STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC	:	
COMPANY, DEMAND-SIDE	:	DOCKET NO. 3240
MANAGEMENT AND RENEWABLE	:	
ENERGY PROGRAMS FOR 2002	:	

REPORT AND ORDER

On December 17, 2001, Narragansett Electric Company ("Narragansett" or the "Company"), filed with the Public Utilities Commission ("Commission") a Stipulation ("Stipulation")[1] executed by Narragansett, the Division of Public Utilities and Carriers ("Division"), and The Energy Council of Rhode Island ("TEC-RI") in connection with Narragansett's demand side management ("DSM") and renewable energy programs proposed for calendar year 2002 ("2002 Programs"). The Stipulation represents an agreement among its signatories (the "Parties")[2] regarding the design and implementation of Narragansett's 2002 Programs, as well as the allocation of dollars between the DSM and renewable energy programs.

Since 1989, the Commission has annually reviewed the design and implementation for Narragansett's proposed DSM programs and authorized the assessment of a conservation and load management adjustment factor ("C&LM Factor") to fund program costs.

The Utility Restructuring Act of 1996 ("URA"), as amended and set forth in Title 39 of the Rhode Island General Laws, has effectively codified the Commission's practice

---

[1] The Stipulation of the Parties was admitted as Joint Exhibit 02-1 and is attached and incorporated by reference herein as Appendix A.

[2] The Parties are members of both the Demand-Side Management Collaborative ("DSM Collaborative") and the Rhode Island Renewable Energy Collaborative ("RIREC"), the latter of which also includes Pascoag Utility District and the State Energy Office.

by enacting into law a provision for the funding of DSM and renewable energy programs. Section 39-2-1.2(b) states in pertinent part:

> Effective as of January 1, 1997, and for a period of ten (10) years thereafter, each electric distribution company shall include a charge of 2.3 mills per kilowatt-hour delivered to fund demand side management and renewable energy resources. The allocation of this revenue between demand side management programs and renewable energy resources shall be determined by the commission. During the ten (10) year period the commission may, in its discretion, after notice and public hearing, increase the same for demand side management and renewable resources; thereafter, the commission shall, after notice and hearing, determine the appropriate charge for these programs…[3]

In effect, the URA establishes a charge of 2.3 mills per kilowatt-hour for the 2001 programs, unless the Commission approves a higher factor. In addition, the URA authorizes the Commission to determine the allocation of funds between the DSM and renewable energy programs.

The Stipulation initially reviewed the status of Narragansett's DSM and Renewable Energy Programs approved for 2001. The Company's overall DSM and renewable energy budget for 2001 was set at $27,708,046, but was increased to $28,941,577 by the addition of the "trued-up" or actual 2001 year-end fund balance for its DSM and renewable energy programs. In addition, on July 16, 2001, the approved budget for 2001 DSM and renewable energy programs increased to $29,217,200. The $375,600 increase was due to the fact that additional finds were generated from increased sales and more Small C&I co-payments than were expected. As of the date of the

[3] On June 16, 2002, this section was amended by the legislature. It was signed into law by the governor on June 18, 2002. However, the effective date is January 1, 2003. For further discussion of the law change, see infra, pp. 33-36.

Stipulation, Narragansett projected that it would either spend or commit approximately 96% of its 2001 DSM and renewable energy budget.[4]

A. 2002 Program Descriptions. The Stipulation details the various DSM and renewable energy programs planned for 2002. The Stipulation notes that the Parties have agreed to certain modifications and additions for 2002. These programs can be generally categorized as follows: Residential Programs, Large Commercial & Industrial (large C&I) programs, Small Commercial & Industrial (small C&I) programs, and Renewable Energy Programs.

1. Residential Programs. The Company proposes to continue to offer the six residential programs that the Commission approved for 2001: (1) New Home Construction; (2) Energy Wise Program, including the low-income component; (3) Residential Lighting; (4) ENERGY STAR Appliances; (5) Educational programs; (6) and the Home Energy Management Program.[5] The Parties also agreed to begin two new Heating, Ventilating, and Air Conditioning ("HVAC") Initiatives. The first is a rebate program for ENERGY STAR residential heating systems and the second is a training and rebate program for high efficiency residential central air conditioning.

For new home construction, the ENERGY STAR Homes Program, which is part of a national energy efficiency campaign developed by EPA and DOE, helps builders and buyers design and construct new homes that are at least 30% more efficient than required by the current Model Energy Code ("MEC") standards in the area of heating, cooling, lighting, and appliance operations. Anyone building a new home in Rhode Island can participate in the program, regardless of his or her heating source. The Company plans to

[4] Jt. Exh. 02-1, Stip., p.3.
[5] Stip., pp. 3-4.

serve 200 customers in 2002. This program offers rebates for installing energy efficient equipment, including lighting and appliances, in new homes. New homeowners can receive up to five ENERGY STAR fixtures at no cost, rebates on additional fixtures from the Residential Lighting program, and up to $500 in rebates for purchasing ENERGY STAR appliances. In addition, the program offers a homebuilder/builder incentive of $500. The DSM Collaborative recommends that this be restructured on a sliding scale to provide higher incentives to builders who exceed the minimum ENERGY STAR requirement of an 86 rating. The Builder incentive would range from $500 to $1,000 depending on the final Home Energy rating. The Stipulation points out that, while this program is cost-effective on a total resource cost benefit/cost test, in that participants save on their heating, water heating and electric bills, the program is not cost-effective when only electricity savings are factored in. However, additional marketing efforts will be undertaken in 2002 to increase participation in the program. The Stipulation indicates that these additional efforts will address long-standing barriers to efficient home design.

A second residential program, Energy Wise, offers education to customers in the form of no-cost energy audits of customers' homes and incentives for installing more cost effective lighting fixtures, appliances, thermostats and insulation. Historically, participation in this program was limited to multi-family and single-family facilities where the customers use electric heat or have other high electric use (at least 27 kWh per day). However, since 2001, eligibility has been expanded to all residential customers. The Company plans to serve 6,600 customers in the year 2002.

Additionally, the DSM Collaborative recommends continuing the Loan Program that was commenced in 2001. The Company will assist customers living in one- to four-unit homes in obtaining low interest, unsecured loans through local banks in order to purchase and install additional weatherization products, including ENERGY STAR windows. Assistance will include Narragansett making the up-front payment to obtain an unsecured loan. In addition, Narragansett will provide the bank with a sufficient sum of money to make it possible for the bank to provide the loan at a 2% rate of interest. Furthermore, this weatherization program will be made available to LIHEAP customers living in one- to four-unit homes with no co-payment requirement. The Company's goal is to reach 875 low-income residents in 2002.

The Residential Lighting program provides rebates to residential customers for the purchase of ENERGY STAR compact fluorescent lamps ("CFLs") and CFL fixtures. All residential customers are eligible to participate in the program. In 2002, the Company plans to serve 52,000 customers. The rebates in 2002 will be held stable for fixtures and will provide more flexibility in rebates for light bulbs. A $3 to $4 rebate will be offered for compact fluorescent screw-in bulbs, but higher rebates for technologically advanced or new CFL products may be offered. Initially, rebates of $10, $15 and $20 will be offered on various hard-wired ENERGY STAR fixtures.

