

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

RE: DG 10-017, ENERGINORTH NATURAL GAS, INC. D/B/A NATIONAL  
GRID NH, DISTRIBUTION SERVICE RATE CASE

PRE-FILED TESTIMONY OF  
SHANNA CLEVELAND, ESQ., ON BEHALF OF  
CONSERVATION LAW FOUNDATION

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October 22, 2010

1 Q. Please state your name, position, and office address.

2 A. Shanna Cleveland. I am a Staff Attorney for CLF. My office address is 62 Summer  
3 Street, Boston, MA, 02110.

4  
5 Q. What is your educational background?

6 I graduated with a bachelor's degree, magna cum laude, from Harvard University.  
7 I hold a law degree from the University of Virginia, where I served as Executive Editor  
8 of Virginia Law Review. I also hold an LL.M. degree, also magna cum laude, from  
9 Vermont Law School. My thesis topic was: Cleaning Coal: Why Integrated  
10 Gasification Combined Cycle with Carbon Capture and Sequestration Is the Best Option  
11 for Coal in the Near Future. I am licensed to practice law in Massachusetts and Hawaii.

12

13 Q. What is your professional experience?

14 A. I have worked as a litigator in several law firms, as an environmental advocate, and as  
15 an environmental attorney.

16 I have been an associate attorney at Goodwin Proctor, LLP, in Boston,  
17 Massachusetts, and at Ashford & Wriston, LLP, in Honolulu, Hawaii.

18 I have been employed by the Institute for Energy and the Environment in South  
19 Royalton, Vermont. The Institute is a public-policy consulting organization associated  
20 with Vermont Law School. At the Institute I did research and analysis on topics related  
21 to renewable energy and energy efficiency.

1 I have also been employed by the Regulatory Assistance Project (RAP), in  
2 Montpelier, Vermont. RAP is a non-profit organization, formed in 1992 by experienced  
3 utility regulators, that provides research, analysis, and educational assistance to public  
4 officials on electric utility regulation. At RAP I performed research related to a variety of  
5 environmental and regulatory issues including carbon capture and sequestration.

6 I now serve as a Staff Attorney for CLF. I represent CLF as an attorney in a  
7 variety of dockets before the Massachusetts Department of Public Utilities (D.P.U.)  
8 including dockets addressing energy efficiency, decoupling, and demand-side resources.  
9 I have practiced before the Massachusetts Energy Facilities Siting Board on issues  
10 regarding renewable energy. I have litigated cases related to enforcement of the Clean  
11 Air Act. I also served on Governor Patrick's Zero Net Buildings Task Force. On the  
12 topic of decoupling, during the Massachusetts D.P.U.'s investigation into decoupling in  
13 its Docket 07-50, I appeared on multiple panels arranged by the Department and provided  
14 extensive testimony on the issues of: (1) the impact of decoupling on demand resources;  
15 (2) alternative rate-making approaches; (3) distribution service cost drivers; and (4) the  
16 mechanics of decoupling. I was a presenter at the 2007 Annual Conference of the  
17 Northeast Energy Efficiency Council (NEEC); my topic was, "Decoupling in  
18 Massachusetts: The Next Logical Step in Energy Efficiency and Demand Resource  
19 Policy for the Commonwealth."

20

21 **Q. Are you appearing in this Docket as an attorney?**

1 A. No. Although I am an attorney, I am not licensed in New Hampshire, and I do not  
2 represent CLF in this Docket. I am appearing in this Docket as an expert witness.

3

4 **Q. What is your position on the utility's proposal for decoupling in this Docket?**

5 A. CLF and I support National Grid's (Grid's) proposal for decoupling in this Docket.

6 As I explain in greater detail, below, CLF believes that decoupling is sound public policy.

7 Neither CLF nor I take any position on other issues presented in this Docket.

8

9 **Q. Before discussing Grid's specific proposal for decoupling contained in this  
10 Docket, can you explain in more general terms what decoupling is?**

11 A. Yes.

12 Decoupling is related to efficiency and conservation. It arose as a method to  
13 address the revenue erosion that occurs under traditional regulation when a utility  
14 successfully implements aggressive energy-efficiency and demand-resource programs.  
15 This revenue erosion creates a disincentive for utilities to invest in energy efficiency and  
16 demand resources. Therefore, decoupling is a necessary -- but not a sufficient --  
17 condition to achieving maximum energy efficiency.

