

December 28, 2020

VIA ELECTRONIC MAIL

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

**RE: Docket 5076 – 2021-2023 Energy Efficiency Program Plan & 2021 Energy Efficiency Plan
Comments on Commission’s Proposed PIM**

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a National Grid (“National Grid” or the “Company”), enclosed, please find the Company’s comments on the Commission’s proposed performance incentive mechanism (“PIM”).

Thank you for your attention to this filing. If you have any questions or concerns, please do not hesitate to contact me at 401-784-4263.

Sincerely,



Andrew S. Marcaccio

cc: Docket 5076 Service List
John Bell, Division
Jon Hagopian, Esq.

To: Rhode Island Public Utilities Commission (Commission)
From: The Narragansett Electric Company d/b/a National Grid (Company)
Date: December 28, 2020
Re: Docket No. 5076 - Comments on Performance Incentive Mechanism (PIM)

BACKGROUND

On December 22, 2020, the Commission held an open meeting (the Open Meeting) to discuss the Company's 2021-2023 Energy Efficiency Plan (Three-Year Plan) and 2021 Annual Energy Efficiency Plan (Annual Plan) (the Three-Year Plan and Annual Plan are referred to collectively as the Combined Plan). The Combined Plan was filed with the Commission as a Settlement between the Company and several stakeholders including the Division of Public Utilities and Carriers (Division), the Energy Efficiency & Resource Management Council (EERMC) and the Office of Energy Resources (OER). Through the Combined Plan, the Company proposed a PIM (Stakeholders' PIM) that was reviewed and agreed upon by the Settlement Parties. At the Open Meeting, the Commission proposed and discussed a new PIM (Commission's PIM) and provided the Settlement Parties with an opportunity to provide comments due by the morning of December 28, 2020. The Company is providing the below comments in response to the Commission's proposal.

COMMENTS

Procedural Comments

The Commission's decision to apply one review process for the Stakeholders' PIM and a different review process for the Commission's PIM is contrary to the normal regulatory process and sends mixed signals to prospective petitioners. The Company submits that the latter process should not serve as precedent for future adjudications around performance incentive mechanisms.

The process for the Stakeholders' PIM, regarding both the development by the Settlement Parties and the review by the Commission, was thorough and orderly. The Stakeholders' PIM was proposed following a lengthy stakeholder process spanning several months. Following the Company's filing of the Combined Plan as a Settlement, the Commission diligently vetted the Stakeholders' PIM including the issuance of 24 data requests on the topic. Public comment was solicited, and the Company was cross-examined for three days at a public hearing. After all the evidence was vetted and reviewed, the Division, OER and the EERMC's consultant all remained supportive of the Combined Plan as filed including the Stakeholders' PIM.

The process for developing and reviewing the Commission's PIM is based solely on commentary outside of an evidentiary hearing with limited opportunity for review and comment. The Commission's PIM was first introduced at the Open Meeting (after completion of the evidentiary hearing) and sent to the Company via email during the Open Meeting. Despite the extensive evidentiary process around the Stakeholders' PIM, the Commission did not discuss or consider the Stakeholders' PIM at the Open Meeting, but, instead, proposed an entirely new PIM. There was no opportunity for the Company or other Stakeholders to present further evidence on the

record regarding the Commission's PIM, which would have then been subject to discovery and cross-examination. In addition, the Settling Parties were given only five days over a holiday period to review and provide comments on the Commission's PIM. The short turnaround is not enough time to fully vet a new PIM proposal and consider its implications.

In this case, the Company appreciates the time constraints under which the Commission is operating and, therefore, does not propose a reopening of the evidentiary hearing to review the Commission's PIM for a Year 1 application. A reopening of the hearing could also result in delaying the implementation of a PIM until after the start of Year 1, which could create additional concerns.

Accordingly, the Company respectfully requests that the Commission approve the Stakeholders' PIM for Year 1, and afford the Settlement Parties and the Commission an opportunity to fully vet the Commission's PIM in advance of a potential Year 2 application.