Another program offers incentives for the purchase of ENERGY STAR rated appliances. All residential customers may participate in the program. The Northeast Energy Efficiency Partnership establishes a list of qualified products, offers promotional and advertising support and offers monetary incentives to customers and retailers of the ENERGY STAR products. For 2002, the DSM Collaborative has proposed that Narragansett continue the $50 rebate to purchasers and the $10-$20 financial incentive to salespeople for the purchase and sale of an ENERGY STAR product.

The National Energy Education Development ("NEED") Project and Home Energy Management Program is a non-profit education association designed to promote an educated energy conscious society. The NEED project provides K-12 educational material for teacher and student training programs. The price for each kit is between $175 and $225. The DSM Collaborative has proposed to pay the cost of the kits needed for approximately 100 schools throughout Rhode Island. Furthermore, Narragansett will provide training sessions for teachers who will lead the programs in the schools.

The ENERGY STAR Homes Vocational School Initiative trains approximately 30 students each year of the Woonsocket Area Career and Technical Center ("WACTC") as ENERGY STAR builders with a hands-on approach whereby they build an ENERGY STAR home. When the home is completed, it is sold to a low or moderate income family through the Woonsocket Neighborhood Development Corporation, the donor of the building site. The first home was completed and sold. The proceeds of the sale will be used to complete another ENERGY STAR home in 2002. In 2001-2002, the Warwick Career and Technical School will also be providing ENERGY STAR training to construction students and will sell homes for the next two years at market rate and then will build homes with Habitat for Humanity. Narragansett and WACTC have also held several meetings with other Rhode Island vocational schools to encourage participation. In addition, Woonsocket and Warwick, the DSM Collaborative has budgeted for two additional schools to offer the program in 2002.

Narragansett has proposed to continue a new program, "Kids for Conservation" Program in conjunction with Radio Disney. Narragansett co-sponsors educational workshops to provide family education on conservation. For each event, Radio Disney visits 4th and 5th graders at 3-4 schools at assembly time to introduce conservation and the Kids for Conservation Program. Students are invited to enter a poster contest on energy conservation to win four tickets to see a movie, a conservation skit and to participate in conservation games at the IMAX Theater. Narragansett held pilot events during the 2000-2001 school year and has proposed holding up to 4 more during the 2002-2003 school year.

The Home Energy Management Program provides direct control of residential water heaters to shift load to off-peak hours. This program has been closed to new customers since January 1, 1998. However, approximately 5,000 customers whose water heaters are controlled through this system remain. Through this program, Narragansett is able to lower peak demand by approximately 3 MW in the winter and 2 MW in the summer.

2. New Residential Programs

Finally, the DSM Collaborative has proposed two new residential programs in 2002. Under the first, the DSM Collaborative will work with the Rhode Island State Energy Office to offer ENERGY STAR heating system rebates to homeowners. The second, the High Efficiency Central Air Conditioning Program, involves conducting initial research and development and providing rebates to customers installing high efficiency residential air conditioning systems.

The ENERGY STAR Heating Program will be available to homeowners purchasing or replacing an existing heating system with a qualifying ENERGY STAR heating system. Rebates up to $500 of the system cost will be available, depending on the size and type of heating system installed. The State Energy Office will oversee the program to ensure that all installations meet code requirements and improve the health and safety of the participants. In addition, Narragansett and the State Energy Office will host training sessions for HVAC contractors who may not be familiar with ENERGY STAR heating systems. Narragansett estimates that about 4,000 customers install heating systems per year. Narragansett hopes to serve 200 customers in this program in 2002.

The DSM Collaborative proposes to investigate the opportunities and benefits of offering an initiative in Rhode Island, similar to one offered in New Jersey (described *infra*, at p. 25), to promote the installation of high efficiency residential central air conditioners. The Rhode Island High Efficiency Central Air Conditioning Program will consist of market research and initial program development, to be completed in 2002 and followed by training of contractors in conjunction with the Energy Star Heating System Program and the State Energy Office. Rebates ranging from $370 to $550 will be offered to customers purchasing and installing high efficiency residential central air conditioning systems.

3. <u>Large Commercial and Industrial Programs</u>. The Company proposes to continue to offer two programs for large commercial and industrial customers: Design 2000 Plus as a new construction program, and Energy Initiative as a retrofit program. Design 2000 Plus provides financial incentives and technical assistance to developers, customers and design professionals to encourage their adoption of design features and equipment selection to optimize efficient energy use. In addition, the Parties indicated that they intend to maintain the current system for the approval of large rebates in the Large Business Services Programs. Specifically, the Parties indicated that they will seek

approval from the Commission prior to approving a request for a customer rebate of more than $650,000 per application.

Design 2000 Plus has three different types of customer rebates. One type of rebate is prescriptive, which is a fixed rebate amount offered on a per unit basis. The second type of rebate is customized based on the unique energy savings criteria of the projects. The third type of rebate is a comprehensive rebate based on an evaluation of the entire building. The rebates in Design 2000 Plus are designed to cover 60%-75% of the incremental cost between standard and premium efficiency measures or to buy the cost of the equipment down to a one and a half year amortization to the customer, whichever is less. The Comprehensive Design Approach and Comprehensive Chiller projects provide rebates to either cover 90% of the incremental cost or to buy the cost of the equipment down to a one year amortization, whichever is less. Rebates are available for such items as lighting, motors, variable speed drives, heating, ventilation, and air conditioning systems. Additionally, financing for the power of the Design 2000 Plus project that is not rebated is available to customers. The amounts available range from $5,000 to $4,000,000 and are offered through an independent vendor.

Design 2000 Plus also offers a variety of complementary services to business customers, including measure identification, equipment metering or monitoring, technical evaluation, customer presentations, and design and construction assistance. In addition, comprehensive design assistance provides outside expert technical support for the client's own design team or reimburses the incremental cost of the client's design team's analysis of cost-effective efficiency options. The program also assists customers with the replacement or conversion of CFC (R-11, R-12 refrigerant) chillers. Another complementary service, commissioning, is an educational and technical service providing independent, third-party verification that complex building systems are operating as designed. Financing provides access to capital for the non-related project costs. Another complementary service is no-cost ballast recycling, to ensure that all ballasts are disposed of in an environmentally sound manner. Finally, the Project Expediter service provides facility audits and arranges for the installation or retrofit of equipment to increase efficiency.

The Energy Initiative program is a retrofit program focused on energy efficiency opportunities associated with mechanical and electrical systems in existing commercial and industrial facilities. All non-residential customers are eligible to participate in the program. The design of the program is similar to Design 2000 Plus. This program gives customers rebates for the installation of various energy efficient equipment, such as lighting, motors, air conditioning, programmable thermostats and other cooling systems. The two rebates provided are prescriptive and custom. Prescriptive rebates are fixed and offered on a per unit basis whereas custom rebates are based on the specific needs of energy savings projects. Energy Initiative has the same complementary services as Design 2000 Plus. Proposed changes for 2002 reflect technical advancements in energy efficiency products. In 2002, Narragansett anticipates serving 350 customers.

Market transformation activities will be funded through the Energy Initiative and Design 2000 Plus budgets and include additional rebates and design services for larger customers. The initiatives will use a combination of rebates, information on best practices and pilot projects with regional or national participation to assist in transforming the markets.

