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 2001	:	

REPORT AND ORDER

On November 30, 2000, 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"), the Conservation Law Foundation ("CLF"), 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 2001 ("2001 Programs"). The Stipulation represents an agreement among its signatories (the "Parties")[2] regarding the design and implementation of Narragansett's 2001 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.[3]

[1] The Stipulation of the Parties was admitted as Joint Exhibit 00-1 and is attached and incorporated by reference herein as Appendix A.

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

[3] Last year, in anticipation of the merger between Narragansett Electric Company, Blackstone Valley Electric Company and Newport Electric Company, a single combined Stipulation for calendar year 2000 programs was filed in Docket No. 1939. This year, in the wake of the merger that closed in 2000, only the successor entity, Narragansett Electric Company, has filed a Stipulation. As a result, Docket No. 1939 was closed and Docket No. 3240 was opened.

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 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 five (5) 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.[4] The allocation of this revenue between demand side management programs and renewable energy resources shall be determined by the commission. During the five (5) 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…

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 2000. The Company's overall DSM and renewable energy budget for 2000 was set at $26,129,600, but was increased to $26,174,500 by the addition of the "trued-up" or actual 1999 year-end fund balance for its DSM and renewable energy programs. As of the date of the Stipulation, Narragansett projected that it would either spend or commit approximately 98% of its 2000 DSM and renewable energy budget.[5]

[4] On November 5, 2001, Governor Almond signed into law a 5-year extension of the 2.3 mills per kilowatt-hour charge.
[5] Jt. Exh. 00-1, Stip., p.3.

A. 2001 Program Descriptions. The Stipulation details the various DSM and renewable energy programs planned for 2001. The Stipulation notes that the Parties have agreed to certain modifications and additions for 2001. 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 2000: (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.[6]

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 serve 250 customers in 2001. 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

[6] Stip., pp. 3-4.

STAR appliances. The Stipulation points out that, while this program is cost-effective on a <u>total</u> 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.

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, for the year 2001, the parties have agreed to expand eligibility to all residential customers. The Company plans to serve 5,130 customers in the year 2001.

Additionally, 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 6% rate of interest. However, Narragansett will not provide funds to lower an interest rate by more than 9%. 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 850 low-income residents in 2001.

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 2001, the Company plans to serve 40,000 customers. The budget for this program in 2001 will support customer purchases of up to 45,000 fixtures and 70,000 light bulbs. The rebates in 2001 will be held stable to support new products introduced in 2000 that conform to ENERGY STAR standards. A $5 rebate will be offered for compact fluorescent screw-in bulbs. 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.

To date, Narragansett has only participated in the promotion and advertising of ENERGY STAR products. However, for 2001, Narragansett has proposed a $50 rebate to purchasers and a $10-$20 financial incentive to salespeople for the purchase and sale of an ENERGY STAR product.[7]

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 Collaborative has proposed to pay the cost of the kits needed for

[7] Narragansett has proposed a cap of $500 to any one sales associate.

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 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 proceeds of the sale are then used for the construction of another ENERGY STAR home in the following year. The project requires no additional funding in 2001. The Collaborative is studying additional school systems to determine whether the plan could be replicated in other areas.

Finally, 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 5,400 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. Large Commercial and Industrial Programs. 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.

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 75% - 90% 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.

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 2001 reflect technical advancements in energy efficiency products.

3. 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 to offer 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 1,003 customers in 2001. 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.[8] 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" or "Collaborative") has promoted renewable energy development in Rhode Island through seven programs: a residential photovoltaic ("PV") program, a supply-side wind project, fuel cell installations, landfill gas development, and a green campus study.

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, the Collaborative worked during 2000 to identify means of developing a green power market in Rhode Island. Accordingly, the focus of the 2001 renewable programs is to build customer demand for renewable energy products.

The Collaborative has proposed 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") will be 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 2001 include the Cranston landfill gas project and the Berkshire wind project. The total proposed allocation for this program component is $1,500,000, including $300,000 already committed to the Cranston landfill gas project.

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 will double to $3.00/watt or 50% of the installed cost, whichever is less. In addition, customers may take advantage of tax credits approved by the General Assembly in 2000. The total proposed funding for this program component is $250,000, including $5,000 for metering of PV systems.

