

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: SAVINGS TARGETS AND :
STANDARDS FOR ENERGY :
EFFICIENCY AND CONSERVATION : **DOCKET NO. 4684**
PROCUREMENT AND SYSTEM :
RELIABILITY :

REPORT AND ORDER

I. Summary

In accordance with Rhode Island law, each natural gas and electric distribution company must submit plans to the Public Utilities Commission (PUC or Commission) for system reliability and energy efficiency and conservation procurement,¹ for approval of procurement of electric and gas energy efficiency measures that are both cost effective and lower cost than acquisition of additional supply.² Whether the Narragansett Electric Company d/b/a National Grid's (National Grid or Company) energy efficiency procurement plans are cost-effective is governed by the PUC's cost-effectiveness standard, which is defined in the PUC's Least Cost Procurement Standards (LCP Standards). National Grid also must provide evidence that energy efficiency procurement plans are lower cost than additional supply procurement; but no standard definition or methodology for this cost comparison has been adopted in the LCP Standards. This order adopts revised LCP Standards that include a standard for determining if the cost of energy efficiency procurement is lower than the cost of additional supply.

II. Least Cost Procurement Standards

National Grid's energy efficiency, conservation, and non-wires alternatives procurement is governed by R.I. Gen. Laws § 39-1-27.7, which, among other requirements, directs the PUC to

¹ Rhode Island Gen. Laws § 39-1-27.7(c)(4)

² Rhode Island Gen. Laws § 39-1-27.7(c)(5).

establish standards for gas and electric system reliability, energy efficiency, and conservation procurement.^{3,4} known collectively as LCP Standards. The procurement standards within the collective LCP Standards must be reviewed by the PUC no less than once every three years.⁵ The result has been a regular, triennial review of all the LCP Standards, typically initiated by the Energy Efficiency and Resources Management Council (EERMC) filing of proposed revisions with the PUC.

The most recent regular review of the LCP Standards began when the EERMC filed proposed revisions with the PUC on December 20, 2016, in the current docket. That filing, which is addressed separately in Order 23446,⁶ resulted in many revisions to the LCP Standards, including the addition of definitions for prudent, reliable, and environmentally responsible;⁷ modifications to the shareholder performance incentive standards; and a revision to cost-effectiveness, which was amended to align with the concurrent and ongoing work in Docket No. 4600.⁸ Notably, neither the then-existing, nor then-revised LCP Standards, included a definition or methodology for determining whether the cost of energy efficiency measures are lower than the cost of acquiring additional supply. Those most recent revisions to the LCP Standards were approved for effect on July 27, 2017.⁹

³ R.I. Gen. Laws § 39-1-27.7(a).

⁴ R.I. Gen. Laws § 39-1-27.7(c)(2).

⁵ R.I. Gen. Laws § 39-1-27.7(b).

⁶ Order No. 23446 (Mar. 5, 2019); http://www.ripuc.org/eventsactions/docket/4684-EERMC-EETargets-LCPStandards-Ord23446_3-5-19.pdf.

⁷ R.I. Gen. Laws § 39-1-27.7 associates least cost procurement with the concepts of reliable, prudent, and environmentally responsible, but does not provide a definition of these terms.

⁸ This revision the LCP Standards was approved in the current docket by Order 23446. The PUC eventually issued Order 22851 in Docket No. 4600 and later a guidance document in Docket No. 4600A. Order 22851 adopted the Rhode Island Benefit Cost Framework (Framework) as the starting point of a business case for a proposal and the guidance document explained cost-effectiveness testing would be based on all categories in the Framework.

⁹ The PUC approved the Standards in Docket No. 4684 during an Open Meeting on April 27, 2017; <http://www.ripuc.org/eventsactions/minutes/042717.pdf>.

III. Issues of Least Cost Procurement in the 2018 Energy Efficiency Program Plan for 2018

On November 1, 2017, National Grid filed the Annual Energy Efficiency Program Plan for 2018 (2018 Plan) in Docket No. 4755. The 2018 Plan was filed as a settlement agreement executed by National Grid, the Division of Public Utilities and Carriers (Division), the Office of Energy Resources (OER), EERMC, Acadia Center, and People's Power and Light. In the 2018 Plan, the Company proposed a different methodology for comparing the cost of supply and the cost of efficiency than had been used in the past.

One proposed change was to compare the cost of energy efficiency to a weighted average of Residential, Commercial, and Industrial Group Standard Offer Service rates. Previously the comparison was against only the Residential Standard Offer Service rates. The second change was to calculate the cost rate of energy efficiency as the 2018 Plan implementation costs divided by the annual energy savings. Previously, the cost rate was the sum of the implementation costs plus the customer contribution costs divided by the annual energy savings. Although the two changes in methodology were merely footnoted in the 2018 Plan, and that footnote focused more on the former change rather than the latter, the proposal to exclude customer contributions from the costs of energy efficiency procurement was a significant subject of questioning during the December 13, 2017 hearing on the 2018 Plan.

