

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC :
COMPANY, d/b/a NATIONAL GRID : DOCKET NO. 3701
DEMAND-SIDE MANAGEMENT PROGRAMS FOR 2006 :

REPORT AND ORDER

I. Introduction

Since 1989, the Commission has annually reviewed the design and implementation for Narragansett Electric Company, d/b/a National Grid’s (“NGrid” or “Company”) proposed Demand Side Management (“DSM”) programs which are paid through a required assessment of an adjustment factor. The Utility Restructuring Act of 1996 (“URA”), as amended and set forth in Title 39 of the Rhode Island General Laws, has codified a charge of 2.0 mills per kilowatt-hour for the 2006 programs, unless the Commission approves a higher factor.¹ Although the law provides the funding for the programs and states that the Company shall administer the programs, the Commission continues to have the responsibility for reviewing the design and implementation of Narragansett’s DSM programs.

II. Settlement of the Parties

On October 14, 2005, NGrid filed a Settlement of the Parties (“2006 Settlement”), entered into by the Rhode Island Division of Public Utilities and Carriers (“Division”), The Energy Council of Rhode Island (“TEC-RI”), the Rhode Island State Energy Office (“SEO”), People’s Power & Light (“PP&L”), and Narragansett Electric Company, now d/b/a NGrid (collectively, “the Collaborative”).

¹ R.I.G.L. § 39-2-1.2(b) provides this level of funding for DSM programs for a ten-year period beginning January 1, 2003.

The Collaborative reiterated the six criteria for DSM programs, namely, (1) cost-effectiveness, (2) ability to serve a large number and broad mix of Rhode Island customers, (3) maximization of long-term savings, (4) ability to capture potential lost opportunities for efficiency improvement, (5) promotion of market transformation, and (6) support of long-term electricity supply and reliability objectives. The 2006 Settlement noted that in addition to these six criteria, the Collaborative has identified a need, and has increased the emphasis on services for low and moderate income residential consumers in light of higher energy prices.²

The 2006 Settlement noted that Narragansett has projected spending or committing nearly all of the calendar year 2005 DSM budget and that savings goals will be achieved. However, the Company also projects carrying a fund balance in the amount of \$785,400 into 2006. The Company will file its Year-End Report no later than May 1, 2006.³ The Collaborative agreed that the portfolio of programs and services for 2006 have an overall projected budget of \$21,706,800, \$6,020,100 allocated to Residential programs, \$10,353,200 allocated to Large Commercial and Industrial (“C&I”) programs, \$4,258,000 allocated to Small C&I programs, \$733,900 allocated to the Company Incentive, and \$341,700 allocated to program design and evaluation.⁴ The Collaborative agreed to allow the Company to transfer funds from one program to another within a sector with prior Division approval. The Company will be allowed to transfer funds from one sector to another with prior Division approval if the transfer from a sector will reduce the approved budget from that sector by 20% or less. Transfers that will reduce a sector

² Joint Exhibit 1 (Settlement), p. 3 (for purposes of this Order, the page numbers are those on the bottom right hand corner of the page). Attached hereto as Appendix A.

³ Id. at 4.

⁴ Id. at p. 6, 72.

budget by more than 20% will require prior Commission approval. The Company will not be permitted to adjust its incentive target calculations for any transfers between sector budgets except where such budget level changes as a result of the May 2006 True-up filing.⁵

The Collaborative agreed to continue the eight 2005 residential programs, namely, the EnergyWise Program, Single Family Low Income Services Program, f/k/a Appliance Management Program, EnergyStar Appliances Program, EnergyStar Heating Program, EnergyStar Central Air Conditioning Program, EnergyStar Lighting, Energy Efficiency Educational Programs and EnergyStar Homes.⁶ The proposed residential program changes include changes to incentive levels and programmatic changes resulting from the passage of the Federal Energy Policy Act of 2005 (“EPACT”), which allowed for tax credits on the replacement of certain types of equipment.⁷

Programs being altered as a result of the EPACT include the EnergyWise Program, which will have incentives ranging from \$200-\$300 rather than \$100-450 and will include coordination with federal tax benefits. Another program effected is the EnergyStar Appliance Program, which will include a decrease in clothes washer rebates from \$35 to \$25, both to recognize further market development and to recognize the availability of tax incentives for such products. The EnergyStar Heating Program will also include reduced incentives for furnace and boiler replacement in light of the ability to coordinate with federal tax incentives. The EnergyStar Central Air Conditioning and Heat Pumps Program is changing as a result of new standards set forth for such products in the EPACT. Because of these new minimum standards, the rebate will be eliminated

⁵ Id. at 6-8.

⁶ Id. at 4-5.

⁷ Id. at Attachment 1, p. 19.

for the equipment which would have met the standard in 2005, but is now the minimum allowed to be manufactured. In exchange for this elimination, new rebates will be added for certain levels of performance and new incentives will be provided to contractors and customers for certain maintenance measures. Furthermore, the Company will assist in coordination with tax incentives offered in the EPACT. Finally, with regard to EnergyStar Homes, there is a new national program being developed with new standards and the Company expects new regional rebates to be developed in late 2005, which could affect the performance of the program. The Company proposes to assist in the coordination of tax incentives offered under the EPACT.⁸

Other changes not related to the passage of the EPACT include continuation of the low income program targeted at replacing inefficient oil heating systems, something which was added as part of the May 2005 True-Up filing. The EnergyStar Lighting Program will be adjusted to increase rebates for high lumen output fixtures and the Company will participate in Negotiated Cooperative Promotions as a way to lower the costs of providing rebates and to encourage retailers and manufacturers to pay for marketing and promotion through their regular channels. Rather than focusing most of their efforts on education of students, the Company proposes to expand the education to all customers through a new campaign which includes radio advertisements.⁹

The Collaborative agreed to continue the Small Business Services Programs offered in 2005 with continued emphasis on greater comprehensiveness and custom treatment for non-prescriptive lighting measure installations in the program. Additionally, the Company will continue to coordinate with the SEO's Energy Services

⁸ Id. at 40-41.

⁹ Id. at 33, 36-38, 40-41.

Company (“ESCO”) initiative by supporting delivery of those services and to avoid duplication of marketing efforts.¹⁰

The Collaborative agreed to changes to the Large Business Services Programs in the areas of Lighting (under Energy Initiative and Design 2000*plus*), HVAC (under Design 2000*plus*), Custom Measures (under Energy Initiative), Other Initiatives (under Energy Initiative and Design 2000*plus*) and Tax Provisions (under Design2000*plus*) to promote the availability of federal tax credits.

Changes made to the Lighting Programs will include adjustments to rebate levels to recognize market transformation, both on the manufacturing and consumer sides. New rebates will be added for new high efficiency fixtures. A new incentive will be added for Outside Air Ventilation controls. All chillers under Design2000*plus* will be run as Custom projects rather than prescriptive measures. Customer measures under Energy Initiative will experience reduced incentives, from 45% to 40% of the total costs.¹¹

New Programs for 2006 implementation include the Advanced Buildings Program, C&I Benchmarking Services and Retro-commissioning. The Advanced Buildings Program, supported by the Company, includes an all inclusive set of standards for building efficiency and sustainable design. Under Design2000*plus*, it allows an enhanced incentive to support the adoption of the Advanced Building Design Guidelines which will promote high performance building design practices. The incentive will provide up to 90% of the incremental costs and target buildings of less than 100,000 square feet.¹²

¹⁰ Id. at 5, 44.

¹¹ Id. at 69-70.

¹² Id. at 50-51, 70.

The Advanced Buildings Program, offered under Energy Initiative, includes the use of the Company's Energy Profiler On-Line ("EPO") and the EPA's Commercial Benchmarking Services, offered through the Agency's EnergyStar Portfolio Manager. Each provides a profile of energy use patterns in order to determine methods of reduction. The EPA's tool provides a comparison of the level of annual energy consumption for commercial or institutional customers to that of other facilities with the same function.¹³

The Rhode Island Retro-commissioning Initiative includes the process of testing, troubleshooting, and adjusting systems in an existing building with the goal of raising existing performance standards. According to the 2006 Settlement, the program is best suited for C&I buildings with an electric demand greater than 0.5 MW which have HVAC and process systems, who desire to reduce operating costs, and who use an energy management system. The objective of this new program is to reduce operating costs during peak and off peak periods, to develop a comprehensive and acceptable operation and maintenance plan, to identify capital projects that can lead to substantial energy savings, and to educate the building personnel regarding how to operate the building efficiently.¹⁴

The Collaborative agreed that the Company will be entitled to earn a shareholder incentive if certain goals are met in order to continue providing an incentive to shareholders for their support of programs designed to reduce Narragansett's load. The shareholder incentive mechanism will include two components: (1) four performance-based metrics and (2) kWh savings targets by sector. Each of the four performance-based

¹³ Id. at 62-63.

¹⁴ Id. at 63-64.

metrics will provide the Company the opportunity to earn up to \$20,000. Last year's incentive potential was \$15,000 each. There is one metric in the residential sector, two in the Large Business Services/C&I sector and one in the Small Business Services/C&I sector. The Collaborative has agreed to file with the Commission as part of the May 2006 True-up Filing the final goals for each metrics.¹⁵

Residential Metric One relates to *EnergyWise* Targeting. In order to meet this metric, the Company will actively target customers who (a) are not low income, (b) have previously been shut-off for non-payment over the past three years, and (c) have not previously been served by the *EnergyWise* program for participation in the program. The Company can earn the full \$20,000 incentive if it serves the same number of customers as in 2005 plus another 100 customers. It will be entitled to receive 67%, or \$13,400, if it serves the same number of participants as it did in 2005. Additional incentive will be scaled proportionately between the threshold level and the target level, i.e., participation between the 2005 threshold and the 2005 plus 100 additional participants target.¹⁶

C&I Metric One is related to C&I Benchmarking and will provide additional incentive to the Company to vigorously market the new program to customers. The metric requires customer recruitment, benchmarking, identification of opportunities, creation of applications and commitment to projects to all occur within calendar year 2006. Unless the customer commits, he or she will not be considered a participant for purposes of meeting the metric. The Company can earn the full \$20,000 if it receives 12 application commitments. It will be entitled to receive 67% or \$13,400 for receiving 8

¹⁵ Id. at 9-10. The level of performance based metrics was originally set at \$15,000 per metric, but each was ordered to be set at \$20,000 after agreement by the Collaborative.

¹⁶ Id. at 78-79, See NGrid Exhibit 3, p. 16. The dollars contained herein are based on the same percentages as those indicated on pp. 78-79 of Joint Exhibit 1, but also based on the updated dollar value of each performance metric.

application commitments. Additional incentive will be scaled proportionately between the threshold level and the target level, i.e., for receiving 8, 9, or 10 application commitments.¹⁷

C&I Metric Two relates to High Performance Schools. In order to meet the target, the Company must contract with two more schools than the number contracted with in 2005 through Design 2000*plus*. The Company can earn 67%, or \$13,400, if it contracts with the same number of schools in 2006 as in 2005, or 83%, or \$16,600, if it contracts with one additional school.¹⁸

C&I Metric Three is related to Comprehensiveness in Small Business Installations. In order to earn the full incentive, the Company must achieve 2 percentage points greater comprehensiveness in Small Business Services in 2006 than the percentage it achieved in 2005. The percentage will be calculated as the number of completed non prescriptive lighting or other customer energy efficiency measures (excluding custom walk-in cooler only measures) divided by the number of applications (excluding custom walk-in cooler only participants) in 2006. The Company will exclude from this metric and assessment of its performance the target customers in the 100 kW to 200 kW range who participate in the ESCO program in order to avoid taking advantage of free riders. The Company can earn 67% or \$13,400 of the incentive if the comprehensiveness percentage is equal to 2005 performance.¹⁹

The target incentive rate for the kWh savings goal is 4.40% of the eligible spending budget. The target incentive amount is \$733,932 in 2006, of which, \$80,000 is set aside for the performance based metrics. The threshold performance level for energy

¹⁷ Joint Exhibit 1, pp. 79-81.

¹⁸ *Id.* at 82-83.

¹⁹ *Id.* at 84-85.

savings by sector will be 60% of the annual energy savings goal. The Company will have the ability to earn an additional incentive on savings up to 125% of the target savings. The total maximum incentive that can be earned is \$897,415. The threshold number can be recalculated under two circumstances, one of which is as a result of the May 2005 True-up.²⁰ The second is if the assumptions used to develop savings goals change as a result of completed evaluation studies.²¹

The projected cost-effectiveness of the 2005 programs, using the benefit/cost test in place in 2005, is 3.75 to 1.00, meaning that for every dollar spent, benefits valued at \$3.75 are expected to be generated. With regard to reporting requirements, the Company will file its 2005 Year-End Report no later than May 1, 2006. The final goals filing for each Performance Based metric or a recommended goals filing will be made simultaneously.²²

III. Technical Session

On October 28, 2005, the Commission conducted a Technical Session during which NGrid and the Collaborative were invited to present the programs for 2006. The Company chose to show a power point presentation and members of the Collaborative were available to answer questions from the Commission. In addition to clarifying various aspects of the programs and further explaining proposed changes, the Company responded to several questions regarding Commission concerns about the shareholder incentive mechanism and funding level.²³

²⁰ The May True-up compares the 2005 actuals to the 2005 projections, including budget, expenditures, goals, and participation.

²¹ Joint Ex. 1, pp. 10-11.

²² Id. at 11.

²³ A full transcript of the Technical Session is maintained in the official docket with the Commission Clerk.

IV. Commission Findings (2006 Programs and Associated Budget)

At an Open Meeting held on December 21, 2005 the Commission voted unanimously to approve the Settlement as filed with regard to the 2006 Programs only. The Commission specifically deferred decision regarding the shareholder incentive mechanism and level of funding pending a hearing to be held the following day. The Commission noted that the parties had put a great deal of work into developing the programs and budget and had responded to several past concerns of the Commission. The Commission notes that NGrid and the Collaborative appear to be striving to improve their programs annually through involvement in regional and national initiatives. Furthermore, the Company, the Division and the Collaborative as a whole appear to be undertaking appropriate reviews to ensure the integrity of the programs and budgets.

V. Settlement Hearing

On December 22, 2005, the Commission conducted a duly noticed public hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island to consider the propriety of the proposed shareholder incentive mechanism and funding level. The following appearances were entered:

FOR NATIONAL GRID:	Thomas G. Robinson, Esq.
FOR THE DIVISION:	William K. Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSON:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

Ms. Carol White, a Director of Evaluation and Planning for NGrid, provided pre-filed testimony and was presented as a witness for the Company. In her pre-filed testimony, filed on December 5, 2005, Ms. White noted that NGrid's energy efficiency

programs have resulted in long-term benefits to customers in Rhode Island. She also noted that the Commission has studied the shareholder incentive specifically several times and that the Commission has determined it to be appropriate to allow some form of shareholder incentive since 1990. With the exception of one year, the Commission has always required the incentive to be based on performance.²⁴

According to her schedule CSW-1, between 1998 and 2006, the programs have provided value in the amount of \$374,433,000 through energy savings and demand savings. She further maintained that while the Company expects to lose distribution revenue of approximately \$1,113,529 in 2006, customers will realize that same value over several years. Therefore, according to Ms. White, the loss to the Company continues each year with additional lost revenues each year, while customers benefit proportionately each year. Therefore, the shareholder incentive allows the Company to mitigate the effect of those lost revenues.²⁵ She also noted that other purposes of the shareholder incentive are “to motivate excellence in program design, to motivate excellence in program delivery, and to direct the Company’s focus toward specific policy goals.”²⁶

Ms. White noted that in each of the New England states where electric distribution companies are charged with administering DSM programs, a shareholder incentive is allowed. She stated that the rate in Rhode Island is the lowest incentive rate authorized in the region.²⁷

²⁴ NGrid Exhibit (Pre-Filed Testimony of Carol S. White), pp. 5, 8-9.

²⁵ Id. at 5, 7-8, CSW-1.

²⁶ Id. at 8-9.

²⁷ Id. at 12.

At the hearing, Ms. White adopted her statements made during the Technical Session regarding the shareholder incentive as if they were made under oath at the December 22, 2005 hearing. Ms. White testified that she did not believe the law setting the demand side management charge addressed shareholder incentives and that the Company would continue to comply with the legal requirement that it administer the DSM programs even if the Commission were to eliminate a shareholder incentive.²⁸

Discussing a concern that the Commission had during the Technical Session regarding higher than expected demand and Ms. White's comment that additional customers should be served through a sort of advance on the following year's revenues rather than from a reduction to the shareholder incentive, Ms. White testified that no program had run out of funds and no customer had been turned away from a program in 2005.²⁹

Discussing the impact of the change to the funding of the performance based metrics from \$60,000 to \$80,000, Ms. White testified that the total maximum incentive allowed will be reduced by approximately \$5,000, mainly because the Company is not able to earn incentives for performance in excess of 100% on performance based metrics as it is on kWh savings performance.³⁰

VI. Commission Findings (Shareholder Incentive)

With regard to the revised shareholder incentive structure, the Commission had some concern with the increased overall level of potential incentive in light of the fact that energy prices are increasing and participation levels are expected to increase. However, after this most recent review of the shareholder incentive mechanism and level

²⁸ Tr. 12/22/05, pp. 10, 20.

²⁹ Id. at 18-20

³⁰ Id. at 20-21.

of funding, the Commission finds its continuation to be appropriate at this time in order to encourage continued vigilance in delivering strong DSM programs to customers and to mitigate the lost distribution revenues which result from the success of such programs. However, if an event arises where demand is so high that the decision is to turn customers away and/or borrow from the following year versus reducing the shareholder incentive, the Commission may yet again review the continued propriety to the shareholder incentive when balanced against the interests of ratepayers participating in programs their rate dollars support.

Accordingly, it is hereby

(18516) ORDERED:

1. The Settlement filed by Narragansett Electric Company on behalf of the Parties to this docket dated October 14, 2005, is hereby approved with the following modification: The performance based metrics shall each have a target incentive level of \$20,000.
2. A Conservation and Load Management Adjustment and Renewable Factor of \$0.0023 per kilowatt-hour is hereby approved for usage on and after January 1, 2006 through December 31, 2006. Narragansett shall apply \$0.002 per kilowatt-hour to its demand side management programs and shall submit an amount equal to \$0.0003 per kilowatt-hour to the State Energy Office Renewables Programs.
3. Narragansett shall file no later than September 15, 2006 its proposed 2007 programs and budget, or the parties shall file a Settlement no later than September 15, 2006 regarding proposed 2007 programs and budget. In

the event of a direct non-settled filing by Narragansett Electric Company, responsive pleadings shall be made no later than October 15, 2006.

