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November 24, 2014

Via Electronic Mail and Hand Delivery

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

Re: Docket No. 4527 – 2015 Energy Efficiency Program Plan
Responses to Commission Data Requests – Set 1

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter are ten (10) copies of National Grid's response to COMM 1-1, referenced in National Grid's letter to you on November 21, 2014.

Thank you for your attention to this filing. If you have any questions, please feel free to contact me at (401) 457-5164.

Very truly yours,

Adam M. Ramos

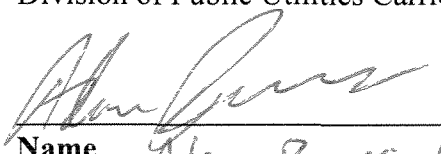
AMR:cw
Enclosure

cc: Docket No. D527 Service List (electronically only)
Karen Lyons, Esq.
Jon Hagopian, 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 and sent via U.S. Mail to the individuals listed below.

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



Name Adam Ramos (#7591)

November 24, 2014
Date

Docket No. 4527 - National Grid - 2015 Energy Efficiency Program Plan
Service list updated 11/6/14

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COMM 1-1

Request:

Plan, p.21. With respect to the shareholder incentive, please provide the following information:

a) The date the shareholder incentive was first approved by the Commission;
b) The date the Company first implemented a shareholder incentive for achieving energy efficiency savings;
c) The statutory or other legal authority for the shareholder incentive;
d) Describe the evolution of the shareholder incentive including any changes to the incentive structure since its inception;
e) Identify all National Grid U.S. service territories which have approved a shareholder incentive by law or administrative rule or order.
f) Identify all National Grid U.S. service territories which have adopted revenue decoupling by law or administrative rule or order;
g) Explain in detail why the shareholder incentive is necessary since the adoption of revenue decoupling.

Response:

a. The shareholder incentive mechanism was first agreed to pursuant to a Stipulation of the Division of Public Utilities and Carriers, Attorney General James E. O'Neil, the Conservation Law Foundation of New England, Inc., and The Narragansett Electric Company entered into in connection with the Company's 1990 Conservation and Load Management (C&LM) program, which the Commission approved in Docket No. 1939, Order 13281.

b. As part of the 1990 proceeding in Docket No. 1939, the Company agreed to defer collection of the incentive earned in 1990 until 1991. Therefore, the Company's first implementation of a shareholder incentive was 1991.

c. Prior to 1997, the Commission approved shareholder incentives for the Company for achievement of energy efficiency savings targets. See the response to subpart (a), above. The passage of the Utility Restructuring Act of 1996, as amended, codified the Commission's practice by enacting into law a provision for the funding of DSM, which provided for the first time the statutory basis for energy efficiency, under which the shareholder incentives were approved. Today, there are several places in the Rhode Island General Laws that reference performance based incentives under the current provisions of least cost procurement:

1. R.I.G.L §39-1-27.7(e) "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."

2. R.I.G.L §39-1-27.7.1(e) "The commission may adopt performance incentives for the electric distribution company that provides a shared savings mechanism whereby the company would receive a percentage of savings realized as a result of achieving the purposes of this section while the remaining savings are credited to customers."

3. R.I.G.L §39-1-27.7.1(f) "The Rhode Island energy efficiency and resources management council shall propose performance-based energy savings targets to the commission…."

In addition, the Standards approved by the PUC, most recently in Docket 4522, state as follows:

> 1.2.B. Efficiency Performance Incentive Plan. Pursuant to R.I.G.L. § 39-1-27.7(e) and § 39-1-27.7.1, the Utility shall have an opportunity to earn a shareholder incentive that is dependent on its performance in implementing the approved EE Procurement Plan
>
> i. The Utility, in consultation with the Council, will propose in its EE Procurement Plan a Performance Incentive (PI) proposal that is designed to promote superior Utility performance in cost-effectively and efficiently securing for customers all efficiency resources lower cost than supply.

d. The shareholder incentive mechanism in 1991 provided an incentive that was a percentage of the net value (value minus costs) created by energy efficiency implementation. This model continued through 1997.

Since 1998, the basic incentive structure has featured a savings goal, a target incentive, and the ability to earn a percentage of the incentive proportional to savings achieved as a percentage of the savings goal. There has always been a minimum savings threshold to achieve an incentive and a cap on the maximum incentive that could be achieved. In addition, the incentive has been applied by sector.