In Order 23385, issued in Docket No. 4755, the PUC noted that the record indicated there are various ways to determine if energy efficiency procurement is lower cost than procuring additional supply.¹⁰ The Division's witness opined that the Rhode Island Test, which is the measure of cost-effectiveness defined in the current LCP Standards, should be the primary test and

¹⁰ Order No. 23385 at 23 (Jan. 8, 2019); [http://www.ripuc.org/eventsactions/docket/4755-4756-Ngrid-2018EE-SRP-Ord23385%20\(1-8-19\).pdf](http://www.ripuc.org/eventsactions/docket/4755-4756-Ngrid-2018EE-SRP-Ord23385%20(1-8-19).pdf).

the cost comparison test should be a secondary analysis in the PUC's determination. The EERMC argued that cost-effectiveness testing alone was sufficient to establish if a resource was less than the cost of supply. Public comment from The Energy Council of Rhode Island (TEC-RI) asserted that eliminating customer costs prevents an accurate assessment of the cost of efficiency and will result in an easy justification for future energy efficiency charge increases.¹¹

Importantly, evidence in the record supported a finding that procurement through the 2018 Plan would cost less than supply regardless of whether the customer contribution was included or excluded in the cost of efficiency. However, the PUC cannot assume this condition will persist in future procurement plans; the Company had proposed a departure from past and accepted practice; and, the record identified some concern with the methodology and the process by which the new practice was adopted. Accordingly, the PUC accepted the Company's proposed methodology for comparing these costs of energy efficiency to the cost of supply as applied to the 2018 Plan. But it also ordered the EERMC to propose revisions to the Standards, to define a methodology for calculating and comparing the cost of efficiency and the cost of supply for approval by the PUC.¹²

IV. EERMC's May 2018 Proposed Revisions to the Standards

On May 18, 2018, the EERMC proposed a second set of revisions to the LCP Standards in the instant docket in response to PUC Order No. 23385. The EERMC's revisions included an additional week to file its cost effectiveness assessments on both the Three-Year Plan and Annual Plan and also formalized the comparison used in the 2018 Plan. In other words, the cost of energy efficiency procurement would include all direct spending by the distribution utility as well as performance incentive payments and regulatory costs but would exclude the cost of customer contributions. The cost of electric energy supply would be calculated using a weighted average of

¹¹ Docket No. 4755, Hr'g. Tr. at 15 (Dec. 13, 2017).

¹² Order No. 23385 at 23.

the Company's Standard Offer Service rates in effect during the twelve months preceding the date of the procurement plan filing. The cost of gas supply would be calculated using the most recent Avoided Energy Supply Component Study.¹³

The EERMC's May 18, 2018 proposed revisions were filed without additional information to support the proposed changes. On June 5, 2018, the PUC issued data requests to the EERMC to probe the reasonableness and propriety of the proposed revisions. Through discovery, the EERMC presented its position that the utility perspective is the appropriate perspective for comparing the cost of efficiency and the cost of supply. The utility perspective does not include participant costs of energy efficiency (the costs to participate in the energy efficiency program that are not collected through the unavoidable Energy Efficiency Program charge) since these are not costs the utility pays. The EERMC further asserted that utility-acquired, supply-side resources have no participant costs, and so it would be inaccurate to include the participant costs in the calculation of the cost of efficiency¹⁴ In response to the EERMC's proposed revisions to the LCP Standards, the Division proposed that the Rhode Island Test should be used to determine whether energy efficiency costs less than energy supply.¹⁵

V. Hearing on EERMC's May 2018 Proposed Revisions to the Standards

On July 17, 2018, the Commission held a technical session to examine the EERMC's revised Least Cost Procurement Standards.¹⁶ The discussion among the PUC staff and parties focused on two main questions. First, whether the EERMC's proposal included a symmetrical

¹³ Energy Efficiency and Resource Management Council's Revisions to Least Cost Procurement Standards for System Reliability and Energy Efficiency and Conservation Procurement Pursuant to RIGL § 39-1-27.7 at 3; http://www.ripuc.org/eventsactions/docket/4684-EERMC-LCPStandards-RedLine_05_18_2018.pdf.

¹⁴ EERMC's Response to PUC 1-1.

¹⁵ Division's Response to EERMC's May 18, 2018 Revised Least Cost Procurement Standards; http://www.ripuc.org/eventsactions/docket/4684-DIV-Response_7-6-18.pdf.