4. The Parties shall act in accordance with all other findings and instructions contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, PURSUANT TO OPEN MEETING DECISIONS ON DECEMBER 21, 2005 AND JANUARY 5, 2006. WRITTEN ORDER ISSUED JANUARY 26, 2006.

PUBLIC UTILITIES COMMISSION

*Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner

*Chairman Germani concurs but is unavailable for signature.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

In Re: The Narragansett Electric Company,
Demand-Side Management Programs for 2006

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Docket No. 3701

SETTLEMENT OF THE PARTIES

October 14, 2005

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2. Summary of Proposed Changes to Residential Programs for 2006
3. 2006 Small Business Services Program
4. 2006 Large Business Services Programs
5. Summary of Proposed Changes to the Large Business Services and Small Business Services Programs for 2006
6. 2006 Proposed Budget and 2006 Proposed Budget Vs. 2005 True-Up Budget
7. DSM Funding Sources in 2006 by Sector
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1 **I. Introduction**

2 This Stipulation and Settlement (“Settlement”) is jointly submitted and entered into by
3 the Rhode Island Division of Public Utilities and Carriers (“Division”), The Energy
4 Council of Rhode Island (“TEC-RI”), the Rhode Island State Energy Office (“SEO”),
5 People’s Power and Light (“PP&L”) and The Narragansett Electric Company
6 (“Narragansett” or “Company”) (together, the “Parties”), and addresses all issues raised
7 by members of the DSM Collaborative¹ concerning the Company’s Demand-Side
8 Management (“DSM”) Programs for the year 2006.

9

10 A DSM collaborative group has been meeting regularly since 1991 to analyze and inform
11 the Company’s DSM programs. Since 1997, the Company has been offering its
12 programs pursuant to statute, R.I.G.L. 39-2.1-2(b).

13

14 Prior stipulations and settlements have set forth the criteria for the Company’s DSM
15 programs, including that the DSM programs: (1) be as cost-effective as possible; (2)
16 serve a large number and broad mix of Rhode Island customers; (3) maximize long-term
17 savings; (4) capture potential lost opportunities for efficiency improvement; (5) promote
18 market transformation; and (6) support long-term electricity supply and reliability
19 objectives. In addition to these goals, the Parties have included an increased emphasis on
20 services for low and moderate income residential consumers as a means of helping these
21 consumers deal with high fuel prices.

22

23 Over time, in response to customer feedback obtained through public forums and
24 elsewhere, the DSM Collaborative has worked to enhance programs for customers by

¹ Members of the Collaborative presently include the Company, the Division, the SEO, TEC-RI, PP&L, and CCJ. The constitution of the Collaborative has varied since 1991, as some organizations have withdrawn and others have joined. CCJ, a party to last year's settlement, has advised the Collaborative that it wishes to withdraw from the Collaborative. Accordingly, this year's Settlement does not include a signature block for CCJ.

1 improving the efficiency and quality of energy-efficient products, expanding services to
2 customers, and becoming more involved in statewide and regional initiatives.

3

4 **II. 2005 Program Status**

5 The Company currently projects that nearly all of its approved DSM budget for 2005 will
6 be spent or committed by year end and that sector savings goals will be achieved. As
7 shown in Attachment 7, the Company currently projects that it will carry a fund balance
8 of \$785,400 into 2006. The Company will file its Year-End Report regarding the 2005
9 programs no later than May 1, 2006.

10

11 **III. 2006 DSM Programs**

12 The DSM programs for 2006 build on the momentum and success of prior DSM
13 programs and services, focus on providing needed services to low and moderate income
14 residential consumers as a means of reducing bills, and also provide support to the Rhode
15 Island Greenhouse Gas Process Stakeholder Group's activities. The Parties agree to the
16 Company's 2006 DSM Programs described below²:

17

18 **A. Residential Programs**

19 In 2006, the Parties agree to continue the residential programs offered in 2005.
20 These programs include the EnergyWise Program, the Single Family Low Income
21 Services Program (formerly known as the Appliance Management Program),
22 ENERGY STAR® Appliances, ENERGY STAR Heating Program, ENERGY
23 STAR Central Air Conditioning Program, ENERGY STAR Lighting, ENERGY
24 STAR Homes, and Energy Efficiency Educational Programs. Descriptions of
25 these programs are provided in Attachment 1. A summary of the proposed
26 changes from 2005 are provided in Attachment 2.

27

² Throughout the program year, the Parties may consider additional enhancements beyond those identified herein as more information becomes available to support an informed review of those potential changes.

1 The Collaborative wants customers who have difficulty paying their electric bills
2 to participate in the Company's energy efficiency programs, especially in these
3 times of escalating energy prices. Several of the Company's proposed programs
4 provide these customers with services that are designed to help reduce their
5 electric bills, including the Single Family Low Income Services Program, the
6 *EnergyWise* Program, and the ENERGY STAR Homes Program. The Single
7 Family Low Income Services Program provides qualifying low-income customers
8 in 1-4 unit dwellings with energy efficiency services. Both low-income and non
9 low-income residential customers receive services through the *EnergyWise*
10 Program and the ENERGY STAR Homes Program. Additional detail about the
11 services offered to economically disadvantaged customers is set forth in
12 Attachment 1.

13

14 **B. Small Business Services Program**

15 The Parties agree to continue the Small Business Services Program in 2006 with
16 continued emphasis on greater comprehensiveness and custom treatment for non-
17 prescriptive lighting measure installations in the program. A description of the
18 Small Business Services Program, including expected changes from 2005, is
19 provided in Attachment 3.

20

21 **C. Large Business Services Programs**

22 The Parties agree to continue the Energy Initiative and Design 2000*plus* Programs
23 in 2006 as described in Attachment 4. The Company intends to build on its
24 experience promoting better energy performance in commercial facilities by
25 offering a number of new initiatives, including Commercial and Industrial
26 Benchmarking Services and Retrocommissioning. Benchmarking will focus on
27 comparing a customer's energy use to its own historic patterns or that of other
28 similar enterprises, and using the analysis to guide the adoption of energy
29 efficiency practices or equipment. Retrocommissioning is an in-depth

1 examination of the operations and maintenance of existing buildings, with the
2 objective of identifying energy and O&M savings. In 2006, the Company plans
3 to reduce the incentives provided to participants for selected measures installed
4 through the program. This will allow the Company to provide program services
5 to more customers than it might have been able to if rebates were unchanged.
6 More detail on each of these new initiatives, as well as continuing program
7 efforts, is available in Attachment 4.

8
9 A summary of proposed changes and process improvements to these programs is
10 provided in Attachment 5.

11
12 **IV. Budgets and Funding Sources**

13 **A. Budgets**

14 The Parties agree that the portfolio of DSM programs and services for 2006 will
15 have an overall projected budget of \$21,706,800. Proposed program budgets are
16 provided in Attachment 6. A comparison of these proposed budgets to the 2005
17 budget filed with the Commission on June 10, 2005 in the Company's "True-up"
18 filing is also provided in Attachment 6.

19
20 **B. Sector Budgets and Transferring of Funds**

21 The Parties propose to use the same methodology that has been used since 2001
22 for the transfer of funds from one program to another. The Parties agree to
23 segment the budget into three sectors: residential, small commercial and
24 industrial, and large commercial and industrial. Transfers may occur as follows:

- 25 a. Within a sector, the Company can transfer funds from one
26 program to another only with prior approval by the Division.
- 27 b. With Division approval, the Company can transfer funds from
28 one sector to another so long as the transfers from a sector reduce

1 the approved budget for that sector by 20% or less. Transfers
2 that would reduce a sector's budget by more than 20% in
3 aggregate (over the course of the program year) will require
4 Commission approval.

5
6 For transfers requiring Division, but not Commission, approval, the Parties will
7 inform the Commission about all the transfers, both between sectors and within
8 sectors, in a timely fashion. The Parties will regularly review the amount of funds
9 needed and available for each program (as well as any changes to the overall fund
10 balance, as discussed in Section IV.C below) and will transfer monies as needed.
11 The Company will not be permitted to adjust its incentive target calculations for
12 any transfers between sector budgets except as described in Section IV.C below.

13
14 **C. 2006 DSM Program Funding Sources**

15 The sources of funding for the 2006 DSM Programs are shown in Attachment 7.
16 The Parties agree that the 2006 budget should continue to be funded from the
17 following sources: (1) the statutory-based DSM charge of \$0.002 per kWh; (2)
18 interest earned; (3) funds received from Small Business Program co-payments and
19 from large Commercial and Industrial technical assistance co-payments in 2006;
20 (4) Large C&I commitments from 2005; and (5) carryover of the 2005 fund
21 balance, if any. The projected funding amounts are also shown in Attachment 7.

22
23 The projected 2006 budget for DSM programs is dependent on a number of
24 projections that inform the amount of funding, including projections of
25 kilowatthour sales of electricity, year-end 2005 large commercial and industrial
26 program commitments, and a projection of year-end 2005 spending. In order to
27 obtain the most accurate budget possible, the Parties agree to true up each of the
28 components of the budget calculation that are currently projected with actual
29 year-end numbers. The true-up will occur when year-end actual amounts become

1 available, but no later than May 31, 2006 (the "May True-up"). The May True-up
2 will result in more or less money being available for the 2006 DSM budget. The
3 Parties will review the budget to determine how best to revise the budget in
4 accordance with the results of the true-up. If the difference between the results of
5 the true-up and the filed budget is 20% or less of the total approved budget, the
6 Division shall have the authority to approve the reallocation. The Company will
7 be permitted to adjust the projected spending budgets and savings goals in the
8 shareholder incentive calculation in accordance with the adjustments made in the
9 May True-up filing.

10
11 The Parties agree that the Company should make every attempt to spend or
12 commit all the funds available for DSM in a given year, including any increases
13 in the fund balance due to increased sales or other factors. The Company will
14 seek Division or Commission approval of any proposed revisions throughout the
15 year in accordance with the procedure described above for the May True-up. The
16 Parties also agree to review the status of program budgets regularly to assess
17 whether they are likely to come to a successful completion. If not, the Parties
18 agree to review the advisability of transferring funds to other programs where the
19 money could be more effectively used.

20
21 **V. Continuation of the Collaborative**

22 The Parties agree that the Collaborative shall meet no less than six times in 2006 to
23 review the status and performance of the Company's 2006 DSM programs and to review
24 proposed 2007 DSM programs and performance metrics. The Parties agree that it is
25 desirable to reach an agreement on the Company's 2007 DSM programs and performance
26 metrics by October 2, 2006, in order to make a timely filing with the Commission for
27 approval. If the Parties are unable to agree on all or part of the Company's 2007 DSM
28 programs or performance metrics, the Company will be free to unilaterally file all or part
29 of its 2007 DSM program proposal for approval by the Commission on or before October
30 2, 2006.

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VI. Incentive

The shareholder incentive mechanism applicable to Company DSM efforts in 2006 mirrors the incentive mechanism applicable to 2005 program year, which was approved by the Commission in its bench decision of November 29, 2004. The shareholder incentive mechanism will continue to include two components: (1) performance-based metrics and (2) kWh savings targets by sector.

A. Performance Metrics

The Parties have agreed to the inclusion of four performance-based metrics for 2006. These metrics include one that relates to the Residential sector, one that relates to the Small Business Services sector, and two that relate to the Large Business Services sector. Each of the proposed performance-based metrics is provided in Attachment 8. The Parties agree that the Company will have the ability to earn \$15,000 for each performance metric it successfully achieves in 2006 with an opportunity to earn a portion of the incentive for partially achieving goals as shown in Attachment 8. The total potential incentive for performance metrics is capped at \$60,000.

Attachment 8 includes a framework for establishing the goals for the proposed metrics based on currently available information. The Company, with agreement of the Parties, will file with the Commission as part of the May True-up Filing a supplement to this Settlement that provides final goals for each metric. Finalizing the numeric performance targets at a later date will have no impact on the shareholder incentives established for these performance-based metrics. If the Parties are unable to reach agreement about the specific performance goals, the Company reserves the right to file recommended goals with the Commission for its approval by May 31, 2006.

1 **B. kWh Savings**

2 The Parties have agreed to retain a target incentive rate of 4.40% in 2006 applied
3 to the eligible spending budget for 2006. The projected spending budget for 2006
4 is approximately \$16.7 million (see Attachment 9, page 1 of 2). Therefore, the
5 total target incentive for 2006 is 4.40% of \$16.7 million, or \$733,932, as shown in
6 Attachment 9, page 2 of 2. Of this total, \$60,000 will be the target incentive for
7 the performance-based metrics and the remainder will be for the kWh savings
8 target.

9

10 The threshold performance level for energy savings by sector will remain at 60%
11 of the annual energy savings goal for the sector. The Company must attain at
12 least this threshold level of savings in the sector before it can earn an incentive
13 related to achieved energy savings in the sector. The Company will have the
14 ability to earn an incentive for each kWh saved, once threshold savings for the
15 sector are achieved, up to 125% of target savings. The incentive per kWh saved
16 by sector is provided in Attachment 9 page 2 of 2.

17

18 The incentive cap on energy savings will be equal to 125% of the target incentive
19 amount for energy savings. If the Company achieves this level of exemplary
20 performance, Rhode Island consumers will realize additional savings. Given
21 budget control requirements, this will provide the Company with an incentive to
22 improve the efficiency of its program implementation efforts while providing
23 Rhode Island consumers with value in excess of the incremental incentive that
24 may be earned by the Company.

25

26 Attachment 9, page 1 of 2 provides the derivation of the eligible spending budget
27 that is used to determine the amount of the incentive that the Company may earn
28 if it is successful in achieving its goals for both energy savings and performance
29 metrics. Attachment 9, page 2 of 2 provides a summary of the incentive related to

1 performance metrics and the incentive related to annual energy savings goals by
2 sector. Energy savings goals by sector reflect the expected cost of savings in each
3 sector informed by evaluation studies and have been adjusted to take into account
4 changing rebate policies and the changing market being served. These goals have
5 been carefully reviewed by the Collaborative to ensure that they represent
6 reasonable and challenging goals for the year.

7
8 There are two circumstances that would necessitate the recalculation of the
9 threshold, calculated cap, and incentive for a particular sector. First, if budgets
10 are adjusted as a consequence of the Company's True-up filing in May 2006 (with
11 Division or Commission approval, as appropriate), the threshold and incentive for
12 the affected sectors will be adjusted as will each sector's incentive caps. Second,
13 if the assumptions used to develop savings goals change as a result of completed
14 evaluation studies, the Company will recalculate savings goals to account for
15 those evaluation findings and will report actual savings on the same basis. None
16 of these changes will affect the target incentive dollars associated with
17 performance metrics. The Company will report program results compared to
18 these revised budgets and goals in its Year-End Report regarding 2006 DSM
19 Program efforts.

20
21 **VII. Miscellaneous**

22 **A. Cost-Effectiveness**

23 The Company has projected cost-effectiveness for the proposed 2006 programs
24 using the benefit/cost test in place during 2005. Attachment 10 provides the
25 calculation of 2006 program year cost-effectiveness and goals based on the
26 proposed budgets. Attachment 10 shows that the proposed portfolio of programs
27 is expected to have a benefit/cost ratio of 3.75 which means that \$3.75 in benefits
28 is expected to be created for each \$1 invested in the programs.

1 The cost-effectiveness analyses of the proposed programs use updated avoided
2 energy supply costs. These updated values were developed by ICF Consulting as
3 part of a study that was sponsored by all electric DSM program administrators in
4 New England and some gas program administrators as well. The new avoided
5 energy supply costs are shown in Attachment 11. They reflect current and
6 expected market conditions including upcoming changes in the structure of the
7 New England capacity market, the extraordinary impact of Hurricane Katrina on
8 fuel costs, and the effects of demand reduction attributable to DSM programs on
9 market prices faced by all consumers, not just DSM program participants.

10
11 **B. Reporting Requirements**

12 The Company will provide quarterly reports to the Division and the Commission
13 on the most currently available program performance. These reports will include
14 a comparison of budgets and goals by program to actual expenses and savings on
15 a year-to-date basis. The Company will provide to the Parties and file with the
16 Commission its 2005 Year-End Report no later than May 1, 2006. The Company
17 will provide to the Parties a summary of evaluation results together with a
18 memorandum summarizing the impact of those results on Narragansett's 2005
19 programs no later than September 2006. The Company will report on 2006 metric
20 results, achieved energy savings in 2006, and earned incentives in its Year-End
21 Report for 2006, to be filed no later than May 1, 2007.

22
23 **C. Other Miscellaneous Provisions**

- 24 1. Other than as expressly stated herein, this Settlement establishes no principles
25 and shall not be deemed to foreclose any Party from making any contention in
26 future proceeding or investigation.
- 27 2. This Settlement is the product of settlement negotiations. The content of
28 those negotiations is privileged and all offers of settlement shall be without
29 prejudice to the position of any Party.

- 1 3. This Settlement is submitted on the condition that it be approved in full by the
- 2 Commission, and on further condition that if the Commission does not
- 3 approve the Settlement in its entirety, the Settlement shall be deemed
- 4 withdrawn and shall not constitute a part of the record in any proceeding or
- 5 used for any purpose.
- 6 4. Other than as expressly stated herein, the approval of this Settlement by the
- 7 Commission shall not in any respect constitute a determination as to the merits
- 8 of any issue in any other proceeding.

9

10 The Parties respectfully request the Commission approve this Stipulation and Settlement

11 as a final resolution of all issues in this proceeding.

12

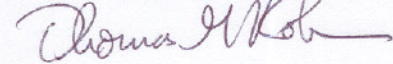
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15 Respectfully submitted,

16

17 THE NARRAGANSETT ELECTRIC COMPANY

18 

19 Laura S Olton (roce) 10/14/05

20 Thomas G. Robinson Date

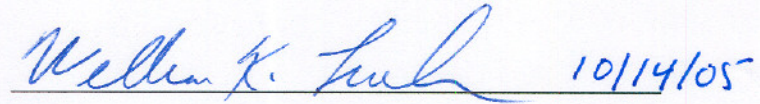
21 Laura S. Olton, Esq.

