

January 2, 2007

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: National Grid Affordable Energy Plan

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's Affordable Energy Plan for gas and electric service, filed in compliance with Rhode Island General Laws §39-1-27.10(a) of "The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006".

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

Enclosure

cc: Steve Scialabba, RI Division
Paul Roberti, Esq.

NATIONAL GRID

**AFFORDABLE ENERGY PLAN FOR
GAS AND ELECTRIC SERVICE**

January 2, 2007

Submitted to:
Rhode Island Public Utilities Commission

nationalgrid

TABLE OF CONTENTS

I. Introduction.....	1
II. Legislative Provisions Relating to the Affordable Energy Fund.....	2
III. The Proposed Affordable Energy Plan	4
A. Low Income Gas Distribution Rate	5
B. LIHEAP Supplement Program	7
C. Arrearage Forgiveness Enhancements.....	7
D. Energy Efficiency and Weatherization	10
Schedule 1 – Range of Forecasted Costs for the Low Income Rate for Gas Delivery	11
Schedule 2 – Summary of Low Income Energy Efficiency Programs	12
A. Electric DSM Programs	12
1. Single Family Low Income Services Program	13
2. Low Income Participation in the ENERGY STAR® Homes Program	13
3. Low Income Services through the EnergyWise Program	14
B. Gas Energy Efficiency Programs for Low Income Customers	14
Appendix.....	16

This document contains National Grid's¹ Affordable Energy Plan (also referred to herein as the "Plan"), filed with the Rhode Island Public Utilities Commission ("Commission") in compliance with Section 39-1-27.10(a) of Rhode Island General Laws. This Plan describes the pertinent provisions of the law and proposes programs for implementation, as more fully set forth below.

I. Introduction

In 2006, the Rhode Island General Assembly passed "The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006" (the "Act"), which was signed into law by the Governor. One part of the Act relates to the establishment of an Affordable Energy Fund (also referred to as the "Fund") to be administered by the Office of Energy Resources ("OER").² The Act contemplates the Fund being used for various programs to assist low income customers of utilities, among other activities.

As will be more fully described below, the Act establishes the following sequence with regard to implementation of an affordable energy program, using monies from the Affordable Energy Fund:

- (1) National Grid shall file with the Commission an Affordable Energy Plan by
January 2, 2007;³

¹ The filing is submitted by The Narragansett Electric Company, d/b/a National Grid ("National Grid or the "Company") for both gas and electric distribution service.

² Pertinent excerpts of the Act are contained in the Appendix to this Plan (pp. 16-18).

³ R.I.G.L. §39-1-27.10(a).

- (2) The OER shall develop a state strategic plan by March 1, 2007 (“Strategic Plan”), setting forth the amount of dollars being allocated from the Fund (the source of which is a portion of gross earnings taxes paid by utilities);⁴
- (3) The Commission is directed to issue an order regarding the Affordable Energy Plan proposed by the Company by May 31, 2007, taking into account the dollars allocated by the OER to the programs;⁵ and
- (4) The Commission-approved Plan would be implemented on or before November 1, 2007.⁶

II. Legislative Provisions Relating to the Affordable Energy Fund

As summarized above, the Act contemplates the establishment of the Affordable Energy Fund and provides for the monies collected in the Fund to be under the control of the OER and used for the following purposes, to:

- (i) Support weatherization and energy conservation educational programs and weatherization and energy conservation services for low-income and very low income households;
- (ii) Compensate electric and gas distribution companies for revenues lost due to the reductions in distribution and customer charges, in accordance with a plan approved by the commission, to very low income households, and if feasible to low income households, which shall, as a first priority, be used to provide up to a fifty percent (50%) reduction in the distribution and customer charges for a reasonable and prudent use by very low-income households of gas and electricity that does not exceed average use for comparable dwelling units. [and]

⁴ R.I.G.L. §§ 42-141-3, 5.

⁵ R.I.G.L. § 39-1-27.10(b).

⁶ R.I.G.L. § 39-1-27.10(c).

