

January 29, 2007

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 3790 – National Grid Gas Energy Efficiency Programs
Supplemental Testimony and Attachments of Bruce A. Johnson**

Dear Ms. Massaro:

Attached please find ten (10) copies of National Grid's ("Company") Gas Energy Efficiency Programs Phase 2 filing. This filing contains the supplemental testimony and attachments of Bruce A. Johnson and completes the Company's submittal of its proposed Gas Energy Efficiency Programs for the Commission's review and approval.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Laura S. Olton

Enclosures

cc: Docket 3790 Service List

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of Bruce A. Johnson

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National Grid
RIPUC Docket No. 3790
Gas Energy Efficiency Programs
Witness: Bruce A. Johnson

SUPPLEMENTAL TESTIMONY OF
BRUCE A. JOHNSON
ON BEHALF OF NATIONAL GRID

January 29, 2007

1 **I. INTRODUCTION & QUALIFICATIONS**

2 **Q. Please state your name and business address.**

3 A. My name is Bruce A. Johnson. My business address is 52 Second Avenue,
4 Waltham, MA 02451.

5 **Q. Have you previously submitted testimony in this proceeding?**

6 A. Yes, I previously submitted testimony on December 1, 2006 as part of
7 National Grid's Phase 1 filing to establish gas energy efficiency programs in
8 Rhode Island. In my earlier testimony, I provided descriptions of the gas
9 energy efficiency programs that National Grid proposes to implement in
10 Rhode Island in 2007, the expected level of funding by sector, and a proposal
11 to provide the Commission with additional details about such efforts in a
12 phase 2 filing.

13 **Q. What is the purpose of your supplemental testimony?**

14 A. In my supplemental testimony, I provide proposed program budgets, an
15 assessment of expected benefits and costs, proposed goals, and a proposal
16 about a performance-based shareholder incentive mechanism. I also address
17 proposed reporting requirements about National Grid's program efforts.

18

19 **II. PROPOSED PROGRAM BUDGETS**

20 **Q. Has National Grid developed budgets for each gas energy efficiency
21 program proposed for implementation in 2007?**

1 A. Yes. Budgets for each proposed gas energy efficiency program are provided
2 in Attachment BAJ-4 on page 13.

3 **Q. The proposed budgets include funding for the Smart Growth Program,**
4 **which was not described in your earlier testimony. Can you please**
5 **describe the Smart Growth Program?**

6 A. Yes. National Grid's existing natural gas demand side management program
7 for commercial and industrial customers will now be called "Smart Growth."
8 The Smart Growth program is designed to promote the demand for natural gas
9 during non-peak months of the year (non-peak periods at National Grid's
10 Rhode Island operations occur in late spring, summer and early fall).
11 Promoting the use of gas during these non-peak periods leads to an improved
12 utilization of the National Grid gas distribution system and thereby lowers the
13 average unit cost of natural gas supply services to all firm and non-firm
14 customers. This program is based upon customers adding natural gas load
15 during off-peak periods rather than reducing load through conservation
16 efforts. Some of the technologies that qualify for rebates through this
17 program are gas absorption chillers, gas engine-driven air compressors, gas
18 cogeneration systems and NGV or natural gas for vehicles to name a few.
19
20 These rebates are provided to the customer after the customer files an
21 application for a rebate and successfully installs and operates the system for a
22 period of time in accordance with the description as outlined in the

1 application. National Grid only awards a DSM rebate after the system is
2 successfully installed and operational and reserves the right to request that the
3 rebate be returned to National Grid if the system does not operate in a manner
4 consistent with the customer's DSM application.

5 **Q. Has the Commission authorized the Company to implement this**
6 **program?**

7 A. Yes. This program was approved under Order No. 15023 in Docket No. 2025,
8 effective June 25, 1996. The current level of funding that is built into base
9 rates was part of the Company's last rate case in Docket No. 3401 which was
10 approved under Order No. 17381 effective July 1, 2002. The Company has
11 not proposed any change to the program or the level of funding since then.
12 The Company intends to continue this program as part of the new gas energy
13 efficiency program efforts.