4. Small Commercial and Industrial Program. For small commercial and industrial customers (having an average monthly demand of less than 100kW), the Company proposes to continue offering a retrofit program. This program provides direct retrofit installation of energy efficient lighting and other measures for customers with an average monthly demand of less than 100 kW or annual energy usage of less than 300,000 kWh. The Company anticipates participation by 950 customers in 2002. The rebates offered to small C&I customers cover 65% of both labor and material costs and require a 35% co-payment from customers; refrigeration economizer measures will be offered at a 30% co-payment level.[6] The customer may finance the co-payment for up to 24 months interest-free. An additional 15% discount on the amount due is applied to the accounts of customers who pay their entire co-payment in advance. Some of the available technologies offered in this program are energy efficient fluorescent ballasts, lamps and fixtures; hard-wired screw-in compact fluorescent systems; hot water tank insulation wraps; and fan controls and door heater control devices for walk-in coolers.

4. Renewable Energy Programs. The Rhode Island Renewable Energy Collaborative ("RIREC") has promoted renewable energy development in Rhode Island through technology and market studies, photovoltaic installations (residential, commercial, and outdoor lighting), wind power identification and site assessment, a fuel cell installation, and landfill gas development.

Historically, the efforts by RIREC were limited to in-state generation, and the focus was not on creating a market for green power. Additional funding was not allocated to renewables programs in 2000. Rather, RIREC worked during 2000 to identify means of developing a green power market in Rhode Island. Accordingly, the

[6] All co-payment funds will be used to augment the 2002 Small C&I budget.

focus of the 2001 renewable programs was to build customer demand for renewable energy products. The focus of the 2002 renewables programs is to implement some of the recommendations received over the course of the past two years to continue to spur the development of renewable energy technologies in Rhode Island.[7]

RIREC has proposed a continuation of six program components to attain this goal. The first, incentives for marketers who sign customers up for high-quality green power products that meet certain minimum criteria, is aimed at primarily residential and smaller business customers, with a separate program for large businesses. The total proposed funding for this component is $2,250,000. Of that amount, $1,750,000 would be allocated to residential and small business customers, and $500,000 would be allocated to large business customers.

The second, an open request for proposals ("RFP") has been issued for new renewable energy projects located in New England that will serve Rhode Island customers, including the development of energy created from fuel cells, landfill gas, wind power and biomass powered micro-turbines. Previously approved renewable energy projects funded for 2002 include the Berkshire wind project, which is still in progress. The total proposed allocation for this RFP component is $1,250,000.

The third component, a customer-sited generation support for PVs and small wind power projects, would operate under the previously approved PV Vendor Program through which pre-qualified vendors install PV systems in Rhode Island. The buy-down for PV is $3.00 per Watt or 50% of the installed cost, whichever is less. Small wind will

[7] The Commission approved the Supply-Side RFP, PV and Small Wind Project, Customer Education and Market Building, project development and Coordination with other states at a December 15, 2000 open meeting. With regard to demand incentives for suppliers, the Large Customer Renewables Demand

be an eligible resource with an incentive of $1.50/watt or 50% of the installed cost, whichever is less. RIREC proposes to increase the size limit for eligible small wind projects from 10kW or less to 50kW or less in 2002.

The program provides funding for a schools program and funding for the installation of renewable technologies on highly-visible town, municipal and non-profit facilities.[8] In addition, funding is included for metering of PV systems. The total proposed funding for this program component is $750,000, including $300,000 for a schools program and $322,000 in previous commitments to non-profit and educational entities.

The fourth component, consumer education, as well as aggregation and marketing to potential large green power customers and aggregations of smaller customers in order to build green power demand, would include a funding component for the installation of renewable technologies on highly-visible municipal and non-profit facilities. The proposed funding for this program component is $350,000, including funding for marketing campaigns and the establishment of a web-site.

The fifth component, project development for exploration of non-commercially available renewable technologies, includes further exploration of solar outdoor lighting, residential fuel cells and small scale wind turbines, along with further development of an additional landfill gas project in Johnston. The proposed funding for this program component is $200,000 and includes the sixth component, which is coordination with Massachusetts and Connecticut to identify green power opportunities in Rhode Island.

Program was approved by the Commission on May 24, 2001. The Small Customer Renewables Demand Program was approved on October 2, 2001. See Order No. 16798 (issued November 27, 2001).

[8] The funding would be 75% - 100% of the installed cost. Stip., Attachment 5, p. 1.

Finally, with regard to previously approved projects, the Cranston Landfill Gas Project authorized in 1998, with a projected completion date previously delayed from 1999 to 2000, has been cancelled due to permitting issues.

Retailer/Customer Incentives

RIREC indicated that retailer/customer incentives encourage the growth of the renewable markets by providing an incentive to retailers to market their products and by helping customers overcome initial resistance in the purchase of new products. RIREC has proposed a continuation of two incentive programs, one aimed at residential and smaller business customers and the other aimed at large businesses and institutions (collectively, the "Green Power Incentive Program").

The first program, the Small Customer Renewables Demand Program, is aimed at retail marketers of green power products. For every residential or small business customer that signs up for eligible green power products in Rhode Island, a rebate will be provided to the retail marketer of the product.[9] The marketer will be eligible for a $125/customer rebate for the first 5,000 customers and $75/customer rebate for the next 15,000 customers. Rebate payments would be made only after a customer has been enrolled in the program for at least three (3) months. On October 2, 2001, the Commission approved the allocation of $1.05 million from the 2001 budget funds for the Small Customer Renewables Demand Program. The program was announced to the public in mid-October 2001 and RIREC now seeks an allocation of $700,000 from the

[9] An eligible green power product meets one of two criteria. First, the product may be "green e-certified" through a voluntary program that has specific standards. Second, the product may be eligible if the product consists of at least 10% eligible, post-restructuring renewable energy generated in New England on an annual basis.

2002 budget funds for a total budget for the 2002 Small Customer Renewables Demand Program of $1.75 million.

Under the second program, the Large Customer Renewables Demand Program, a fund has been established to "fund a flexible incentive for larger customers . . . to motivate them to participate in the green market."[10] An RFP was issued in August 2001 directed toward large electricity customers interested in purchasing green power and to marketers interested in serving large customers with renewable power. RIREC received one response to the RFP from Shaw's Supermarket in Rhode Island for which Commission approval is required.

Shaw's Proposal

On December 19, 2001, on behalf of RIREC, Narragansett filed for approval a complex proposal from Shaw's Supermarkets and Conservation Services Group ("CSG")/Sun Power Electric ("SPE") to utilize funding under both the Large Customer Renewables Demand Program and the Small Customer Renewables Demand Program to implement a green power program designed to produce benefits for Shaw's, Shaw's customers, SPE and the Rhode Island renewables market. On January 4, 2002 the Commission received a corrected version of that filing.[11]

Under the program, Shaw's Supermarkets will purchase a certificates-based green power product called "ReGen," a green-e certified renewables product, initially for 3 (Barrington, Johnston and Bald Hill Road, Warwick) of its 13 Rhode Island stores.[12] In addition, Shaw's will engage in in-store marketing activities aimed at educating customers about green power, and sell ReGen to Shaw's customers both directly and

[10] Stip., p. 24.
[11] Joint Ex. 02-2

bundled with three free compact fluorescent bulbs (CFLs). With the payments from Shaw's and RIREC, SPE is committing to sell green power and add a corresponding amount of new renewable generation to the grid. Shaw's will not be required to change retail electricity suppliers in order to participate in the program.