(iii) Defray the cost of heating fuel delivered to very low income households by an amount not to exceed twenty-five percent (25%) of the allowable cost of heating fuel and a total usage by the household, supported assistance from all sources overseen by the commissioner, that is reasonable and prudent and does not exceed average use for comparable dwelling units.⁷

As described above, the Act requires gas and electric distribution companies to file an Affordable Energy Plan for low income households with the Commission on or before January 2, 2007. Specifically, “[t]he plan shall provide for the implementation of the affordable energy fund and shall include provisions for discounted distribution rates and customer charges, payments on arrearages and unpaid balances by low income households, and energy efficiency and weatherization, to the extent that funding is allocated by the commissioner pursuant to subsection 42-141-5(d).” R.I.G.L. § 39-1-27.10(a)

At the same time, the Act requires the OER to develop a Strategic Plan by March 1, 2007, which must include the following:

- (a) proposed activities to increase energy efficiency and weatherization in dwelling units occupied by low income and very low income households;
- (b) proposed allocations of funds from the affordable energy fund to be used for the purposes of reductions in electric and gas distribution rates and customers fees charged to such households, in accordance with subdivision 42-141-5(d)(2);
- (c) estimates of revenues to the fund and expenditures from the fund to support the purposes of the fund during the next fiscal year;
- (d) plans and standards for fair, effective and efficient administration of energy affordability activities and assistance to low income and very low income households that make use to the extent reasonable and practicable community organizations serving such households.⁸

⁷ R.I.G.L. § 42-141-5(d). Subsection (iii) is not pertinent to this filing, but is quoted here for the convenience of the Commission.

⁸ R.I.G.L. § 42-141-3.

Finally, on or before April 30, 2007, the Commission is required to review the Affordable Energy Plan and issue an order by May 31, 2007.

The filing of this Plan complies with Section § 39-1-27.10(a). However, as set forth above, the OER needs to take action to publish the Strategic Plan before the Commission can act upon the Company's Plan. All programs proposed herein are contingent upon allocation of funds by the OER.

III. The Proposed Affordable Energy Plan

The Company proposes four components for the Affordable Energy Plan:

- (1) a discounted low income rate for gas distribution customers;
- (2) an allocation of dollars that would be used to supplement the existing LIHEAP program, from which the OER can draw upon to assist very low income customers in managing their arrears;
- (3) a proposal to enhance the arrearage forgiveness program that is set forth in R.I.G.L. § 39-2-1(e) of the existing law; and
- (4) weatherization programs that simply "piggy-back" pre-existing programs that have been proposed to the Commission in both the electric and gas energy efficiency or demand-side management ("DSM") dockets.

Each of the components is more fully described below.

A. Low Income Gas Distribution Rate

Unlike some of the other programs contemplated by the Act, the law establishes some limitations regarding discounted gas and electric distribution rates being funded from the Affordable Energy Fund. Specifically, the Act states that there may be a discount of “up to a fifty percent (50%) reduction in the distribution and customer charges for a reasonable and prudent use by very low-income households of gas and electricity that does not exceed average use for comparable dwelling units.” R.I.G.L. §42-141-5(d)(1)(ii).

Currently, there is no discounted low-income rate for gas distribution customers. Accordingly, in this Plan, National Grid proposes to implement a low income gas discount rate, as more fully explained below. The current Low Income Rate A-60 for electric retail delivery service provides an electric service discount for low income customers using 500 kWh per month equal to approximately 80% of distribution charges. Because National Grid already has a discounted electric service rate for low income customers that provides for discounts far in excess of 50% of the distribution charges, the Plan does not contain any further enhancements to the electric service discounted rate.

The Company’s Plan seeks to establish a low income discounted rate available to any gas delivery customer who receives LIHEAP assistance. Based on data from November 2005 through October 2006, we estimate that the rate class would include approximately 16,000 households. The Plan focuses on LIHEAP customers as the eligible group because this group of low income customers is easy to identify and is

consistent with the intent of the law. The size of the discount, by law, would be capped at 50% of gas distribution charges. The discount also is contingent upon the amount allocated from the Fund by the OER in the Strategic Plan to support such a discounted rate program.

