cost effective and lower cost than acquisition of additional supply.[106] Pursuant to the Act, the Commission is required to approve any annual plans related to the cost effective energy efficiency measures, as well as a fully reconciling funding mechanism for the Company to fund cost effective energy efficiency measures.[107] The EERMC has approved and certified all of the energy efficiency measures contained in Dockets 4284 and 4295 as cost effective within the meaning of the TRC Test prescribed in the Commission's Standards.[108] All parties support approval of both the 3 Year Plan and the annual 2012 Plan. The Commission furthermore finds the budgets proposed in the two Plans to be reasonable in light of the energy efficiency savings targets and energy sales forecasts presented in these dockets.

The Company argued the additional incentive proposed by the Company, 10% of funds secured from outside sources, is consistent with the terms and provision of R.I.G.L. §39-1-27.7(e).[109] Subsection (e) of the System Reliability and Least Cost Procurement Act ("LCP Act" or "Act") states,

> "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

---

[106] R.I.G.L. §39-1-27.7(c)(5).
[107] Id.
[108] Commission Order 20419 (Docket # 4202), Appendix A: Standards For Energy Efficiency and Conservation Procurement and System Reliability.
[109] National Grid's Response to Commission Record Request 3 (Dkt. 4284).

the cost and variability of electric and gas services through procurement portfolios."[110]

In support of its argument that the 10% incentive is consistent with this provision of the LCP Act, the Company offered two separate interpretations of the phrase "electric and gas services" which it claimed were not mutually exclusive. The Company argued the phrase "electric and gas services" in this section of law could either have the plain meaning of electric and gas services, or, it could refer to energy efficiency services.[111] The Company further argued that the term "procurement portfolios" in this section of law refers to system reliability and energy efficiency and energy conservation procurement "as defined elsewhere in 39-1-27.7."[112] A plain reading of the statute suggests that the term "procurement portfolios" does in fact refer to system reliability and energy efficiency and conservation procurement, not because it is defined in the statute, but because the term "procurement" is used consistently throughout the Act in conjunction with system reliability, energy efficiency and conservation.[113] The Commission reads the phrase electric and gas services to mean electric and gas services, and not as the Company suggests, energy efficiency services. To ascribe the meaning suggested by the Company to the term "electric and gas services" would ignore basic principles of statutory construction which require unambiguous statutes to be given their plain and ordinary meaning. In re Providence Water Supply Board's Application to Change Rate Schedules, 989 A.2d 110 (R.I. 2010). The Commission thus finds the above referenced section of law to mean that the Company is allowed a performance based incentive which allows compensation based on the level of its success in mitigating the cost of electric and gas services through system reliability, energy efficiency and conservation procurement. At the technical session held in docket 4284,

---

[110] R.I.G.L. §39-1-27.7(e).
[111] National Grid's Response to Commission Record Request 3 (Dkt. 4284).
[112] Id.
[113] R.I.G.L. §39-1-27.7.

the Company stated that the 10% incentive is earned for receiving the funds from an outside source and is not tied to the impact of those funds on the EEP Charge.[114] Mr. Newberger consistently maintained at the technical session that the only condition for earning the incentive is to secure the funds.[115] In response to record requests and when the Company filed its 2012 Energy Efficiency Program Plan, however, the Company clarified that the 10% incentive would not be claimed until it demonstrated that those funds had reduced the EEP Charge in the following program year.[116] A reduction in this context may not be an absolute reduction, as explained by the Company, but a reduction from what the EEP Charge would have been if the funds were not acquired.[117] The Company also noted that the calculation of the EEP Charge in the following program year would be subject to Commission approval.[118] Based on the evidence in both dockets, the Commission finds that the 10% incentive is based on the Company's level of success in mitigating the cost of electric and gas services, in accordance with R.I.G.L §39-1-27.7(e), and the Commission will approve the 10% incentive.