The Shaw's proposal calls for total funding under the Large Customer Incentive Program of $94,647.15 over three years, decreasing from $33,802.55 in year 1 to $31,549 in year 2 to $29,295.55 in year 3. Shaw's will pay a share of the costs of ReGen totaling $40,563 over the three years and, in combination with SPE, will also pay for the indirect marketing costs for in-store campaigns including a kick-off event, displays, promotions, employee education and other initiatives. RIREC represented that such costs would far exceed the requested funding.[13]

In addition, under the Small Customer Renewables Demand Program, retail marketers are paid for every small customer that signs up to purchase an eligible green power product in Rhode Island. Shaw's, the retail marketer in this case, will be paid $125 per customer for the first 5,000 customers and $75 per customer for the next 15,000 customers until the program funds are exhausted.[14] Through the marketing campaigns conducted by the Shaw's stores, SPE expects that a minimum of 500 customers per year will enroll with ReGen, in blocks of 2,000 kwh/year of renewables per customer. Moreover, SPE and Shaw's indicate that 100% of the small customer incentive received will be rolled over into expanding the program by increasing the number of Shaw's stores

---

[12] Tr. 1/23/02, p. 46.
[13] Id.
[14] Joint Ex. 02-1 Page 23. The total budget requested for the Small Customer Renewables Demand Program is $1.75 million.

involved.[15] Thus, the more successful this program is, the more the Rhode Island renewables market will benefit.

Due to this leveraging effect, if the program is successful, SPE will need to procure additional resources beyond its current portfolio. SPE has pledged its best faith efforts to purchase such resources in Rhode Island and will work with RIREC when the opportunity arises to achieve this result.[16]

Renewable Supply Open RFP

RIREC proposes to continue to offer an incentive to new renewable projects developed to serve customer demand in Rhode Island. An open RFP was issued in August 2001 for proposals in New England (with focus on Rhode Island) as long as power produced is ultimately dedicated to Rhode Island customers. In order to qualify, projects must be new and will be selected based on cost, likelihood of completion, location of the project and connection to retail supply in Rhode Island. Funds will be distributed to buy-down the green cost premium, but not to eliminate it entirely. RIREC is reviewing proposals received and has asked some respondents to clarify parts of their projects.

Renewable energy projects requiring funding from the renewables budget of a $300,000 or less will be subject to Division approval, while projects over that amount will continue to be subject to Commission approval.

B. 2002 DSM/Renewables Budget. The Stipulation proposes an overall budget for the 2002 Programs of $30.0 million, of which $25.5 million is allocated to DSM

[15] Joint Ex. 02-2 Page 2.
[16] Id.

programs and $4.8 million is allocated to renewable energy programs and projects.[17] For purposes of transferring funds and simplifying goals for the Company's incentives, the Parties agree to divide the budget into the same four sections as previously approved: large C&I (Design 2000 Plus and Energy Incentive), small C&I, residential, and renewables. The Parties stipulate that the Company can transfer funds from one program to another program within a sector only with Division approval. Division approval is also required for the Company to transfer funds from one sector to another sector if the transfer does not reduce the approved budget for that sector by 20 percent or more. Any transfer that would reduce a sector's budget by 20 percent or more in aggregate over the course of a year would require Commission approval.

C. Funding Sources. Funding of the 2002 budget for DSM/renewable energy programs will be provided from the mandatory 2002 DSM/renewable energy charge, carryover of the 2001 fund balance, fund interest earned and funds received from small C&I program co-payments in 2002. True-up of the 2001 fund balance to be carried over to the 2002 budget will occur no later than April 2002. If the difference between the amount of the true-up and the filed budget is 20% or less of the total approved budget, only Division approval will be necessary for reallocation; otherwise, Commission approval will be required.[18]

[17] On May 31, 2002, after having completed a true-up of 2001 program expenditures, Narragansett filed a modified budget for 2002. The revised overall budget for 2002 is $29.9 million, with $25.5 million allocated to DSM and $4.5 million allocated to renewables. The revised budget reflects a $412,503 reduction from the budget filed in the Stipulation. See May 31, 2002 letter from Amy Rabinowitz, Esq. to Commission Clerk.

[18] By letter dated May 31, 2001, Narragansett informed the Commission that the parties had agreed to transfer $325,000 from the renewables sector to the Residential Energy Wise Loan Program, due to the success of the program. Specifically, the money was to be transferred from the small customer retailer renewable program. The transfer reduces the renewables sector's budget by 6.7%, requiring Division approval. Id. at 2.

D. Cost Effectiveness. The Parties agree to continue to use benefit/cost ratios as one benchmark to evaluate DSM program performance. Using the Rhode Island Benefit/Cost test, the overall projected benefit/cost ratio of the 2002 Programs is 2.25 (i.e., for every $1 spent, $2.25 of benefits accrue).

E. Avoided Generation and Distribution Costs

The avoided generation cost used in determining the cost-effectiveness of various DSM programs is taken from a report entitled "Updated Avoided Energy-Supply Costs for Demand-Side Management Screening in New England," prepared by Resource Insight and Synapse Energy Economics, December 6, 2001. Narragansett pointed out that the newly-updated projected generation prices are higher relative to the avoided cost stream used in the 2001 filing and, according to the parties, would likely increase the cost effectiveness of Narragansett's programs.[19] For 2002, the Parties agree that Narragansett will value avoided distribution costs at $41.47 per kW per year at primary and $86.96 per kW per year at secondary.

F. Incentive. The Parties agree that the Company may earn a total maximum incentive of 4.25% of the funding available for all DSM activities, excluding the Home Energy Management Program, small C&I co-pay and evaluation expenses. However, the Company will not earn an incentive on any DSM sector until it has reached 45% of the targeted annual energy savings goals for that sector. Recalculation of the threshold and the incentive rate for a specific sector will occur if funds are transferred from one sector budget to another, and will also be made for the large C&I sector to account for any changes in the spending and commitment budgets from those filed with the Stipulation.

December 13, 2001 Open Meeting

On December 12, 2001, Narragansett, on behalf of itself, the Division, and TEC-RI filed a request with the Commission to continue for 2002 the operation of the Company's DSM and renewable energy programs in effect during 2001.[20] As grounds for the continuation, Narragansett indicated that it expected the DSM Collaborative and RIREC would shortly be filing a Stipulation regarding the Company's DSM and renewable programs for the year 2002, which the Commission could review in 2002. At an open meeting on December 13, 2001, the Commission considered the request and granted the extension.[21] On December 17, 2001, the Parties filed the Stipulation regarding the 2002 DSM and renewables programs.

Public Hearing. Following notice, a hearing was held on January 23, 2002, at the offices of the Commission, 89 Jefferson Boulevard, Warwick, RI, to consider the Stipulation filed by the Parties and the proposals contained therein.

The following appearances were entered:

FOR NARRAGANSETT:	Amy Rabinowitz, Esq. and Ronald Gerwatowski, Esq.
FOR THE DIVISION:	William K. Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSON:	Cynthia G. Wilson, Esq. Senior Legal Counsel

One person appeared to make public comment regarding the incentives for new home construction and programs relating to education. A panel of witnesses then appeared on behalf of the Parties to support the Stipulation: William Gilmore, TEC-RI, Timothy Horan, Vice-President of Business Services for Narragansett, Kate Ringe-

[19] Joint Ex. 2, p. 30.
[20] The Company's DSM and renewable energy programs for 2001 were approved in Commission Order No. 16798 (issued November 29, 2001).

Welch, Personnel Analyst for Narragansett; Laura McNaughton, Manager of Residential Services for National Grid USA Service Company, an affiliate of Narragansett Electric, and Dr. Jonathan Raab, President of Raab Associates, serving as a consultant for the Division.