18 Decoupling in New Hampshire is desirable and important both for environmental  
19 reasons (to help slow the disastrous advance of climate change) and for economic

1 reasons. As the Commission noted in Order No. 24,636 (June 8, 2006) energy efficiency  
2 measures provide public benefits during times of supply constraint or high demand by  
3 bringing down the overall cost of natural gas supply. Inasmuch as decoupling is directly  
4 related to and supportive of utilities' efforts to promote energy efficiency, decoupling  
5 provides a real benefit for all natural gas customers in the state.

6         Traditional utility regulation creates a disincentive for utilities to promote energy  
7 efficiency and conservation or to support policies that advance efficiency and  
8 conservation because any reduction in sales inevitably causes a reduction in revenue and  
9 profits for the utility. This is true because traditional utility ratemaking couples a utility's  
10 revenues, and ability to capture authorized rate of return, with the volume of its sales,  
11 providing a strong incentive to sell more of the regulated commodity. This volumetric  
12 method of compensation means that any affirmative effort to provide an incentive for the  
13 utility to provide energy efficiency and conservation services to customers (lowering the  
14 customers' bills and the customers' environmental impact) also results in a reduction in  
15 the core revenue received by the utility as the total volume of regulated commodity sold  
16 declines. Thus, the purely volumetric compensation of the utility (the current and historic  
17 model that decoupling would replace) creates an inherent tension within the business  
18 model, economics and culture of the utility that always threatens to undermine efforts to  
19 cast the utility in the role of efficiency and conservation service provider to customers.

1           Decoupling eliminates this problem by aligning the utility's pecuniary interest  
2 with the public interest in fostering efficiency and conservation. This is good for the  
3 environment (because reduced use of energy commodities means lower need to extract  
4 resources from the earth, reduced emissions from fuel combustion and reduction of  
5 overall demand relative to supply) and is good for consumers (because reduced use  
6 means lower bills and lower customer cost).

7           Under a full decoupling mechanism regulators determine in advance a utility's  
8 fixed costs, and set rates to produce a level of revenue to cover those costs, and to create  
9 a reasonable opportunity to cover a rate of profit approved in advance by the regulators.  
10 Should efficiency increases lead to reduced commodity sales, thereby reducing revenue, a  
11 periodic "true-up" ensures that utilities will recover the approved level of revenue  
12 regardless of -- that is, decoupled from -- sales volume. Conversely, if the true-up shows  
13 an amount in excess of the approved level of revenues, then the ratepayers receive a  
14 rebate or credit. The result is removal of a key disincentive to the utility providing  
15 efficiency and conservation services to its customers.

16           In short, decoupling ensures that utility financial incentives are aligned with the  
17 public interest and with helping their customers use energy more efficiently.

18

19 **Q. So, does decoupling equal energy efficiency?**

20 A. No. Implementing decoupling is not the same as achieving increased energy  
21 efficiency or conservation -- or even putting in place a positive incentive for the utility to

1 take on the role of achieving such efficiency and conservation. Decoupling simply  
2 removes a perverse disincentive to the utility. As I indicated above, without decoupling,  
3 utilities such as Grid are given an actual disincentive to fostering efficiency and  
4 conservation that reduce demand.

5 It is important not to oversell the benefits of decoupling. As I indicated above,  
6 decoupling is a necessary (and even an important) condition for increased energy  
7 efficiency -- but it is not a sufficient condition for achieving efficiency. Even after  
8 decoupling, both the utility and other actors in the state will have to pay significant  
9 attention to (and expend significant funds on) achieving our energy-efficiency goals.