14 **Q. What factors did National Grid consider as it developed budgets for the**
15 **proposed programs?**

16 A. National Grid considered several factors as it developed proposed energy
17 efficiency program budgets. First, the Company attempted to align program
18 budgets by sector (residential or commercial and industrial) with the sources
19 of funding coming from each sector while also taking into account needed
20 funding by sector required to provide a robust program to customers. Second,
21 the Company attempted to provide a balance between services for existing
22 customers and services related to new construction or new equipment

1 purchases (i.e., lost opportunities). In addition, the proposed budgets take into
2 account efforts that are required to initiate these new services and to acquaint
3 customers with those services.

4 **Q. Is the Company requesting flexibility in managing its proposed program**
5 **budgets?**

6 A. Yes, it is. While each proposed program budget reflects where funds are
7 expected to be spent in order to initiate program efforts and meet customer
8 demands for program services, we recognize that actual customer demand for
9 services may vary from these expectations. This is especially true with the
10 initial implementation of the programs in Rhode Island. As a result, the
11 Company requests that it be authorized to transfer funds from one program to
12 another within a sector without Commission approval. If the Company wishes
13 to transfer funds from one sector to another (i.e., from the residential program
14 sector to the commercial and industrial program sector) and that transfer
15 results in a change of funding within the sector greater than 20% of the
16 approved sector budget, the Company will seek Commission approval for that
17 transfer.

18 **Q. Does the Company expect to have sufficient funding for program efforts**
19 **in 2007?**

20 A. Yes. If, however, customer demand for program services is significantly
21 higher than expected, the Company would likely file a request to increase the

1 energy efficiency surcharge, together with updated budgets and goals with
2 such a request to the Commission.

3
4 **III. COORDINATION WITH ELECTRIC ENERGY EFFICIENCY**
5 **EFFORTS**

6
7 **Q. In your original testimony on page 5 of 8 of the December 1 filing, you**
8 **mention that the Company plans to combine the gas energy efficiency**
9 **program efforts with the electric program efforts where possible. What is**
10 **the Company's plan for such coordination?**

11 A. For residential programs, the Company will add gas incentives to the
12 EnergyWise program currently offered as part of the electric program (as
13 described in greater detail in Attachment BAJ-1). The ENERGY STAR®
14 Homes program already offers incentives for gas heated new homes and those
15 will continue (Attachment BAJ-1, page 10). The Single Family Low Income
16 program will provide funding to the Rhode Island Office of Energy Resources
17 to support weatherization efforts in gas heated homes, as has been done under
18 the previous gas low income weatherization program and as National Grid has
19 done for oil and electric heated homes (Attachment BAJ-1, pages 10 and 11).
20 Additionally, the new ENERGY STAR® Gas Networks rebates for heating
21 equipment, water heaters, thermostats, and replacement windows will be
22 offered to customers participating in the programs described above, and will

1 be referenced in all National Grid gas and electric energy efficiency program
2 marketing efforts.

3 For commercial and industrial programs, an immediate opportunity to
4 coordinate the electric and gas efficiency programs exists with the current
5 Technical Assistance Program for electric customers and proposed Energy
6 Audit and Engineering Services Program for natural gas customers. The
7 ability to leverage funds from both programs enables the Company to offer
8 customers a comprehensive analysis of electric and gas savings opportunities
9 while sharing base costs associated with the delivery of either individual
10 study. Additional future opportunities exist to combine the delivery of gas
11 and electric energy efficiency measures through single customer site visits.
12 These options will be explored during the implementation planning process.
13 The Company plans to explore additional opportunities to coordinate both
14 residential and commercial and industrial electric and gas energy efficiency
15 program efforts in the future.

16 **Q. Specifically, please describe how the Company plans to coordinate gas**
17 **and electric efforts to promote high efficiency furnaces with ECM**
18 **motors.**

19 A. As part of the Gas High Efficiency Heating Program, National Grid will offer
20 a \$400 incentive for high efficiency furnaces (92% AFUE) with ECM motors.
21 This is described in Attachment BAJ-1 of the December 1 filing (pages 1, 6).
22 This program encompasses both electric and gas efforts. Accordingly, \$200

1 of the funding for this particular incentive will come from National Grid's
2 electric energy efficiency programs. This is described on page 31 of the
3 Settlement setting forth National Grid's Electric DSM Programs for 2007 in
4 Docket No. 3779, approved by the Commission at Open Meeting on
5 December 19, 2006. ECM motors in gas furnaces save about 600 kWh of
6 electricity per year for consumers.