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23 RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND

24 CARRIERS

25

26  10/14/05

27 By its Attorney Date

28 William K. Lueker, Special Assistant Attorney General

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THE ENERGY COUNCIL OF RHODE ISLAND

John Farley 10/14/05
John Farley Date

RHODE ISLAND STATE ENERGY OFFICE

Janice McClanaghan Date

PEOPLE'S POWER & LIGHT

Erich Stephens 10/14/05
Erich Stephens Date

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THE ENERGY COUNCIL OF RHODE ISLAND

John Farley

Date

RHODE ISLAND STATE ENERGY OFFICE

Janice McClanaghan 10/11/05

Janice McClanaghan

Date

PEOPLE'S POWER & LIGHT

Erich Stephens

Date

1

2006 RESIDENTIAL PROGRAMS

2 The Company proposes a comprehensive set of residential energy efficiency programs
3 for implementation in 2006. Proposed program changes for 2006 are summarized in
4 Attachment 2.

5

6 Significant program changes include the redesign of the ENERGY STAR Homes and Air
7 Conditioning programs based on a change in national standards and the addition of a
8 marketing campaign to inform customers about low cost energy efficiency actions they
9 can take. In addition, the Company is monitoring tax credits and other benefits that may
10 be available to consumers in the state through the 2005 Energy Policy Act. The 2005
11 Energy Policy Act and each program proposed to be implemented in 2006 are discussed
12 below:

13

14 2005 Energy Policy Act

15 Although final availability will be subject to the regulations released by the Internal
16 Revenue Service, it appears that homeowners may be able to receive a tax credit of ten
17 percent of cost up to \$500 for the installation in 2006 and 2007 of insulation and
18 ENERGY STAR windows, air conditioning, heat pumps, furnaces, boilers, and water
19 heaters. Customers who own multifamily buildings may be eligible for tax incentives
20 described in Attachment 4. High efficiency builders may receive an incentive of up to
21 \$2,000 for a single-family home that is 50% better than the International Energy
22 Conservation Code and \$1,000 for ENERGY STAR manufactured homes. The
23 Company will provide information to customers and builders about these tax advantages.

24

25 Residential Programs

26 The Company is proposing to implement a broad range of energy efficiency programs for
27 its residential customers. These programs are designed to provide energy efficiency

1 opportunities to the diverse segments of residential customers in the state, including
2 homeowners and renters, low-income and moderate income consumers, and those
3 constructing new homes. These programs all include a component of consumer
4 education to help the customer to better understand how to control and manage energy
5 costs. The Residential programs planned for implementation in 2006 are described
6 below.

7

8 **1. EnergyWise Program**

9 **Overview**

10 First offered in 1998, this program provides efficiency improvements in existing
11 multifamily and single-family homes. It offers customers free home energy audits of
12 their homes and information on their actual electric usage. Participants in this program
13 receive financial incentives for cost effective measures to replace inefficient lighting
14 fixtures, appliances, thermostats, insulation levels and windows with models that are
15 more energy efficient.

16

17 **Eligible Population**

18 All residential customers in 1-4 unit buildings are eligible to participate. Multifamily
19 facilities of five or more units are eligible if they have not previously participated in the
20 program in the past five years. The Company proposes to serve 3,261 customers
21 (dwelling units) through the EnergyWise program in 2006.

22

23 **Program Design**

24 The program is certified by the Environmental Protection Agency as a “Home
25 Performance with ENERGY STAR®” program. This allows the program to use the
26 ENERGY STAR name for marketing purposes, and ensures that the program meets high
27 health and safety standards. The energy audit looks at the house as a system, so that the

1 customer can consider all energy efficiency measures as well as occupant health and
2 safety.

3

4 The program is marketed through direct contact with interested customers and owners,
5 property owners' associations, bill inserts, customer newsletters, the Narragansett Electric
6 website and other methods. There is often a waiting list for multifamily program
7 services, though the program is usually able to serve customers within the year the
8 participation request is made.

9

10 Eligible customers and/or building managers or associations receive a comprehensive
11 energy audit, energy education, and the installation of low cost efficiency measures (e.g.
12 hot water measures, air sealing for electrically heated buildings, compact fluorescent
13 lightbulbs) at no direct cost. The contractor puts major measures out to competitive bid
14 in facilities that have greater than twenty units. Major measures include lighting
15 upgrades, electric heat thermostats, replacement of inefficient refrigerators, heat pump
16 testing and upgrades, duct sealing and insulation for electrically heated buildings. The
17 Company will pay 75% of the cost of any needed insulation in electrically heated homes.
18 The Company will provide incentives of \$200-\$300 to encourage customers to replace
19 inefficient refrigerators. The Company does not require a co-payment for lighting
20 installed in the living units of multifamily buildings in order to avoid lost opportunities.

21

22 The program also offers low interest loans for customers who live in one to two unit
23 facilities to install additional weatherization, including insulation, and ENERGY STAR
24 windows and doors. These loans are available to customers with homes heated by
25 electricity, oil, propane, and wood, regardless of their level of electric use.

26

1 The Company will make an up-front payment to write down the interest on an unsecured
2 loan. It will plan to provide funds to lower the interest rate to approximately two percent.
3 The Company may adjust the loan rate during the year to respond to market conditions
4 and customer demand. The participating bank will determine loan approval.

5
6 The *EnergyWise* program also services Public Housing Authority properties and other
7 low income multifamily buildings. Depending on income eligibility of the tenants, co-
8 payments may be reduced or waived for these larger facilities. If the facility is 50% or
9 more low income, co-payments are waived on all measures except refrigerators. There is
10 no copayment required on any measure for Public Housing Authorities or other low
11 income state and federally funded facilities. Elderly housing projects are eligible to
12 participate through the *EnergyWise* program and many have participated. Over the last
13 three years, Narragansett Electric has served about 7,000 low income dwelling units
14 through the *EnergyWise* program.

15
16 Low Income customers living in 1-4 unit buildings will be served by the Single Family
17 Low Income Services Program described below.

18 19 **2. Single Family Low Income Services**

20 **Overview**

21 Electric and heating bills are typically a big burden to low income customers, who often
22 pay a high percentage of their income to cover these bills. Customers who are unable to
23 pay are at great risk for shut-off of services. All customers bear these costs through
24 paying for collection and shut-off visits and the write off of bad debt. Efforts to lower
25 energy bills for low income customers benefit them directly and all ratepayers indirectly.

1 **Eligible Population**

2 Customers who are eligible for the Low Income Heating Assistance Program (LIHEAP)¹,
3 also known as fuel assistance, and live in 1-4 unit buildings, are eligible for this
4 program². There is no co-payment requirement. Over the last three years, Narragansett
5 Electric has served about 2100 low income dwelling units through single family low
6 income program offerings. The Company proposes to serve 967 customers (dwelling
7 units) in 2006.

8

9 The Collaborative and Company want customers who have difficulty paying their electric
10 bills to receive assistance from the energy efficiency programs. While the average
11 savings of \$100 per year through the electric measure component of the program may not
12 be enough to help these customers avoid shut-off, it will certainly provide some
13 assistance and increased control of electric usage. The Collaborative and the Company
14 believe the targeted approach described below is the best way to reach these at risk
15 customers.

16

17 In 2006, the Company will continue to work with the State Energy Office (SEO) to offer
18 services to low income customer addresses where shut-offs have occurred. In 2005, the
19 Company identified approximately 1,400 addresses where shut-offs have occurred and
20 electric usage was at least 10 kWh per day in the non-heating months. The Company
21 provided electronic mailing lists and labels for outreach to these customers and the local
22 agencies contacted the customers. Depending on the area, about ten to fifteen percent of
23 customers contacted requested services through the program. For 2006, the Company

¹The federal government has set an income level, tied to the median income of each state, which defines the uppermost income boundary for LIHEAP participation. Individual states have some flexibility in defining income eligibility as long as it is not set above the federally defined maximum. Eligibility in this program will track the eligibility for LIHEAP set by the State of Rhode Island.

² In previous years, this program was known as the Appliance Management Program (AMP).

1 will provide an updated list and encourage local agencies to make follow-up outreach
2 phone calls to targeted customers.

3

4 **Program Design**

5 The Company contracts with the Rhode Island State Energy Office (SEO) and local
6 weatherization agencies for the delivery of energy efficiency services to eligible
7 customers.

8

9 The agencies delivering program services focus on both electric energy efficiency
10 opportunities and selected non-electric energy efficiency opportunities. Electric measures
11 are identified through a comprehensive review of the customer's electric bill, existing
12 appliances, and electric use patterns. The Single Family Low Income Services Program
13 provides for the installation of ENERGY STAR refrigerators and lighting, and cost-
14 effective custom measures to replace inefficient equipment and help lower customers'
15 electric bills. In addition, the Company installs electric water heating energy efficiency
16 measures at no cost for participating customers.

17

18 The Company also funds weatherization work for these customers in one to four unit
19 homes where the primary heating fuel is electricity, oil, propane or wood. This funding
20 supplements federal dollars received by the State Energy Office for weatherization work.
21 In 2005 the Company also began to fund oil heating system replacements through the
22 SEO and plans to continue this in 2006.³ The new heating systems are required to meet
23 Federal weatherization program guidelines and have an Annual Fuel Use Efficiency
24 (AFUE) of at least 80%. The Company proposes to continue to work with local
25 Community Action Agencies and the SEO to provide no-cost services to income eligible
26 customers in 1-4 unit facilities.

³ Natural gas-fired systems are not eligible for replacement under this program. There are other programs, including those sponsored by natural gas companies, that cover gas-fired systems.

1

2 The program is marketed through direct contact with eligible customers. One marketing
3 effort consists of contacting, by mail and/or telephone, customers subscribing to
4 Narragansett Electric's low income rates who have not previously received program
5 services. Another important marketing focus is direct marketing by the SEO and local
6 CAP agencies to customers it serves through state, federal, or local low income programs.
7 The Company will develop marketing materials in Spanish for 2006, and will consider
8 development of materials in other languages.

9

10 **Low Income Services through the EnergyWise Program**

11 As noted above the EnergyWise Program also services Public Housing Authority
12 properties and other low income multifamily buildings. Depending on income eligibility
13 of the tenants, co-payments may be reduced or waived for these larger facilities. If the
14 facility is 50% or more low income, co-payments are waived on all measures except
15 refrigerators. There is no co-payment required on any measure for Public Housing
16 Authorities or other low income state and federally funded facilities. Elderly housing
17 projects are eligible to participate through the EnergyWise Program and many have
18 participated. Over the last three years, Narragansett Electric has served about 7,000 low
19 income dwelling units through the EnergyWise Program.

20

21 **Low Income participation in the ENERGY STAR Homes Program**

22 The Company works closely with the Rhode Island Housing and Mortgage Finance
23 Corporation ("Rhode Island Housing")⁴ and developers of affordable housing in Rhode
24 Island to encourage participation in the ENERGY STAR Homes program. Currently
25 Rhode Island Housing encourages developers to build to ENERGY STAR Home

⁴ Rhode Island Housing's mission is "to assist Rhode Islanders who, by reason of income, special need or circumstance, are unable to fairly obtain and sustain a healthy, affordable home." CITATION NEEDED

1 standards. About 30% of the homes completed each year through the ENERGY STAR
2 Homes program are for low income families.

3

4 **National Green Communities Initiative**

5 The Company also plans to continue to work with Rhode Island Housing and the Rhode
6 Island State Energy Office to support Rhode Island's participation in the National Green
7 Communities Initiative. The Enterprise Foundation describes the National Green
8 Communities Initiative at its website, www.enterprisefoundation.org/resources/green, as
9 follows:

10

11 Green Communities is a five-year, \$555 million initiative to build more than 8,500
12 environmentally healthy homes for low-income families. Created by the Enterprise
13 Foundation / Enterprise Social Investment Corporation in partnership with the
14 Natural Resources Defense Council, Green Communities will transform the way
15 America thinks about, designs, and builds affordable communities. The initiative
16 provides grants, financing, tax-credit equity, and technical assistance to developers
17 who meet Green Communities criteria for affordable housing that promotes health,
18 conserves energy and natural resources, and provides easy access to jobs, schools,
19 and services.

20

21 The table below summarizes the Company's history in serving low income customers and
22 proposed low income services for 2006.

As such, they have some influence in many of the arenas that are targeted by the Company's low income services programs.

1
2 **Projected Low-Income Participation in 2006 Programs and Participation History**
3

Program	2006 projected participants	Percentage of Total Participants	Number of low income participants 2002-2004
Single Family Low Income Services	967	100%	2,106
EnergyWise	489	15%	6,939
ENERGY STAR Homes	200	40%	247

4
5 **Projected Low-Income Expenditures in 2006 Programs and Expenditure History**
6

Program	2006 Proposed Low Income Expenditures	Percentage of Total Budget	Low Income Spending for years 2002-2004
Single Family Low Income Services	\$1,684,400	100%	\$2,392,327
EnergyWise	\$242,000	15%	\$2,270,377
ENERGY STAR Homes	\$400,000	40%	\$619,508

7
8
9 **3. ENERGY STAR® Appliances**

10 **Overview**

11 ENERGY STAR® is the national program sponsored by the United States Department of
12 Energy and the Environmental Protection Agency to promote energy efficient products to
13 help reduce energy use and prevent air pollution. Energy efficient choices can save
14 families about a third on their energy bill with similar savings of greenhouse gas
15 emissions, without sacrificing features, style or comfort.

16
17 This program is part of a regional joint effort by utilities and energy efficiency
18 organizations to encourage the purchase of ENERGY STAR rated major appliances.
19 These appliances include clothes washers, dishwashers, refrigerators, dehumidifiers, and

1 room air conditioners (RAC). Manufacturers build their products to meet or exceed
2 energy efficiency performance specifications established by ENERGY STAR. Together
3 with manufacturers, local retailers, the DOE, and EPA, the Company works to help
4 identify and promote the purchase of these high efficiency appliances to its customers.

5

6 **Eligible Population**

7 All residential customers are eligible to participate. The Company proposes to serve
8 about 5,800 customers in 2006.

9

10 **Program design**

11 The program provides retailer support, training, advertising, consumer education, codes
12 and standards review and advocacy, and manufacturer labeling. For 2006 the Company
13 proposes to continue to provide consumer education on these products and continue to
14 offer rebates for ENERGY STAR clothes washers and room air conditioners. The
15 Company proposes to lower the year round clothes washer rebate from the \$35 offered in
16 2005 to \$25 in 2006. The Company proposes to continue the room air conditioner rebate
17 of \$20. Company efforts to encourage customers to purchase ENERGY STAR clothes
18 washers over the past few years have been successful, so the rebate amounts can be
19 lowered. These rebates may be adjusted to ensure coordination with regional and
20 national program efforts and to reflect changing Rhode Island market conditions. The
21 Company will coordinate with the regional Northeast Energy Efficiency Partnerships
22 (NEEP) efforts to work directly with manufacturers and retailers to provide additional
23 matching rebates, cooperative advertising and other program enhancements.

24

25 An important part of the program is educating customers about ENERGY STAR. The
26 Company sponsors media advertising that promotes ENERGY STAR and specific
27 ENERGY STAR promotions. In 2005, the Company promoted ENERGY STAR on
28 Radio Disney Channel and during Providence College Basketball games on WSKO-FM

1 99.7. The Company also promoted the Lowe's Turn-In event in the Providence Journal.
2 Additionally, the retail stores are an integral channel for promoting ENERGY STAR.
3 The Company prints and distributes a wide variety of point-of-purchase materials and
4 signs for display in retail stores. The Company also supports cooperative advertising
5 with retailers in various print and newspaper channels. The Company also develops
6 media stories and public relations opportunities about ENERGY STAR.

7
8 A nationwide study of consumers' awareness of ENERGY STAR labeling is conducted
9 annually. The most recent study, conducted in 2004, indicates that the existence of utility
10 sponsored programs increases the awareness of ENERGY STAR products. National
11 recognition of the ENERGY STAR label in high-publicity areas (areas with an active
12 local ENERGY STAR program sponsored by a utility, state agency, or other organization
13 for two or more continuous years) was 55% compared to 31% in low-publicity areas.
14 When the ENERGY STAR label is shown, the aided recognition in high-publicity areas
15 rises to 74% and in low-publicity areas the value increases to 54%. Overall, there was an
16 increase in both unaided (8%) and aided (8%) recognition of the ENERGY STAR label
17 compared to 2003 survey results. The Company will inform the Collaborative about
18 future awareness study results.

20 **4. ENERGY STAR® Heating Program**

21 **Overview**

22 A typical residential customer spends approximately 44% of his or her energy budget on
23 heating and cooling. To address heating costs, the ENERGY STAR Heating Program
24 provides funding to the Rhode Island State Energy Office to offer ENERGY STAR
25 heating system rebates.

1 **Eligible Population**

2 Residential customers who purchase ENERGY STAR Heating Systems fueled by oil in
3 their existing home are eligible to participate in this program. The Company proposes to
4 serve about 480 customers in 2006.

5

6 **Program Design**

7 The Company will continue to provide funding to the Rhode Island State Energy Office
8 to offer incentives to customers who purchase ENERGY STAR Heating Systems that are
9 fueled by oil. The SEO markets the program through newspaper articles, contact with
10 heating equipment contractors, and word of mouth. Most contractors install heating
11 equipment with an Annual Fuel Utilization Efficiency (AFUE) of 80% or less. In order
12 to encourage higher efficiency and positively reinforce market changes, the Company
13 proposes to reduce the rebate in 2006 for ENERGY STAR heating systems to \$200 and
14 to continue the \$25 incentive for contractor installed ENERGY STAR setback
15 thermostats. The efficiency requirements are an Annual Fuel Use Efficiency Rating
16 (AFUE) of at least 90% for forced hot air systems, at least 85% for forced hot water
17 systems, and at least 82% for steam systems.

18

19 **5. ENERGY STAR® Central Air Conditioning Program**

20 **Overview**

21 As noted previously, a typical residential customer spends approximately 44% of his or
22 her energy budget on heating and cooling. To address cooling costs, the ENERGY STAR
23 Central Air Conditioning Program provides funding to offer ENERGY STAR central air
24 conditioning system rebates.

25

26 In 2002, the Company participated in a joint study of HVAC market conditions and
27 efficiency potential in Rhode Island, Connecticut, and Massachusetts. The study

1 identified several key target markets including residential customers who are in the
2 market to purchase central air conditioning (AC) or heat pump systems, residential
3 customers with existing air conditioning systems, and HVAC technicians responsible for
4 servicing and installing this equipment. The market research estimates that
5 approximately 4,200 Rhode Island customers are purchasing replacement or new central
6 air conditioners each year. Recent customer surveys by the Company indicate that about
7 23% of Rhode Island residences, or about 95,000 customers, have central air
8 conditioning.