Non-Procedural Comments

Penalties

The Commission's PIM proposes potential penalties in the Non-Income Eligible Sector and Income Eligible Sector for both electric and gas. In general, penalties are more likely to discourage the Company from devoting resources to the matter and may lead to missed value opportunity for customers. The Company reiterates its comments dated February 28, 2020 in Docket No. 4943 and highlights that "[i]t is worth noting that the Joint Direct Testimony of Tim Woolf and Melissa Whited on behalf of the Division in Docket 4770 recognized the potential disincentive the Company would face in the presence of PIMs with penalties, noting that 'assigning penalties to the PIMs will be more likely to discourage the Company from pursuing an initiative than encourage it.' See http://www.ripuc.ri.gov/eventsactions/docket/4770-DIV-Woolf-Whited_4-6-18.pdf at page 26." See page 7 and footnote 13 of the Company's Comments in Docket No. 4943 at: <http://www.ripuc.ri.gov/eventsactions/docket/4943-NGrid-Comments%202-28-2020.pdf>.

The Company is eager to provide value to customers in both the Non-Income Eligible Sector and Income Eligible Sector. As an alternative to the penalties, the Company reiterates its request that the Commission approve the Stakeholders' PIM for Year 1, and afford the Settlement Parties and the Commission an opportunity to fully vet the Commission's PIM in advance of a potential Year 2 application. This will provide the Settlement Parties and the Commission time to consider alternative options that will better achieve the desired result.

Clarifications

Except for the comments above on the potential penalties, the Company is limiting its non-procedural comments to clarifying questions about the structure of the Commission's PIM. With this caveat, the Company respectfully submits the following clarifying questions and comments for consideration by the Commission.

In addition to the comments and questions offered below, the Company has also produced example E-8 and G-8 tables to help further build out and understand the details contained within the Commission's PIM. These are attached hereto as Attachment 1, using the benefits and costs as included in the original proposal (*i.e.* prior to the ordered changes that the Company is submitting with its compliance filings). The Company intends to file updated tables E-8 and G-8 reflecting the PIM on which the Commission ultimately rules. Those tables will also reflect changes made to the budgets and benefits pursuant to the Company's compliance filing that was filed with the Commission on December 23, 2020.

Benefits

The specific values of benefits and costs included in the PIM will change subject to the Company's compliance filing which changes budgets and savings in some programs. These changes follow from the Commission's directives at the Open Meeting. In the interim, the Company notes that in the electric table the sum of commercial and industrial (C&I) benefits included in Column 1 of the Commission's PIM appears to be incorrect. The correct (rounded) sum should be \$147,525,000 based on summing the indicated columns in Table E-6 of the Plan on Bates 563.

Costs to be Netted

In determining the costs to be netted from the Commission's calculation of sector benefits, the Company seeks clarification regarding whether the Commission intends that the costs to be netted are equivalent to the "Eligible Spending Budget" as included in Tables E-3 and G-3 of the Annual Plan. These are the costs used to calculate Company spend in the current performance incentive mechanism, as well as for purposes of calculating net benefits in the Settlement filing. Terminology and values in the Commission's PIM and the illustrative tables were unclear on the specific source of the costs used to calculate net benefits. The Company would propose to continue to use "Eligible Spending Budget" from Tables E-3 and G-3 plus allocated regulatory costs as the set of costs to be netted in this proposal. The Company would further suggest allocating the regulatory costs to sectors in proportion to each sector's share of the overall "Eligible Spending Budget" rather than using an equal allocation to each sector.

Design Level Incentive Pools

The illustrative gas table in Column 5, "New Design Incentive Pool", shows a value of \$1,164,500. The Company's understanding based on the discussion at the Open Meeting is that the Commission is proposing to reallocate the total Design Level PIM for the Gas portfolio to the C&I sector. (This approach would be consistent with the \$5.5mln allocation to the C&I sector in the Electric performance incentive mechanism). Assuming this understanding of the Commission's intent to be correct, the total reallocated Design Level PIM for the C&I sector should be \$1,700,000, as in the Settlement filing proposed PIM, as shown in Table G-8 on Bates 579.