The morning session was spent examining the Shaw's Proposal. The Commission questioned representatives from Shaw's, CSG, the Division and RIREC at length on the Shaw's/SPE proposal on several subjects. Commissioners expressed concern about approving the requested three-year commitment of project funding and whether Shaw's would be successful in signing up 500 customers per year for the small customer segment of the program.[22]

The Division's consultant pointed out that the proposal addresses the Commission's ongoing concern that no customer be forced to leave standard offer service in order to purchase the ReGen product, thereby ensuring that ReGen customers that cease to purchase this product would not be forced onto last resort service.[23]

The Commission also expressed concern over whether the program had been fully designed in a manner that would ensure some level of success.[24] Ms. Jennifer Wylde testified on behalf of CSG.[25] She testified that CSG has been in business for over twenty (20) years, providing conservation and renewables products. CSG is a not-for-profit energy services firm with a renewable energy division. She explained that SPE builds solar power plants and CSG sells the energy to the wholesale and retail power markets. CSG also contracts for landfill gas.

---

[21] See Order No. 16903 (issued January 30, 2002).
[22] Tr. 1/23/02, pp. 86-90
[23] Id. at 13-16.
[24] Id. at 17-95.

Ms. Wylde provided testimony about other similar programs CSG had created with other types of retailers. However, she did agree that this was the first time CSG had worked with a supermarket on such a program.[26] Ms. Wylde explained that blocks of the ReGen product would be sold to residential customers at a cost of 3.6 cents per kWh. Shaw's would commit to purchase at least 25% of its total energy use with ReGen at a cost of 1.9 cents per kWh in the first year, increasing its commitment to 35% in the third year. The 1.9 cents per kWh price would be made possible by a subsidy provided by the renewables budget. The difference represents, in part, the administrative expenses associated with selling smaller amounts of the product to more customers as opposed to selling large blocks to fewer customers.[27] Customers would receive free CFLs when they sign up for the program and can cancel at any time.[28] Finally, Ms. Wylde indicated that she was in the process of having the product green-e certified. However, she indicated that an independent audit had been performed on the product in the past and it was available on CSG's website.[29]

The Commission also heard from Ms. Kathleen Loftus, a representative from Shaw's. She explained how the various departments within participating Shaw's supermarkets were working to develop the proposed program. She indicated that Shaw's would set aside space for a display and would run advertisements in its circulars. Furthermore, associate store managers would be trained to respond to customer inquiries.[30] She indicated that Shaw's was fully cognizant of the fact that education would be a key element to the success of the program, given the fact that customers

---

[25] Id. at 20-24, 27-38, 50-51, 54-60, 65-72, 82-85.
[26] Id. at 20-24.
[27] Id. at 29.
[28] Id. at 55.

would be asked to pay a premium for green power certificates on top of their regular electric bill.[31] Finally, Ms. Loftus indicated that Shaw's was really looking to fund a three-year plan that would be reviewed each year for performance rather than a one-year commitment that would have to be renewed each year, because management would be more responsive to a longer term commitment.[32]

Given the fact that the Commission still had some concerns, the Commission opted to hold an additional technical session at a later date in order to clarify its concerns regarding the feasibility of the proposed Shaw's/SPE program.[33]

2002 Stipulation

The afternoon session focused on the Stipulation. With the consent of the parties, the Commission opted to forego an overview of the Stipulation and proceeded directly to questions.[34] First, Narragansett indicated that although it projected that 98% of the 2001 DSM/Renewables budget would be spent or committed in 2001, the percentage was closer to 96%. Narragansett then provided reasoning behind its projections for the 2002 DSM/renewables budget and customer participation in the various programs. Narragansett explained that its projections differed from 2001 projections because the 2002 projections were based on actual 2001 participation.

Additionally, Narragansett explained that, due to the spike in fuel prices in 2000 and 2001, eligibility for the Energy Wise program was extended to customers heating their homes with oil, propane and wood as well as electricity. However, gas heating customers had not been included because investor-owned gas utilities, such as New

---

[29] Id. at 70.
[30] Id. at 50-52.
[31] Id. at 62.
[32] Id. at 87-88.

England Gas, tended to have their own energy efficiency programs.[35] The Commission nevertheless expressed some concern that gas customers, though paying into the DSM programs through their electric bills, are ineligible to participate in the Energy Wise program.

The Commission then focused the hearing on a discussion of the benefit/cost test and the shareholder incentive attached to the various DSM programs. Narragansett explained that the benefit/cost ratio upon which the shareholder incentive is based is a ratio of the monetary benefit associated with a program over its cost.[36] In response to questioning from the bench, Narragansett indicated that if more money were allocated to a particular program, more savings would also be allocated. Some of the costs of programs are fixed while other costs are variable. Therefore, if the fixed costs did not increase with the addition of new participants and those costs were spread over additional participants and it was only the variable costs that changed, the additional dollars would be allocated toward energy savings and the cost effectiveness of the program would increase slightly.[37] However, any uncommitted funds left over at the end of the year are fed back into the spending budget. Therefore, while the target incentive would increase, the threshold for making shareholder payments would also rise, making it harder to reach.[38] Narragansett also testified that when looking at its programs, its evaluation group changes estimates of benefit/cost estimates each year in order to best reflect savings experienced by customers as opposed to the engineering estimates that were used.[39]

---

[33] Id. at 93-95.
[34] Id. at 97.
[35] Id. at 120-22.
[36] Id. at 115-117.
[37] Id. at 136-39.
[38] Id. aat 247-48.
[39] Id. at 139-40.

The Commission expressed specific concerns about the amount of shareholder incentive associated with the residential lighting program (especially CFLs), given the fact that the quality of the products may vary under the standards in place through the Department of Energy. The Commission expressed concern that the shareholder incentive for the residential lighting program still comprises a large percentage of the total incentive attributed to all residential programs, despite the fact that there has been little innovation or new development in the content or administration of the residential lighting programs.[40]

Narragansett then provided explanation of the new HVAC program proposals. Ms. McNaughton explained that a program for providing rebates for energy efficient residential central air conditioning had been developed and implemented in 2001 in New Jersey through the Northeast Energy Efficiency Partnership. She explained that although there are fewer existing centrally air conditioned homes in Rhode Island, the trend for new construction in Rhode Island has been to include central air conditioning. Therefore, she indicated that the New Jersey program design would need to be tweaked in order to best fit the Rhode Island market. The proposal was limited to undertaking the research necessary to implement the program in Rhode Island. However, Ms. McNaughton expected Narragansett to be able to provide rebates toward the end of 2002.[41] She indicated that, based on conversations with members of the State Energy Office, she expected 200 customers to participate.[42]

[40] Id. at 149-64.
[41] Id. at 185-88.
[42] Id. at 188-90.

Turning to renewables, the Commission raised the possibility of instituting quarterly or semi-annual reporting on the various projects that are funded by the Collaboratives, given the fact that DSM/Renewables hearings are only held once a year.[43]

The Commission adjourned after having made several record requests on various issues. Further discussion was to be held at a technical session in the future.