10 Decoupling won't get us where we want to go in terms of achieving energy  
11 efficiency. But it is an important and necessary step in the right direction. And while  
12 PUC adoption of natural gas rate decoupling in this Docket won't guarantee that we  
13 achieve greater efficiency (and cost savings) for New Hampshire ratepayers, the failure to  
14 adopt decoupling in this Docket will unequivocally leave in place a major obstacle to  
15 achieving greater efficiency (and cost savings) for ratepayers.

16

17 **Q. The issues being considered by the Commission in this proceeding primarily**  
18 **address the need to assure just and reasonable rates for customer's of Grid's**  
19 **natural gas distribution service yet the proposed decoupled rate design seems to**  
20 **focus on the importance of "incentives" and "aligning incentives" for the company**  
21 **(Grid). For instance, in support of decoupling you just said that what decoupling**

1 seeks to accomplish is “aligning the utility’s pecuniary interest with the public  
2 interest in fostering efficiency and conservation.” How would decoupling affect the  
3 incentives of Grid’s customers to conserve?

4  
5 A. Because there is a significant cost to customers which increases in proportion to the  
6 amount of natural gas each customer uses, they have a natural incentive to save money by  
7 minimizing the amount of natural gas purchased from Grid. Consumers -- be it of gas or  
8 electricity -- have a strong incentive to conserve and implement efficiency with or  
9 without decoupling. The historically volatile commodity price of natural gas makes this  
10 true. Generally speaking, the commodity price assures that decoupling is not necessary  
11 to align consumer incentives or to encourage consumers to conserve. In fact, it is crucial  
12 to maintain this incentive for customers by continuing to link their bills to the volume of  
13 energy they consume, and the decoupling mechanism proposed by the utility in this  
14 Docket does nothing to change or reduce this incentive.

15 Decoupling is necessary to properly align the utility’s incentives with the public  
16 interest in conservation and efficiency. Without decoupling, effective efforts at  
17 conservation and efficiency reduce commodity through-put and, thus, reduce the utility’s  
18 earnings. Decoupling is not necessary to align consumer incentives or behavior with the  
19 public interest; instead, decoupling is aimed at aligning the utility’s interest with the  
20 public interest in efficiency and conservation.

1           New Hampshire has included energy efficiency as part of its energy strategy for  
2 many years and the Commission has determined that it is in the public interest for  
3 regulated natural gas distribution companies to implement cost effective energy  
4 efficiency programs to reduce customer demand. At the same time, a utility owes a  
5 fiduciary duty -- also a legal obligation -- to its shareholders to maximize profits, which  
6 includes increasing consumers' aggregate consumption of energy. This is an impossible  
7 situation. The utility cannot simultaneously be legally obligated both to reduce and to  
8 increase consumption. I am reminded of the pig, Wilbur, in E. B. White's famous  
9 children's book, Charlotte's Web, who complained that he could not simultaneously run  
10 uphill while he was running downhill.

11           Decoupling is an effort to solve this problem -- and it is aimed at aligning the  
12 utility's incentives, not consumer's incentives, with achieving energy efficiency goals.

13

14   **Q. Then what effect, if any, would decoupling have on a consumer's incentives to**  
15 **conserve?**

16   A. As I noted above, decoupling has no effect whatever on the incentives for consumers  
17 -- that is, ratepayers -- to conserve or implement efficiency because for every therm of  
18 gas they forego, they will experience substantial savings, even if revenue decoupling is  
19 implemented. Thus, while decoupling is a good thing because it helps to align the  
20 utility's financial interest with the public interest in efficiency and conservation,  
21 decoupling leaves customer and ratepayer incentives to conserve completely unchanged.

1           In fact, if decoupling is adopted by the Commission in this Docket, the pecuniary  
2   incentive to individual ratepayers to conserve would be preserved in two separate places  
3   on consumers' bills -- on the commodity component of the bill, and on the distribution  
4   component of the consumer's bill.

5           On the commodity component of the rate-payer's bill, the utility pass-through  
6   (without any profit) of the commodity cost remains unchanged. This commodity charge  
7   represents the largest portion of the customer's monthly bill. Thus, with or without  
8   decoupling, the commodity charge on ratepayers' bills provides a powerful incentive to  
9   conserve.