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1. In 1998, the threshold was 45% and an incentive was earned for energy saved above the threshold; the cap was 100%; the sectors were residential, small C&I and large C&I
2. In 1998 and 1999, the target incentive was a fixed dollar amount
3. In 2000, the target incentive was changed to 4.25% of the spending budget for all sectors
4. In 2003, the target incentive was changed to be 5% of the residential spending budget, 6% of the small C&I, and 3.5% of the large commercial and industrial budget
5. In 2004, the target incentive was changed to 4.4% for all sectors.
6. From 2004 through 2010, a portion of the target incentive was allocated to performance metrics to incent specific actions not tied directly to savings.
7. In 2005, the threshold was increased to 60%, and the cap was increased to 125%, the incentive was earned for all kWh saved, once the threshold was achieved.
8. In 2007, natural gas energy efficiency programs were begun and an incentive was earned beginning in 2008. The incentive mechanism structure in place for electric programs at the time was applied to natural gas; however, there were no performance metrics for gas efficiency. All changes since 2008 described below apply to both electric and natural gas efficiency programs
9. In 2009, the sectors were changed to non-low income residential, low income residential, and commercial and industrial.
10. In 2009, a provision to adjust the goals for efficiency in actual spending relative to budget in the achievement of savings goals was introduced. (The provision is described on page 23 of the 2015 Energy Efficiency Program Plan.)
11. For 2011, the incentive mechanism also included a provision to allow for a share of outside funding secured, if any, to be allocated to the Company. This provision was never triggered and was removed the following year.
12. In 2013, the threshold was increased to 75%
13. In 2013, the target incentive was increased to 5%. At the same time, the slope of the incentive curve was changed, making it more difficult to earn the full target incentive unless close to 100% savings is achieved. The following graph illustrates the change in the slope of the incentive curve:

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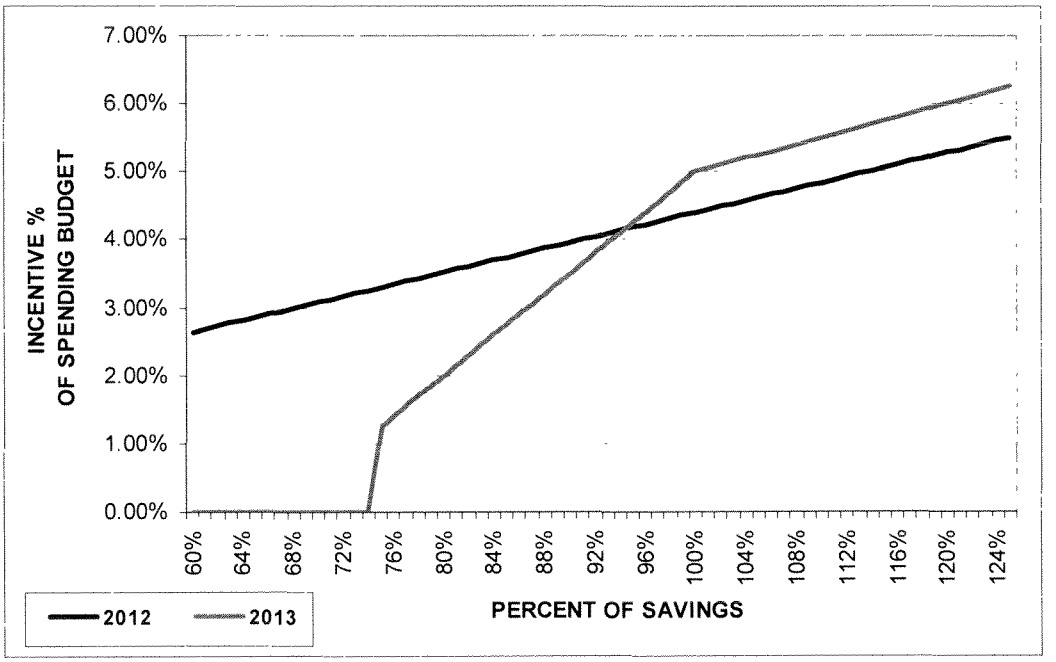
14.



15. In 2015, the Company is proposing to allocate 30% of the electric target incentive (or 1.5% of the spending budget) to demand savings, with the remaining 70% (3.5% of spending budget) still allocated for electric energy savings

e. New York and Massachusetts have approved a shareholder incentive by law or administrative rule or order.

f. Massachusetts and New York have adopted revenue decoupling.

g. Revenue decoupling removes a disincentive to the Company from achieving higher levels of energy efficiency savings. Decoupling creates a mechanism for the Company to collect approved revenue even as volumetric sales decrease because of energy efficiency or other approved criteria.

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A shareholder incentive aligns the public policy goals of least cost procurement with the business interests of the Company. A mandate for the utility to achieve all cost effective energy efficiency – whether in the context of a three year plan or an annual plan – creates a high bar to which the Company must allocate significant resources, and preserve those resources against other potentially competing business interests. The shareholder incentive, particularly with the steep slope first introduced in 2013, sends a clear signal to the Company of the importance of achieving as close to 100% of the target and influences the Company's implementation efforts accordingly.

A much more detailed examination of the importance of a shareholder incentive for energy efficiency achievements is presented in the 2011 report by the American Council for an Energy Efficient Economy "Carrots for Utilities: Providing Financial Returns for Utility Investments in Energy Efficiency." This report is attached as Attachment Comm-1.

In addition, the basic incentive mechanism, where 5% of the spending budget is set aside as a shareholder incentive subject to meeting savings targets satisfies the statutory criteria in RIGL §39-1-27.7.1(e) that the incentive be "...based on the level of its success in mitigating the cost and variability of electric and gas services through procurement portfolios." Because energy efficiency has been found to be a cost-effective source of least-cost procurement, achieving energy efficiency savings will mitigate the cost of meeting electric or gas demand that would otherwise have to be procured through more expensive supply-side sources.