The 3 Year Plan and the annual 2012 Plan were the subject of substantial collaboration among National Grid, the Division of Public Utilities and Carriers, the EERMC and TEC-RI. Indeed the 2012 Plan was a negotiated settlement executed by the parties, some of whom represent ratepayer interests. All of the parties support the 2012 Plan including the two incentives proposed by the Company, the 4.4% existing shareholder incentive and the new 10% incentive for securing outside energy efficiency funds. The record reflects that the parties support the 10% incentive by and large because it is anticipated to reduce the costs of energy

[114] Transcript (Dkt.4284), p. 61, 65, 67.
[115] Id.
[116] National Grid's Response to Commission Record Request 3(Dkt.4284); National Grid 1 (Dkt. 4295), p.21; Transcript (Dkt.4295), p. 52, 68.
[117] National Grid 1 (Dkt.4295), p.21; National Grid's Response to Commission 2-9(Dkt.4295); National Grid's Response to Commission Record Request 3(Dkt.4284).
[118] National Grid 1(Dkt.4295), p.21; National Grid Response to Commission Record Request 3(Dkt.4284).

efficiency borne by the ratepayer. The Commission supports this incentive for the same reason and is hard-pressed to fathom a situation whereby the outside funds would not have a downward impact on the EEP Charge. Any funds the Company is able to secure and apply toward the delivery of energy efficiency programs is money the ratepayer will not have to pay. In this regard, the Commission concurs with the Division in that there is no downside to ratepayers.

The Company's proposal to continue the 4.4% shareholder incentive is likewise approved. The evidence reflects that the 4.4% shareholder incentive is tied to the Company's level of success in meeting the energy efficiency targets. The more successful the Company is in meeting the targets, the higher the incentive it receives. The Commission furthermore finds, based on evidence, that this incentive is reasonably consistent with incentives allowed in other jurisdictions.[119] The Commission is also mindful that this incentive has been in place approximately 10 years, and that in the past several years, National Grid has been a national leader in delivering cost-effective energy efficiency programs and, most recently, has achieved the energy efficiency savings targets designated for 2010.[120] Given these circumstances, the Commission finds no reason to disturb what appears to be a successful component in the Company's delivery of its energy efficiency programs. In light of the foregoing, and in recognition that the Commission is required by law to approve all energy efficiency measures and plans that are deemed cost-effective by the EERMC, in accordance with the mandate noted above in the LCP Act, the Commission hereby approves the Company's 2012-2014 Energy

---

[119] National Grid 1 (Dkt. 4284), p.35; National Grid Response to Commission 1-6 and Attachment COMM 1-6 "Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency"(Dkt.4284).

[120] *ACEEE State Energy Efficiency Scorecard* (2009 through 2011); aceee.org; In 2010, National Grid's energy efficiency programs achieved 107% of targeted annual energy savings and 127% of targeted annual gas savings. *National Grid's Year End Report for Electric and Gas Energy Efficiency Programs* filed May 1, 2011 (Dkt. 4116).

Efficiency and System Reliability Procurement Plan and 2012 Energy Efficiency Program Plan.[121]

Accordingly, it is hereby

(20697) ORDERED:

1. The Narragansett Electric Company, d/b/a National Grid's 2012-2014 Energy Efficiency and System Reliability Procurement Plan is approved;
2. The Narragansett Electric Company, d/b/a National Grid's 2012 Energy Efficiency Program Plan is approved in its entirety, including without limitation the following:
    a. National Grid's 2012 energy efficiency budgets of $61.4 million and $13.7 million for electric and gas, respectively, are approved ;
    b. The fully reconciling funding mechanism charge of $0.00063/kWh is approved for electric efficiency programs, and National Grid is authorized to increase the current EEP Charge from $0.00526/kWh to $0.00589/kWh for electric efficiency programs;
    c. The fully reconciling funding mechanism credit of $(0.027)/MMBTU is approved, and National Grid is authorized to decrease the current EEP Charge from $0.411 to $0.384 per dekatherm for gas efficiency programs;
    d. The Narragansett Electric Company, d/b/a National Grid's proposed 4.4% shareholder incentive for energy efficiency targets is hereby approved;
    e. Narragansett Electric Company, d/b/a National Grid's proposed 10% shareholder incentive for securing energy efficiency funds from outside sources, as defined in the 2012 Plan, is hereby approved. The 10% incentive for funds obtained in 2012 shall

[121] R.I.G.L. §39-1-27.7(c)(5).

be credited in 2013 when the Company demonstrates to the Commission either a comparative or absolute reduction in the EEP Charge proposed for 2013.

EFFECTIVE AT WARWICK, RHODE ISLAND ON DECEMBER 21, 2011 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 21, 2011. WRITTEN ORDER ISSUED APRIL 11, 2012.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner*

*Commissioner Roberti dissented from the majority approval of the Company's proposed 10% incentive for outside funding on the basis that he was concerned with the means by which the Company would demonstrate that the grants resulted in a reduction of the EEP Charge in the following program year. Commissioner Roberti concurred with the majority on all other aspects of the Company's 2012 Energy Efficiency Plan and the 2012-2014 Energy Efficiency and System Reliability Procurement Plan.