Technical Record Session

Following the hearing, Commission data requests were issued on February 5th, February 11th, February 14th and April 9th, 2002 and responded to by Narragansett on behalf of the Collaboratives.[44] The Commission scheduled and conducted a further technical record session on April 22, 2002. The following appearances were entered:

FOR NARRAGANSETT:	Amy Rabinowitz, Esq. and
FOR THE DIVISION:	William K. Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSON:	Cynthia G. Wilson, Esq. Senior Legal Counsel

Shaw's Proposal

The Commission opened with further review of the Shaw's/SPE Proposal. Ms. Jennifer Wylde and Mr. Steve Cowell testified on behalf of CSG and Ms. Kathleen Loftus testified on behalf of Shaw's Supermarkets. Questioning continued at the Technical Record Session during which the Commission moved to accept the Shaw's/SPE renewables project as presented in the January 4, 2002 letter to the Commission from Ronald Gerwatowski (as corrected).[45] During discussion of the motion the Commission added that approval would be on a three-year basis provided that at the

[43] Id. at 207-17.
[44] Narragansett Exhibits 5,6,7,8.

end of year one Shaw's needs to have enrolled 500 customers in the small customer component of the program to qualify for automatic funding for year two of the program. Similarly, Shaw's would need to enroll 500 customers in year two in order to automatically qualify for funding for year three. Should Shaw's not meet these thresholds in year one or in year two, Shaw's would be required to go back to RIREC (or successor organization) with a revised proposal for consideration and possible submission to this Commission by the Company on behalf of RIREC (or successor organization).[46] Shaw's/SPE shall report on progress of this program to RIREC on a monthly basis.

The Commission noted that Shaw's and CSG had put a great deal of work into their proposal. They were diligent about answering the Commission's questions. In addition, the Re-Gen product had recently gained green-e certification. Finally, the program appeared to have more definition than previously presented to the Commission. Accordingly, the motion was unanimously approved by a 3-0 vote.[47]

2002 Stipulation

At the April 22, 2002 technical record session, the following witnesses were available: William Gilmore, TEC-RI, Timothy Horan, Vice-President of Business Services for Narragansett, Kate Ringe-Welch, Personnel Analyst for Narragansett; Laura McNaughton, Manager of Residential Services for National Grid USA Service Company, an affiliate of Narragansett Electric, Carol White for Narragansett Electric and Dr. Jonathan Raab, President of Raab Associates, serving as a consultant for the Division. The Commission also received public comment regarding the openness of the collaborative process. There was concern that responses were made to proposals and

[45] Tr. 4/22/02, p. 94
[46] Id. at 95-96.

either RIREC was slow to respond or the respondents were not clear what the criteria were for accepting or rejecting a proposal.[48]

The Commissions questions and ensuing discussion centered around a number of issues: (1) the status of responding to outstanding renewables RFPs;[49] (2) renewables challenges and education;[50] (3) the make up of the Collaboratives;[51] and (4) the methodology for calculating shareholder incentives for DSM programs.[52]

Speaking for RIREC, Ms. Ringe-Welch explained that RIREC had received several similar proposals from local vendors in response to its renewables education RFP. In addition, it had received a proposal from the Clean Energy Fund Network Group for developing a New England regional program that would perform market research, concept testing and then would get into media buys and the development of marketing materials. Each participant would contribute a percentage and receive the benefits.[53] RIREC had chosen to accept the regional proposal. Given the fact that many of the local respondents duplicated the regional proposal to some extent, RIREC was in the process of asking for revised proposals from the respondents.[54] The Commission indicated support to RIREC for moving forward with all deliberate speed in responding to all outstanding RFPs and requesting clarification or revision where necessary.[55]

The parties discussed the difficulties facing RIREC in achieving its objectives, noting that renewables technology is still fairly new. Additionally, renewables are

---

[47] Id. at 98.
[48] Id. at 122-23.
[49] Id. at 99-100, 104-11, 124, 125-29.
[50] Id. at 100-12, 119-22, 125, 129-35.
[51] Id. at 112-13, 117-19.
[52] Id. at 113-16, 140-65.
[53] Id. at 100-04.
[54] Id. at 105-06.
[55] Id. at 105-11.

premium products with high costs and uncertain benefits, making the market somewhat speculative. The members of RIREC occasionally have a different vision of which projects are appropriate to fund. RIREC opined that education was key to the advancement of renewables.[56]

This discussion segued into a discussion of the composition of the Collaboratives, both for DSM and Renewables programs. The Commission noted that for the most part, the DSM Collaborative had worked reasonable well with measurable results. However, the Commission expressed concern that RIREC was not nearly as successful in generating participation in renewables programs.[57] The Commission expressed interest in examining the composition and continued existence of RIREC in the future.

Addressing shareholder incentives, the Commission noted that the DSM programs contain incentives tied to the energy savings and success of a DSM program whereas renewables programs do not have such incentives. The Commission questioned whether Narragansett would have more success if shareholder incentives were developed for the renewables programs. The parties responded with further discussion regarding the difficulties of administering renewables programs.[58]

Toward the end of the Technical Record Session, the Commission delved further into the DSM shareholder incentive level and methodology for calculating the incentives.[59] Again, the Commission expressed concern over the level of incentive for the Residential Lighting Program.[60] Specifically, the Commission questioned the fact that all shareholder incentives are set at 4.25%, despite the fact that some programs are

---

[56] Id. at 111-13, 119-22.
[57] Id. at 112-13, 117-19.
[58] Id. at 114-16.
[59] Id. at 140-65.

easier to administer than others.[61] Moreover, the Commission questioned whether the level of incentive should be reduced once an established DSM program had been proven to work without the need for additional development or innovation over a significant period of time.[62]

On behalf of Narragansett, Ms. White provided the Commission with a chart setting forth an alternative for calculating the shareholder incentive which proposed to measure the incentive according to a calculation of the kWh savings for each program rather than the current method allocating certain amounts to each category (Large C&I, Small C&I and Residential) and breaking down the kWh savings at that level. Under the alternative method, Ms. White explained, most of the kWh savings would be attributable to the Large C&I DSM programs. Therefore, the incentive level for those programs would increase and the levels for the Small C&I and Residential programs would decrease. Ms. White explained that Narragansett had rejected the alternative method in order to keep Narragansett from focusing on the larger C&I customers at the expense of residential customers.[63] In response, the Commission expressed concern that the alternative methodology was still based on the same assumption that the flat of 4.5% incentive rate would continue.[64]

In addition, Narragansett described some of the differences between the shareholder incentive calculations under the Rhode Island and Massachusetts DSM Programs. In Massachusetts, there are three components to the shareholder incentive mechanism. One component relates to the lifetime energy and demand savings of the

---

[60] Id. at 140, 150-52, 157-59, 161-62.
[61] Id. at 149-50.
[62] Id. at 150.
[63] Id. at 144-46.

entire portfolio of energy efficiency programs so the incentive is not calculated within a segment of programs, but for the total. The second component is related to the benefit/cost ratio for the overall portfolio of programs. The third component is related to performance metrics that are negotiated with the intervenors in Massachusetts. The metrics relate to specific activities primarily focused on involvement in regional initiatives, such as achieving a certain market share for new construction in Massachusetts or conducting a joint utility evaluation study of something by a certain date.[65] Ms. White testified that the Rhode Island method was less complicated and yielded an incentive level lower than that earned in Massachusetts.[66] In response to questioning by the Commission, Ms. White testified that the methodology used in Massachusetts did not have a sliding scale in which different segments are weighed differently. However, she did indicate that there are three threshold levels of performance that are recognized and that Narragansett's level of incentive is based on those thresholds.[67] In closing, the Commission expressed interest in reviewing the level of incentives and the method of calculating the incentives in the future.[68]

Commission Findings[69]

At an Open Meeting held on April 25, 2002, the Commission considered the evidence presented and approved the Stipulation of the Parties filed on December 17,

---

[64] Id. at 151-52.
[65] Id. at 152-54.
[66] Id. at 154-55.
[67] Id. at 155-56.
[68] Id. at 164-65. In the Commission's view, an essential question to be answered is whether the purpose of an incentive is primarily to encourage DSM product development and innovation, or to continue to reward the utility for maintaining the status quo. This, in turn, raises the question of whether incentives should be based on a sliding scale calculation that conveys greater rewards for program innovation than for simply maintaining well-established programs.
[69] This section reflects the Commission's findings prior to the change in law. For a discussion on the parties' positions and Commission findings subsequent to the change in law, see infra, pp. 34-37.