10          On the distribution component of the customer's bill, decoupling preserves the  
11   incentive to ratepayers to consume less natural gas because, even after decoupling, a  
12   consumer who uses less natural gas will pay a lower monthly distribution charge.  
13   Conversely, a consumer who uses more natural gas will pay a higher distribution charge.

14

15   **Q. But isn't it true that natural gas rates would rise under decoupling as consumers**  
16   **use less natural gas. If the utility's revenue requirement, in effect, is guaranteed to**  
17   **the utility, then wouldn't rates necessarily have to rise as more and more efficiency**  
18   **and conservation are utilized?**

19   **A.** The crucial thing to remember here is that from a consumer/ratepayer perspective,  
20   what matters is the size of bills, not rates. As I discussed above, with decoupling, the  
21   incentive for every consumer to conserve is completely preserved and protected under

1 decoupling. And every consumer who uses less natural gas will pay a lower bill under  
2 decoupling. To the extent that ramped-up efficiency programs will lower natural gas  
3 consumption for more ratepayers, then more ratepayers will be seeing the benefit of  
4 lower bills.

5           When a ratepayer makes out her or his check to the utility every month, what she  
6 (or he) is concerned about is the amount of that check. Natural gas bills in New  
7 Hampshire can be complicated and confusing. Consumers are concerned about their bill  
8 (that is, how big the check is that they are writing); most consumers have no idea what  
9 their rate is.

10

11 **Q. You say, "New Hampshire has included energy efficiency as part of its energy**  
12 **strategy for many years and the Commission has determined that it is in the public**  
13 **interest for regulated natural gas distribution companies to implement cost effective**  
14 **energy efficiency programs to reduce customer demand." To the extent that you are**  
15 **correct -- that with the Commission's oversight Grid is actively promoting efficiency**  
16 **-- then isn't decoupling unnecessary?**

17 **A.**     As I have noted above, Grid, and all investor-owned utilities, have a fiduciary  
18 responsibility to their shareholders to increase profits. Under the current regulatory  
19 regime, every successful energy-efficiency program administered by Grid reduces its  
20 revenues. Grid is implementing effective energy efficiency programs (and as discussed  
21 below, is seeking to increase its energy efficiency budgets), but at the same time is faced

1 with a competing incentive, indeed requirement and legal obligation, to increase  
2 throughput outside of its energy-efficiency offerings to protect the earnings of its  
3 shareholders.

4 If the Commission approves the Company's proposal for decoupling in this  
5 Docket, CLF will want in the future to see very aggressive and very assertive proposals  
6 from Grid for energy-efficiency programs. CLF can and will intervene in future energy-  
7 efficiency dockets to ensure that Grid is moving aggressively and quickly to procure all  
8 efficiency resources it can, should, and must.

9

10 **Q. Why is decoupling necessary when the Commission authorizes a shareholder**  
11 **incentive mechanism for utility implemented energy efficiency programs?**

12 A. It is correct that utilities implementing energy efficiency programs approved by  
13 the Commission, such as Grid, are provided with a shareholder incentive based upon their  
14 respective budgets including an adder for customer cost benefits. The shareholder  
15 incentive, however, does not eliminate a utility's incentive to increase throughput to  
16 protect earnings. First, it should be noted that the shareholder incentive is capped. More  
17 importantly, without decoupling, Grid and other utilities continue to be incentivized to  
18 maximize sales as a means to offset the reduction in throughput that results from the  
19 many energy efficiency initiatives implemented outside of and in addition to the utility  
20 implemented programs. Thus, decoupling will have the effect of amplifying the benefits  
21 of societal investment in energy efficiency measures, rather than encouraging utilities to

1 act at cross purposes because of the disincentive to energy efficiency created by the  
2 traditional ratemaking process.