Schedule 1 (page 11) to this Plan contains a chart showing the forecasted cost of the low income gas discount program depending upon the amount of discount. This Schedule provides the cost of the program for discounts in 5% increments, enabling the OER to target a specific percentage discount with an allocation of a specified amount of dollars. As can be seen in Schedule 1, a rate that discounts distribution charges up to the 50% cap is forecasted to require an allocation of approximately \$3.5 million from OER.

Consistent with the Act, the Company will not propose any amendments to its tariffs until the OER allocates funds. The Act provides:

If the commissioner [of OER] determines it is in the public interest to allocate funds for the purposes set forth in subparagraph (1)(ii) above, the commissioner shall notify the [public utilities] commission of the amount of funds to be allocated for a specified period. The commission shall then direct the electric and/or gas distribution companies to file amendments to the appropriate tariffs to implement rate reductions designed to provide the rate reduction consistent with the amount allocated for the period designated, which amendments are subject to the review and approval of the commission.⁹

Thus, the Company will file amended tariffs after the OER allocates funds targeted for the low income discount, and the Commission shall review such tariff amendments after the filing.

⁹ R.I.G.L. §42-141-5(d)(2).

B. LIHEAP Supplement Program

The Company believes that the current LIHEAP program provides a very manageable and effective means for low income service agencies to assist customers in paying down arrears. While it appears that there is a significant amount of LIHEAP dollars available for the winter of 2007, it is not clear how much will be available for the winter of 2008, which would be the first winter after the Affordable Energy Plan takes effect. For that reason, as part of the Plan, the Company recommends that the OER allocate a portion of the Affordable Energy Fund dollars to supplement its traditional LIHEAP program. These dollars can be made available for discretionary use to assist customers most in need for the winter of 2008.

C. Arrearage Forgiveness Enhancements

Regarding arrearage forgiveness, the Company proposes to enhance the pre-existing arrearage forgiveness program that was created by the Act and is set forth in Section 39-2-1(e) of Rhode Island General Laws. Specifically, the law states, in pertinent part:

... a very low income customer who is terminated from gas and/or electric service shall be eligible one time to have electric and/or gas utility service restored provided the following conditions are met:

(i) the customer pays twenty-five percent (25%) of the customer's unpaid balance;

(ii) the customer agrees to pay one thirty-sixth (1/36th) of one half (1/2) of the customer's remaining balance per month for thirty-six (36) months;

(iii) the customer agrees to remain current with payments for current usage;
and

(iv) the customer has shown, to the satisfaction of the division, that the customer is reasonably capable of meeting the payment schedule provided for by the provisions of subdivision 39-2-1(e)(1)(i) and (ii) in this section.

The Company proposes to enhance the existing program in three ways.

First, any customer on the program who fulfills the payment obligations of the program for 24 months would have 100% of his or her arrears forgiven after only 24 months, rather than 36 months.

Second, the Company proposes to accelerate the forgiveness in increments. Specifically, one-quarter of 67% of the remaining arrears balance¹⁰ will be forgiven at six-month intervals as long as the customer stays current with the payments required under the provisions of R.I.G.L. § 39-2-1(e)(ii) and (iii). Thus, the customer would begin to see the reward of arrearage forgiveness much sooner under the Company's proposed enhancements. This accelerated forgiveness component of the program would not commence, however, until November of 2007, when all other programs from this Affordable Energy Plan would become effective.

The Fund would be used to cover any arrears forgiven for all customers participating in the program. Updates of the number of customers on the program would be provided to OER periodically for budgeting purposes.

The Company further proposes that all customers enrolled in the program as of July 1, 2007 pursuant to Section 39-2-1(e) of the law, as well as customers who are continuing to make payments pursuant to R.I.G.L. § 42-141-12 (Transitional Provision),

¹⁰ The remaining arrears balance is defined as the Customer's unpaid balance less 25% of the unpaid balance as required in R.I.G.L. § 39-2-1(e)(i) upon enrollment.

who have been able to maintain compliance with payments be automatically eligible for the enhancements proposed in the Company's Plan. The specific provisions that will apply to these customers will be outlined in more detail during the course of this proceeding. Prior to November 1, 2007, the Company would notify OER as to the number of customers who have been able to maintain compliance with payments in the existing plans. The Company will also work with the OER to estimate of the number of additional customers likely to be enrolled in the plan during the first year so that the OER may reserve the appropriate funding to apply from November 2007 through October of 2008.