9

10 The market research documented that energy savings opportunities exist due to the
11 improper design and installation practices of residential AC contractors. Inadequacies
12 documented include over-sizing of systems overall, undersizing of the air distribution
13 system, failure to obtain proper refrigerant charge, and inadequate duct sealing.
14 Significant savings are also available from existing air conditioning systems in
15 customers' homes, where the same conditions of improper refrigerant charge and airflow
16 are common.

17

18 **Eligible customers**

19 Any residential customer installing, servicing or replacing a central air conditioning or
20 heat pump system in an existing home is eligible to participate. Incentives for ENERGY
21 STAR heating and cooling are included in the ENERGY STAR Homes program for new
22 construction. The Company plans to decrease funding due to fewer equipment rebates
23 but expand the scope of program measures and proposes to serve 400 customers in 2006.

24

25 Fewer equipment rebates are anticipated because the ENERGY STAR specification and
26 the Federal standard for manufacturing central air conditioning systems are changing to
27 require 13 Seasonal Energy Efficiency Ratio (SEER) as of January 23, 2006. The current
28 requirement is 10 SEER.

1

2 **Program design**

3 The Company began the program in the fall of 2002. The Company has provided
4 rebates of \$370 and \$550 to customers for properly installed ENERGY STAR central air
5 conditioning and heat pump systems in existing homes in 2003 throughout 2005.

6

7 In 2006 the Company proposes three tiers of equipment incentives with a modest
8 incentive corresponding to the first tier to match the proposed ENERGY STAR
9 specification level of 14 SEER with 11.5 EER and 8.2 HSPF for heat pumps. Rebate
10 levels and equipment tiers are still under discussion in the region. The Company plans to
11 offer rebates that are consistent with those offered throughout the region. The following
12 is a summary of the Company's proposed tiers and rebate levels, which are still subject to
13 change:

14

15 A. Incentives for system sizing and the installation of new equipment that has the
16 documented proper measured charge relative to the system's air flow of \$150
17 to the contractor and \$50 to the customer. The contractor incentive was \$100
18 in 2004 and 2005, but in 2006 the Company will transfer responsibility for the
19 costs of 3rd party verification to contractors.

20 B. Incentives of "digital tune-ups" of existing equipment that has the proper
21 measures charge relative to the system's airflow of \$75 to the contractor and
22 \$50 to the customer.

23 C. Customer incentives for new high efficiency equipment:

24 1. \$150 for ENERGY STAR with SEER 14 and EER 11.5-
25 11.99 and HSPF of 8.2

26 2. \$300 for SEER 14 and EER \geq 12

27 3. \$450 for SEER 15 and EER \geq 12.5 and HSPF of 8.5

1

2 A new component proposed for 2006 is the inclusion of incentives to customers in
3 existing homes to have their central air conditioning equipment tuned up. The Company
4 plans to work with the Collaborative to finalize rebate levels and the program design.

5

6 The Company has focused its efforts on both customer education and outreach via bill
7 inserts, fact sheets, and targeted mailings to high users in summer months; contractors'
8 education and outreach via phone calls, mailings, one-on-one meetings, trainings on
9 technical issues, usage of sizing software, and up-selling to high efficiency equipment;
10 and working closely with contractors to encourage participation in the program and
11 installing the air conditioning systems properly.

12

13 Although new central air conditioning equipment that is properly sized and operating is
14 critical to the energy efficiency of the equipment, HVAC technicians do not, as a
15 standard practice, perform all the needed calculations and tests. The Company has
16 assisted technicians by providing hands-on training and technical support on third party
17 verification of charge and airflow of systems.

18

19 In 2006, the Company proposes to continue activities to educate customers and
20 contractors, to promote installation quality, and to offer the third party verification of the
21 results for central air conditioning tune-ups, including incentives for customers and
22 contractors.

23

24 **6. ENERGY STAR® Lighting**

25 **Overview**

26 This program is designed to support the development, introduction, sales, promotion, and
27 use of ENERGY STAR residential lighting products. The Company has provided rebates

1 and actively promoted energy efficient residential lighting since 1991. In 1998,
2 Narragansett Electric joined with other electric utilities in the region through the
3 Northeast Energy Efficiency Partnerships (NEEP) to offer a common residential lighting
4 program to its customers.

5

6 **Eligible Customers**

7 All residential customers are eligible to participate in this program. The Company
8 proposes to serve approximately 64,000 customers. While this program has been
9 available for a number of years, there are still significant opportunities to encourage
10 customers to use ENERGY STAR lighting. An evaluation study conducted in
11 Massachusetts in 2003 found that 7% of all sockets are filled with Compact Fluorescent
12 Lighting (CFL), indicating that a large market potential for energy efficient lighting still
13 exists in customer homes. The Company believes the penetration of CFLs in Rhode
14 Island is similar to the penetration in Massachusetts.

15

16 **Program Design**

17 For 2006, the Company proposes to continue offering its residential lighting program as
18 part of the regional joint efforts. The program offers customers the opportunity to
19 purchase compact fluorescent bulbs (CFL) and fixtures at substantial discounts.
20 Customers have several options for program participation, including redeeming instant
21 rebate coupons for qualifying products purchased in participating retail stores, purchasing
22 reduced price products at retailers where the manufacturer has received a rebate from the
23 Company and passed on the discount directly to retailers and consumers, using the mail
24 order catalog, and making website purchases.

25

26 The Company will continue to work with manufacturers and retailers to offer a good mix
27 of standard, innovative, and specialized CFL product. CFL rebates will be offered in the
28 \$1 - \$4 range, depending on the style and technology of the bulb (standard, dimmable, 3-

1 way, etc.). As described above for ENERGY STAR appliances, the Company will work
2 with NEEP to solicit proposals from manufacturers and retailers for short term
3 promotions including special events, new product launches, and cooperative advertising.

4
5 The Company has found that the “Negotiated Cooperative Promotions” (NCPs) through
6 NEEP are an excellent way to lower rebate costs and encourage retailers and
7 manufacturers to pay for marketing and promotion through their regular channels. Active
8 promotions in 2005 have included retailers: Building 19, Rocky’s, Benny’s, Walgreens,
9 Ann & Hope Dollar Store, and Salk’s Ace Hardware. Manufacturers who have
10 participated in Negotiated Cooperative Promotions include: General Electric, Osram
11 Sylvania, Lights of America, TCP, Maxlite, Feit, Harmony, Good Earth, Greenlite, and
12 Reusable Technologies. For 2006, the NEEP sponsors are planning to issue separate
13 NCPs for CFLs and fixtures in order to better meet the needs of fixture market and
14 manufacturers.

15
16 The Company proposes to continue rebates for ENERGY STAR fixtures and torchieres.
17 Rebates will be \$10 for exterior fixtures and \$15 for interior fixtures, table lamps,
18 torchieres, and floor lamps. The rebates proposed are the same as 2005. The Company is
19 researching whether additional rebate dollars should be available for multi-socket
20 fixtures. Rebates on fixtures and bulbs may be adjusted to ensure coordination with
21 regional and national program efforts and to reflect changing Rhode Island market
22 conditions. The Company will also continue to work directly with lighting showrooms to
23 encourage the promotion of high efficiency, high fashion residential CFL fixtures. The
24 Company will continue to support local retailers with promotional materials (signs,
25 coupons, displays) training, and regular sales visits

1

2 **7. ENERGY STAR® Homes**

3 **Overview**

4 The ENERGY STAR Homes Program is part of the national energy efficiency campaign
5 first developed in 1998 by the Environmental Protection Agency (EPA) and United States
6 Department of Energy (DOE). Rhode Island was one of the first states to adopt this
7 program. The homes are designed, site inspected, and performance-tested to achieve a
8 home energy rating which helps consumers differentiate between efficient homes and
9 standard homes.

10

11 In response to significant changes in the field of residential energy efficiency
12 construction, the EPA proposed a new specification for the ENERGY STAR Homes
13 Program in February 2005. Many parties across the nation, including Narragansett
14 Electric, have participated in commenting and refining this proposal. The EPA just
15 released the final new ENERGY STAR Qualified Homes guidelines on September 30,
16 2005 for implementation in 2006.

17

18 The Company will offer the new ENERGY STAR Homes program in 2006. Since the
19 guidelines were released so recently, by the EPA, the Company cannot provide a final
20 program description. The Company is working with utilities and energy efficiency
21 program administrators throughout New England to develop new program guidelines and
22 rebate levels. The Company will present these to the Collaborative for discussion and
23 finalization. At the Commission's request, the Company will provide the Commission
24 with a fuller description once it is available.

1

2 **Eligible Population**

3 Anyone building a home in Rhode Island can participate, regardless of type of heating
4 fuel. The Company plans to serve 500 customers through this program in 2006. Many of
5 the homes completed in 2006 will receive rebates based on the Company's 2005 program
6 guidelines or those of previous years, because agreements were signed at that time.

7

8 **Program Design**

9 The new 2006 ENERGY STAR Homes criteria will be more stringent than the current
10 program. The entry level of the new program will be equivalent to the current program's
11 Home Energy Rating Score (HERS)⁵ of 88, two points above the current entry level of
12 HERS 86. The new program will also require a significant improvement in the tightness
13 of heating and cooling ductwork, far tighter than current market practice.

14

15 The new 2006 ENERGY STAR guidelines feature two paths toward ENERGY STAR
16 Homes certification. The first path is called the "Performance Path" in the new national
17 ENERGY STAR Homes guidelines, which continues to certify ENERGY STAR Homes
18 and provide rebates based on a new homes' HERS score. The Company plans to offer
19 this certification path to builders in its 2006 programs. The Company will provide
20 higher rebates for higher HERS scores. The second path is called Builder Option
21 Packages (BOPs). Nationally, new homes can be certified as ENERGY STAR through
22 prescriptive BOPs approved by the EPA. The Company will examine how to include
23 BOPs in the Rhode Island program if appropriate.

24

25 In the short term, the program may lose some builder participation because of the
26 required higher standards. Narragansett Electric will provide training and technical

⁵ The Home Energy Rating Score or HERS is a standard nationally recognized measurement of energy efficiency on a scale from one to one hundred.

1 assistance to builders to help them meet these standards. Additionally, in order to help
2 builders with the program transition, the Company plans to offer rebates for specific
3 energy measure upgrades including duct sealing, high efficiency furnaces, blower door
4 verified air tightness and mechanical ventilation, high efficiency air conditioning, and
5 lighting upgrades.

6

7 **Low Income participation in the ENERGY STAR Homes Program**

8 The Company works closely with Rhode Island Housing and developers of affordable
9 housing in Rhode Island to encourage participation in the ENERGY STAR Homes
10 program. Currently Rhode Island Housing encourages developers to receive ENERGY
11 STAR Home certification. About 30% of the homes completed each year through the
12 ENERGY STAR Homes program are for low income families. The Company also plans
13 to continue to work with Rhode Island Housing and the Rhode Island State Energy Office
14 to support Rhode Island's participation in the National Green Communities Initiative.
15 This initiative was briefly described on page 8. More information about this initiative is
16 available at the Enterprise Foundation website
17 (www.enterprisefoundation.org/resources/green).

18

19 **8. Energy Efficiency Educational Programs**

20 **Overview**

21 All the residential energy efficiency programs include customer education as a primary
22 element of the program design. In addition, the Company also sponsors educational
23 programs for children and young adults who are among Rhode Island's future ratepayers,
24 builders, and contractors. The budget for educational programs includes three
25 components described below, including a new component that provides general education
26 to all customers about low cost energy efficiency actions they can take.

27

1 **Eligible Population**

2 The first two energy efficiency educational initiatives are targeted toward students. All
3 residential customers can benefit from the public education initiative.

4

5 **Program Design**

6 The three programs are described in detail below.

7

8 **a) National Energy Education Development (NEED) Project**

9 The National Energy Education Development (NEED) Project is a nonprofit education
10 association that works with thousands of schools nationwide to promote an energy
11 conscious education. NEED is a strategic partner of Rebuild America and **EnergySmart**
12 **Schools**, programs of the U.S. Department of Energy. NEED creates networks of
13 students, educators, and business, government and community leaders to design and
14 implement objective energy education programs. The Rhode Island EnergySmart
15 Schools program includes educational materials for kindergarten to twelfth grade which
16 provide comprehensive, objective information about energy production and consumption,
17 the major energy sources, and their impact on the environment, economy, and society.
18 Services offered include kits and curriculum for students from kindergarten through high
19 school, student/teacher training programs, workshops, and conferences, a summer camp
20 program, scholarships to national energy educational conferences, and youth awards.

21

22 **b) ENERGY STAR Homes Vocational Schools Initiative**

23 The Company currently works with all nine Rhode Island Career and Technical schools
24 on this initiative: Chariho, Coventry, Cranston, Davies, East Providence, Hanley,
25 Newport, Warwick, and Woonsocket. It provides training to vocational school students
26 on building ENERGY STAR homes. These homes are then sold as affordable housing.

1

2 Originally, only Woonsocket and Warwick were participating in the program. In the past
3 year, the other schools were encouraged to participate in cooperation with the Skill USA
4 national competition for vocational schools. Working with the Woonsocket Area Career
5 and Technical Center, the Community College of Rhode Island, and the Rhode Island
6 Builders Association, the Company sponsored a Rhode Island Energy Efficient Building
7 Competition to help students improve performance in the national competition. In
8 preparation, on-site training was provided at all schools on energy efficient building
9 practices. The Company will continue this outreach effort because it will improve
10 Rhode Island's energy efficiency for years to come.

11

12 **c) Public Education Initiative**

13 During 2006, the Collaborative will discuss whether and how to continue the Company's
14 public education effort to promote energy conservation during times of high energy costs.
15 This may include continuing the Company's 2005 advertising campaign to educate
16 customers about low cost steps they can take to lower their electric bills and giving
17 customers a contact number and/or website to get more information about energy
18 efficiency programs and additional low cost energy saving tips.

**SUMMARY OF PROPOSED CHANGES TO
 RESIDENTIAL PROGRAMS FOR 2006**

Program	Changes
EnergyWise	<ul style="list-style-type: none"> • Reduce refrigerator incentives from \$100-\$450 depending on size to \$200-\$300 • Allow customers to participate if they haven't participated in last five years (in 2005 was ten) • May adjust the interest rate on the loan depending on actual costs • Coordination with tax incentives from 2005 Energy Policy Act
Low Income Services	<ul style="list-style-type: none"> • Continue replacing inefficient oil heating systems as was added to May 05 True-Up filing
ENERGY STAR® Appliances	<ul style="list-style-type: none"> • Decrease Clothes Washer rebate from \$35 to \$25 • No equipment turn-in events proposed for 2006 • Coordination with tax incentives from 2005 Energy Policy Act
ENERGY STAR Heating	<ul style="list-style-type: none"> • Reduce incentives from \$300 to \$200 per furnace or boiler replaced with high efficiency model • Coordination with tax incentives from 2005 Energy Policy Act

THE NARRAGANSETT ELECTRIC COMPANY

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Attachment 2

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Program	Changes
Cool Change ENERGY STAR Central Air Conditioning and Heat Pumps	<ul style="list-style-type: none">• New Federal standards require all AC split systems manufactured after 1/23/06 to achieve SEER 13• New ENERGY STAR standards will not be in place until January 2006 at the earliest, will likely be SEER 14 and EER of 11.5• End the rebate of \$370 for SEER 13 EER 11 equipment <p>The Company plans to offer rebates that are consistent with those offered throughout the region. The following is a summary of the Company's proposed tiers and rebate levels, which are still subject to change:</p> <ul style="list-style-type: none">• Add a Rebate of \$150 for SEER 14 and EER 11.5• Decrease the Rebate of \$550 to \$300 for SEER 14 and EER 12• Add Rebate of \$450 for SEER 15+ and EER 12.5• Shift costs and procurement responsibility to contractor for third party verification tool while increasing contractor incentive for correct installation from \$100 to \$150• Add contractor incentive of \$75 for correct tune-up of existing systems• Add a Customer Incentive of \$50 for proper charge with respect to air flow in either new or existing systems• Coordination with tax incentives from 2005 Energy Policy Act
ENERGY STAR Lighting	<ul style="list-style-type: none">• Increase rebates for high lumen output fixtures• Separate Negotiated Cooperative Promotion solicitation for fixtures and lightbulbs
Energy Efficiency Educational Programs	<ul style="list-style-type: none">• End sponsorship of Radio Disney program• Add educational campaign for all customers
ENERGY STAR Homes	<ul style="list-style-type: none">• Coordination with tax incentives from 2005 Energy Policy Act• New National Program requirements for new participants• New regional rebate levels, which will be developed in late 2005

1

2006 SMALL BUSINESS SERVICES PROGRAM

2

3 **Overview**

4 For almost ten years, this program has provided direct retrofit installation of energy
5 efficient lighting, refrigeration, and other energy efficient measures to small commercial
6 and industrial customers.

7

8 **Eligible Population**

9 Any customer with an average monthly demand of less than 200 kW or annual energy
10 usage of less than 483,600 kWh is eligible for this program.

11

12 **Program Design**

13 The Small Business Services Program offers incentives for the installation of energy
14 efficient fluorescent ballasts, lamps, and fixtures; hard-wired and screw-in compact
15 fluorescent systems; high intensity discharge systems; occupancy sensors; programmable
16 thermostats; hot water tank insulation wraps; hot water pump time clocks; and
17 refrigeration measures such as evaporator fan controls, efficient evaporator fan motors,
18 automatic door closers and door heater control devices for walk-in coolers. The
19 Company arranges the equipment purchase through a material vendor and installation
20 with an administrative contractor. Starting in 2004 the Small Business Program was
21 expanded to create broader program depth and appeal to customers by offering the
22 potential to deliver more comprehensive energy efficiency opportunities. This expansion
23 provided customers the benefit to build on their potential energy savings by examining a
24 broader array of energy efficient opportunities outside the current available measures.

25

26 The Rhode Island State Energy Office (SEO) funds a fossil fuel system efficiency service
27 that is provided by the Company's labor vendor and is "piggy backed" with the delivery

1 of the Small Business Services Program. Similarly, the Company will consider
2 coordinating referrals with the local gas distribution companies if they are offering any
3 additional efficiency services.

4

5 The SEO is also offering an Energy Services Company (ESCO) initiative to encourage
6 efficiency improvements in Rhode Island's commercial facilities. The Company intends
7 to support the delivery of this service by coordinating its Energy Initiative program
8 services with the ESCOs as they develop technical assessments for these customers.
9 Where there is an overlap in services provided by the Small Business Services Program
10 (among 100 to 200kW customers), the Company will coordinate through its vendor(s) to
11 avoid duplicate marketing efforts. Customers in the 100 kW to 200 kW range who
12 participate in the ESCO program and receive Energy Initiative rebates will be counted as
13 Energy Initiative participants.