C&I Sector Incentive Thresholds and Caps

For the C&I sector, the Company is seeking clarity on the Commission's intentions with respect to C&I sector thresholds and caps:

- 1) Would the C&I sector performance incentive begin to accrue upon achieving 65% of planned net benefits¹ in the sector?
- 2) Would the C&I sector performance incentive be capped at achievement of 125% of planned net benefits?
- 3) Would the "New Payout Rate" in Column 7 apply for all units of benefits along the continuum between 65% and 125% of net benefits?

Non-Income Eligible and Income Eligible Sectors Benefits

The Company requests that the Commission clarify whether the new payout rates in Column 8 would apply to total or net benefits achieved in the Non-Income Eligible and Income Eligible Sectors.

Additionally, would any potential earnings in these sectors be subject to any caps or limitations?

Penalties for the Non-Income Eligible and Income Eligible Sectors

With respect to the penalties in the non-income eligible and income eligible sectors, is the intention that those penalties would apply if the *total* or *net* benefits are less than 65% of the planned levels? Footnotes 9 and 8 of the electric and gas tables, respectively, indicate that the penalty would be based on total benefits. However, the comments above each table are less clear on this point.

If it is the intention that the penalty would be enforced based on the achievement of *total* benefits, are these calculated total benefits based on the values of the components included in the set of benefits referenced in Columns 1 and 2 of the electric table and Column 1 of the gas table?

Further, is the correct interpretation of the penalties as shown in Columns 9 and 8 of the electric and gas tables, respectively, that the penalty would be fixed at that amount? For example, assuming that the intent is that the penalty would be in force based on achievement of total benefits, if the planned total benefits are \$100 in the non-income eligible sector and the achieved total benefits are \$64.99 (64.99% of planned total benefits), does the entirety of the penalty apply in this case?

¹ For purposes of these comments, the Company is using the terms "total" and "net" benefits in a manner that is consistent with their application within the memo outlining the Commission's PIM. The Company objects to this characterization, though, as the subset of benefits included within the Commission's PIM do not represent an accounting of all benefits produced by the Company's energy efficiency programs, as codified and quantified through the Rhode Island Test. Rather, these values represent only a subset of benefits, which the Commission presumably seeks to prioritize the Company's pursuit of, and would be more accurately characterized as such.

Additionally, is it the Commission's intention that any assigned penalties would only be netted against any earned C&I incentives, or does the Commission envision scenarios where the Company could end up with negative performance incentive earnings, in aggregate, across all sectors?

CONCLUSION

In conclusion, the Company respectfully requests that the Commission approve the Stakeholders' PIM for Year 1, and afford the Settlement Parties and the Commission an opportunity to fully vet the Commission's PIM in advance of a potential Year 2 application.

Attachment 1

**Table E-8 - ILLUSTRATIVE FOR COMMENTS
National Grid
2021 Targeted Performance Incentive**

	(1A)	(1B)	(1C)	(2A)	(2B)	(2C)	(3)	(4)	(5)	(6)	(7)	(8)
Sector	Electric Utility System Benefits - 100% \$(000)	Natural Gas, Oil, Other Resource Benefits - 50% \$(000)	Total Benefits \$(000)	Programmatic Eligible Spending Budget \$(000)	Allocated Regulatory Costs \$(000)	Total costs \$(000)	Net Benefits \$(000)	Original Proposed Design Incentive Pool \$(000)	New Design incentive Pool \$(000)	Original Proposed Payout Rate	New Payout Rate	New Penalty \$(000)
Non-Income Eligible Residential	\$27,435	\$6,656	\$34,091	\$36,597	\$562	\$37,159	(\$3,069)	\$1,925	\$0	11.132%	22.264%	\$1,251
Income Eligible Residential	\$5,690	\$3,329	\$9,019	\$18,704	\$287	\$18,992	(\$9,972)	\$1,100	\$0	12.617%	25.234%	\$715
Commercial & Industrial	\$147,525	(\$3,895)	\$143,630	\$54,773	\$841	\$55,614	\$88,015	\$2,475	\$5,500	1.735%	6.249%	\$0
Total	\$180,650	\$6,090	\$186,740	\$110,074	\$1,691	\$111,765	\$74,974	\$5,500	\$5,500			\$1,966