7
8 **IV. COST-EFFECTIVENESS**

9 **Q. Are the gas energy efficiency programs proposed for implementation in**
10 **2007 expected to provide benefits in excess of costs?**

11 A. Yes. As shown in Attachment BAJ-5 on page 14, the proposed programs are
12 expected to have a benefit/cost ratio of 3.19 which means that \$3.19 in
13 benefits is expected to be created for each \$1 invested in the programs.

14 **Q. Please describe the approach that National Grid has taken to assess the**
15 **expected benefits and costs from proposed program efforts.**

16 A. National Grid has used a Utility Cost Test to assess expected benefits and
17 costs for its proposed programs. This test is comparable to the test that has
18 been used to assess cost-effectiveness for the electric energy efficiency
19 programs in Rhode Island. It takes into account program costs compared to
20 the value of the savings expected to be created in the programs over the
21 expected life of those savings.

1 Lifetime gas savings have been valued using the avoided gas costs identified
2 in “Avoided Energy Supply Costs in New England,” (December 23, 2005)
3 prepared by ICF Consulting for the Avoided-Energy-Supply-Component
4 (AESC) Study Group. This is the same source of the avoided costs that have
5 been used to value electricity savings for the electric energy efficiency
6 programs. The value of other resource benefits has also been included in the
7 analysis of expected benefits from program efforts comparable to the
8 inclusion of other resource benefits that are included in the assessment of
9 benefits and costs for the electric efficiency programs. In this case, the other
10 resource benefits include expected electricity savings that are incremental to
11 the electricity savings expected through the electric efficiency programs. The
12 value of these electricity savings has been calculated using the electric
13 avoided costs that were used to assess the cost-effectiveness of electric
14 efficiency programs for 2007.

15
16 **V. PROPOSED GOALS**

17 **Q. Has the Company estimated savings goals for the programs it proposes to**
18 **implement in 2007?**

19 **A.** Yes. Annual savings and participation goals by program are provided in
20 Attachment BAJ-6 on page 16. As shown on Attachment BAJ-6, residential
21 program efforts are expected to serve 3,349 customers and to produce 36,419
22 MMBTU of natural gas savings per year while commercial and industrial

1 program efforts are expected to serve 592 customers and to produce 40,598
2 MMBTU of natural gas savings per year.

3 **Q. What is the basis for the savings goals proposed for each program?**

4 A. Savings for each program reflect results achieved for comparable efforts in
5 other New England states. They take into account the types of measures
6 expected to be installed through each program.

7
8 **VI. PROPOSED SHAREHOLDER INCENTIVE MECHANISM**

9 **Q. Is National Grid proposing that it be allowed to earn a shareholder
10 incentive related to its performance in delivering the proposed gas energy
11 efficiency programs?**

12 A. Yes, it is.

13 **Q. Why is a shareholder incentive mechanism appropriate?**

14 A. As in the case of the electric energy efficiency programs, a performance based
15 shareholder incentive mechanism helps to align Company interests with
16 Rhode Island energy efficiency policy objectives. While the Company's
17 programs are expected to provide tremendous value to customers, by their
18 using less natural gas, the Company loses revenue. Thus, by providing the
19 Company with a financial incentive to encourage customers to use less gas,
20 the shareholder incentive aligns utility business objectives with Rhode Island
21 energy efficiency policy objectives. Moreover, as discussed further below, if
22 the Commission accepts the proposal to allow the Company to earn up to

1 125% of the target incentive for exceeding savings goals, the Commission
2 would be encouraging the Company to implement the programs efficiently.
3 The Commission has recognized this principle in its approval of the incentive
4 mechanism applicable to electric energy efficiency efforts.