14

15 Most rebates cover 75% of both labor and material costs. Customers may finance the
16 remainder for up to 24 months interest-free through their electric bill. If customers pay
17 their portion up front, they receive a 15% discount off the amount due.

18

19 In 2006, the Small Business Services program will continue to offer a broad selection of
20 comprehensive measures. While potential for significant energy savings in small
21 business rests on improving lighting energy use, the proposed improvements to the
22 program support more comprehensiveness in customers' facilities and build on the
23 experience gained from delivering these services in prior years. These additional energy
24 efficiency measures will include but not be limited to non-prescriptive lighting measures,
25 motor and drive power improvements and other custom energy efficiency opportunities.

1 **2006 LARGE BUSINESS SERVICES PROGRAMS**

2

3 **1. Design 2000*plus***

4 **Overview**

5 Offered to commercial and industrial customers since 1988, Design 2000*plus* encourages
6 energy efficiency in new construction, renovations, remodeling, and replacement of
7 failed equipment through financial incentives and technical assistance to developers,
8 customers and design professionals. Financial incentives reduce the cost barrier to
9 investing in efficiency. Technical assistance reduces barriers to more efficient design by
10 providing education to participants in the use of energy-efficient engineering practices.

11

12 **Eligible Population**

13 Design 2000*plus* is available to all non-residential customers, but is generally appropriate
14 for customers with more than 100 kW in demand¹. It is available for new construction
15 and remodeling projects such as a new building, expansion or renovation of an existing
16 building, change in the use or function of the building space, new equipment for a new
17 process or expanded operation, replacement of failed equipment, or planned replacement
18 of equipment.

19

20 **Program Design**

21 Design 2000*plus* provides technical consulting and incentives for the installation of many
22 different kinds of energy efficient equipment and systems. Energy efficiency measures
23 which are eligible for incentives include premium efficiency lighting, motors, variable

¹ The increase in the ceiling for Small Business Services program eligibility to 200 kW is not expected to impact the Design2000*plus* program, since this program focuses on lost opportunity measures, rather than retrofit measures.

1 speed drives, heating, ventilating and air conditioning systems (HVAC), refrigeration,
2 industrial process, compressed air, and process cooling.

3

4 There are three specific types of incentives. (1) Prescriptive incentives are fixed and
5 address a single electric efficiency improvement in operations such as lighting, motors
6 and HVAC. High efficiency alternative equipment and systems are offered to customers
7 on a per unit basis. (2) Custom incentives are based on the unique energy savings criteria
8 of a project. (3) Comprehensive incentives are based upon evaluation of the whole
9 building and the benefits that come from examining an integrated engineering approach.
10 In general, incentives are designed either to cover 60 to 75% of the incremental cost
11 between standard and premium efficiency equipment and systems or to buy down the
12 cost of equipment to the customer to a one and a half year payback, whichever is less.
13 For Comprehensive Design Approach and Comprehensive Chiller projects, incentives
14 cover 90% of the incremental cost or buy the cost of the equipment and systems down to
15 a one year payback, whichever is less.

16

17 The Company markets Design 2000*plus* through extensive personal communication by
18 account managers with customers, vendors, contractors, design professionals and,
19 seminars, training sessions and other direct marketing approaches. For 2006 the
20 Company proposes to build on this marketing effort by implementing a broader
21 communications plan to customers to underscore the value of implementing energy
22 efficiency solutions in their facilities to control their electricity costs and reduce their
23 building operating costs.

24

25 The proposed changes to the Design 2000*plus* program for 2006 are shown in
26 Attachment 5.

27

1 **Tax Title Provisions in the Federal Energy Policy Act of 2005**

2 The Federal Energy Policy Act of 2005 provides some tax incentives to businesses
3 building new or renovating existing buildings. The new law provides a tax deduction of
4 up to \$1.80 per square foot for buildings where energy use is reduced by 50 percent
5 relative to the requirements of the 2001 new construction standards developed by the
6 American Society of Heating, Refrigeration, and Air-Conditioning Engineers (ASHRAE
7 90.1-2001). The new law also allows building owners of new and existing buildings to
8 earn a partial deduction of \$0.60 per square foot for each system (envelope, lighting or
9 HVAC) that is 50 percent more energy efficient relative to ASHRAE 90.1-2001.
10 Implementation regulations are now being developed by the U.S. Treasury Department
11 with input from the U.S. Department of Energy.

12

13 The tax title promotes a level of efficiency that is almost twice the minimum efficiency
14 thresholds for Design 2000*plus*. The Company will educate prospective participants in
15 Design 2000*plus* about the new tax benefits. The combination of Design 2000*plus*
16 incentives and these tax incentives coupled with the program's technical assistance,
17 should help customers reach a higher building performance standard.

18

19 A. Services

20 The earlier in the design process the Company becomes involved, the more likely it is
21 that a comprehensive solution will be possible. For example, if the customer begins
22 participation in Design 2000*plus* before making final design decisions, there is the
23 advantage that comes from investigating reduced cooling requirements through improved
24 lighting systems. Moreover this improvement may lead to selecting smaller HVAC
25 equipment and contribute to greater efficiency and lower costs of operations in the
26 building. Once the Company identifies an appropriate Design 2000*plus* project at a
27 customer site, the Company offers technical assistance services.

1

2 These technical assistance services include engineering evaluations that support best
3 practices in building design and consider energy efficient measure identification,
4 equipment metering or monitoring, improved technical design solutions, customer
5 presentations, and design and construction assistance. Technical assistance provides
6 customers with detailed engineering studies that identify alternative energy systems that
7 support lower operating costs in the buildings and the operational benefits that come
8 from this selection. The costs of these energy efficiency studies are usually cost shared at
9 50% with customers.

10

11 To ensure that energy savings features are installed and operated as designed, the
12 Company provides a commissioning service. This service is an independent third party
13 verification that complex building systems, such as HVAC projects involving energy
14 management systems or other controls, are operating as designed.

15

16 For customers who wish to use their own design team, Design 2000*plus* offers a
17 Comprehensive Design Approach. This service provides outside expert technical support
18 for the customer's own design team or reimburses the customer the incremental cost of
19 having its design team analyze all cost-effective efficiency options.

20

21 Financing for the customer portion of the Design 2000*plus* project is available to
22 customers. Financing is generally arranged with Citicorp Vendor Financing, and
23 includes nominal application and documentation fees, a limited up-front cash requirement
24 of no more than the first month's lease payment, flexible repayment terms of two to
25 seven years and a simple application process. The amounts available range from \$5,000
26 to \$4,000,000. This arrangement benefits not only the specific customer in need of

1 financing, but also more generally is introducing energy efficiency lending to the
2 financial community, which considers this type of loan unconventional.

3

4 Design 2000*plus* provides free ballast recycling to customers installing energy efficient
5 lighting under Design 2000*plus*. The purpose of this service is to ensure that all ballasts
6 (some of which contain polychlorinated biphenyls or PCBs) are disposed of in an
7 environmentally sound manner.

8

9 The Company offers the Project Expediter service, which uses pre-qualified contractors
10 to audit customers' facilities and arranges for the purchase and installation of energy
11 efficient equipment. As with most of the other services listed here, Project Expediter is
12 available for both Design 2000*plus* and Energy Initiative, described below. Usually,
13 these installations are retrofits, however, and therefore qualify under Energy Initiative.

14

15 B. Best Practices Initiatives

16 The Company is supporting Advanced Buildings (AB) developed by the New Buildings
17 Institute (NBI) in cooperation with US EPA, ASHRAE, the US Green Buildings Council
18 and the national Building Operators and Managers Association. A key element of the AB
19 is "Benchmark," an all inclusive set of standards for building efficiency and sustainable
20 design. The "Benchmark" design tool complements the Comprehensive Design
21 Approach with a special emphasis on smaller buildings. AB also serves to promote better
22 commercial design practices such that advancements in the Rhode Island building code
23 can be implemented at an accelerated rate. The Company has played a lead role
24 nationally in the development and refinement of Advance Buildings along with other
25 stakeholders and utilities. For 2006, the Company will continue to participate in the
26 development of support materials targeted at practitioners and building owners. Also,

1 the Company will sponsor training in coordination with other system benefits
2 administrators.

3

4 Design 2000*plus* also assists customers in optimizing their building operating systems at
5 the time of their federally mandated replacement or conversion of CFC (R-11, R-12
6 refrigerant) chillers. Customers may either optimize the performance of their existing
7 older building systems or receive technical guidance and recommendations regarding the
8 proper size and efficiency for a replacement chiller plant. This program component,
9 called the Comprehensive Chiller initiative, also helps to reduce peak summer generation
10 demand.

11

12 Design 2000*plus* offers a significant opportunity for economic development in Rhode
13 Island by helping businesses save on their electric costs while at the same time
14 supporting them in their investments in new energy efficient equipment and system
15 improvements to their facilities. To this end, for 2006 the Company intends to continue
16 to work closely with various economic development groups in the state, including the
17 Rhode Island Economic Development Corporation (RIEDC), to seek ways the Company
18 may provide focused efficiency services. This effort builds on the relationships
19 established in 2005, and may create a more favorable climate for doing business in Rhode
20 Island.

21

22 C. Market Transformation Initiatives

23 Design 2000*plus* has a large market transformation component that supports the new
24 construction program toward better performance. By familiarizing the large commercial
25 and industrial segment with higher energy efficiency standards, Design 2000*plus* creates
26 new efficiency standards for construction. The Company actively supports regional and

1 national market transformation programs designed to transform markets for a broad range
2 of energy efficient equipment and services. These activities are discussed below.

3

4 **a. Regional Energy Efficient Motors and Unitary HVAC initiatives**

5 As a feature of the Design 2000*plus* Program, the Company supports the MotorUp
6 premium efficiency motor initiative. This regional market transformation initiative
7 promotes motor management of high efficiency motors and quality repair of motors to
8 maintain high efficiency. MotorUp was developed with utilities throughout New York,
9 New Jersey, Connecticut, Massachusetts, Vermont, Rhode Island and New Hampshire
10 through the Northeast Energy Efficiency Partnerships (NEEP). Sponsoring utilities have
11 joined together to design and implement a uniform regional program that features
12 consistent equipment efficiency requirements for qualifying “NEMA Premium” motors,
13 rebates, application forms and marketing materials. The sponsoring utilities together
14 with a contractor identify, recruit, and train trade allies to support program efforts. This
15 contractor disseminates program information to trade allies, provides technical assistance
16 to vendors and distributors, processes rebate applications, produces marketing materials,
17 and tracks program activities and results. Since 2003, the regional initiative has provided
18 instant rebates at motor dealer sites. The Company expects to continue with this
19 approach in 2006. Additionally, the Company is piloting an effort for smaller businesses,
20 through the vendors that provide Project Expeditor services, to transform their purchasing
21 practices through motor management best practices. The Company will work with the
22 customer to facilitate audits of their motor inventory and to develop a motor management
23 plan to optimize energy efficiency by replacing new or failed motors with a NEMA
24 Premium™ motor.

25

26 The Company also supports Cool Choice, a regional program that focuses on promoting
27 the installation of energy efficient unitary HVAC equipment through Design 2000*plus*.
28 This initiative, like the MotorUp initiative described above, has been developed with

1 essentially the same group of utilities through NEEP and with similar features. The
2 Company has participated in the regional Cool Choice since 1999.

3

4 The Cool Choice program will offer incentives for the purchase of HVAC equipment
5 (unitary and split systems, air-to-air heat pump systems, and water source heat pumps) up
6 to 30 tons at the Tier 2 level, (a Tier 1 level was offered until the end of the 2002
7 program year. Tiers 1 & 2 are specifications for efficiency levels for unitary HVAC
8 equipment established by the Consortium for Energy Efficiency). In addition, the Cool
9 Choice program will continue to offer rebates for dual enthalpy controls for economizers
10 on new HVAC units. Rebates were designed to cover, on average, 100% of the
11 incremental cost.

12

13 The Company will continue to participate in the Cool Choice program in 2006, retaining
14 the same contractor as previous years, under a new contract agreement initiated in 2005.
15 A circuit rider, hired in 2005, will continue to provide outreach in 2006 to HVAC
16 contractors and architectural and engineering firms located in Rhode Island or that
17 service customers in RI. Valuable data is being collected by the circuit rider on the
18 practices of the HVAC contractors, which will be used to help shape a pilot program to
19 be implemented in 2006 for in-field service performance of unitary HVAC equipment.

20

21 The budget for these initiatives is \$60,000, which will pay contractors for delivering the
22 program.

23

24 **b. High Performance Commercial Lighting Design/DesignLights Consortium**

25 In an attempt to continue to promote high quality, high performance lighting with
26 commercial and industrial customers the Company will utilize a series of specialized

1 guidelines, called the *knowhow*TM series, that have been developed by the DesignLights
2 Consortium to help customers with their lighting design decisions. For 2006 the
3 Company plans to provide additional outreach on the benefits of high quality lighting
4 design to various lighting equipment vendors throughout Rhode Island. The Company
5 proposes to accomplish this through visits, workshops and breakfast meetings with these
6 vendors and with lighting specifiers. These meetings will be educational but also provide
7 an opportunity for these market players to promote high quality, energy efficient lighting
8 that would be eligible for rebate to their customers.

9
10 The budget for this initiative is \$25,000.

11
12 **c. Schools Initiative**

13 The Company proposes to continue offering a special initiative targeted to public schools
14 through Design 2000*plus*. While Design 2000*plus* has been effective in reaching public
15 schools, a majority of schools have not participated due to a broad range of market
16 barriers including limited funding and competitive bidding requirements. This program's
17 intent is to help schools minimize the hurdles posed by these market barriers during a
18 time when Rhode Island is seeing an unprecedented level of investment in new and
19 renovated schools.

20
21 The Company proposes to fund the full incremental cost for new construction or
22 renovation under Design 2000*plus*. All cost-effective electric energy saving measures
23 would be addressed. It is anticipated that most projects will involve lighting. A key
24 requirement for this initiative is that lighting must follow the DesignLightsTM Consortium
25 guidelines for schools as outlined in "Classroom Lighting *knowhow*TM" guide published
26 by the DesignLightsTM Consortium.

1 Select schools may follow the Comprehensive Design Approach track which entails an
2 interactive analysis of proposed measures utilizing whole building simulation tools.

3

4 The Company will also continue to participate in the Rhode Island High Performance
5 Schools working group. Its mission is to promote “green” schools design elements to
6 districts considering new schools and to the design community that serves Rhode Island.
7 A circuit rider, funded through a grant from the Henry P. Kendall Foundation, will work
8 with prospective districts who are considering a high performance school.

9

10 Funding for this initiative is included in the overall Design2000*plus* program budget.

11

12 **d. Building Codes and Standards**

13 The Parties agree to support work at national and local levels to develop codes and
14 standards that continue to upgrade building energy efficiency. In cooperation with the
15 codes community, including the Building Code Commission, the Company will work
16 with this and other agencies to offer continued improvement on proposed building codes
17 and standards that lead to the future revisions of the Rhode Island State Building Code.

18

19 Continually refining these codes and standards, which complement existing programs
20 such as Design 2000*plus* and Energy Initiative, has a significant impact on
21 institutionalizing progress made through utility programs. Therefore, this initiative
22 focuses on (1) working with national code development organizations such as ASHRAE
23 to upgrade building efficiency codes and (2) working at the local level with Rhode Island
24 and other states in the development of state efficiency codes and standards. The
25 Company will offer support to this effort which will be coordinated primarily through the
26 Northeast Energy Efficiency Partnership (NEEP) and the New Buildings Institute (NBI),

1 organizations with the goal of assisting states and others with the development of codes
2 and standards that are practical and enforceable. For instance, Rhode Island has recently
3 upgraded its state energy code to the “2000 International Energy Conservation Code”
4 (IECC-2000) with amendments drafted by NBI. The Company will continue to pursue
5 additional upgrades to the present code through NBI. Part of this effort includes
6 facilitating and supporting the training and education efforts for code enforcers, designers
7 and builders.

8
9 The 2006 budget is \$5,000.

10
11 **e. Federal Standards**

12 Ultimately, markets are transformed towards higher efficiency when newer efficient
13 equipment supplants older inefficient equipment to an extent that the latter is either no
14 longer produced, becomes unattractive to end users or is excluded from the marketplace
15 as the result of various standard-setting processes. Some of these standard setting
16 processes are industry-driven and voluntary; others produce mandatory codes or
17 standards promulgated by federal or state governments.

18
19 The Company agrees to actively track and participate in DOE’s standard setting process.
20 DOE’s standard setting process involves multiple stakeholder workshops and a public
21 hearing for each standard. These workshops typically seek input on all aspects of the
22 standard setting process. By participating in these workshops and using our experience
23 with energy efficient equipment, the Company feels it will be able to most effectively
24 communicate its support for appropriate standards.

1 As Federal standards are raised, participation requirements for Design 2000*plus* and
2 Energy Initiative will be elevated accordingly, pulling the market toward successively
3 higher efficiency strata. The Company believes that active participation in the elevation
4 of energy efficiency standards is an integral part of any transition strategy in respect to
5 ratepayer funded market transformation initiatives.

6

7 Associated costs for this initiative are included in the Design2000*plus* program budget.

8

9 **2. Energy Initiative**

10 **Overview**

11 Offered since 1988, Energy Initiative encourages the replacement of existing equipment
12 and systems with energy efficient alternatives. Its structure is very similar to Design
13 2000*plus*, offering financial incentives, technical assistance, and other ancillary services
14 such as commissioning, comprehensive chiller assistance, financing, and ballast disposal.

15

16 **Eligible Population**

17 Energy Initiative is available to all non-residential customers, although customers with
18 demand below 200 kW are also eligible to participate in the Small Business Services
19 program.

20

21 **Program Design**

22 Energy Initiative provides incentives for the installation of many different types of
23 energy efficient equipment, including lighting, motors, energy management systems,
24 programmable thermostats, variable speed drives, refrigeration, industrial process,
25 compressed air, and process cooling. The Company's delivery of Energy Initiative is
26 similar to its delivery of Design 2000*plus*. Energy Initiative offers two types of

1 incentives, prescriptive and custom. Prescriptive incentives are fixed and offered on a
2 per unit basis. Custom incentives are based on the unique energy savings criteria of
3 projects. Both are based on average at 40% of the total installed cost (including labor and
4 equipment) or at a level that buys the equipment down to a two-year payback to the
5 customer, whichever is less.