¹⁶ The Notice of Public Hearing described the July 17, 2018 session as a public hearing. At the commencement of the session, Chairperson Curran indicated that the Commission intended to hold a technical session (Hr'g. Tr. at 3); <http://www.ripuc.org/eventsactions/docket/4684-notice-LCPStandards.pdf>.

comparison of the cost of supply and cost of efficiency and the second, how the Docket 4600 Benefit-Cost Framework could be used to demonstrate the cost of supply and the cost of efficiency¹⁷

With respect to the first question, Commission staff explained that, given the way National Grid procures energy supply for Standard Offer Service in Rhode Island, all or nearly all of the Standard Offer Service costs are participant costs.¹⁸ A customer only incurs Standard Offer costs if he or she participates in Standard Offer Service. A Standard Offer Service customer only incurs costs when that customer uses power; at that point, National Grid serves as the billing agent between the customer and the Standard Offer supplier. The customer can avoid participating in Standard Offer Service by not using electricity or by choosing a competitive supplier.

By contrast, all National Grid distribution customers must pay the socialized energy efficiency program costs. Customers who chose to participate by making energy efficiency investments may incur additional, or participant, costs.¹⁹ Thus, Commission staff argued, the retail commodity cost compared to the energy efficiency program cost (excluding participant costs) is not symmetrical.²⁰ Staff further argued that a symmetrical test would include energy efficiency participant costs, as the Company has done in past filings.

PUC staff explained that an alternative and symmetrical test could exclude participant costs of energy efficiency but would also exclude Standard Offer Service participant costs. Per staff's explanation that all Standard Offer Service costs are participant costs, this alternative comparison

¹⁷ See Public Utilities Commission's Guidance on Goals, Principles and values for Matters Involving The Narragansett Electric Company d/b/a National Grid; <http://www.ripuc.org/eventsactions/docket/4600A-GuidanceDocument-Final-Clean.pdf>; Docket No. 4600 Stakeholder Report, Appendix B; http://www.ripuc.org/eventsactions/docket/4600-WGReport_4-5-17.pdf.

¹⁸ Hr'g. Tr. at 98 (July 17, 2018).

¹⁹ *Id.* at 103, 105.

²⁰ *Id.* at 95.

has an absurd result, because the remaining utility cost of Standard Offer Service would be zero or nearly zero.²¹

In response to PUC staff comments, Mr. Jeff Loiter, consultant for the EERMC, acknowledged the limitations of the EERMC's proposal in Rhode Island's context:

The utility test as originally constructed certainly didn't contemplate and it probably pre-dates almost all deregulation. So I think this is a nuance that I'm going to say has probably been lost on the vast majority of commissioners and energy efficiency practitioners that there's an aspect of the costs that the utility bears or doesn't bear in these deregulated kinds of markets. I'm going to guess that that's not really been surfaced anywhere.²²

Mr. Loiter continued, stating, "I'm hesitant to say that the utility cost test should include participant costs. I think the better response is in this regulatory environment, the utility cost test has less power, less advisory power because if you apply it, you'd end up with zero costs for the utility, I think."²³

The parties also discussed the application of the Benefit-Cost Framework to the cost of supply and the cost of efficiency. Some parties, including National Grid's Ms. Courtney Lane and Mr. Loiter, expressed concern with using a "variant of the Rhode Island Test."²⁴ Commission staff clarified that the Commission adopted the Benefit-Cost Framework for application to all questions regarding costs and benefits.²⁵ Commission staff explained that proponents should select the costs and benefits that are applicable to the question at hand from among the rows in the Benefit-Cost Framework.²⁶

The question at hand here is how to identify which costs in the Benefit-Cost Framework are associated with an incremental unit of energy.²⁷ PUC staff submitted that the methodology

²¹ *Id.* at 108.

²² *Id.* at 123.

²³ *Id.* at 124.

²⁴ *Id.* at 25, 29.

²⁵ *Id.* at 26.

²⁶ *Id.* at 27, 29.

²⁷ *Id.* at 66.

used to determine the cost of supply may be mathematically equivalent to the Rhode Island Test if the proponents could demonstrate that the same factors are applicable to both the question of cost-effectiveness and the cost of supply.²⁸ Staff presented concern that there may be benefits of energy efficiency in the Benefit-Cost Framework that are not associated with the purchase of incremental supply. In that case, the methodologies to determine cost-effectiveness and the cost of supply will have differences.²⁹

VI. Rejection of the EERMC's May 2018 Proposed Revisions

Finding that the EERMC's proposal represented an asymmetrical comparison of the cost of energy efficiency to the cost of additional supply, and reaffirming the Commission's guidance that the Benefit-Cost Framework be used to evaluate the costs and benefits of all proposals affecting rates related to the Narragansett Electric Company,³⁰ at the Open Meeting held on July 31, 2018 the Commission rejected the EERMC's proposed revisions to the Least Cost Procurement Standards. The Commission ordered revisions to the Least Cost Procurement Standards that use the Benefit-Cost Framework to compare the cost of efficiency and the cost of supply. The Commission directed Commission staff to draft language to this effect and solicit comments from interested parties.