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.[9] The proposed funding for this program component is $350,000, including funding for marketing campaigns and the establishment of a web-site.

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

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 $150,000 and includes the sixth component, which is coordination with Massachusetts and Connecticut to identify green power opportunities in Rhode Island.

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 again been delayed due to permitting issues. No revised completion date has been set. The Wind Project, a feasibility study of using wind power to generate electricity in Rhode Island, has been completed. No viable site was identified.

New Retailer/Customer Incentives

The Collaborative 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. The Collaborative has proposed two new 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 proposal, the Green Power Customer Rebate, 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.[10] 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.

Under the second proposal, the Large Customer Incentive RFP, a fund would be established to "fund a flexible incentive for larger customers . . . to motivate them to participate in the green market."[11] An RFP, issued during the first quarter of 2001, would be directed toward large electricity customers interested in purchasing green power and to marketers interested in serving large customers with renewable power. Proposals would address monetary incentives for entry into the green power market. Funding would be provided to applications that best meet the following two criteria: "low incentive level per new renewable kWh sold in Rhode Island and strong effort on the part of participating end-users to promote or expand green power purchases by others."[12]

Renewable energy projects with a contribution of $300,000 or less will be subject to Division approval, while projects over that amount will continue to be subject to Commission approval.

B. <u>2001 DSM/Renewables Budget.</u> The Stipulation proposes an overall budget for the 2001 Programs of $27.7 million, of which $23.2 million is allocated to DSM programs and $4.5 million is allocated to renewable energy programs and projects. 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:

[10] An eligible green power product meets one of two criteria. First, the product may be 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.
[11] Stip., p. 24.

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. Furthermore, if it appears the large C&I program budgets will be collectively spent or committed, up to $700,000 may be transferred to that account from the renewables budget if it appears that this amount of 2001 renewables budget will not be utilized.[13]

C. Funding Sources. Funding of the 2001 budget for DSM/renewable energy programs will be provided from the mandatory 2001 DSM/renewable energy charge, carryover of the 2000 fund balance, fund interest earned and funds received from small C&I program co-payments in 2001. True-up of the 2000 fund balance to be carried over to the 2001 budget will occur no later than April 2001. 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.[14]

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[12] Id., at 23.
[13] Stip., p. 27.
[14] By letter dated May 10, 2001, Narragansett informed the Commission that the annual true-up of the 2000 fund balance yielded an additional $1.23 million (or 4.5% of the total approved budget for 2000) of surplus funds to be carried over to the 2001 program budget and used primarily for Design 2000 Plus, Energy Initiative and residential educational programs in 2001.

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 2001 Programs is 1.92 (i.e., for every $1 spent, $1.92 of benefits accrue).

E. 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.

Public Hearing. Following notice, a hearing was held on December 11, 2000, at the offices of the Commission, 100 Orange St., Providence, 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:	Paul J. Roberti, Esq. Assistant Attorney General
FOR CLF:	Richard B. Kennelly, Jr., Esq.
FOR THE COMMISSON:	Steven Frias, Esq. Senior Legal Counsel

A panel of witnesses appeared on behalf of the Parties to support the Stipulation: 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, Dr. Jonathan Raab, President of Raab Associates, serving as a consultant for the Division; and Thomas J. Coughlin, Senior Analyst with National Grid USA Service Company.

Mr. Horan summarized the Stipulation, describing the programs and the proposed budget for 2001. He indicated that the Parties had agreed to continue the current DSM programs for commercial and industrial customers, and to continue five of the existing residential programs. However, the Parties had agreed that the Energy Wise and Energy Star Programs would be expanded in scope. Mr. Horan also noted that the Collaborative was recommending expansion of the renewables programs. Finally, he indicated that the Parties wished to keep the same incentive structure for 2001 as used in 2000. Specifically, for 2001, Narragansett could earn up to a maximum of 4.25% of the DSM spending budget.