6

7 The proposed changes to Energy Initiative for 2006 are shown in Attachment 5.

8

9 A. Best Practices Initiatives

10 Energy Initiative offers a significant opportunity for economic development in Rhode
11 Island by helping businesses save on their electric costs while at the same time
12 supporting them in their investments in new energy efficient equipment and system
13 improvements to their facilities. To this end, for 2006 the Company intends to continue
14 to work closely with various economic development groups in the state including the
15 Rhode Island Economic Development Corporation in an attempt to provide focused
16 efficiency services. This effort may lead to fostering a more favorable business climate
17 in Rhode Island to retain businesses in the state.

18

19 The Company also will embark on a public education campaign to promote energy
20 efficiency, especially during peak periods. The Company expects to develop brochures
21 and other informational literature and disseminate these to C&I customers through bill
22 inserts, direct mail, e-mail equipment vendors and account managers. Some of the
23 literature and information that can be used is already available from E Source and the
24 American Council for an Energy Efficient Economy, organizations that feature the
25 benefits to customers available from improving their energy use practices.

1 B. Market Transformation Initiatives

2 Similar to Design 2000*plus*, the Company's retrofit program includes a strong market
3 transformation component to include the following activities.

4

5 **a. Compressed Air Challenge**

6 The Company will continue its active sponsorship of the national Compressed Air
7 Challenge (CAC). The CAC is a broad based collaborative of government agencies,
8 compressed air specialists, equipment manufacturers, end-use consumers and utilities
9 whose objective is to promote the substantial energy savings improvements available by
10 means of a comprehensive, systems approach to compressed air system design and
11 operation. The CAC educational and technical materials being disseminated by the
12 Company are intended to increase customer awareness of, and demand for, products and
13 services that encompass a comprehensive, "systems optimization" approach. Coupled
14 with this increased demand for enhanced services from customers, regional compressed
15 air equipment and service vendors will be exposed in depth to the technical approaches
16 promoted by the CAC.

17

18 Over the past few years the Company has been actively coordinating local workshops
19 that have been developed by the CAC. These workshops reflect consensus approaches to
20 a variety of technical issues associated with the comprehensive system approach to
21 compressed air quality, reliability, and efficiency. The first workshop, entitled
22 "Fundamental of Compressed Air Systems," has been very well received by industrial
23 customers and vendors who have attended to date. The second is a more advanced two-
24 day workshop entitled "Advanced Management of Compressed Air Systems". This
25 complementary workshop is primarily targeted at larger, more sophisticated customers as
26 well as regional vendors and engineering consultants. The Company anticipates that

1 these workshops will result in an increased number of applications under the Company's
2 programs that address more comprehensive solutions to system efficiency

3

4 In addition to promoting the two levels of CAC training currently available, the Company
5 will also be providing comprehensive compressed air system evaluations for large
6 industrial compressed air users.

7

8 The budget for this initiative is \$5,000

9

10 **b. Building Operator Training and Certification (BOTC)**

11 The Building Operator Training and Certification (BOTC) initiative is a collaborative
12 effort among gas and electric utilities in the region and is administered by the Northeast
13 Energy Efficiency Partnerships. Through this effort a training and certification program
14 is administered and conducted by a third party and offered to commercial and industrial
15 customers. The Company has offered Level 1 of the BOTC initiative for the past five
16 years. During 2005, a Level 2 class was offered in RI consisting of a more
17 comprehensive curriculum that supports advanced practices in building operations. The
18 Company will sponsor two additional Level 1 classes in 2006

19

20 The BOTC's objectives include:

- 21 • Increasing O&M personnel knowledge and skills in operating and maintaining
22 commercial and industrial buildings for efficiency, comfort, and safety.
- 23 • Expanding market awareness of the benefits of improved building performance.
- 24 • Building market demand for resource-efficient O&M services.

- 1 • Distinguishing resource-efficient practices, service providers, and knowledgeable
2 building operators in the marketplace.
- 3 • Establishing a Training and Certification program that will become financially self-
4 sustaining in the future.

5

6 The budget to subsidize attendance in BOTC courses will be \$10,000.

7

8 **c. Operations & Maintenance Benchmarking Initiative**

9 In 2006, the Company will benchmark the energy use of large C&I customers to assist
10 them in setting priorities and promote the installation of energy efficiency measures in
11 their facilities.

12

13 Benchmarking is the comparison of a facility's energy use to their peers' or their own
14 historic consumption characteristics. By gathering their current and historical energy use
15 from the Company's billing data systems and presenting it in an insightful manner, new
16 energy efficiency strategies may be readily identified, and an action plan leading to an
17 installation can be developed. This initiative provides the opportunity to promote this
18 service in Rhode Island, with the focus on the creation of applications for energy
19 efficiency incentives directly resulting from the findings of the benchmarking exercise.

20

21 As companies become more aware of how and when they use energy in their facilities,
22 they are in a position to assess where the best opportunities lie to develop better operating
23 and maintenance practices. Through benchmarking, building owners and operators
24 achieve a better understanding of the energy related cost of their buildings. Moreover it
25 leads them to reduce operating costs, increase energy efficiency and promote
26 environmentally-friendly operations.

1

2 There are two primary tools the Company will use to accomplish the benchmarking
3 objective. The combination of these approaches and services determined by the
4 Company's Account Managers should help to stimulate greater efficiency savings and
5 reach those customers who may not have taken advantage of the program and services to
6 date.

7 • The Company's *Energy Profiler On-Line (EPO)*. This is a tool that is used
8 effectively to identify energy use patterns within large commercial or industrial
9 facilities. It helps to identify energy and demand savings potential by offering
10 detail on current load duration and daily and historical building energy use. EPO
11 can provide an account manager an accurate snapshot of the facility before
12 meeting with the customer. The service can frame discussions to influence better
13 energy use practices and /or further technical assistance to validate the potential
14 of new energy efficient strategies and opportunities.

15

16 • *Commercial Benchmarking Services* available through the EPA's Energy Star
17 Portfolio Manager. This is a tool that provides a comparison of the level of annual
18 energy consumption for commercial or institutional customers to that of other
19 facilities with the same function. The buildings are ranked in comparison to the
20 other buildings in a national database, corrected for climate and other key
21 variables. The analysis considers all purchased energy types used in the facility.
22 The customer will be responsible for providing the utility data, and tracking
23 resource consumption and costs. The EPA's ENERGY STAR Benchmarking
24 system utilizing Portfolio Manager is used for this effort. The Company will
25 furnish a written action plan identifying efficiency cost and savings opportunities
26 resulting from the benchmarking. The process recognizes that a customer may be
27 motivated by a comparison to peers more than a comparison to previous period's
28 consumption. The Company will use the services of a Project Expediter to

1 generate opportunity assessment, analysis and follow up services to steer the
2 customer toward an installation of efficiency measures.

3

4 The budget for this initiative is \$45,000

5

6 **d. Rhode Island Retro-commissioning Initiative**

7 Also, for 2006, the Company is proposing a Retro-commissioning Initiative. Retro-
8 commissioning, is a process of testing, troubleshooting, and adjusting systems in an
9 existing building with the expectation to raise existing performance standards. The retro-
10 commissioning process can significantly reduce energy consumption with little financial
11 investment. Experience suggests that the cost of retro-commissioning can be paid back
12 through improved system performance, reduced energy costs, and improved occupant
13 comfort.

14

15 The Retro-commissioning Initiative is bested suited for the following:

- 16 • Commercial and industrial buildings that have an electric demand greater than 0.5
17 MW.
- 18 • HVAC and process systems
- 19 • Desire to reduce operating costs
- 20 • Use an energy management system

21

22 The objective of the Retro-commissioning Initiative is to:

- 23 • Reduce operating costs during peak and off peak periods

- 1 • Develop a comprehensive and acceptable operation and maintenance plan
- 2 • Identify capital projects that can lead to substantial energy savings
- 3 • Educate the building personal how to operate the building efficiently

4

5 Retro-commissioning will entail an assessment of the major building systems effecting
6 energy used. Data is collected on how the systems operate presently and how they were
7 originally designed to operate. Recommendations on where changes should be made to
8 set points, maintenance practices or new energy efficient equipment are presented in a
9 report.

10

11 The Company proposes to perform retro-commissioning services as outlined above with
12 two to three commercial or industrial customers. Incentives will be paid to encourage
13 customers to implement the operations and maintenance (O&M) measures that have a
14 simple payback of less than 2 years. The Company will review the results of the Retro-
15 commissioning Initiative with the Collaborative.

16

17 The expected cost of these retro-commissioning projects is \$40,000.

18

19 **C. Distribution Load Response Audit Services**

20 In any local electrical distribution system, the utility equipment has historically been
21 sized for a few hundred hours of peak loading conditions, and is routinely under-loaded
22 for the bulk of the year. Peak load reduction is only needed for the few hours per year of
23 high supply prices, and/or high loading conditions on the local distribution system.
24 Managing this peak load may result in more stable delivery costs when upgrades to the
25 distribution system can be deferred. On a regional basis, managing peak loads can help

1 to moderate supply costs as the need to construct additional capacity to meet higher
2 demand is dampened. Deferring supply additions should lead to lower generation costs
3 over time. Furthermore, individual customers can use demand reduction strategies to
4 reduce their billed peak demands and their own energy costs.

5

6 The proposal for 2006 is a continuation of the Company's Demand Response audit
7 services funded in its 2005 energy efficiency program. In 2004, funding of \$25,600 was
8 allocated to conduct load shed audits to identify electric measures to reduce customer
9 demand. In 2004, the Company successfully completed load shed audits at 16 customer
10 facilities in Rhode Island. Thus far in 2005, the Company has completed 14 site audits
11 for 9 customers; audits for 12 more customers are in progress.

12

13 The Company will identify areas throughout Rhode Island where past and anticipated
14 load growth has the potential to outpace infrastructure improvements, resulting in an
15 accelerated need for infrastructure improvements over original estimates. Active
16 management of the loads on the system could be a useful tool for future planning. As part
17 of the Company's Summer Load Relief Program, Docket 3680, demand response audits
18 that will identify the potential for various demand limiting strategies will be performed
19 for interested customers in the area outlined in the Summer Load Relief Program.

20

21 Audit services will be primarily marketed to large customers on these highly loaded
22 distribution system components. These could be customers with newer buildings (office
23 buildings, retail establishments, schools, etc.), which currently have building
24 management systems (BMS) in the facility to monitor life safety conditions (smoke, fire
25 alarms), security, and HVAC systems. Buildings with building management systems are
26 typically less than 15 years old. Industrial process customers with potentially
27 controllable or variable production loads are also potential candidates.

1

2 In addition, load shed audit services will be available to any Rhode Island customer who
3 requests them, even those outside a targeted distribution area, to facilitate their
4 participation in ISO-New England's demand response programs. ISO-New England's
5 programs require a minimum load reduction commitment 100 kW, so large customers are
6 the likely population to request audit services.

7

8 The proposed spending for this effort in 2006 is \$61,100. It is anticipated that the
9 proposed funding will support 20 to 40 "load shed" technical assistance studies. The
10 Company's demand response initiative program manager and the Company's account
11 managers will market this service to customers on a one-to-one basis. Several TA
12 contractors will be used to identify demand response options and coordinate their
13 implementation. Economies may be achieved if these focused studies are performed
14 simultaneously with broader energy efficiency TA studies. The Company will report to
15 the Collaborative periodically on Demand Response audit service spending.

16

17 The load shed audits may be conducted as part of energy efficiency surveys or as
18 independent studies. The findings of the audit will be presented to each customer in a
19 report that will develop a load profile for the facility, followed by set of site-specific load
20 reduction measures for each customer, along with steps the customer should take to
21 develop a load reduction plan to optimize their performance during a demand response
22 event.

23

24 Preliminarily, the list of measures to be considered includes:

- 25
- Lighting retrofits, including dimmable electronic ballasts for lighting;

- 1 • Cooling system upgrades, including chiller efficiency improvements and CO₂ sensors
2 to regulate air distribution;
- 3 • Building management system control changes, including temperature setbacks for
4 HVAC systems;
- 5 • Scheduling of industrial processes, such as rearranging shift operations;
- 6 • Compressed air system modifications.

7

8 No demand response incentives will be paid through the energy efficiency programs, and
9 no impacts are projected. Providing customers access to the payment streams from the
10 ISO-NE demand response programs, and more importantly, the tools to allow
11 participation, will provide added incentives for customers. The Internet enabled gateway
12 also has potential to provide real-time demand data allowing customers to experiment
13 within their facility to modify their load curves and further reduce the overall electric bill.

14

15 Demand-reducing measures associated with equipment installations will be run through
16 the Custom Measure approach under Energy Initiative and Design 2000*plus* to determine
17 cost-effectiveness and rebate eligibility under standard energy efficiency protocols.

**SUMMARY OF PROPOSED CHANGES TO THE
LARGE BUSINESS SERVICES PROGRAMS
FOR 2006**

Category	Energy Initiative	Design 2000plus
Lighting	<ul style="list-style-type: none"> • Change the eligibility requirements for high efficiency fluorescent lamps/ballast to be Super T8s. (Code10) The availability and market awareness of new Super T8 lamps and ballasts has significantly increased over the past year, so the Company will phase out the incentive for standard T8s and only provide incentives for new Super T8s. This change will be phased in at mid-year to allow sufficient time to market this significant change to the Company’s programs. • Add a prescriptive incentive for the new high quality, high efficiency type fixtures. There are new fixtures on the market that provide the same light quality as the efficient parabolic fixture measure (<i>Code 30</i>), but with even higher efficiency (~85% versus 75%) • Reduces incentives on high intensity (or high bay) type fluorescent fixtures. (Code56/57) The availability and market awareness of high intensity fluorescent fixtures has significantly increased over the past year, so the Company proposes to reduce the incentive for this measure in 2006. • Reduces incentives on metal halide type light fixtures used in retail applications (Code 70) More manufacturers are producing extensive lines of low wattage (39-100watt) metal halide light fixtures to replace standard incandescent fixtures and costs have started to drop. • Evaluate “plug-in” type occupancy controllers for potential prescriptive incentive. There are various controllers on the market that address plug-in type equipment (such as computer screens, office lighting, vending machines, etc.) as opposed to wall or ceiling mount occupancy sensors which typically controls hardwired ceiling lighting fixtures. 	<ul style="list-style-type: none"> • Super T8 Guidelines. The \$15 incentive will only be available for installation of Super T8 lamps/ballasts. • Add prescriptive incentive for the new high quality, high efficiency type fixtures. (add to Code 32 list or create a new Code 34 measure) • Incentives on high intensity fluorescent fixture to remain the same • Reduces incentives on metal halide retail type light fixtures (same discussion as EI)

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Category	Energy Initiative	Design 2000plus
HVAC	<ul style="list-style-type: none"> • No changes 	<ul style="list-style-type: none"> • Eliminate the prescriptive chiller application. All chiller projects will be run Custom. A simple spreadsheet calculator will be developed to provide a streamlined process for “chiller only” type jobs where a full TA Study is not needed. • Add incentive for Outside Air Ventilation controls (CO2 based)
Custom	<ul style="list-style-type: none"> • Reduce incentives from 45% to 40% of total costs. 	<ul style="list-style-type: none"> • No changes
Other Initiatives	<ul style="list-style-type: none"> • Benchmarking • Retro-commissioning 	<ul style="list-style-type: none"> • Advanced Buildings – Allow an enhanced incentive to support the adoption of the Advanced Building Design Guidelines. This will promote high performance building design practices. This incentive will provide up to 90% of the incremental costs and target buildings of less than 100,000 square feet.
Tax Provisions	<ul style="list-style-type: none"> • Not Applicable 	<ul style="list-style-type: none"> • The Company will promote the availability of tax benefits as they apply to high performance buildings. These tax provisions are described in the Federal Energy Policy Act of 2005.

These proposed enhancements continue to reflect the Company’s objectives to improve the way buildings are designed, constructed and operated.

**NARRAGANSETT ELECTRIC COMPANY
2006 Proposed Budget**

	PAYROLL (\$000)	EXPENSE (\$000)	ADVERTISING (\$000)	TOTAL (\$000)
RESIDENTIAL PROGRAMS				
IN-HOME SERVICES				
EnergyWise	\$48.3	\$1,515.0	\$50.0	\$1,613.4
Single Family Low Income Services	\$19.4	\$1,665.0	\$0.0	\$1,684.4
ENERGY EFFICIENT PRODUCTS				
ENERGY STAR® Appliances	\$16.6	\$244.0	\$124.7	\$385.2
ENERGY STAR® Heating Program	\$3.5	\$104.4	\$2.0	\$109.8
ENERGY STAR® Central Air Conditioning Program	\$6.2	\$151.7	\$17.2	\$175.1
ENERGY STAR® Lighting	\$21.3	\$796.4	\$122.0	\$939.7
NEW CONSTRUCTION				
ENERGY STAR® Homes	\$10.7	\$947.5	\$30.0	\$988.2
INFORMATION & EDUCATION				
Energy Efficiency Educational Programs	\$6.9	\$47.3	\$70.0	\$124.2
Subtotal Residential	\$133.0	\$5,471.3	\$415.9	\$6,020.1
C&I PROGRAMS				
LARGE C&I PROGRAMS (1)				
Design 2000 <i>plus</i>	\$382.6	\$3,463.3	\$16.1	\$3,861.9
Energy Initiative(2)	\$381.4	\$6,100.3	\$9.5	\$6,491.2
Subtotal Large C&I	\$764.0	\$9,563.6	\$25.6	\$10,353.2
SMALL C&I PROGRAMS				
Small Business Services	\$14.2	\$4,193.7	\$50.0	\$4,258.0
Subtotal Small C&I	\$14.2	\$4,193.7	\$50.0	\$4,258.0
OTHER DSM EXPENSE ITEMS				
Company Incentive	\$0.0	\$733.9	\$0.0	\$733.9
Program Design, Evaluation and Planning	\$135.5	\$206.2	\$0.0	\$341.7
Subtotal Other Items	\$135.5	\$940.1	\$0.0	\$1,075.6
TOTAL DSM BUDGET	\$1,046.7	\$20,168.7	\$491.4	\$21,706.8

- 1) Includes commitments for Design 2000plus and Energy Initiative of \$1,132,700 and \$2,648,000 respectively.
2) Includes funding for load response audits. The budget for this activity is \$61,100.

