

July 30, 2014

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4431 - National Grid Distribution Adjustment Clause and Advanced Gas Technology Program

Dear Ms. Massaro:

National Grid¹ is filing this letter in compliance with the Rhode Island Public Utilities Commission's ("PUC") written Order 21464, dated May 15, 2014 in the above-referenced docket (the "Order") and pursuant to the Settlement dated October 30, 2012 in Docket No. 4339 ("2012 Settlement"). Paragraph 4 of the Order and the 2012 Settlement requires National Grid and the Rhode Island Division of Public Utilities and Carriers (the "Division") to assess the advisability of incorporating the Advanced Gas Technology ("AGT") Program into the Company's Energy Efficiency program, and to provide the PUC with its findings prior to the next filing of the Company's Distribution Adjustment Clause ("DAC"). National Grid notes that it did not submit this filing prior to its August 1, 2013 filing of the DAC; therefore, the Company is submitting its recommendations in advance of its August 1, 2014 DAC filing as required by the Order.

National Grid has reviewed the history of the AGT program and the advisability of merging it with the Company's Energy Efficiency program. For the reasons set forth below, the Company recommends maintaining two separate programs.

The AGT Program was established in Docket No. 2025 to promote the development of energy efficient natural gas technologies that increase utilization of natural gas during periods of low demand. The program name was changed from the Demand Side Management ("DSM") program to the AGT Program in Docket No. 3859 to avoid confusion with the Company's Energy Efficiency programs, which had sometimes been referred to as DSM programs, and to also better reflect the goals of the AGT Program.² While seemingly similar in terms of promotion of energy efficient technologies, the two programs have different objectives and are

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

² See Testimony of Peter C. Czekanski, Docket No. 3859, at 6-7.

not compatible. Therefore, the Company does not believe that it would be advisable to merge the programs under one Energy Efficiency program for the following reasons:

- The Company's Energy Efficiency program is a statutorily created program that promotes the procurement of energy efficiency and energy conservation measures that are prudent and reliable, and lower cost than the acquisition of additional supply.³ As noted above, the AGT Program was based on adding proportionately greater natural gas load during off-peak periods rather than reducing load through conservation efforts. Therefore, the two programs have different objectives.
- The objective of the AGT Program is load optimization, which can result, at times, in increased usage. By load optimization, the program is intended to increase usage in off-peak months compared to on-peak months to improve the system utilization. This improves the system load factor, which reduces the unit cost of delivered gas for all customers. In practice, certain projects that have been approved for rebates pursuant to the AGT Program would not have been eligible for incentives pursuant to the Energy Efficiency program because these projects would not have created enough value to be cost-effective. In some cases, projects with increased usage relative to the baseline may actually create negative energy efficiency value. One such example is a natural gas vehicle station project involving 40 waste hauling trucks. These gas-fueled trash trucks replace gasoline and increase natural gas use. There is no energy efficiency component.
- AGT Program eligibility is typically identified by contribution to margin as a result of load optimization. Contribution to margin is the result of increased usage at some point in time, and does not usually align with the energy reduction objectives of the Energy Efficiency program.
- Certain AGT Program technologies, such as combined cooling heat and power and absorption cooling, may serve to level load and provide energy savings; however, they can be expensive to implement and, in some cases, may not pass the traditional cost-effectiveness test for energy efficiency, absent some other criteria.

For these reasons, the Company does not recommend merging the two programs. The Company also does not recommend eliminating the AGT Program because it promotes the development of technologies and other benefits that the Energy Efficiency program does not promote. Instead, the Company would recommend continuing to fund and operate the AGT Program separately from the Company's Energy Efficiency program and to coordinate incentive offers where appropriate for specific projects to ensure that customers receive the right total incentives, when incentives from all sources are considered. For example, the Company's Energy Efficiency Program Plan for 2014 provides for combined energy efficiency and AGT incentives for combined heat and power projects that otherwise pass the cost-effectiveness test and other screening criteria up to a 70% total project cost cap.

³ See R.I.G.L. § 39-1-27.7.

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Based on the foregoing, the Company recommends continuing to fund the AGT Program through base rates at \$300,000, plus any PUC-approved incremental amount provided through the DAC, as appropriate. The Company has discussed this issue with the Division and the Division concurs.

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 4431 Service List
Leo Wold, Esq.
Steve Scialabba, Division

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. Copies of this filing were hand delivered to the RI Public Utilities Commission and the RI Division of Public Utilities and Carriers.



Joanne M. Scanlon
National Grid

July 30, 2014

Date

**Docket No. 4431 – National Grid –2013 Annual Distribution Adjustment
Charge Filing (“DAC”) - Service List as of 8/7/13**

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