5 **Q. Please describe the proposed performance-based shareholder incentive**
6 **mechanism.**

7 A. The proposed performance-based shareholder incentive mechanism is
8 modeled after the savings portion of the shareholder incentive mechanism
9 currently in place for electric energy efficiency efforts in Rhode Island. The
10 proposed target incentive is equal to 4.40% of the eligible budget. The
11 eligible budget includes all program expenses shown in Attachment BAJ-5,
12 except the amount budgeted for the target shareholder incentive (pages 14 and
13 15). Therefore, the total target incentive for 2007 is 4.40% of approximately
14 \$2.7 million, or \$119,642, as shown in Attachment BAJ-7 on page 17.

15 The threshold performance level for energy savings by sector is equal to 60%
16 of the annual energy savings goal for the sector. The Company must attain at
17 least this threshold level of savings in the sector before it can earn an incentive
18 related to energy savings in the sector. The Company proposes to be able to
19 have the ability to earn an incentive for each MMBTU of gas saved, once
20 threshold savings for the sector are achieved, up to 125% of target savings.

21 The incentive per MMBTU saved by sector is provided in Attachment BAJ-7.

1 The Company proposes an incentive cap on energy savings equal to 125% of
2 the target incentive amount for energy savings. If the Company achieves this
3 level of exemplary performance, Rhode Island consumers will realize
4 additional savings. Given budget control requirements, this proposal will
5 provide the Company with an incentive to manage the efficiency of its
6 program implementation efforts while providing Rhode Island consumers with
7 value in excess of the incremental incentive that may be earned by the
8 Company.

9 **Q. The shareholder incentive mechanism applicable to electric energy**
10 **efficiency program efforts includes performance metrics in addition to**
11 **the component related to energy savings goals. Are you proposing to**
12 **include performance metrics in the shareholder incentive mechanism**
13 **applicable to gas energy efficiency program efforts?**

14 A. No. Since this is the first year that the Company will be implementing gas
15 energy efficiency programs, the focus is on initiating implementation efforts
16 and achieving savings. We do not recommend including performance metrics
17 at this point in time.

18 **VII. REPORTING REQUIREMENTS**

19 **Q. Does the Company plan to provide the Commission with reports to**
20 **apprise them about the progress being made by the Company to achieve**
21 **approved program goals?**

1 A. Yes. The Company proposes to provide the Commission with quarterly
2 reports on the most currently available program performance. These reports
3 will include a comparison of budgets and goals by program to actual expenses
4 and savings on a year-to-date basis.

5 **Q. When will the Company provide the Commission with a report**
6 **containing 2007 program performance, including its calculation of any**
7 **shareholder incentive earned related to program efforts?**

8 A. The Company will provide the Commission with its 2007 Year-End Report no
9 later than May 1, 2008. This report will include a comparison of budgets and
10 goals by program to actual expenses and savings in the year and will also
11 include the Company's calculation of earned shareholder incentive.