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THE NARRAGANSETT ELECTRIC COMPANY
2006 Proposed Budget Vs. 2005 True-up Budget

	Proposed 2006 Budget (\$000)	2005 True-up Budget (\$000)	Difference (\$000)
RESIDENTIAL PROGRAMS			
IN-HOME SERVICES			
EnergyWise	\$1,613.4	\$1,834.6	(\$221.2)
Single Family Low Income Services	\$1,684.4	\$1,856.4	(\$172.0)
Home Energy Management	\$0.0	\$45.5	(\$45.5)
ENERGY EFFICIENT PRODUCTS			
ENERGY STAR® Appliances	\$385.2	\$490.0	(\$104.8)
ENERGY STAR® Heating Program	\$109.8	\$200.9	(\$91.0)
ENERGY STAR® Central Air Conditioning Program	\$175.1	\$251.2	(\$76.0)
ENERGY STAR® Lighting	\$939.7	\$1,101.1	(\$161.4)
NEW CONSTRUCTION			
ENERGY STAR® Homes	\$988.2	\$1,176.9	(\$188.7)
INFORMATION & EDUCATION			
Energy Efficiency Educational Programs	\$124.2	\$97.2	\$27.0
Subtotal Residential	\$6,020.1	\$7,053.7	(\$1,033.7)
LARGE C&I PROGRAMS			
Design 2000 <i>plus</i>	\$3,861.9	\$4,366.6	(\$504.7)
Energy Initiative(1)	\$6,491.2	\$6,442.0	\$49.3
Subtotal Large C&I	\$10,353.2	\$10,808.6	(\$455.4)
SMALL C&I PROGRAMS			
Small Business Services	\$4,258.0	\$4,130.0	\$128.0
Subtotal Small C&I	\$4,258.0	\$4,130.0	\$128.0
	\$20,631.2	\$21,992.3	(\$1,361.2)
OTHER DSM EXPENSE ITEMS			
Company Incentive	\$733.9	\$774.689	(\$40.8)
Load Response Program(1)	\$0.0	\$27.7	(\$27.7)
Program Design, Evaluation and Planning	\$341.7	\$350.0	(\$8.3)
Subtotal Other Items	\$1,075.6	\$1,152.4	(\$76.8)
TOTAL DSM BUDGET	\$21,706.8	\$23,144.8	(\$1,438.0)

Notes:

1) For 2006, the Company has included \$61,100 in funding for load response audits that will be provided to existing customers in its Energy Initiative Program budget. In 2005, this funding was shown as if it were for a unique initiative due to its nature as a demonstration effort in 2005.

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Attachment 7

The Narragansett Electric Company
DSM Funding Sources in 2006 by Sector

	Projection
Projected kWh Sales¹:	
Residential	3,091,306,693
Small Commercial & Industrial	1,880,610,087
Large Commercial & Industrial	<u>3,107,519,429</u>
Total	8,079,436,209
DSM Revenue per kWh	\$0.002
Projected DSM Revenues (\$000)	
Residential	\$6,182.6
Small Commercial & Industrial	\$3,761.2
Large Commercial & Industrial	<u>\$6,215.0</u>
Total	\$16,158.8
Other Sources of DSM Revenues (\$000):	
Projected DSM Fund Balance Interest in 2006	
Residential	\$102.0
Small Commercial & Industrial	\$60.0
Large Commercial & Industrial	<u>\$308.0</u>
Total	<u>\$470.0</u>
Projected Co-Payments by Customers in 2006:	
Residential	\$0.0
Small Commercial & Industrial	\$436.8
Large Commercial & Industrial	<u>\$75.1</u>
Total	\$511.9
Projected DSM Commitments in 2005:	
Residential	\$0.0
Small Commercial & Industrial	\$0.0
Large Commercial & Industrial	<u>\$3,780.7</u>
Total	<u>\$3,780.7</u>
Projected 2005 Fund Balance:	
Residential	(\$177.7)
Small Commercial & Industrial	\$500.7
Large Commercial & Industrial	<u>\$462.4</u>
Total	\$785.4
Subtotal - Other Sources of DSM Revenues:	
Residential	(\$75.7)
Small Commercial & Industrial	\$997.5
Large Commercial & Industrial	<u>\$4,626.2</u>
Total	<u>\$5,548.0</u>
Projected Total Funding Available in 2006:	
Residential	\$6,106.9
Small Commercial & Industrial	\$4,758.7
Large Commercial & Industrial	<u>\$10,841.2</u>
Total	\$21,706.8

Notes:

¹ Projected streetlighting and sales for resale kWh sales have been allocated to each sector based on the percentage of sales in each sector excluding expected streetlighting sales.

1
2 **2006 PERFORMANCE METRICS**
3

4 **Introduction**
5

6 In 2005, incentivized performance metrics were established for five initiatives offered in
7 Rhode Island. Four of these metrics were for “market transformation” initiatives and one
8 (Comprehensiveness in Small Business Services) was for a significant improvement in
9 program offerings. In all cases, the metrics were designed to be straightforward measures
10 of progress for initiatives believed worthy of a special targeted focus.

11
12 For 2006, the Company proposes performance metrics for four initiatives. The major
13 structure and delivery for three of the initiatives is not changing from the metrics
14 established in 2005. This reflects the fact that, for many such initiatives, progress is
15 achieved over time and that it is worthwhile to maintain the focus of program
16 implementation on the policy objective defined by the metric over more than one year. A
17 new performance target is proposed for Commercial and Industrial Benchmarking.
18 Major changes to some residential programs (as described in Attachment 1) make it
19 difficult to predict performance and create targets for some program areas that would
20 have been promising candidates for a second residential metric.

21
22 The Company proposes the performance targets for 2006 described on the following
23 pages. The proposed targets reflect current market conditions and will require significant
24 Company effort to achieve desired results. The Parties agree that partial credit will be
25 awarded for performance that does not meet the specific numeric target, in recognition of
26 the Company’s effort and in recognition that Rhode Island consumers benefit from even
27 partial progress toward the metric’s objective. No extra incentive will be awarded for
28 exceeding the numeric target.

29
30 The performance level at which partial achievement will be credited is the “threshold”.
31 For those metrics that are continuing in 2005, the threshold will be equal to final 2005

1 performance.¹ This provides continuity in the structure of the metric at the same time as
2 creating a clear standard for the Company from which it must improve in order to receive
3 an incentive. For the metric that did not exist in 2005, the threshold is developed based
4 on an assessment of available program data.

5
6 The performance level at which the full incentive will be credited is the “target.” The
7 incentive for most metrics will be scaled between the threshold and the target. For the
8 schools metric that does not allow for scaling, the incentive will be credited for
9 incremental levels of performance.

10
11 **Residential Metric 1: EnergyWise Targeting.**
12

13 Metric: The Company will also actively offer *EnergyWise* services to the approximately
14 10,000 customers who (a) are not low income, (b) who have previously been shut-off for
15 non-payment over the past three years, and (c) have not previously participated in the
16 *EnergyWise* program. The Company will serve 100 more customers from this group
17 than it served in 2005.

18
19 Objective: This metric supports outreach and delivery of services to segments of the
20 residential customer sector who have not previously participated in the *EnergyWise*
21 program and whose economic circumstances warrant special attention. These customers
22 will benefit from the long term value provided by the *EnergyWise* program.

23 Discussion: The key issue with this metric is defining the target market and the likely
24 response.

25 Non low income customers with a history of shut-offs are targeted because the shut-off
26 history indicates some economic hardship. When this history is linked together with a
27 tailored marketing effort, prior non-participants may be receptive to receiving

¹ This proposal describes a process for establishing numeric targets for the continuing performance metrics. The Parties propose to include final performance targets for these metrics as part of the 2006 True-Up filing.

1 EnergyWise services. However, the customer response may be influenced by other
2 factors that outweigh the value of the energy benefits. In 2005, targeting also focused on
3 customers whose Home Energy Management Program benefits were ending. This group
4 will no longer be given special targeting.

5 Information to date for 2005 indicates that the Company is on track to reach its target of
6 100 customers in 2005. The parties agree that an increment of 100 customers is
7 appropriate for this segment. The proposed increment is based on the results of
8 marketing the Company did in 2005.

9 Low income customers are served by the Single Family Low Income Services program
10 instead of EnergyWise and therefore not covered by this metric.

11 Partial Performance: The following is proposed for partial achievement toward the
12 target. The incentive for performance between the threshold and the target will be scaled
13 proportionately.

ENERGYWISE TARGETING			
	Participants	Incentive	% of Incentive
Threshold	2005 participation	\$10,000	67%
Target	2005 participation plus 100	\$15,000	100%

14

15

16 **C& I Metric 1: C&I Benchmarking**

17

18 Metric: In 2006, the Company will benchmark the energy use of large C&I customers to
19 assist them in setting priorities and promote the installation of energy efficiency measures
20 in their facilities. Delivery of this benchmarking service will be the basis for creation of
21 and commitment by the Company to applications for incentive payments from 12
22 different large C&I customer facilities.

23

1 Objective: Benchmarking is the comparison of a facility's energy use to their peers' or
2 their own historic consumption characteristics. By gathering their current and historical
3 energy use from the Company's billing data systems and presenting it in an insightful
4 manner, new energy efficiency strategies may be readily identified, and an action plan
5 leading to an installation can be developed. This metric provides the opportunity to
6 promote this service in Rhode Island, with the focus on the creation of applications for
7 energy efficiency incentives directly resulting from the findings of the benchmarking
8 exercise.

9
10 Discussion: As companies become more aware of how and when they use energy in their
11 facilities, they are in a position to assess where the best opportunities lie to develop better
12 operating and maintenance practices. Through benchmarking, building owners and
13 operators achieve a better understanding of the energy related cost of their buildings.
14 Moreover it leads them to reduce operating costs, increase energy efficiency and promote
15 environmentally-friendly operations.

16
17 There are two primary tools the Company will use to accomplish the benchmarking
18 objective. The combination of these approaches and services determined by the
19 Company's Account Managers should help to stimulate greater efficiency savings and
20 reach those customers who may not have taken advantage of the program and services to
21 date.

- 22 • The Company's Energy Profiler On-Line (EPO). This is a tool that is used
23 effectively to identify energy use patterns within large commercial or industrial
24 facilities. It helps to identify energy and demand savings potential by offering
25 detail on current load duration and daily and historical building energy use. EPO
26 can provide an account manager an accurate snap shot of the facility before
27 meeting with the customer. The service can frame discussions to influence better
28 energy use practices and /or further technical assistance to validate the potential of
29 new energy efficient strategies and opportunities.

30

- 1 • Commercial Benchmarking Services available through the EPA’s Energy Star
2 Portfolio Manager. This is a tool that provides a comparison of the level of annual
3 energy consumption for commercial or institutional customers to that of other
4 facilities with the same function. The buildings are ranked in comparison to the
5 other buildings in a national database, corrected for climate and other key
6 variables. The analysis considers all purchased energy types used in the facility.
7 The customer will be responsible for providing the utility data, and tracking
8 resource consumption and costs. The EPA’s ENERGY STAR Benchmarking
9 system utilizing Portfolio Manager is used for this effort. The Company will
10 furnish a written action plan identifying efficiency cost and savings opportunities
11 resulting from the benchmarking. The process recognizes that a customer may be
12 motivated by a comparison to peers more than a comparison to previous period’s
13 consumption. The Company will use the services of a Project Expediter to
14 generate opportunity assessment, analysis and follow up services to steer the
15 customer toward an installation of efficiency measures.

16
17 The metric requires customer recruitment, benchmarking, identification of opportunities,
18 creation of applications and commitment to projects to all occur within 2006.
19 Performance of all of these tasks will take significant effort and follow-up by the
20 Company. The target of 12 is set based on the experience with this offering by the
21 Company’s affiliate in Massachusetts.

22
23 Partial Performance: The following is proposed for partial achievement toward the target
24 of 12 application commitments.

C&I BENCHMARKING			
	Applications	Incentive	% of Incentive
Threshold	8	\$10,000	67%
Target	12	\$15,000	100%

25
26
27 The incentive for performance between the threshold and the target will be scaled
28 proportionately.

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C&I Metric 2: High Performance Schools

Metric: The Company will contract with new public or private school projects through Design 2000*plus* to provide full incremental cost for high performance design and construction practices with a special focus on high quality energy efficient lighting. It shall contract with 2 schools more than it contracted with in 2005.

Objective: This market capitalizes on the window of opportunity available when school facilities are being built or renovated to increase program participation and energy savings. It assists a portion of the municipal sector that faces continuing funding challenges.

Discussion: Schools present unique opportunities to not only adopt energy efficiency but to enhance student learning through better classroom design. This metric provides technical and financial support from the very beginning of school construction projects, emphasizes thermal, acoustic, and visual comfort, especially in lighting design, and helps cities and towns construct new schools that are high quality, environmentally sensitive, and cost less to operate.

According to documents from the Department of Education, on average, funding is approved for approximately 15 public school projects per year. In the period 2001 through 2004, 10 schools, or 16% (of approximately 60 schools), have participated in the Schools Initiative.²

² Some of the approved public school projects may be for projects that may not be suitable for the Schools Initiative, in other words, projects that do not involve construction of an entirely new school building. These may be for partial facility construction, renovations, or equipment replacement at the end of its useful life. Many of these have received rebates through the Design 2000*plus* program. In fact, over 75% of the funded public school projects received Design2000*plus* rebates in this period.

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1 In 2004, the Company placed under contract 1 school, and in 2005 the Company is
2 projecting to place under contract 2 schools, indicating the difficulty in recruiting
3 customers to this initiative considering the small number of new schools built each year,
4 the long project development schedules, and the current economic climate, particularly
5 for municipalities. In this context, the Company's proposal to increase this amount by 2
6 projects in 2006 is a reasonable challenge.

7

8 For 2006, the Company will continue to work with the Rhode Island Department of
9 Elementary and Secondary Education to help identify additional participants. The
10 Company has not been able to identify a single source of data that tracks funding of
11 private school construction. Nevertheless, the Company will use the same level of effort
12 to offer the program to private schools as to public schools and include contracts with
13 private schools in the performance metric for 2006.

14

15 Partial Performance: Based on historic performance, the small size of the eligible market
16 and the uncertainty about the potential in the private school sector, the following is
17 proposed for partial achievement toward the target increase of 2 schools.

18

SCHOOLS INITIATIVE			
Performance	Participants	Incentive	% of Incentive
Threshold	(2005 level)	\$10,000	67%
Intermediate	(2005 participation +1)	\$12,500	83%
Target	(2005 participation +2)	\$15,000	100%

19

20 Because of the integer nature of school buildings, the incentive for performance between
21 the threshold and the target will be not scaled proportionately, but will be awarded as
22 shown above.

23

24

1 **C&I Metric 3: Comprehensiveness in Small Business Installations**

2
3 Metric: The Company will achieve 2 percentage points greater comprehensiveness in
4 Small Business Services in 2006 than it achieved in 2005. The percentage will be
5 calculated as the number of completed non prescriptive lighting or other custom energy
6 efficiency applications (excluding custom walk-in cooler applications) divided by the
7 total number of applications (excluding walk-in cooler applications) in 2006.

8
9 Objective: This metric continues to encourage the Company to add other electrical
10 efficiency opportunities beyond lighting retrofits to the Small Business Services program.
11 These improvements to program design support more comprehensiveness in customers'
12 facilities and expand the depth and appeal of the program.

13
14 Discussion: In 2004, the Parties established and achieved a metric target of 5%
15 comprehensiveness, using the definition contained in the metric description above. In
16 2005, the Company is on target to achieve the metric of 7% comprehensiveness. The key
17 factors influencing the delivery of comprehensive services were education of
18 implementation staff to identify non-lighting measures and establishment of effective
19 delivery channels.

20
21 The Company proposes to set the target at 2 percentage points greater comprehensiveness
22 in 2006 compared to 2005. The Company believes that good progress has been made in
23 small business comprehensive implementation, but that more progress remains to be
24 made. Although the metric structure is the same as 2005, the 2 percentage point increase
25 will be a challenge because it continues to be a challenge for the implementation vendor
26 to cost effectively manage the implementation of custom measures while managing the
27 budget and achieving savings targets.

28
29 As in 2005, the metric specifies completed projects to put the tracking of
30 comprehensiveness on equal footing with other results that are tracked throughout the

1 years, and to eliminate the potential for counting a comprehensive project in two years.
2 Also, as in 2005, the Company will exclude from this metric and assessment of its
3 performance toward the target customers in the 100 kW to 200 kW range who participate
4 in the SEO's ESCO program.

5

6 Walk-in cooler have been excluded from the metric because they are delivered by a
7 different vendor from the rest of the services and because comprehensive measures are
8 just beginning to be developed and offered for the small business refrigeration end use.

9

10 Partial Performance: Based on historic performance, the following is proposed for partial
11 achievement toward the target.