Finally, the Company proposes that a customer may become enrolled in this program prior to service actually being shut off, provided that the OER confirms eligibility as a "very low income customer." While the law assumes that service has already been terminated before the customer becomes eligible for the special program, the Company will allow customers to be eligible for the program after a notice of termination has been issued, but before service actually is terminated, provided the required down payment is made. (All other provisions set forth in that section of the law will continue to apply to the special program.)

The Company believes this program can be further enhanced by the application of funds set aside by OER for supplementing the LIHEAP program. Such supplemental funds can be used to assist customers in meeting the up front obligation to make a payment of 25% of the arrears balance, in the discretion of the OER.

D. Energy Efficiency and Weatherization

The Act also contemplates allocating dollars from the Fund to apply toward energy efficiency and weatherization programs. For this component of the Affordable Energy Plan, the Company refers to its existing electric DSM program and its newly proposed gas energy efficiency program. Both programs contain specific components for low income households. The Company believes that the existing programs provide significant benefits for low income customers within the proposed budgets.

Nevertheless, to the extent that the OER desires to allocate dollars from the Affordable Energy Fund for more energy efficiency and weatherization benefits for low income households, the Company recommends that the dollars be applied to increase activity already planned and approved by the Commission. If more dollars are allocated, the Company can adjust its DSM budgets and plan accordingly. Precisely how the dollars would be administered between the Company and OER for weatherization can be coordinated with OER.

For the Commission's reference, Schedule 2 to this Plan contains a summary of the approved electric DSM programs for 2007 and the pending gas energy efficiency programs for low income customers.

SCHEDULE 1

**Range of Forecasted Costs for the Low Income Rate for
Gas Delivery Service**

Percentage Reduction to Gas Distribution Charges	Estimated Cost of Discounted Rate Plan
50%	\$3,457,932
45%	\$3,112,139
40%	\$2,766,346
35%	\$2,420,552
30%	\$2,074,759
25%	\$1,728,966
20%	\$1,383,173
15%	\$1,037,380
10%	\$691,586
5%	\$345,793

SCHEDULE 2

Summary of Low Income Energy Efficiency Programs

A. Electric DSM Programs

The table below provides information regarding the Company's low income electric energy efficiency programs proposed for low income customers for 2007. These programs were filed with the Commission on November 1, 2006, and were approved by the Commission at an open meeting on December 19, 2006.

Projected Low-Income Participation in 2007 Programs and Participation History

Program	2007 projected participants	Percentage of Total Participants in 2007	Number of low income participants 2002-2005
Single Family Low Income Services	1,180	100%	3,289
EnergyWise Multifamily	779	16%	8,096
ENERGY STAR® Homes	90	40%	494

Projected Low-Income Expenditures in 2007 Programs and Expenditure History

Program	2007 Proposed Low Income Expenditures	Percentage of Total Budget	Low Income Spending for years 2002-2005
Single Family Low Income Services	\$1,953,274	100%	\$4,317,246
EnergyWise Multifamily	\$445,000	15%	\$2,841,857
ENERGY STAR® Homes	\$286,000	40%	\$1,046,608

Each of the programs identified in the table above are summarized below:

1. Single Family Low Income Services Program

Customers who are eligible for the Low Income Heating Assistance Program (LIHEAP), also known as fuel assistance, and live in one to four unit buildings, are eligible for the Single Family Low Income Program. There is no co-payment requirement; the Company pays all costs through energy efficiency funds. On average, customers save \$130 per year by participating in the program.