3

4 **How would you characterize Grid's energy efficiency implementation in New**  
5 **Hampshire?**

6 A. In its New Hampshire natural gas distribution business, Grid has substantially  
7 expanded its energy efficiency programs and expenditures since the current round of  
8 programs was initiated by the Commission in Order No. 24,109 (December 31, 2002),  
9 which approved new programs for implementation by natural gas distribution utilities. In  
10 the ongoing CORE and Gas Energy Efficiency programs Docket DE 10-188, National  
11 Grid is proposing to again substantially increase its natural gas distribution energy  
12 efficiency program offerings and expenditures from \$2.4 MM budgeted during May 2009  
13 to December 2010. In calendar year 2011, Grid proposes \$5.8 MM in funding for gas  
14 energy efficiency delivery and \$6.3 MM in 2012. Grid has been a leader in energy  
15 efficiency offerings in New Hampshire and revenue decoupling provides a necessary  
16 mechanism for Grid to continue to advance its programs and achieve the important  
17 environmental and ratepayer benefits that will be provided through implementation of  
18 cost effective energy efficiency.

19

1 Q. Rate impacts from decoupling have been raised by some as a significant  
2 concern. Please address the potential for and nature of rate impacts based on  
3 experience with decoupling in other jurisdictions.

4 A. In my view, consideration of potential rate impacts on ratepayers is a legitimate  
5 concern when contemplating a decoupling proposal, any decoupling proposal.  
6 Commission staff and the consumer advocates are right to raise the issue, and I am  
7 certain that potential impacts on ratepayers will be one consideration that the  
8 Commission will factor in when it makes its decision on whether or not to approve Grid's  
9 decoupling proposal in this Docket.

10 There are data available on this subject that can be provided to the Commission in  
11 order to help the Commissioners understand what the actual, real-world experience has  
12 been for ratepayers in other jurisdictions that have already implemented decoupling.  
13 New Hampshire is by no means the first jurisdiction to contemplate decoupling. Other  
14 states have implemented decoupling, and the data and information from those states on  
15 the effects on ratepayers can help inform the Commission in this Docket as to whether or  
16 not to approve Grid's decoupling proposal.

17 According to a June 2009 report by Pamela G. Lesh entitled "Rate Impacts and  
18 Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive  
19 Review," "Decoupling adjustments tend to be small, even miniscule. Compared to total  
20 residential retail rates, including gas commodity and variable electricity costs, decoupling  
21 adjustments have been most often under two percent, positive or negative, with the

1 majority under 1 percent.” This report was based on a survey of 28 natural gas utilities  
2 and 12 electric utilities in 17 states that have operative decoupling mechanisms.<sup>1</sup> That is,  
3 the fact that decoupling rate adjustments tend to be small, even miniscule, is not a  
4 prediction of possible, future events, but rather a statement based on a retrospective look  
5 at actual past events in the real world.

6         The reasons that decoupling adjustments tend to be small, even miniscule, are  
7 easy to understand. Decoupling applies only to the distribution part of a ratepayer’s bill,  
8 which is only about a quarter to a third of the bill. The remaining part of a ratepayer’s  
9 bill, largely the commodity portion, is not directly affected by decoupling at all.  
10 (However, to the extent that effective efficiency programs tend to put downward pressure  
11 on wholesale commodity costs, then decoupling may be said to have a small, indirect  
12 tendency to reduce the commodity portion of ratepayers’ bills.) And customer use only  
13 varies by a modest amount over time (even accounting for the most optimistic possible  
14 ramp-ups in efficiency and conservation). So you are looking at changes of only a few  
15 percent of a ratepayer’s entire bill, and, most directly, only on the distribution portion of  
16 the bill. This works out to a very small adjustment as a percentage of the overall bill.  
17

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<sup>1</sup> A complete copy of Ms. Lesh’s report is attached hereto at Tab A. Ms. Lesh has worked in the electric utility industry for over 20 years. She was Vice President of Regulatory Affairs and Strategic Planning for Portland General Electric (PGE); was a Senior Advisor to the Natural Resources Defense Council (NRDC); and is currently the founder and principal of a consulting firm providing services to utilities and others on issues relating to energy.