VII. Commission Staff's August 2018 Proposed Revisions to the Standards

On August 3, 2018, consistent with the Commission's decision, Commission staff circulated draft revisions of the Least Cost Procurement Standards and asked parties to provide comments by August 24, 2018.³¹ People's Power and Light, OER, National Grid, the EERMC,

²⁸ *Id.* at 78-79.

²⁹ *Id.* at 78.

³⁰ Public Utilities Commission's Guidance on Goals, Principles and Values for Matters Involving The Narragansett Electric Company d/b/a National Grid at 2; <http://www.ripuc.org/eventsactions/docket/4600A-GuidanceDocument-Final-Clean.pdf>.

³¹ See Commission Staff's draft revisions to the Least Cost Procurement Standards at 3; [http://www.ripuc.org/eventsactions/docket/4684-PUC-draft-LCPStandards%20word%20tracked\(8-3-18\).pdf](http://www.ripuc.org/eventsactions/docket/4684-PUC-draft-LCPStandards%20word%20tracked(8-3-18).pdf).

Acadia Center, TEC-RI, and the Division submitted comments. Parties identified several concerns in their comments, including reiterating that the Rhode Island Test should be the single test to fulfill both requirements of the Least Cost Procurement statute,³² and that the Staff's revisions imposed a new limitation on the Company's energy efficiency program plans.³³ In its comments, the Division proposed clarifications that include a requirement that the Company separately identify the costs of supply and the costs of energy efficiency.³⁴

At an Open Meeting on September 7, 2018, after reviewing the comments, the Commission found that the Company should demonstrate the cost of supply and the cost of energy efficiency using all applicable costs enumerated in the Docket 4600 Benefit-Cost Framework and the Rhode Island Test. In its deliberations, the Commission addressed the parties' comments, noting that the methodology used to determine the cost of supply may be equivalent to the Rhode Island Test if the proponents could demonstrate that the same factors are applicable to both the question of cost-effectiveness and the cost of supply. The Commission also noted that the statute includes two separate requirements: a demonstration of cost-effectiveness and a demonstration that the cost of energy efficiency is less than the cost of supply. The Commission further recognized that the Company has historically used two different methodologies to fulfill these statutory requirements, and thus the Commission's decision does not represent a new constraint or limitation on the Company's energy efficiency program plans. The Commission indicated that it would conduct a workshop with all interested parties on the application of the Docket 4600 Benefit-Cost Framework to various dockets and filings.

³² See National Grid's comments at 2 (Aug. 20, 2018); [http://www.ripuc.org/eventsactions/docket/4684-NGrid-Comments\(8-20-18\).pdf](http://www.ripuc.org/eventsactions/docket/4684-NGrid-Comments(8-20-18).pdf); OER comments (Aug. 23, 2018) at 2 (Aug. 23, 2018); http://www.ripuc.org/eventsactions/docket/4684-OER-Comments_8_23_2018.pdf; Acadia Center's comments at 2 (Aug. 23, 2018); [http://www.ripuc.org/eventsactions/docket/4684-Acadia-Comments\(8-23-18\).pdf](http://www.ripuc.org/eventsactions/docket/4684-Acadia-Comments(8-23-18).pdf).

³³ See National Grid's comments at 2 (Aug. 20, 2018).

³⁴ See Division's comments at 2 (Aug. 23, 2018); [http://www.ripuc.org/eventsactions/docket/4684-DIV-LCPStandards-Comments\(8-23-18\).pdf](http://www.ripuc.org/eventsactions/docket/4684-DIV-LCPStandards-Comments(8-23-18).pdf).

Accordingly, it is hereby

(23876) ORDERED:

1. The amendment to Section 1.6(H) of the Least Cost Procurement Standards, providing the Energy Efficiency and Resource Management Council with three weeks to file its cost effectiveness assessment, is approved.
2. Paragraphs B(i), C(i), and C(ii) of the Least Cost Procurement Standards as amended by the Division of Public Utilities and Carriers on August 23, 2018 are approved. The revised Least Cost Procurement Standards are attached to this Order and can be accessed at: <http://www.ripuc.org/eventsactions/docket/4684-LCP-Standards-FINAL.pdf>.

EFFECTIVE AT WARWICK, RHODE ISLAND ON SEPTEMBER 7, 2018 PURSUANT TO OPEN MEETINGS HELD ON JULY 31, 2018 AND SEPTEMBER 7, 2018. WRITTEN ORDER ISSUED ON AUGUST 11, 2020.

PUBLIC UTILITIES COMMISSION

*Margaret E. Curran, Chairperson



Marion Gold, Commissioner



Abigail Anthony, Commissioner

*Chairperson Curran agrees with the decision but is unavailable for signature.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.