12 **Q. Does this conclude your testimony?**

13 A. Yes.

2007 Proposed Budget

| | Payroll(1) (\$000) | Expense(2) (\$000) | Advertising(3) (\$000) | Total (\$000) |
|------------------------------------------------|-----------------------|-----------------------|---------------------------|------------------|
| RESIDENTIAL PROGRAMS | | | | |
| Single Family Low Income Services | \$9.3 | \$320.6 | \$12.5 | \$342.4 |
| EnergyWise | \$9.6 | \$300.2 | \$12.5 | \$322.3 |
| ENERGY STAR® New Construction | \$0.2 | \$50.9 | \$12.5 | \$63.6 |
| Energy Analysis - Internet Audit | \$0.0 | \$49.9 | \$12.5 | \$62.4 |
| High Efficiency Heating | \$0.9 | \$221.2 | \$12.5 | \$234.6 |
| High Efficiency Water Heating | \$0.3 | \$57.2 | \$12.5 | \$69.9 |
| ENERGY STAR® Programmable Thermostat | \$0.2 | \$27.4 | \$12.5 | \$40.0 |
| ENERGY STAR® Replacement Window | \$0.3 | \$66.2 | \$12.5 | \$79.0 |
| Residential Building Practices & Demonstration | \$0.1 | \$14.2 | \$0.0 | \$14.3 |
| EERMC - Residential | \$0.0 | \$29.1 | \$0.0 | \$29.1 |
| Gas Networks - Residential | \$0.0 | \$0.0 | \$42.6 | \$42.6 |
| Subtotal Residential | \$20.8 | \$1,136.8 | \$142.6 | \$1,300.2 |
| COMMERCIAL & INDUSTRIAL PROGRAMS | | | | |
| EERMC - Commercial & Industrial | \$0.0 | \$27.7 | \$0.0 | \$27.7 |
| Gas Networks - Commercial | \$0.0 | \$0.0 | \$18.3 | \$18.3 |
| Business Energy Analyzer | \$0.0 | \$48.8 | \$12.5 | \$61.3 |
| Energy Audit & Engineering Services | \$0.4 | \$89.4 | \$12.5 | \$102.3 |
| Commercial Energy Efficiency | \$1.7 | \$321.7 | \$12.5 | \$335.9 |
| Commercial High Efficiency Heating | \$0.7 | \$140.5 | \$12.5 | \$153.7 |
| Economic Redevelopment | \$0.6 | \$123.9 | \$12.5 | \$137.0 |
| Emerald Network | \$0.3 | \$55.7 | \$12.5 | \$68.4 |
| Commercial Building Practices & Demonstration | \$0.5 | \$105.7 | \$12.5 | \$118.7 |
| Trade Ally Training | \$0.0 | \$29.8 | \$12.5 | \$42.3 |
| Smart Growth | \$0.0 | \$300.0 | \$0.0 | \$300.0 |
| Subtotal Commercial & Industrial | \$4.1 | \$1,243.2 | \$118.3 | \$1,365.6 |
| Subtotal - Implementation Expense(4) | \$25.0 | \$2,380.0 | \$260.9 | \$2,665.8 |
| OTHER EXPENSE ITEMS | | | | |
| Company Incentive(5) | \$0.0 | \$119.6 | \$0.0 | \$119.6 |
| Program Design, Evaluation and Planning(6) | \$12.5 | \$40.8 | \$0.0 | \$53.3 |
| Subtotal Other Items | \$12.5 | \$160.5 | \$0.0 | \$172.9 |
| TOTAL BUDGET | \$37.4 | \$2,540.4 | \$260.9 | \$2,838.8 |

Notes:

- (1) Payroll expenses reflect the expected cost of National Grid employees supporting program efforts. Payroll costs included in base rates are not included here.
- (2) Expenses include incentives paid to customers, contractor/vendor costs, and non-payroll employee expenses related to the program effort
- (3) Advertising expense includes expenses associated with participating in the GasNetworks effort and other costs expected to be incurred to promote program efforts to customers.
- (4) Equal to the sum of Residential and Commercial & Industrial Program expenses.
- (5) See Attachment BAJ-7.
- (6) Equal to costs expected to be incurred in 2007 to conduct market research and evaluation studies that will support the identification and implementation of program improvements. These efforts will help to improve program planning and implementation efforts in future years.