2001. The Commission found that the Stipulation was in the best interest of the ratepayers. However, the Commission raised several areas of concern regarding the administration of the programs, and the level of shareholder incentives and the methodology used to calculate the same. At the Open Meeting, the Commission set forth new parameters for the filing future Stipulations and opened proceedings to address its concerns.

The Commission expressed concern that in its efforts to file a fully settled stipulation in 2001, covering this year's DSM Programs, the Collaborative delayed in making any filing and as a result, the process extended well into 2002. Therefore, the Commission will schedule a technical record conference on or about October 15, 2002, for purposes of discussing the proposed programs for 2003. The Commission directs Narragansett to file its direct pre-filed testimony no later than September 3, 2002.[70] The case will be assigned a new docket number and the Division will be directed to file its direct pre-filed testimony at a date to be determined at a pre-hearing conference.

[70] At the April 25, 2002 open meeting, the Commission directed the parties to file a Stipulation no later than November 15, 2002, noting that if the parties were unable to come to agreement on 100% of the programs and funding levels, they were to file a Stipulation covering the points upon which they could agree and each side it to file its position regarding the outstanding issues. The Commission would have then held hearings to allow the parties the opportunity to litigate the outstanding issues and to review the Stipulation. However, the Rhode Island General Assembly, in Public Law 2002-144 (signed by the Governor on June 18, 2002), vested the administration of the renewables budget in the State Energy Office. Shortly thereafter, during the course of a more in depth inquiry into the shareholder incentive programs and the RIREC proceedings, Narragansett proposed that, rather than a filing a Stipulation, it could file a direct case that would include a discussion of shareholder incentives. This would provide an opportunity to litigate the case rather than to simply provide the Commission with an after-the-fact agreement. Therefore, at its July 24, 2002 Open Meeting, the Commission decided that, given the change in law and the fact that a litigated process would provide an opportunity for a more in depth review into the DSM programs, it would accept Narragansett's proposal and open a new docket to review the 2003 proposals. The Commission set Narragansett's filing date at September 4, 2002. The remainder of the schedule will be set at a pre-hearing conference to be held in early September 2002.

The Commission opened a proceeding within the existing docket to review the administration of the DSM and/or Renewables Programs.[71] At the Technical Record Session, the Commission expressed concern regarding the effectiveness of the Collaboratives as they now exist. A distinction was made between a collaborative made up of the parties for purposes of entering into settlement discussions and settling the case and the group that makes the decisions regarding the administration of the programs once approved. The Commission was unclear as to why the Collaborative that *administers* the program needs to be made up of only parties to the docket. The Commission understands that the DSM Collaborative was created through experience rather than by an order of the Commission.

R.I.G.L. § 39-2-1.2 requires Narragansett to collect 2.3 mills per KWh delivered to fund demand side management programs and renewable energy resources. However, the statute, at the time of the April 25, 2002 Open Meeting, did not address the administration of the programs.[72] In the beginning, the DSM Collaborative was made up of three utilities, the conservation law foundation, the Division, TEC-RI and the State Energy Office as a non-voting member. Over the years, as mergers have happened, the DSM Collaborative has shrunk and the only active voting members are Narragansett, the

---

[71] A pre-hearing conference was held on May 29, 2002, wherein the Commission directed the parties in the instant docket to provide legal briefs addressing the Commission's jurisdiction in this area by June 28, 2002. Replies to the briefs were due July 12, 2002. Oral argument, if requested, was set for July 23, 2002. (Intervenors were directed to provide briefs at their option). The Commission would then make findings regarding its jurisdiction over the administration of the DSM and/or Renewables Programs. For further discussion, see infra, pp. 34-36.

[72] Public Law 2002-144 (signed into law on June 18, 2002) states: Effective January 1, 2003, and for a period of ten (10) years thereafter, each electric distribution company shall include charges of 2.0 mills per kilowatt-hour delivered to fund demand side management programs and 0.3 mills per kilowatt-hour delivered to fund renewable energy programs. Existing charges for these purposes and their method of administration shall continue through December 31, 2002. Thereafter, the electric distribution company shall establish two (2) separate accounts, one (1) for demand side management programs, which shall be administered and implemented by the distribution company, subject to the regulatory reviewing authority

Division and TEC-RI. Therefore, the Commission believed that a review of the process is necessary.

R.I.G.L. § 39-2-1.2 authorizes the PUC to regulate Narragansett to carry out the public policy set forth by the General Assembly, including preservation of the State's resources through conservation of natural resources and promotion of the availability of adequate, efficient and economical energy. Therefore, the Commission believed that the Legislature granted it the jurisdiction and authority to regulate and direct the administration of DSM and Renewables programs to best benefit the ratepayers without having the administer the DSM and Renewables programs itself. However, as previously noted, because the law was not specific regarding administration of DSM and Renewables Programs, the Commission provided the parties with the opportunity to present legal briefs and oral arguments, if requested, regarding jurisdiction and scheduled an Open Meeting in July 2002 to address these issues.

The Commission also directed the Division and Narragansett to provide the Commission with alternatives to the DSM Shareholder Incentives programs including whether some incentive should be awarded to Narragansett for the administration of Renewables programs. A report was to be filed by each party no later than July 15, 2002.[73]

The Commission is concerned that because of Narragansett's duty to its shareholders, it has a motivation, not intended to adversely affect ratepayers, but an understandable motivation, nonetheless, to work harder to promote programs that provide

---

of the commission, and one (1) for renewable energy programs, which shall be administered by the state energy office.

the greatest incentive to its shareholders. Therefore, with regard to the DSM programs that are not growing, as well as the development of new programs, the Commission believes that a greater incentive may provide Narragansett with the additional incentive needed to innovate and grow those programs.

The EnergyStar programs, especially the Residential Lighting Program, appear to be well established and working quite well. However, in comparison to the effort involved in administering certain of these programs, which have seen little or no innovation or substantive program development in many years, a relatively high economic incentive is still attached. Therefore, the Commission is seeking alternative methods of calculating shareholder incentives for the DSM Programs.