Following Mr. Horan's testimony, Dr. Raab made a statement on behalf of the Division. Mr. Raab discussed changes made to the DSM and renewable energy programs for 2001, such as the inclusion of clothes washers for the Energy Star Appliance Program and the creation of the Green Power Incentive Program.[15]

Under questioning by the Commission, Dr. Raab acknowledged that the benefit/cost ratio for the DSM programs have decreased from 2.13 in 2000 to 1.92 in 2001; however, Ms. McNaughton stated that the reduction was due to additional programs instituted for residential customers.[16] Ms. McNaughton explained that the proposed $50 rebate for Energy Star washing machines and monetary incentives to sales

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[15] Tr., 12/11/00, pp. 15, 18.
[16] Id., pp. 27, 29.

persons to sell Energy Star washing machines is similar to programs in other jurisdictions in the region.[17]

With regard to the Green Power Incentive Program, Mr. Raab acknowledged that Rhode Island would be the first state to adopt such a program.[18] Mr. Raab stated that green power is generally more expensive than conventional power and therefore, it is necessary to offer customers a rebate in order to encourage the purchase of green power.[19] He stated that green power includes power which is 50% from renewables such as wind, solar, photovoltaics, biomass, geothermal, and hydro-power under 30 megawatts, or consists of at least 10 % eligible post restructuring renewable energy in New England on an annual basis.[20] To avoid gaming, Mr. Raab also explained that a customer must purchase and remain on green power for three months. A rolling incremental average of the net number of green power customers enrolled will be used to determine if an incentive payment should be paid to a green power marketer.[21] Mr. Raab concurred with the need to clearly notify customers that if they leave Standard Offer Service for an independent green power supply they will not be allowed to return to Standard Offer Service.[22] Mr. Raab approved of the performance-based DSM compensation program because administrative costs have decreased by 30% from last year, and he believed that Narragansett would not fail to disclose how DSM funds are being utilized for employee compensation as it had done in the past.[23]

[17] Id., pp. 32-34.
[18] Id., p. 38
[19] Id., p. 41.
[20] Id., pp.48-49,51.
[21] Id., pp. 54-56.
[22] Id., pp. 61-62.
[23] Id., pp. 116, 120-121. At an open meeting on March 24, 2000, the Commission accepted Narragansett's proposal of March 21, 2000 in which Narragansett credited $301,360 to DSM, which represented all

On December 13, 2000, Narragansett on behalf of the Parties made a filing with the Commission explaining and supplementing the Stipulation to address concerns raised by the Commission at the hearing with regard to the Green Power Incentive Program. The Company stated that it was unlikely that gaming would occur in the Green Power Incentive Program because green power marketers will only receive payments on the net number of customers they sign up and, therefore, have an incentive to retain customers.[24] Green power marketers would also be required to clearly explain to customers that once they leave Standard Offer Service they will not be eligible to return to it.[25] In addition, the Company also agreed to seek Commission approval prior to approving any customer rebate of more than $650,000 per application.[26] Lastly, the Company informed the Commission of the Rhode Island Energy Office's offer of rebates on numerous Energy Star products, including clothes washers, and therefore, the Parties proposed suspending their washer rebate at least until the Energy Office's program ends.[27]

Commission Findings at December 15, 2000 Open Meeting. At an open meeting held on December 15, 2000, the Commission considered the evidence presented in this docket and approved the Stipulation, with certain exceptions and modifications: (1) implementation of the Green Power Incentive Program was not approved; (2) rebates for clothes washers would not be allowed until the Rhode Island Energy Office's rebate program for clothes washers is discontinued; and (3) the Stipulation was modified to require Commission pre-approval for customer rebates of more than $650,000 per application. As modified, the Commission concluded the Stipulation was, with the

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incentive compensation charged to C&LM activities from 1988 to 1999 other than NEES Goals, and to credit the Storm Fund by $4,885.

[24] Joint Ex. 00-3, p. 2.

[25] Id.

exceptions discussed above, just and reasonable and in the best interest of the ratepayers and approved the Stipulation for effect January 1, 2001. In declining to approve the Green Power Incentive Program as filed in the Stipulation, the Commission expressed concern about the potential costs to ratepayers if defaulting green power suppliers were to "strand" residential customers (who had left Standard Offer Service) on Last Resort Service.