2007 RHODE ISLAND BENEFIT COST ANALYSIS
Summary of Expected Benefit and Expenses (\$000)

| | Rhode Island Benefit/ Cost(1) | Total Benefit | Program Implementation Expenses(2) | Evaluation Expenses(2) | Shareholder Incentive(3) |
|-----------------------------------------------|----------------------------------|------------------|------------------------------------|------------------------|--------------------------|
| Commercial & Industrial | | | | | |
| Commercial Energy Efficiency Program | 8.74 | \$3,138.7 | \$348.5 | \$10.6 | NA |
| Commercial High Efficiency Heating Program | 2.78 | \$454.4 | \$159.5 | \$4.2 | NA |
| Economic Redevelopment Program | 1.09 | \$153.7 | \$137.0 | \$3.8 | NA |
| Smart Growth | NA | NA | \$300.0 | \$0.0 | NA |
| Trade Ally Training Program | NA | NA | \$42.3 | \$0.0 | NA |
| Energy Audit and Engineering Services Program | NA | NA | \$102.3 | \$2.6 | NA |
| Business Energy Analyzer | NA | NA | \$89.0 | \$0.0 | NA |
| Building Practices and Demonstrations Program | NA | NA | \$118.7 | \$3.1 | NA |
| The Emerald Network | NA | NA | \$68.4 | \$1.7 | NA |
| SUBTOTAL | 2.58 | \$3,746.8 | \$1,365.6 | \$26.0 | \$61.2 |
| Residential Programs | | | | | |
| IN-HOME SERVICES | | | | | |
| EnergyWise Program | 8.88 | \$3,320.8 | \$664.7 | \$15.3 | NA |
| Single Family Low Income | 1.78 | \$624.4 | \$342.4 | \$7.9 | NA |
| PRODUCTS & SERVICES | | | | | |
| High Efficiency Heating Program | 5.15 | \$1,358.6 | \$258.2 | \$5.5 | NA |
| High Efficiency Water Heating Program | 2.26 | \$177.4 | \$77.0 | \$1.7 | NA |
| ENERGY STAR® Thermostat Program | 5.90 | \$266.1 | \$44.1 | \$1.0 | NA |
| ENERGY STAR® Replacement Window Program | 2.22 | \$197.6 | \$86.9 | \$1.9 | NA |
| Energy Analysis Internet Audit | NA | NA | \$91.5 | \$0.0 | NA |
| Building Practices and Demonstrations Program | NA | NA | \$14.3 | \$0.4 | NA |
| ENERGY STAR® Homes | NA | NA | \$63.6 | \$1.5 | NA |
| SUBTOTAL | 3.84 | \$5,320.5 | \$1,300.2 | \$27.3 | \$58.4 |
| TOTAL | 3.19 | \$9,067.3 | \$2,665.8 | \$53.3 | \$119.6 |

Notes:

- 1) The Rhode Island Benefit/Cost Test is equal to the expected dollar value of lifetime resource benefits divided by the sum of Implementation Expenses, Evaluation Expenses, and the target shareholder incentive.
- 2) See Attachment BAJ-4.
- 3) See Attachment BAJ-7.

2007 RHODE ISLAND BENEFIT COST ANALYSIS
Summary of Benefits

| | Benefits (\$000) | | | MMBTU Gas Saved | |
|-----------------------------------------------|------------------|----------------|-------------------------|-----------------|------------------|
| | Total(4) | Natural Gas(5) | Participant Resource(6) | Annual(7) | Lifetime(8) |
| Commercial & Industrial | | | | | |
| Commercial Energy Efficiency Program | \$3,139 | \$3,139 | \$0 | 35,462 | 436,178 |
| Commercial High Efficiency Heating Program | \$454 | \$448 | \$7 | 3,400 | 66,670 |
| Economic Redevelopment Program | \$154 | \$154 | \$0 | 1,736 | 21,358 |
| Smart Growth | \$0 | \$0 | \$0 | 0 | 0 |
| Trade Ally Training Program | \$0 | \$0 | \$0 | 0 | 0 |
| Energy Audit and Engineering Services Program | \$0 | \$0 | \$0 | 0 | 0 |
| Business Energy Analyzer | \$0 | \$0 | \$0 | 0 | 0 |
| Building Practices and Demonstrations Program | \$0 | \$0 | \$0 | 0 | 0 |
| The Emerald Network | \$0 | \$0 | \$0 | 0 | 0 |
| SUBTOTAL | \$3,747 | \$3,740 | \$7 | 40,598 | 524,206 |
| Residential Programs | | | | | |
| IN-HOME SERVICES | | | | | |
| EnergyWise Program | \$2,696 | \$2,696 | \$0 | 17,273 | 345,463 |
| Single Family Low Income | \$624 | \$624 | \$0 | 4,420 | 79,554 |
| PRODUCTS & SERVICES | | | | | |
| High Efficiency Heating Program | \$1,359 | \$1,359 | \$0 | 9,617 | 173,106 |
| High Efficiency Water Heating Program | \$177 | \$177 | \$0 | 1,148 | 22,950 |
| ENERGY STAR® Thermostat Program | \$266 | \$266 | \$0 | 3,080 | 30,800 |
| ENERGY STAR® Replacement Window Program | \$198 | \$163 | \$35 | 882 | 22,050 |
| Energy Analysis Internet Audit | NA | \$0 | \$0 | 0 | 0 |
| Building Practices and Demonstrations Program | NA | \$0 | \$0 | 0 | 0 |
| ENERGY STAR® Homes | NA | \$0 | \$0 | 0 | 0 |
| SUBTOTAL | \$5,320 | \$5,286 | \$35 | 36,419 | 673,923 |
| TOTAL | \$9,067 | \$9,026 | \$41 | 77,017 | 1,198,129 |