1 Q. What else does the Lesh Report say about the impact of decoupling on ratepayer  
2 bills?

3 A. The other significant finding is this: “Decoupling adjustments go both ways,  
4 providing both refunds and surcharges to customers . . . Regardless of the particular  
5 combination of causes for any given adjustment, no pattern of either rate increases or  
6 decreases emerges.”

7 I think this second finding is also crucially important. Decoupling is sometimes  
8 portrayed by opponents as a trick or a ruse that can only increase a utility’s income at the  
9 expense of ratepayers. Actual, real-world experience in jurisdictions that have  
10 implemented decoupling shows that this is just not true. When commodity use decreases  
11 -- say, because of efficiency programs or an unusually warm winter -- rates do go up (by  
12 a very small amount). But, importantly, when commodity use increases for any reason --  
13 say, an unusually cold winter -- rates actually go down. This is a two-way ratchet, not a  
14 one-way ratchet. When commodity use increases, decoupling prevents the utility from  
15 making unexpected (or even windfall) profits.

16 This is something that ratepayer advocates ought to be very pleased to support.

17

18 Q. You said that decoupling is desirable for environmental reasons. What do you  
19 mean by that?

20 The impacts of climate change are already being attributed to unprecedented  
21 global disasters, such as flooding in Pakistan, droughts in Australia and fires in Russia

1 this past summer. If unchecked, climate change will cause additional sea level rise  
2 (flooding many of the most densely populated areas on earth, including portions of New  
3 Hampshire); droughts (with concomitant famines and social upheavals); and the  
4 extinction of thousands of species. The 2007 report of the Intergovernmental Panel on  
5 Climate Change (IPCC) makes clear that climate change is real; it is anthropogenic, and  
6 it is accelerating. The IPCC was the co-recipient of the Nobel Peace Prize for its “efforts  
7 to build up and disseminate greater knowledge about man-made [sic] climate change, and  
8 to lay the foundations for the measures that are needed to counteract such change.”

9 In the short-term, energy efficiency will be the single most effective way that  
10 human society will be able to achieve reductions in the greenhouse gas emissions that  
11 cause climate change. Although in the longer term, many other things are also necessary  
12 -- including development of new, non-polluting, renewable-energy sources -- in the next  
13 few years, achieving greater energy efficiency is the most important single tool we can  
14 use to help slow climate change. And implementing decoupling removes a major barrier  
15 to maximizing energy efficiency.

16 The relevance of the global climate change crisis to this Docket should not go  
17 unremarked. The Commission can, in this Docket, take a step that, while small, is  
18 nevertheless truly significant in addressing climate change. The Commission can for the  
19 first time in New Hampshire, approve rate decoupling, thereby removing an important  
20 disincentive to achieving efficiency.

21

1 Q. Why is Grid's decoupling proposal an appropriate tool for New Hampshire to  
2 realize additional benefits from energy efficiency deployment at this time?

3 Grid's proposal closely follows both the statutory policy of the state and the  
4 Commission's recent precedent which empowers the electric and gas utilities to propose a  
5 decoupling rate mechanism as part of a rate case filing to promote energy efficiency. The  
6 New Hampshire General Court, when it codified RSA Chapter 125-O, found "that energy  
7 conservation results in direct reductions in air pollutant emissions" and that "incentives  
8 for energy conservation are an important component of an overall clean power strategy."  
9 RSA 125-O, VII. In Docket DE 07-064, the Commission undertook a thorough  
10 investigation of "the merits of instituting . . . appropriate rate mechanisms, such as  
11 revenue decoupling, which would have the effect of removing obstacles to, and  
12 encouraging investment in, energy efficiency" and to "determine the appropriate  
13 procedural approach for implementing such rate mechanisms." Order 24,934 at page 19  
14 (January 16, 2009). Based on its investigation, the Commission concluded (at page 19)  
15 that "existing rate design and mechanisms, as a conceptual matter, can pose an obstacle to  
16 investment in energy efficiency" and "that there are different rate mechanisms [such as  
17 decoupling] that could be employed to further promote such investment." Most  
18 importantly, for purposes of the instant Docket, the Commission determined that "the  
19 best approach to implementing such rate mechanisms is on a company-by-company basis  
20 in the context of an examination of specific costs and revenues . . . ." Grid's proposed  
21 rate design appears to be a direct response to the Commission's invitation for a

1 decoupling rate proposal and provides an opportunity for the Commission to advance the  
2 salutary policy benefits it has been seeking since initiating its investigation into energy  
3 efficiency rate mechanisms.

