

May 30, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4397 - Review of Energy Efficiency and Advanced Gas Technology
Incentives For 12.5 MW Combined Heat and Power System
Reply Memorandum**

Dear Ms. Massaro:

On behalf of National Grid¹ attached is the Company's Reply Memorandum to the Rhode Island Division of Public Utilities and Carriers' memoranda filed in the above-captioned proceeding.

Thank you for your attention to this filing. If you have any questions concerning this transmittal, please feel free to contact me at (401) 784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4397 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "National Grid" or the "Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically transmitted to the individuals listed below. Paper copies of this filing were hand delivered to the Rhode Island Public Utilities Commission.

May ' 5, 2013

Joanne M. Scanlon

Date

Docket No. 4397 - National Grid - Energy Efficiency and Advanced Gas Technology Incentives for 12.5 MW CHP System Package to Toray Service list updated 3/11/13

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

**In Re: Review of Energy Efficiency and Advanced
Gas Technology Incentives for Toray Plastics'
12.5 MW Combined Heat and Power System**

Docket No. 4397

**REPLY MEMORANDUM OF THE
NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID
REGARDING ENERGY EFFICIENCY AND ADVANCED GAS TECHNOLOGY
INCENTIVES FOR TORAY PLASTICS' 12.5 MW COMBINED HEAT AND POWER
SYSTEM**

I. Introduction

National Grid¹ hereby submits this reply to the written comments submitted by the Rhode Island Division of Public Utilities and Carriers (the "Division"). On March 5, 2013, the Company filed a petition for approval of an incentive package totaling \$15,890,000 to Toray Plastics (America), Inc. ("Toray") to install a 12.5 MW CHP system at Toray's manufacturing facilities in North Kingstown, Rhode Island. The major terms and conditions of the incentive proposal were contained in a signed offer letter dated January 28, 2013 between Toray and the Company, a copy of which was attached to the Petition as Attachment A. The incentive package consists of a combination of energy efficiency funds and advanced gas technology ("AGT") program funds.² In compliance with the established procedural schedule, on May 17, 2013, the Division submitted their memorandum regarding the \$1.8 million AGT incentive in accordance

¹ The Narragansett Electric Company d/b/a National Grid (referred to herein as "National Grid" or the "Company").

² As described in the Petition, the incentive package consists of the following incentive payments to Toray: (i) \$13,500,000 installation incentive from energy efficiency funds; (ii) \$1,800,000 rebate payment from AGT funds; and (iii) \$590,000 as a performance-based incentive to be paid out after the project is operational.

with Docket 2025. In its memorandum, the Division noted that “the project is consistent with the intent of the AGT program, and the amount of the rebate does not exceed the parameters established for the AGT program.” However, the Division requested that the Company clarify certain issues in its reply comments, as further discussed below.

On the same day the Division’s consultant, Tim Woolf of Synapse Energy Economics, Inc. (“Synapse”), submitted comments with respect to the Company’s petition for approval of the energy efficiency portion of the incentive package. In its comments, the Division made two recommendations: (i) to charge the \$13.5 million energy-efficiency incentive to the energy-efficiency budget for 2013 and 2014, with \$7 million coming from 2013 and \$6.5 million from 2014; and (ii) to work with the Division and the DSM Collaborative to refine the methodology for estimating economic benefits as part of the cost-benefit test for future CHP projects. The Company now takes this opportunity to respond to the issues raised in the Division’s comments. For ease of reference, the Company has organized its reply comments into two separate sections that first, respond to the Division’s comments regarding the AGT incentive, and second, respond to the Division’s comments as raised in the Synapse memorandum.

II. Comments to Division Memorandum Regarding AGT Incentive

a. Inspection of Toray’s Records

In its comments, the Division refers to Attachment 2, page 7 of the January 28, 2013 offer letter regarding National Grid’s right to access Toray’s records for a period of two years to ensure that the project is performing in accordance with representations. In the Company’s response to Commission Data Request 1-4, the Company indicated that it was not prohibited from collecting performance data over a four-year period as set forth in the offer letter. The

Division has requested that the Company clarify its rights to inspect Toray's records relative to performance of the CHP system.

Attachment 2 to the offer letter is the standard Letter of Award & Acceptance to the AGT application. Historically, the incentives paid from AGT funds were paid in one lump-sum payment, and projects were typically fully commissioned in the first year. Therefore, a two-year inspection period was sufficient in which to discover any issues. The AGT incentive for the Toray project is the largest incentive that the Company has paid for a project of its kind. Therefore, the Company opted to structure the incentive payments over a period of four years, as opposed to in one lump sum, which the Company believes is a more efficient use of customer funds and also provides greater flexibility to the AGT budget for other projects. Since the Company will be paying the incentive over a period of four years, the Company has taken the position in its response to Commission Data Request 1-4 that it would not be precluded from collecting performance data during this four-year period. However, the Company is not opposed to including language in the final agreement between the Company and Toray that expressly provides for the right to inspect Toray's records during the four-year payment period.

b. Clawback Provision/Repayment Terms

The Division requested that the Company specify what provisions exist, if any, to seek a return of part or all of the AGT incentive in the event that the incremental margins do not materialize as expected, including the time period over which such clawback provision exists. In the absence of a clawback provision, the Division requested that the Company explain how customers will be protected from the inefficient use of customer-provided rebate funds in the event of Toray's under-performance.