The Single Family Low Income Services Program provides for the installation of ENERGY STAR® refrigerators and lighting, and cost-effective custom measures to replace inefficient equipment and help lower customers' electric bills. In addition, the Company installs electric water heating energy efficiency measures at no cost for participating customers. The Company also funds weatherization work for these customers in one to four unit homes where the primary heating fuel is electricity, oil, propane or wood and the replacement of inefficient oil heating systems.

2. Low Income Participation in the ENERGY STAR® Homes Program

The Company works closely with the Rhode Island Housing and Mortgage Finance Corporation (“Rhode Island Housing”)¹¹ and developers of affordable housing in Rhode Island to encourage participation in the ENERGY STAR® Homes program, National

¹¹ 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. As such, this agency influences many of the arenas that are targeted by the Company’s low income services programs.

Grid's New Construction Program. Currently, Rhode Island Housing encourages developers to build to ENERGY STAR® Home standards. About 30% of the homes completed each year through the ENERGY STAR® Homes program are for low income families.

3. Low Income Services through the EnergyWise Program

The EnergyWise Program also serves Public Housing Authority properties and other low income, multi-family buildings. Depending on income eligibility of the tenants, co-payments may be reduced or waived for these larger facilities. If the facility contains 50% or more tenants who are considered low income, co-payments are waived on all measures except refrigerators. There is no co-payment required on any measure for Public Housing Authorities or other low income state and federally funded facilities. Elderly housing projects are eligible to participate through the EnergyWise Program and many have participated. Over the last four years, National Grid has served over 8,000 low income dwelling units through the EnergyWise Program.

B. Gas Energy Efficiency Programs for Low Income Customers

The Company made a filing with the Commission on December 1, 2006, proposing the commencement of Gas Energy Efficiency Programs. A follow-up filing, which shall contain itemized budgets, is scheduled for not later than February 1, 2007. At this time, the Company is proposing to offer weatherization services to income qualified gas heating customers eligible for fuel assistance benefits, who live in

one to four unit buildings. As had previously been the case with New England Gas in Rhode Island, the Company will contract with the OER and local weatherization agencies for the delivery of energy efficiency services to eligible customers. This is the same program model of serving low income customers currently employed by National Grid for its electric efficiency programs.

Eligible measures provided through the program will include an energy audit, attic insulation, wall insulation, air sealing, heating system repair/replacement (on a qualifying basis) safety inspections, low-flow showerheads and aerators, and funding the installation of carbon monoxide detectors when OER funds are not available.

Appendix

Excerpts from the Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006

PLEASE NOTE: These are excerpts only.

39-1-27.10. Electric and gas distribution companies required to file affordable energy plans. –

(a) On or before January 2, 2007, each gas and electric distribution company shall submit to the commission a plan for affordable energy for low income households, including very low income households as defined in section 42-141-3. The plan shall provide for the implementation of the affordable energy fund and shall include provisions for discounted distribution rates and customer charges, payments on arrearages and unpaid balances by low income households, and energy efficiency and weatherization, to the extent that funding is allocated by the commissioner pursuant to subsection 42-141-5(d).

(b) On or before April 30, 2007, the commission shall review the plan and issue an order with regard to the plan not later than May 31, 2007. The order shall be effective not later than November 1, 2007. The commission shall cause a review, and as appropriate an amendment, the plan at least every three (3) years between July 1, 2007, and July 1, 2016.

(c) On or before November 1, 2007, each gas and electric distribution company shall implement an affordable energy plan in accordance with the order of the commission.

42-141-3. Plan. – The commissioner, in consultation with the council, shall develop a state strategic plan for energy affordability on or before March 1, 2007, and each March 1 thereafter, until March 1, 2019, which plan shall include strategies and actions to make energy affordable by low-income and, especially, very low income households, through a combination of energy efficiency, weatherization, and energy price mitigation measures, supported by resources from federal, state, and other sources, including LIHEAP and contributions made in support of LIHEAP under the provisions of state law, regulation, or order. The state strategic plan shall include:

(a) proposed activities to increase energy efficiency and weatherization in dwelling units occupied by low income and very low income households;

(b) propose allocations of funds from the affordable energy fund to be used for the purposes of reductions in electric and gas distribution rates and customers fees charged to such households, in accordance with subdivision 42-141-5(d)(2);

(c) estimates of revenues to the fund and expenditures from the fund to support the purposes of the fund during the next fiscal year;

(d) plans and standards for fair, effective and efficient administration of energy affordability activities and assistance to low income and very low income households that make use to the extent reasonable and practicable community organizations serving such households.