4

5 **Q. What is it about Grid's natural gas business that makes it an ideal opportunity**  
6 **for the state's first foray into a rate decoupling mechanism?**

7         Although the Commission has recognized the potential ratepayer and  
8 environmental benefits of decoupling, the Commission has not yet approved a decoupling  
9 mechanism for any utility in the state. Grid's natural gas distribution business appears to  
10 be ideally situated, among regulated New Hampshire utilities, as an opportunity to  
11 explore and initiate revenue decoupling in New Hampshire. As discussed above, Grid  
12 has substantially expanded its energy efficiency service offerings and, subject to  
13 Commission approval, has again proposed a substantial increase in its energy efficiency  
14 expenditures for the benefit of its customers. At the same time, and perhaps as a result in  
15 some measure of successful energy efficiency program deployment, Grid has been  
16 experiencing consistently declining revenue per customer, particularly as funding  
17 mechanisms for energy efficiency at the state and federal level have increased. The  
18 resulting decrease in profitability, in the absence of decoupling, will compel Grid to  
19 explore measures to increase profitability by increasing throughput.

20         Rather than seek to restore profitability by increasing the size of its business  
21 (resulting in both adverse commodity price pressure and environmental impacts) Grid's

1 rate design would eliminate the incentive for increased throughput. Because it is a  
2 natural gas utility, Grid's decoupling proposal provides incentives for growth in  
3 customers, which is generally environmentally beneficial, while at the same time creating  
4 a disincentive for Grid seeking increased sales to existing customers. Thus, through its  
5 proposed rate design, Grid proposes a mechanism by which it has a reasonable  
6 opportunity to earn profits in the market, to which it is entitled so long as it prudently  
7 operates its business, while continuing to accept and encourage decreased sales per  
8 customer through energy efficiency measures.

9 CLF is not taking a position on the other issues presented in this docket.

10 However, we recognize that opponents of Grid's decoupling proposal may view it  
11 primarily as a means to ensure revenues to the utility while imposing unreasonable cost  
12 risk upon customers. As discussed above, extensive experience with decoupling shows  
13 that this is not true. Indeed, decoupling will provide an additional safeguard to ratepayers  
14 in the event that natural gas demand increases due to weather and/or favorable  
15 commodity pricing (as many are predicting). It is in part for this reason that decoupling  
16 is more common for natural gas distribution utilities than for electric utilities.

17

18 **Q. In conclusion, would you please sum up your testimony?**

19 A. Yes.

20 CLF and I support Grid's proposal for decoupling in this Docket. Decoupling is  
21 an important and necessary (but, alone, not sufficient) prerequisite for achieving all

1 available energy efficiency. Energy efficiency, in turn, is an important first step in  
2 reducing carbon emissions and addressing the problem of climate change.

3 CLF and I believe that decoupling also has important benefits for all New  
4 Hampshire natural gas customers. In particular, by reducing aggregate demand at periods  
5 of peak demand, efficiency (enabled, in part, through decoupling) can reduce the overall  
6 cost of natural gas to all ratepayers.

7 In a prior docket, the Commission has expressed its receptivity to a utility rate  
8 design proposal which includes decoupling. I understand that as the first such proposal,  
9 there are likely to be parties adverse to change and a new rate construct, and who will be  
10 inclined to focus on customer risk rather than customer and state-wide benefit. In this  
11 regard, I urge the Commission to not allow the perfect to be the enemy of the good and to  
12 approve Grid's plan for decoupling of natural gas delivery rates presented in this Docket.

13

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

15 **A. Yes, it does.**