Notes:

- 4) Equal to the sum of Natural Gas benefits and Participant Resource benefits.
- 5) The value of lifetime natural gas savings valued using the avoided gas costs quantified in "Avoided Energy Supply Costs in New England," December 23, 2005 prepared by ICF Consulting for the Avoided-Energy-Supply-Component Study Group. This is also the source of the electric avoided costs that have been used to assess electric energy efficiency program cost-effectiveness.
- 6) Participant Resource Benefits are equal to the dollar value of expected electricity savings that have not been included in National Grid's electric energy efficiency plans for 2007.
- 7) The projection of annual savings reflects results attained for similar programs in other jurisdictions.
- 8) Lifetime savings are equal to annual savings multiplied by the expected life of measures expected to be installed in each program.

ANNUAL SAVINGS AND PARTICIPATION GOALS BY PROGRAM

| Program | Annual Energy Savings (MMBTU Natural Gas)(1) | Participants |
|-----------------------------------------------|-------------------------------------------------|--------------|
| Commercial & Industrial | | |
| Commercial Energy Efficiency Program | 35,462 | 76 |
| Commercial High Efficiency Heating Program | 3,400 | 90 |
| Economic Redevelopment Program | 1,736 | 4 |
| Smart Growth | 0 | |
| Trade Ally Training Program | 0 | 250 |
| Energy Audit and Engineering Services Program | 0 | 69 |
| Business Energy Analyzer | 0 | 100 |
| Building Practices and Demonstrations Program | 0 | 2 |
| The Emerald Network | 0 | 1 |
| SUBTOTAL | 40,598 | 592 |
| Residential Programs | | |
| IN-HOME SERVICES | | |
| EnergyWise Program | 17,273 | 755 |
| Single Family Low Income | 4,420 | 103 |
| PRODUCTS & SERVICES | | |
| High Efficiency Heating Program | 9,617 | 590 |
| High Efficiency Water Heating Program | 1,148 | 150 |
| ENERGY STAR® Thermostat Program | 3,080 | 700 |
| ENERGY STAR® Replacement Window Program | 882 | 450 |
| Energy Analysis Internet Audit | 0 | 600 |
| Building Practices and Demonstrations Program | 0 | 1 |
| ENERGY STAR® Homes | 0 | 0 |
| SUBTOTAL | 36,419 | 3,349 |
| TOTAL | 77,017 | 3,941 |

Note:

1) See Attachment BAJ-5, Page 2 of 2.

Target 2007 Shareholder Incentive

Incentive Rate: 4.40%

| | (1) | (2) | (3) | (4) | (5) | (6) |
|-------------------------|-------------|------------------|-----------------------------|---------------------------|----------------------------|---------------|
| Sector | Budget | Target Incentive | Annual Savings Goal (MMBTU) | Threshold Savings (MMBTU) | Target Incentive Per MMBTU | Incentive Cap |
| Residential | \$1,391,649 | \$61,233 | 36,419 | 21,852 | \$1.681 | \$76,541 |
| Commercial & Industrial | \$1,327,477 | \$58,409 | 40,598 | 24,359 | \$1.439 | \$73,011 |
| Total | \$2,719,126 | \$119,642 | 77,017 | 46,210 | | \$149,553 |

Notes:

- (1) Sector budget. See Attachment BAJ-4.
- (2) Equal to the incentive rate (4.40%) x Column (1).
- (3) See Attachment BAJ-6.
- (4) 60% of Column (3). No incentive is earned on annual MMBTU savings in the sector unless the Company achieves at least this threshold level of performance.
- (5) Column (2)/Column (3)
- (6) Equal to 125% of Column (2).