42-141-5. Affordable energy fund. –

(a) Fund established. –

(1) A special account is hereby established in the state treasury to be called the "affordable energy fund."

(2) Money remaining in the fund at the end of a fiscal year shall remain available for expenditure in successive fiscal years.

(3) The fund shall be used for only those purposes enumerated in subsection (d).

(b) Financing of the fund. – The fund shall consist of the following sources:

(1) Sums the legislature may appropriate;

(2) Moneys received from federal, state, private donor or other sources for the purpose of energy affordability by low income households;

(3) Fees required pursuant to subsection (c); and

(4) Any interest earned on the moneys in the fund.

(c) Affordable energy fees.

(1) An affordable energy fee in an amount set forth in this subsection shall be imposed on gross receipts of electricity and gas companies and gross receipts on the sale of heating fuels not used for residential heating. The fee shall be remitted to the division of taxation according to the applicable schedule for the remission of the gross receipts tax as provided for in chapter 44-13 or the sales and use as provided for in chapter 44-18. The fees shall be as follows:

(i) Gas. One percent (1%) of the gross receipts of gas companies subject to the provisions of chapter 44-13, "Public Service Corporation Tax".

(ii) Electricity. One percent (1%) of the gross receipts of electric companies subject to the provisions of chapter 44-13. "Public Service Corporation Tax".

(iii) Heating fuel other than natural gas and electricity. Two percent (2%) of gross receipts from the sales and use of heating fuel subject to the provisions of chapter 44-18. "Sales and Use Taxes – Liability and Computation".

(2) Every person from whom an affordable energy fee is due shall be liable for the fee until it has been paid to the state.

(d) Purposes of the fund. –

(1) The commissioner may use money from the fund to:

(i) Support weatherization and energy conservation educational programs and weatherization and energy conservation services for low-income and very low income households;

(ii) Compensate electric and gas distribution companies for revenues lost due to the reductions in distribution and customer charges, in accordance with a plan approved by the commission, to very low income households, and if feasible to low income households, which shall, as a first priority, be used to provide up to a fifty percent (50%) reduction in the distribution and customer charges for a reasonable and prudent use by very low-income households of gas and electricity that does not exceed average use for comparable dwelling units.

(iii) Defray the cost of heating fuel delivered to very low income households by an

amount not to exceed twenty-five percent (25%) of the allowable cost of heating fuel and a total usage by the household, supported assistance from all sources overseen by the commissioner, that is reasonable and prudent and does not exceed average use for comparable dwelling units.

(iv) It is not the purpose of the fund to reduce the amount of assistance a household would otherwise receive from LIHEAP and other sources in the absence of the fund or to subsidize utility rates in effect as of July 1, 2006, and provided for by law.

(2) If the commissioner determines it is in the public interest to allocate funds for the purposes set forth in subparagraph (1)(ii) above, the commissioner shall notify the commission of the amount of funds to be allocated for a specified period. The commission shall then direct the electric and/or gas distribution companies to file amendments to the appropriate tariffs to implement rate reductions designed to provide the rate reduction consistent with the amount allocated for the period designated, which amendments are subject to the review and approval of the commission. Once approval is given, the allocated funds shall be transferred to the gas and/or electric distribution company. Any funds held after transfer shall accumulate interest at the customer deposit rate ("interest"). If, at the end of the rate reduction period, there are any unused dollars from the fund, such dollars shall be returned to the affordable energy fund with interest. Likewise, if at the end of the rate reduction period, there were not enough funds allocated to cover the rate reduction as designed, the shortfall will be reimbursed from the affordable energy fund with interest; provided, however, if there are no additional funds available from the fund, such shortfall or uncovered balance of such shortfall will be recovered with interest from all customers in a manner and over the period approved by the commission.