12

SBS COMPREHENSIVENESS			
Performance	Comprehensiveness %	Incentive	% of Incentive
Threshold	(Equal to 2005 actual)	\$10,000	67%
Target	(2 percentage points above 2005)	\$15,000	100%

13

14 The incentive for performance between the threshold and the target will be scaled
15 proportionately.

NARRAGANSETT ELECTRIC COMPANY
Derivation of the 2006 Spending Budget for Shareholder Incentive Calculation

	(1) Total Proposed 2006 Budget (\$000)	(2) Commitments and Copays (\$000)	(3) Excluded Programs (\$000)	(4) Allocated Other Expenses (\$000)	(5) Eligible Sector Spending Budget (\$000)
RESIDENTIAL PROGRAMS					
IN-HOME SERVICES					
EnergyWise	\$1,613.4				
Single Family Low Income Services	\$1,684.4				
ENERGY EFFICIENT PRODUCTS					
ENERGY STAR® Appliances	\$385.2				
ENERGY STAR® Heating Program	\$109.8				
ENERGY STAR® Central Air Conditioning Program	\$175.1				
ENERGY STAR® Lighting	\$939.7				
NEW CONSTRUCTION					
ENERGY STAR® Homes	\$988.2				
INFORMATION & EDUCATION					
Energy Efficiency Educational Programs	\$124.2				
Subtotal Residential	\$6,020.1	\$0.0	\$0.0	\$136.2	\$6,156.3
LARGE C&I PROGRAMS					
Design 2000plus	\$3,861.9				
Energy Initiative	\$6,491.2				
Subtotal Large C&I	\$10,353.2	\$3,855.8	\$0.0	\$188.4	\$6,685.7
SMALL C&I PROGRAMS					
Small Business Services	\$4,258.0				
Subtotal Small C&I	\$4,258.0	\$436.8	\$0.0	\$17.1	\$3,838.3
	\$20,631.2				
OTHER DSM EXPENSE ITEMS					
Company Incentive	\$733.9		\$733.9		
Program Design, Evaluation and Planning	\$341.7			(\$341.7)	
Subtotal Other Items	\$1,075.6	\$0.0	\$733.9	(\$341.7)	\$0.0
TOTAL DSM BUDGET	\$21,706.8			\$0.0	\$16,680.3

THE NARRAGANSETT ELECTRIC COMPANY
Target 2006 Shareholder Incentive

Incentive Rate: 4.40%

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Sector	Spending Budget	Incentive Rate	Target Incentive	Target Incentive for Performance Metrics	Target Incentive - Annual kWh Savings	Annual kWh Savings Goal	Threshold kWh Savings	Target Incentive Per kWh	Incentive Cap Annual kWh Savings
Residential	\$6,156,265		\$263,731	\$15,000	\$248,731	16,370,479	9,822,287	\$0.015	\$310,914
Small Commercial & Industrial	\$3,838,284		\$170,078	\$15,000	\$155,078	8,110,623	4,866,374	\$0.019	\$193,848
Large Commercial & Industrial	\$6,685,720		\$300,123	\$30,000	\$270,123	27,898,751	16,739,251	\$0.010	\$337,653
Total	\$16,680,268	4.40%	\$733,932	\$60,000	\$673,932	52,379,852	31,427,912		\$842,415

Notes:

- (1) Sector budget net of projected commitments and copays.
- (2) 4.40% of the sector spending budget.
- (3) Column (2) x Column (1).
- (4) \$15,000 per proposed performance metric.
- (5) Column (3) - Column (4) allocated to sectors based on the relative size of the spending budget in the sector.
- (6) Goal for annual kWh savings by sector.
- (7) 60% of Column (5). The threshold level of performance has been increased from 45% to 60% in 2005. No incentive is earned on annual kWh savings in the sector unless the Company achieves at least this threshold level of performance.
- (8) Column (5)/Column (6). Applicable to all annual kWh savings up to 125% of target savings if at least 60% of target savings have been achieved.
- (9) Column (5) x 1.25. See page xx of the Settlement.

2006 RHODE ISLAND BENEFIT COST TEST
 Summary of Benefit, Expenses, Evaluation Costs (\$000)
 The Narragansett Electric Company

	Rhode Island Benefit/ Cost (2)	Total Benefit	Program Implementation Expenses	Evaluation Cost	Shareholder Incentive (3)
Large Commercial & Industrial					
Design 2000plus	4.41	\$12,378	\$2,729	\$80	NA
Energy Initiative	7.04	27,616	3,843	80	NA
SUBTOTAL	5.69	\$39,994	\$6,572	\$160	\$300

Small Commercial & Industrial					
Small Business Services(1)	2.15	\$7,684	\$3,552	\$15	NA
SUBTOTAL	2.06	\$7,684	\$3,552	\$15	\$170

Residential Programs					
IN-HOME SERVICES					
EnergyWise	1.35	\$4,556	\$3,298	\$74	NA
Single Family Low Income Services	1.20	2,024	1,613	74	NA
PRODUCTS & SERVICES	1.50	2,532	1,684	0	NA
ENERGY STAR® Appliances	6.28	10,261	1,610	25	NA
ENERGY STAR® Heating Program	10.10	3,891	385	0	NA
ENERGY STAR® Central Air Conditioning Program	5.16	567	110	0	NA
ENERGY STAR® Lighting	1.28	225	175	0	NA
ENERGY STAR® Lighting	5.78	5,578	940	25	NA
NEW CONSTRUCTION - ENERGY STAR® Homes	2.07	2,083	988	16	NA
SUBTOTAL	2.69	\$16,901	\$5,896	\$115	\$264

Other					
Energy Efficiency Education Programs	NA	NA	\$124	NA	NA
Other Program Design, Evaluation and Planning	NA	NA	124	52	NA
SUBTOTAL	NA	NA	\$124	\$52	NA

TOTAL	3.75	\$64,579	\$16,144	\$342	\$734
--------------	-------------	-----------------	-----------------	--------------	--------------

Notes:

- 1) Small Business program expenses are net of the projected customer co-pay for 2006 installations (\$706,251).
- 2) RI B/C Test = (Energy + Capacity + Participant Resource Benefits) / (Program Implementation + Evaluation Costs + Shareholder Incentive)
- 3) See Attachment 9.

2006 RHODE ISLAND BENEFIT COST TEST
Summary of Expenses, Benefit, kW, and kWh by Program

	Benefits (000's)										MWh Saved				
	Capacity					Energy				Participant Resource	Summer	Winter	Lifetime	Maximum Annual	Lifetime
	Generation		Trans	MDC	Winter		Summer								
	Total	Summer			Winter	Peak	Off Peak	Peak	Off Peak						
Large Commercial & Industrial															
Design 2000plus	\$12,378	\$2,164	\$0	\$479	\$1,229	\$2,570	\$2,689	\$1,204	\$1,146	\$0	1,695	953	28,525	8,766	149,960
Energy Initiative	27,616	4,825	0	1,066	2,733	7,528	4,168	3,532	1,774	0	3,658	2,962	63,708	19,133	313,521
SUBTOTAL	\$39,994	\$6,989	\$0	\$1,545	\$3,963	\$10,098	\$6,857	\$4,736	\$2,920	\$0	5,352	3,915	92,234	27,899	463,481

Small Commercial & Industrial

Small Business Services	\$7,684	\$1,417	\$0	\$340	\$873	\$2,472	\$566	\$1,143	\$237	\$0	2,094	1,092	18,842	8,111	76,836
SUBTOTAL	\$7,684	\$1,417	\$0	\$340	\$873	\$2,472	\$566	\$1,143	\$237	\$0	2,094	1,092	18,842	8,111	76,836

Residential Programs

IN-HOME SERVICES	\$4,556	\$282	\$0	\$66	\$245	\$634	\$781	\$315	\$320	\$1,792	335	787	3,643	3,558	37,987
EnergyWise	2,024	162	0	38	142	436	538	217	220	200	208	613	2,096	2,570	25,889
Single Family Low Income Services	2,532	120	0	28	103	197	243	98	100	1,592	127	174	1,548	988	12,098
PRODUCTS & SERVICES	10,261	787	0	188	703	1,618	2,005	874	841	2,893	1,123	1,578	10,459	12,038	92,948
ENERGY STAR® Appliances	3,891	358	0	82	305	185	228	140	109	2,332	362	128	4,600	924	12,735
ENERGY STAR® Heating Program	567	0	0	0	0	2	2	1	1	561	0	5	1	10	115
ENERGY STAR® Central Air Conditioning Program	225	75	0	18	66	3	1	22	7	0	96	1	996	54	590
ENERGY STAR® Lighting	5,578	353	0	89	333	1,427	1,774	711	725	0	665	1,443	4,863	11,051	79,507
NEW CONSTRUCTION - ENERGY STAR® Homes	2,083	163	0	35	132	136	168	68	69	1,246	107	199	2,184	774	8,128
SUBTOTAL	\$16,901	\$1,232	\$0	\$289	\$1,081	\$2,387	\$2,954	\$1,257	\$1,231	\$5,931	1,564	2,564	16,287	16,370	139,063
TOTAL	\$64,579	\$9,637	\$0	\$2,175	\$5,916	\$14,956	\$10,377	\$7,136	\$4,388	\$5,931	9,010	7,571	127,363	52,380	679,380

THE NARRAGANSETT ELECTRIC COMPANY

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Attachment 10

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Calculation of 2006 Program Year Cost-Effectiveness and Goals

Program	Proposed 2006		2005 True-Up		Difference	
	Annual Energy Savings (MWh)	Participants	Annual Energy Savings (MWh)	Participants	Annual Energy Savings (MWh)	Participants
Large Commercial & Industrial						
Design 2000 <i>plus</i>	8,766	181	9,478	189	(712)	(8)
Energy Initiative	19,133	182	18,035	185	1,098	(3)
SUBTOTAL	27,899	363	27,513	374	385	(11)
Small Commercial & Industrial						
Small Business Services	8,111	887	7,466	887	644	0
SUBTOTAL	8,111	887	7,466	887	644	0
Residential Programs						
IN-HOME SERVICES						
Energy <i>Wise</i>	2,570	3,261	2,955	3,699	(384)	(438)
Single Family Low Income Services	988	967	1,157	1,011	(169)	(44)
PRODUCTS & SERVICES						
ENERGY STAR® Appliances	924	5,800	830	5,785	93	15
ENERGY STAR® Heating Program	10	480	12	609	(3)	(129)
ENERGY STAR® Central Air Conditioning Program	54	400	131	210	(76)	190
ENERGY STAR® Lighting	11,051	64,097	12,546	71,221	(1,496)	(7,124)
NEW CONSTRUCTION - ENERGY STAR® Homes	774	500	1,141	600	(367)	(100)
SUBTOTAL	16,370	75,505	18,772	83,135	(2,401)	(7,630)
TOTAL	52,380	76,755	53,751	84,396	(1,371)	(7,641)

ELECTRIC AVOIDED PRODUCER COSTS FOR RHODE ISLAND
FROM NEW AVOIDED ENERGY SUPPLY COMPONENT STUDY, IN 2006\$, USED IN 2006 SETTLEMENT

Period	Winter Peak Energy \$/kWh	Winter Off-Peak Energy \$/kWh	Summer Peak Energy \$/kWh	Summer Off-Peak Energy \$/kWh	Summer Gener. Capacity \$/kW-yr	Winter Gener. Capacity \$/kW-yr	Transm. Capacity \$/kW-yr	C&I Distribution Capacity \$/kW-yr	Res Distribution Capacity \$/kW-yr	DRIFE \$/kW-yr
2005	0.075	0.065	0.070	0.052	4.050	0.000	17.569	45.951	66.963	32.805
2006	0.086	0.074	0.079	0.061	41.729	0.000	17.569	45.951	66.963	32.805
2007	0.090	0.076	0.083	0.064	47.393	0.000	17.569	45.951	66.963	32.805
2008	0.076	0.062	0.072	0.052	71.905	0.000	17.569	45.951	66.963	32.805
2009	0.062	0.050	0.057	0.041	76.873	0.000	17.569	45.951	66.963	32.805
2010	0.054	0.043	0.050	0.036	80.222	0.000	17.569	45.951	66.963	32.805
2011	0.056	0.045	0.051	0.038	83.716	0.000	17.569	45.951	66.963	32.805
2012	0.058	0.046	0.053	0.039	87.363	0.000	17.569	45.951	66.963	32.805
2013	0.058	0.047	0.054	0.040	87.674	0.000	17.569	45.951	66.963	32.805
2014	0.059	0.047	0.054	0.040	87.985	0.000	17.569	45.951	66.963	32.805
2015	0.059	0.048	0.055	0.041	88.298	0.000	17.569	45.951	66.963	32.805
2016	0.059	0.048	0.055	0.041	88.612	0.000	17.569	45.951	66.963	32.805
2017	0.061	0.050	0.058	0.043	88.056	0.000	17.569	45.951	66.963	32.805
2018	0.063	0.052	0.060	0.045	87.503	0.000	17.569	45.951	66.963	32.805
2019	0.065	0.054	0.062	0.047	86.953	0.000	17.569	45.951	66.963	32.805
2020	0.067	0.056	0.065	0.049	86.407	0.000	17.569	45.951	66.963	32.805
2021	0.068	0.056	0.066	0.050	86.804	0.000	17.569	45.951	66.963	32.805
2022	0.068	0.057	0.067	0.050	87.202	0.000	17.569	45.951	66.963	32.805
2023	0.069	0.057	0.067	0.051	87.603	0.000	17.569	45.951	66.963	32.805
2024	0.070	0.058	0.068	0.052	88.005	0.000	17.569	45.951	66.963	32.805
2025	0.070	0.059	0.069	0.052	88.409	0.000	17.569	45.951	66.963	32.805
2026	0.071	0.059	0.070	0.053	88.815	0.000	17.569	45.951	66.963	32.805
2027	0.072	0.060	0.071	0.054	89.223	0.000	17.569	45.951	66.963	32.805
2028	0.073	0.061	0.072	0.054	89.633	0.000	17.569	45.951	66.963	32.805
2029	0.073	0.061	0.073	0.055	90.045	0.000	17.569	45.951	66.963	32.805
2030	0.074	0.062	0.073	0.056	90.458	0.000	17.569	45.951	66.963	32.805
2031	0.074	0.062	0.074	0.056	74.776	0.000	17.569	45.951	66.963	32.805
2032	0.074	0.061	0.074	0.055	69.229	0.000	17.569	45.951	66.963	32.805
2033	0.074	0.061	0.075	0.055	64.094	0.000	17.569	45.951	66.963	32.805
2034	0.074	0.061	0.075	0.055	59.340	0.000	17.569	45.951	66.963	32.805
2035	0.074	0.061	0.076	0.055	54.939	0.000	17.569	45.951	66.963	32.805
2036	0.074	0.061	0.076	0.055	50.864	0.000	17.569	45.951	66.963	32.805
2037	0.074	0.060	0.076	0.054	47.091	0.000	17.569	45.951	66.963	32.805
2038	0.074	0.060	0.077	0.054	43.598	0.000	17.569	45.951	66.963	32.805
2039	0.074	0.060	0.077	0.054	40.365	0.000	17.569	45.951	66.963	32.805
2040	0.074	0.060	0.078	0.054	37.371	0.000	17.569	45.951	66.963	32.805
Levelized³ (2005-2040)	0.069	0.057	0.067	0.049	73.195	0.000	17.569	45.951	66.963	32.805
5 year Levelized³ (2006-2010)	0.074	0.061	0.069	0.051	63.195	0.000	17.569	45.951	66.963	32.805
10 year Levelized³ (2006-2015)	0.066	0.054	0.061	0.046	74.485	0.000	17.569	45.951	66.963	32.805
15 year Levelized³ (2006-2020)	0.065	0.054	0.061	0.045	78.404	0.000	17.569	45.951	66.963	32.805

Notes:

- 1) Capacity value reflects value after PER payment
- 2) 2005 data for out of market transactions was estimated using ISO-NE current RMR payments as of July 27, 2005
- 3) Levelized using a 2.03 percent real discount rate
- 4) GDP Implicit Price Deflator for 2003 to 2004 is 2.11 percent, and 2004 to 2005 is 2.25 percent
- 5) Energy values are avoided costs at the generator level. DSM savings should be measured at the generator level. (Load plus transmission losses + distribution losses)
- 6) 2006 Capacity value is at coincident summer peak
- 7) Avoided costs shown do not include effects of losses.

THE NARRAGANSETT ELECTRIC COMPANY

R.I.P.U.C Docket No. 3701

Attachment 11

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ELECTRIC AVOIDED PRODUCER COSTS FOR RHODE ISLAND

FROM 2003 AVOIDED ENERGY SUPPLY COMPONENT STUDY, IN 2006\$, USED IN 2005 TRUE-UP

Period:	Winter Peak Energy	Winter Off-Peak Energy	Summer Peak Energy	Summer Off-Peak Energy	Summer Gener. Capacity	Winter Gener. Capacity	Transm. Capacity	C&I Distribution Capacity	Res Distribution Capacity
	\$/kWh	\$/kWh	\$/kWh	\$/kWh	\$/kW-yr	\$/kW	\$/kW	\$/kW	\$/kW
2005	0.047	0.038	0.049	0.036	35.161	0.161	29.514	63.396	92.394
2006	0.044	0.035	0.046	0.033	37.782	0.173	29.514	63.396	92.394
2007	0.043	0.034	0.047	0.033	38.016	0.174	29.514	63.396	92.394
2008	0.043	0.033	0.047	0.033	38.249	0.175	29.514	63.396	92.394
2009	0.042	0.033	0.047	0.033	41.676	0.191	29.514	63.396	92.394
2010	0.042	0.032	0.047	0.032	45.410	0.208	29.514	63.396	92.394
2011	0.042	0.032	0.046	0.032	49.479	0.227	29.514	63.396	92.394
2012	0.042	0.031	0.046	0.031	53.913	0.247	29.514	63.396	92.394
2013	0.041	0.031	0.046	0.031	58.743	0.269	29.514	63.396	92.394
2014	0.042	0.031	0.046	0.031	59.571	0.273	29.514	63.396	92.394
2015	0.042	0.031	0.046	0.031	60.409	0.277	29.514	63.396	92.394
2016	0.042	0.031	0.047	0.031	61.260	0.281	29.514	63.396	92.394
2017	0.042	0.032	0.047	0.032	62.122	0.285	29.514	63.396	92.394
2018	0.043	0.032	0.047	0.032	62.997	0.289	29.514	63.396	92.394
2019	0.043	0.032	0.048	0.032	62.237	0.285	29.514	63.396	92.394
2020	0.043	0.032	0.048	0.032	61.487	0.282	29.514	63.396	92.394
2021	0.043	0.032	0.048	0.032	60.745	0.279	29.514	63.396	92.394
2022	0.043	0.032	0.048	0.032	60.013	0.275	29.514	63.396	92.394
2023	0.042	0.032	0.049	0.032	59.289	0.272	29.514	63.396	92.394
2024	0.042	0.032	0.049	0.032	58.574	0.269	29.514	63.396	92.394
2025	0.042	0.032	0.049	0.032	57.868	0.265	29.514	63.396	92.394
2026	0.043	0.032	0.050	0.032	58.327	0.268	29.514	63.396	92.394
2027	0.043	0.032	0.050	0.033	58.789	0.270	29.514	63.396	92.394
2028	0.043	0.033	0.050	0.033	59.256	0.272	29.514	63.396	92.394
2029	0.044	0.033	0.050	0.033	59.726	0.274	29.514	63.396	92.394
2030	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2031	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2032	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2033	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2034	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2035	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2036	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2037	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2038	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2039	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
2040	0.044	0.033	0.051	0.033	60.199	0.276	29.514	63.396	92.394
Levelized³ (2005-2040)	0.043	0.033	0.048	0.032	54.981	0.252	29.514	63.396	92.394
5 year Levelized³ (2006-2010)	0.043	0.034	0.047	0.033	40.151	0.184	29.514	63.396	92.394
10 year Levelized³ (2006-2015)	0.042	0.032	0.046	0.032	47.826	0.219	29.514	63.396	92.394
15 year Levelized³ (2006-2020)	0.042	0.032	0.047	0.032	52.090	0.239	29.514	63.396	92.394