The Letter of Award and Acceptance provides that in the event that National Grid identifies the project underperforming, Toray is obligated to return the full rebate to National Grid within four (4) weeks from the date of a Letter of Termination from National Grid.³ Under the AGT program guidelines, this termination right would apply during the first two years of the project's commercial operation. As discussed above, this two-year period is based on the existing AGT program guidelines, in which incentive payments were historically much smaller and paid out in one lump-sum payment. Two years was considered a sufficient amount of time in which to discover any performance-related issues. Given the size of the AGT incentive to Toray, the Company believes that a four-year payment schedule is a more efficient use of customer-provided rebate funds. Furthermore, in the event that Toray is underperforming, National Grid would have the ability under the terms of the Minimum Requirements Document ("MRD") to adjust any remaining incentive amounts.⁴ Nonetheless, the Company is not opposed to including language in the final agreement between Toray and National Grid that specifies a four-year repayment window to reflect the payment period for the AGT incentive.

c. Gas Service Agreement

The Division requested that the Company provide a copy of the gas service agreement with Toray for the provision of firm gas service to the CHP system. Although the Company has prepared a draft agreement setting forth the Company's proposal for the provision of firm gas service to Toray in connection with the CHP project, the agreement has not yet been accepted by Toray. Accordingly, the Company is filing a copy of the draft agreement with the Commission under seal, subject to a motion for confidential treatment. The Company is filing the confidential

³ See January 28, 2013 Offer Letter (Attachment A to the Petition), Attachment 2 at 7.

⁴ Milestone No. 4 of the MRD, see January 28, 2013 Offer Letter, Attachment 1, at 10, provides that Toray must correct underperformances within one month following written notification from National Grid, and in the event that one or more underperformances cannot be remedied within six months from the initial, written notification, National Grid reserves the right and authority to reduce the remaining incentive amount.

draft agreement in a supplemental response to Division Data Request 2-7 simultaneously with this reply memorandum.

d. Capital Spending Requirement

The Division requested that the Company further describe its capital spending requirement to accommodate the CHP project, and to explain the increase to \$886,010 from the original estimate of \$249,482 as set forth in the AGT financial analysis. The Division has also requested that the Company explain the effect of this increase on the economics of the project from Toray's perspective and the perspective of other customers. Last, the Division requested that the Company explain the effect of processing the \$886,010 capital requirement through the Contribution In Aid of Construction ("CIAC") program.

The original estimate of \$249,482.00 for the gas systems upgrades is from early 2012. Since then, new customers have come online and the Company's system dynamics have changed. To adapt to these changes, the Company's engineering group has modeled the Toray project to require the installation of a minimum of 2495 feet of 12-inch main to maintain the proper pressure to the Company's existing customers. The new price for this work is estimated at \$886,010.00. This new estimate has no effect on the original AGT financial analysis and results in the same CIAC of \$600.00 when inputted into the Company's five-year financial CIAC model.

III. Comments to Synapse Memorandum Regarding Energy Efficiency Incentive

a. Use of Energy Efficiency Funds

In its comments, the Division's consultant, Tim Woolf, recommends that the Division request that the Commission waive the requirement for full funding of the Toray commitment in 2013. He notes that "it would be appropriate to pay the remaining \$6.5 million of the Installation

Incentive from the new funds collected in 2014. This would alleviate the budgetary burden put on to the C&I Retrofit program in 2013...” As the Company indicated in its response to Commission Data Request 1-8, the Company would support such an approach and prefers it over fully funding the commitment in 2013.

b. Cost-Effectiveness

Mr. Woolf also recommends that the Company work with the members of the DSM Collaborative, including the Division, to refine and improve the methodology and assumptions used to estimate the economic development benefits as part of the cost-effectiveness analysis for future CHP projects.

The Company notes that Mr. Woolf’s comments do not dispute the inclusion of the \$35 million in economic benefits (job creation and job retention) calculated for the Toray project. The Company calculated these benefits using a rate of \$2.79 of lifetime gross state product benefit per dollar of efficiency program investment. This rate was reviewed and approved by the Collaborative during the development of the 2013 Energy Efficiency Program Plan, and subsequently approved by the Commission in Docket 4366.⁵

Nevertheless, Mr. Woolf’s comments highlight the significance of the economic benefits in the calculation of cost-effectiveness for CHP, given the offsetting of significant electric savings by significant fuel costs. The Company does not oppose Mr. Woolf’s suggestion to work with members of the Collaborative to review the estimate of economic benefits for future CHP projects. The Company notes, however, that such review does not presuppose that the value of \$2.79 of lifetime benefits per dollar of investment is not the correct value.

⁵ See Energy Efficiency Program Plan For 2013 Settlement of the Parties, Attachment 2, at 36.

Respectfully submitted,

The Narragansett Electric Company
d/b/a National Grid

By its attorney,

A handwritten signature in black ink, appearing to read "Jennifer Brooks Hutchinson". The signature is written in a cursive style with a long horizontal flourish at the end.

Jennifer Brooks Hutchinson (RI Bar #6176)

Dated: May 30, 2013