Administration of DSM/Renewables

On May 29, 2002, the Commission issued data requests regarding the administration costs associated with DSM and Renewables programs. The Commission also issued briefing issues for the parties regarding the Commission's jurisdiction over the administration of DSM and Renewables programs. On June 18, 2002, Governor Almond signed into law, House Bill 2002-7786, substitute B, as amended.[74] On June 27, 2002, Narragansett filed its data responses, itemizing the administrative costs for each. On June 28, 2002, Narragansett and the Division filed their respective positions regarding the ability of the Commission to implement rules governing the administration of DSM/Renewables programs. Both parties agreed that, with the exception of setting a rate higher than the statutory minimum, a recent change in law vested the administration of

---

[73] A pre-hearing conference was held on May 29, 2002, wherein the Commission directed the parties to the instant docket to provide reports on the level and calculation of the shareholder incentives by July 15, 2002. Replies to the reports were due on August 9, 2002. Hearings were tentatively set for September 10, 2002.

renewables programs in the Rhode Island State Energy Office.[75] Both parties also agreed that the Collaborative meetings were not covered by the Open Meetings Law and as such, the Commission could not order the meetings to be made public. However, the parties disagreed on whether the new law actually expanded Narragansett's role or reduced the Commission's authority over the administration of DSM funds.

According to Narragansett, House Bill 2002-7786 Sub B, as amended, made clear that it was the responsibility of the electric distribution company to implement and administer the DSM programs and funds, with the Commission keeping only a review power. Indeed, Narragansett argued that the Commission does not even have the jurisdiction to promulgate rules regarding the process of administering the DSM funds. Narragansett argued that the Commission should exercise its authority in the same way it had prior to the change in law -- by holding a hearing each year to approve Narragansett's proposed DSM programs. However, Narragansett recommended that rather than filing a Stipulation between parties at the outset, Narragansett would file its proposal complete with pre-filed testimony and proceed with a fully litigated case. Narragansett was opposed to a rulemaking process for establishing rules regarding the administration of DSM programs, arguing that it was inappropriate in a case where there are not several similarly situated companies affected by the law. Therefore, Narragansett believed that it would be more efficient for the Commission to review and adjudicate the proposals on an annual basis.

---

[74] See P.L. 2002-144 (passed June 12, 2002 and signed into law on June 18, 2002).
[75] P.L. 2002-144 significantly amends portions of Title 39 of the Rhode Island General Laws. Pertinent to this analysis are the changes made to R.I.G.L. § 39-2-1.2. One change assigns $.002/kWh of the C&LM charge to DSM programs, to be administered by the electric distribution company, subject to the regulatory reviewing authority of the Commission and $.0003/kWh of the C&LM charge to Renewables programs to be administered by the State Energy Office. See supra, note 71.

The Division, on the other hand, argued that, despite the change in law, the Commission retained more than mere reviewing authority over the DSM programs. The Division argued that taking Title 39 as a whole, it is clear that the General Assembly did not intend in any way to alter or limit the responsibilities given the Commission with respect to its regulatory oversight of the DSM programs. Therefore, the Division opined that the Commission "must have the necessary jurisdiction and authority to promulgate rules and regulations setting out the parameters within which the DSM Program may be administered and implemented."[76]

Shareholder Incentives

On July 15, 2002, in accordance with the Commission's findings at the April 25, 2002 open meeting, Narragansett and the Division filed their respective positions regarding alternatives to the calculation of shareholder incentives earned in conjunction with DSM programs. On August 9, 2002, the Division filed a second memorandum with the Commission to respond to Narragansett's July 15 filing.

In its July 15, 2002 filing, Narragansett set forth five goals that it believed an effective shareholder incentive program should achieve: (1) reward the company for effective program implementation; (2) encourage the company to prudently spend the entire DSM budget; (3) encourage program innovation; (4) encourage the company to make services available to all customer constituencies; and (5) eliminate adverse financial affects to the company related to aggressive program implementation. Next, Narragansett set forth its position regarding the effectiveness of the current shareholder incentive structure in meeting the five goals. Finally, Narragansett set forth a number of

[76] Division of Public Utilities and Carriers' Brief Regarding the Administration of the Demand Side

proposed modifications to the current shareholder incentive designed to better meet the five goals.

In its July 15, 2002 filing, the Division indicated that the current incentive structure was sufficient. However, the Division reserved the right to respond to any alternatives Narragansett may propose, and on August 9, 2002, the Division filed a response to Narragansett's July 15 proposals. The Division indicated that Narragansett's proposal to use an alternative benefit/cost test represented only one of Narragansett's six proposals that would be a "significant improvement" over the current incentive structure.

Commission Findings

At a July 18, 2002 Open Meeting, the Commission considered the positions advanced by Narragansett and the Division and determined that a ruling on the issue of the Commission's jurisdiction over the administration of the DSM programs was unnecessary at this time because Narragansett had suggested a satisfactory alternative method for reviewing its DSM Program Proposals for 2003, i.e., the Company filing a direct case for full adjudication rather than simply filing a Joint Stipulation together with the Division. Because the alternative does not appear to diminish the Commission's authority over the administration of DSM programs for 2003, the Commission finds it premature to address this issue outside of the upcoming DSM case. The Commission finds that a full adjudication of the Company's 2003 DSM proposals is in the ratepayers' best interests since approximately ten (10) years since the DSM proposals have undergone an in depth review made possible by a fully adjudicated proceeding. Nevertheless, the Commission reserves its right to address the question of its authority

---

Management and Renewable Energy Programs, p. 13.

under Title 39 over the administration of DSM programs in subsequent DSM proceedings.[77] Accordingly, when Narragansett files its DSM proposals for calendar year 2003, the Commission will assign a new docket number to the case.

Furthermore, the Commission's review of Narragansett's shareholder incentive program will continue in the new docket. Therefore, Narragansett shall file its direct testimony and proposals regarding the 2003 DSM budget and programs, as well as a proposal for shareholder incentives, no later than September 3, 2002. Finally, in light of the fact that the 2003 DSM proposals will be fully adjudicated, the Commission will be retaining an independent consultant to assist it in its analysis of the Company's 2003 DSM proposals.

Accordingly, it is

(17106) <u>ORDERED</u>:

1. The Stipulation of the Parties filed December 17, 2001 regarding the Company's 2002 demand-side management and renewables programs is hereby approved for implementation on April 25, 2002.
2. The Shaw's Renewable Project filed on January 4, 2002, as clarified during these proceedings, is hereby approved, effective April 22, 2002.
3. A Conservation and Load Management Adjustment Factor of $0.0023 per kilowatt-hour is hereby approved for usage on and after April 25, 2002 through December 31, 2002.

[77] It appears the disagreement between the Division and Narragansett may stem from the way each defines the term "administration." The term could either be substantive or merely ministerial. The effect of the latter definition would almost certainly mean that the Commission's authority was not altered by the change in law. However, even if the term administration meant something more substantive, the Commission is still in the position of making certain that the funds are administered in ways that best benefit the ratepayers. Therefore, the Commission's decision not to rule on this issue at this juncture should not be taken as an indication that the issue is settled.

4. The Commission hereby opens a proceeding to review the administration of the DSM Programs.
5. The Commission hereby opens a proceeding to review the level of shareholder incentives attached to the DSM Programs, and to review the methodology for calculating the shareholder incentives.
6. Narragansett shall file its direct testimony and proposals for 2003 DSM budget, programs and shareholder incentives no later than September 3, 2002.
7. 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 AN OPEN MEETING DECISION ON DECEMBER 13, 2001, A BENCH DECISION ON APRIL 22, 2002, AND OPEN MEETING DECISIONS ON APRIL 25 AND JULY 18, 2002. WRITTEN ORDER ISSUED AUGUST 20, 2002.

PUBLIC UTILITIES COMMISSION

____
Elia Germani, Chairman

____
Kate F. Racine, Commissioner

____
Brenda K. Gaynor, Commissioner