Green Power Incentive Program. In response to the concerns raised by the Commission at the December 15, 2000 open meeting, the Collaborative filed a memorandum with the Commission on February 12, 2001 explaining the potential effect the Green Power Incentive Program would have on Standard Offer Service and Last Resort Service costs in light of the fact that residential customers who leave Standard Offer Service for any reason (including migration to an independent green power supplier) cannot subsequently return to Standard Offer Service, but are forced onto Last Resort Service. The Collaborative noted that residential customers on Last Resort Service are charged the same rate as residential customers on Standard Offer Service rates.[28] But while the rates charged for residential Standard Offer and Last Resort Service are the same, the costs of providing these Services are not. For every penny of difference between the cost of providing Standard Offer Service and Last Resort Service, the annual cost undercollection for a typical residential customer on Last Resort Service is $60,000, the payment of which is subsidized by all other Standard Offer Service customers.[29] To minimize the potential for such a result, the Collaborative made the

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[26] Id., p. 3.
[27] Id., p. 4.
[28] Joint Ex. 00-3, p. 2.
[29] Id.

following recommendations: (1) require green power suppliers to make a minimum two-year commitment to provide customers with service; (2) require green power suppliers that drop customers for any reason during those two years to pay the cost differential between serving those customers with Last Resort Service and Standard Offer Service, and to return a pro-rata share of any green power incentive payments received; (3) require green power suppliers to provide clear notice to customers of the effect of leaving Standard Offer Service and provide verification that the customer received this notice; and (4) allow green power suppliers to price green power offerings below the Standard Offer Service rate.[30] On the same date, Narragansett filed a separate letter indicating support for the Green Power Incentive Program as modified by the Collaborative's recommendations set forth above, but also pointing out that "there is currently no viable residential market" for residential customers that leave Standard Offer Service.[31] This means that residential customers who leave Standard Offer Service for an independent green power supply will be "stranded" on Last Resort Service if the green power supplier defaults or discontinues offering the green product, or if the customer chooses to leave the green power supplier for any reason.

On March 8, 2001, a technical record conference on the Green Power Incentive Program was held at the offices of the Commission, 89 Jefferson Blvd., Warwick, RI. The Commission expressed concerns regarding the creditworthiness of green power suppliers to pay the cost differential between Standard Offer Service and Last Resort Service if green power suppliers were to "drop" or discontinue serving residential

[30] Id., pp. 3-4.
[31] Narr. Ex. 00-1.

customers, thereby "stranding" such customers on Last Resort Service.[32] The Commission was also concerned that a green power supplier could induce its customers to leave by raising rates but, under the program as originally filed, the supplier would not be required to pay the cost differential between Standard Offer Service and Last Resort Service on which the customers would similarly be "stranded."[33] Furthermore, the Commission questioned the Parties as to the possibility of "slamming," and was informed that a "slammed" customer (i.e., a customer, who was removed from Standard Offer Service without consent) would not be eligible to return to Standard Offer Service.[34] Lastly, counsel for Narragansett discussed pending legislation which, if enacted, would allow customers on Last Resort Service a one-time opportunity to return to Standard Offer Service.[35]

On May 10, 2001, the Collaborative filed a letter with the Commission stating that it had developed a draft set of terms and conditions for green power suppliers to participate in the Green Power Incentive Program for small customers, but due to the pending legislation affecting Last Resort Service, the Collaborative would wait to file this program until the outcome of the pending legislation is known.[36] In addition, the Collaborative requested Commission approval of the Green Power Incentive Program for Large Customers (involving the Collaborative issuing an RFP to large electricity customers and green power suppliers as described in the Stipulation) and guidance from

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[32] Tr., 3/8/01, p. 14.
[33] Id., p. 21.
[34] Id., p. 50.
[35] Id., p. 34.
[36] Letter to Commission 5/10/01.

the Commission as to the threshold level at which Commission pre-approval of a proposal would be required.[37]

At an open meeting held on May 24, 2001, the Commission approved implementation of the Large Customer portion of the Green Power Incentive Program, with a budget in the amount of $500,000, and required pre-approval by the Commission before implementation of any proposal exceeding $50,000.