Notes

- (1A) Sum of Capacity, Energy, and Energy DRIPE Benefits from Table E-6
- (1B) Sum of Natural Gas, Oil, and Other Resource Benefits from Table E-6 x 0.50
- (1C) Sum of (1A) and (1B)
- (2A) Equal to Column "Eligible Spending Budget" in Table E-3
- (2B) Regulatory costs for the EERMC and OER allocated to sectors in proportion to each sector's share of the total "Eligible Spending Budget". Regulatory costs sourced from Table E-3.
- (2C) Sum of (2A) and (2B)
- (3) Column (1C) - (2C)
- (4) From Original Table E-8 in the Filing in Docket 5076 on Bates 567
- (5) Original Proposed Design Incentive Pool is reallocated to C&I Sector
- (6) From Original Table E-8 in the Filing in Docket 5076 on Bates 567
- (7) Non-Income Eligible and Income Eligible Payout Rate is (6) x 2.0 ; C&I payout rate is calculated by dividing the Design Level Pool in (5) by the Net Benefits in (3).
- (8) Penalty for performance falling short of 65% of total benefits equal to 65% of National Grid's proposed design incentive pool

**Table G-8 - ILLUSTRATIVE FOR COMMENTS
National Grid
2021 Targeted Performance Incentive**

	(1)	(2A)	(2B)	(2C)	(3)	(4)	(5)	(6)	(7)	(8)
Sector	Natural Gas Benefits - 100% \$(000)	Programmatic Eligible Spending Budget \$(000)	Allocated Regulatory Costs \$(000)	Total costs \$(000)	Net Benefits \$(000)	Original Proposed Design Incentive Pool \$(000)	New Design incentive Pool \$(000)	Original Proposed Payout Rate	New Payout Rate	New Penalty \$(000)
Non-Income Eligible Residential	\$14,812	\$16,593	\$296	\$16,889	(\$2,077)	\$595	\$0	4.115%	8.230%	\$387
Income Eligible Residential	\$6,206	\$10,042	\$179	\$10,222	(\$4,016)	\$425	\$0	3.613%	7.226%	\$276
Commercial & Industrial	\$17,650	\$9,358	\$167	\$9,525	\$8,125	\$680	\$1,700	1.921%	20.924%	\$0
Total	\$38,668	\$35,994	\$642	\$36,636	\$2,032	\$1,700	\$1,700			\$663

Notes

- (1A) Natural Gas Benefits from Table G-6.
- (2A) Equal to Column "Eligible Spending Budget" in Table G-3
- (2B) Regulatory costs for the EERMC and OER allocated to sectors in proportion to each sector's share of the total "Eligible Spending Budget". Regulatory costs sourced from Table G-3.
- (2C) Sum of (2A) and (2B)
- (3) Column (1) - (2C)
- (4) From Original Table G-8 in the Filing in Docket 5076 on Bates 579
- (5) Original Proposed Design Incentive Pool is reallocated to C&I Sector
- (6) From Original Table G-8 in the Filing in Docket 5076 on Bates 579
- (7) Non-Income Eligible and Income Eligible Payout Rate is (6) x 2.0 ; C&I payout rate is calculated by dividing the Design Level Pool in (5) by the Net Benefits in (3).
- (8) Penalty for performance falling short of 65% of total benefits equal to 65% of National Grid's proposed design incentive pool