On September 13, 2001, the Collaborative filed a letter with the Commission seeking approval of the Green Power Incentive Program for Small Customers. Although it was noted that the proposed legislation affecting Last Resort Service had not been enacted, the Collaborative explained that a recent Rhode Island Supreme Court decision affirmed the ability of the Commission to set different rates for residential customers than for commercial and industrial customers.[38] As a result of this court decision, the Collaborative recommended approval of the Green Power Incentive Program for Small Customers, because the Commission would be able to protect residential customers who leave Standard Offer Service by placing them on Last Resort Service at the same rate as that set for residential customers on Standard Offer Service.[39] The Collaborative also explained that it was requesting approval of a Small Customers Program budget of $1,050,000, instead of $1.75 million as originally proposed, because $700,000 had been previously transferred to the 2001 Large Commercial and Industrial DSM program budget.[40]

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[37] Id. p.2. A threshold of $50,000 was suggested.
[38] Letter to Commission 9/13/01; *see also* The Energy Council of R.I. v. P.U.C., 773 A.2d 853 (R.I. 2001).
[39] Id.
[40] Id.

On September 17, 2001, in response to additional concerns expressed by the Commission with regard to penalties for defaulting green power suppliers, the Collaborative re-filed the terms and conditions for the Green Power Incentive Program for Small Customers.[41] The terms originally filed on September 13, 2001 had only required a green power supplier to return any incentive paid to it for failure to serve a residential customer for two years. The revised terms included a provision that would allow Narragansett to seek reimbursement from a green power supplier who strands a residential customer on Last Resort Service of the difference between the cost per kWh of Standard Offer Service and the cost per kWh of Last Resort Service delivered to the residential customer.[42]

At an open meeting on October 2, 2001, the Commission approved implementation of the Small Customer portion of the Green Power Incentive Program, with a budget of $1,050,000, in accordance with the revised terms and conditions for the program filed on September 17, 2001.

COMMISSION FINDINGS

The Commission finds the proposed Conservation and Load Management Adjustment Factor of $0.0023 per kWh to be in compliance with the URA, and the demand-side management and renewable energy programs and budget for calendar year 2001 to be reasonable and in the best interest of the ratepayers and the public. Although the Commission has a long-standing history of supporting the Parties C&LM initiatives, the Commission is becoming increasingly concerned that the ratepayers may not be receiving maximum benefit from their DSM and renewable funds. In particular, we note

[41] The September 17, 2001 letter is attached and incorporated by reference herein as Appendix B.
[42] Id.

that the projected overall benefit/cost ratio for the DSM programs has dropped from 2.13 in 2000 to 1.92 in 2001, indicating that ratepayers will receive less benefit for their DSM dollars spent in 2001 than in 2000. In addition, the Commission throughout these proceedings has scrutinized the newly-proposed Green Power Incentive Program, ultimately approving it only because of the additional safeguards developed for residential customers at the insistence of the Commission. The Commission remains unsure as to whether the renewable programs will provide maximum benefit to ratepayers. As a result, in future filings, the Commission will carefully scrutinize the proposed DSM and renewable budgets, as well as benefit/cost analyses of the programs and, if appropriate, set aside a portion of DSM and/or renewable funds in a restricted account for use at later date.

Accordingly, it is

(16798) <u>ORDERED</u>:

1. The Stipulation of the Parties filed November 30, 2000 regarding the Company's 2001 demand-side management and renewables programs is hereby approved for implementation on January 1, 2001, except as it pertains to the Green Power Incentive Program.
2. The Green Power Incentive Program for Large Customers, with a budget in the amount of $500,000, is hereby approved for implementation on May 24, 2001.
3. The Green Power Incentive Program for Small Customers, as modified by the revised terms and conditions for suppliers to participate therein filed on

September 17, 2001 and with a budget in the amount of $1,050,000, is hereby approved for implementation on October 2, 2001.

4. A Conservation and Load Management Adjustment Factor of $0.0023 per kilowatt-hour is hereby approved for usage on and after January 1, 2001 through December 31, 2001.

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

EFFECTIVE AT PROVIDENCE, RHODE ISLAND, ON JANUARY 1, 2001, PURSUANT TO OPEN MEETING DECISIONS ON DECEMBER 15, 2000, MAY 24, 2001, AND OCTOBER 2, 2001. WRITTEN ORDER ISSUED NOVEMBER 27, 2001.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner