

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DE 07-064

Investigation into Energy Efficiency Rate Mechanisms

Comments of National Grid

National Grid¹ stands ready to significantly ramp up its investment in energy efficiency in New Hampshire. Energy efficiency is sound public policy and it should be pursued aggressively. However, the ratemaking process needs to be revised so that utilities will have the revenues necessary to provide excellent service to customers notwithstanding the reduced deliveries of gas and electricity that will result from enhanced energy efficiency. This requires a fundamental change in ratemaking so that the revenues that utilities need to provide excellent customer service are decoupled from the volume of deliveries.

The public benefits from increased energy efficiency are compelling. The implementation of enhanced energy efficiency measures provides long term benefits to customers by increasing efficiency and reducing costs. It is also beneficial to the environment, due to reductions in emissions, including greenhouse gases. These comments of National Grid flow from a strong belief in the benefits that additional energy efficiency will bring for the State of New Hampshire based on our twenty years of experience delivering cost-effective and award winning energy efficiency programs for our customers.

While National Grid has been a leader in energy efficiency, we are committed to doing far more. Given increasing awareness and concerns about high and volatile energy prices and

¹ National Grid's New Hampshire distribution companies are Granite State Electric Company d/b/a National Grid ("Granite State") and the former KeySpan company: EnergyNorth Natural Gas, Inc. d/b/a National Grid NH ("EnergyNorth").

the impacts of climate change on the environment, it is clear that customers and the environment will benefit as energy consumption is reduced through improved efficiency. Therefore, one of National Grid's priorities is making the expansion of its cost-effective energy efficiency programs part of its core business to encourage and provide assistance to customers to achieve the maximum economic reductions in their energy use. However, under traditional ratemaking as customers consume less energy, the revenues needed by the company to support investment in infrastructure and operations and maintenance expenses required to provide reliable and safe service are reduced. Thus, the more aggressive the energy efficiency program, the more the utility's ability to invest in the system and provide good service is diminished. Therefore, to ensure that utilities have the revenues to provide excellent service while advancing energy efficiency and reducing deliveries of gas and electricity, National Grid firmly believes that a properly designed decoupling mechanism is a key initiative that must go hand-in-hand with the ramp up of energy efficiency and demand response programs. Moreover, it is important to recognize that while decoupling revenues from sales will allow utilities the revenues they need to provide excellent service notwithstanding a decline in deliveries, decoupling alone does not provide the positive incentive needed for utilities to make efficiency a core part of their business. For this reason, the Commission should continue to provide shareholder incentives for utilities to aggressively pursue energy efficiency.

In these comments, National Grid urges the Commission to adopt a policy to modify existing ratemaking practices so that utilities will have the necessary revenues to provide excellent service to customers while simultaneously ramping up their energy efficiency programs. These comments also include a proposal for implementation.

Overview

National Grid has long been a national leader in the development and deployment of award winning energy efficiency programs. On the electric side, National Grid has been implementing energy efficiency programs in New Hampshire for twenty years. On a combined basis, National Grid has spent approximately \$750 million on its energy efficiency programs in the United States, producing approximately two million MWh in annual energy savings and over \$2 billion in customer electric bill savings since 1987. Altogether, participating customers are realizing bill savings of approximately \$200 million per year. More than 300,000 customers participate in National Grid's electric energy efficiency programs each year.

Similarly, EnergyNorth (formerly part of KeySpan) has been operating gas energy efficiency programs in New Hampshire for almost five years. On a combined basis, KeySpan has invested more than \$140 million in energy efficiency programs, helping customers to save nearly 565 million therms; enough to heat more than 24,000 homes for twenty years. Altogether, KeySpan's customers have saved \$876 million as a result of program efforts.

New Hampshire appears poised to increase energy efficiency initiatives in the coming years, given recent legislative proposals.² National Grid supports the move in this direction and is prepared to lead as a major partner in the prospective growth of energy efficiency programs. In fact, National Grid encourages New Hampshire not only to move such a policy forward, but also, in doing so, to establish aggressive statewide targets for energy efficiency.

In conjunction with the ramp up of programs, National Grid also believes that utility ratemaking practices must be examined and modified to render utilities neutral to the impact of

² The NH legislature is currently considering several pieces of legislation focused on energy efficiency, including increased appliance efficiency standards, and establishment of an energy efficiency advisory commission. In addition, Governor Lynch's Climate Change Task Force is focused on a number of areas to improve energy efficiency as an important step in addressing the challenges of climate change.

conservation on sales volumes, particularly in an environment of ramped up energy efficiency initiatives. National Grid advocates decoupling as an important means of better aligning public policy with New Hampshire ratemaking practices and customer and utility interests, thus ensuring that utilities have the revenues to provide excellent service to customers while pursuing conservation and energy efficiency initiatives. As will be explained in these comments, decoupling is important because it will allow utilities to embrace energy efficiency without undermining their ability to provide safe, reliable and efficient service to customers.

Core Principles for Decoupling

National Grid supports the adoption of a decoupling mechanism based upon several core principles for ratemaking designed to effectively decouple sales revenue from profits, facilitate investment in the distribution infrastructure, and encourage more investment in energy efficiency. Each of these principles is discussed below.

A. The Need for Forecasted Ratemaking with Decoupling

Ratemaking practices should be revised to ensure that utilities can provide excellent customer service while simultaneously pursuing efficiency measures to reduce deliveries of gas and electricity. Rates should be set to recover a utility's costs, including a fair return to shareholders. Currently rates are based on billing determinants that take into account the historical impact of efficiency programs on sales. However, an increase in efficiency measures going forward (all other things being equal) will reduce the volumetric billing determinants that were used to set rates. This will produce lower revenue than was anticipated when rates were set, jeopardizing the ability of utilities to provide excellent service to customers. The link between volumetric sales and the revenues needed to provide excellent service to customers must be decoupled.

To address these issues, National Grid proposes the Commission adopt rate decoupling as a ratemaking principle, to be employed at the time that a ramp up in energy efficiency is implemented. Specifically, National Grid proposes a decoupling approach that reconciles a Commission-approved forward-looking revenue requirement against actual revenue received from customers each year. The basic principle would be the same for both electric and gas utilities, with some variation that takes into account the differences experienced with these two services. Under National Grid's proposal, the distribution company would have the ability to obtain the revenues it needs to serve customers, even in the face of reduced energy consumption and the success of its and others'³ energy efficiency initiatives.

Under National Grid's proposal, the revenue requirement target would be established through a forecasted rate year methodology, in a manner that remains consistent with the provisions of RSA 374:28.⁴ This is accomplished by forecasting expenses for the rate year, but adjusting for future rate base additions only after the additions have actually been put into service and reviewed by the Commission. The rate base for capital expenditures can be adjusted annually for prudently incurred capital expenses by means of a tracker for capital expenses similar to the mechanisms approved by the Commission for Granite State and EnergyNorth. These mechanisms allow for the recovery of certain specified incremental capital investment as part of a settlement agreement in the National Grid/KeySpan merger proceeding in Docket No. DG 06-107. In the context of decoupling, however, the tracker would apply to all capital expenditures of the utility each year.

³ E.g., aggressive building codes and appliance efficiency standards.

⁴ RSA 378:28 states in relevant part, "So far as possible, the provisions of RSA 378:27 shall be applied by the commission in fixing and determining permanent rates, as well as temporary rates. The commission shall not include in permanent rates any return on plant, equipment, or capital improvement which has not first been found by the commission to be prudent, used and useful."

As a part of the decoupling mechanism, National Grid proposes the Commission establish a three to five year rate cycle for each utility. At the commencement of the rate case, a forecasted cost of service would be used to establish the revenue requirement targets for each year against which the decoupling mechanism would be applied. Expenses could be forecasted for the rate plan period, or annual adjustments to expenses could be permitted to take into account the cost changes in each year of the plan. In turn, adjustments would be permitted for after-the-fact rate base additions, on terms approved by the Commission. Each year the established revenue requirement target would be reconciled against actual revenues received, thus effectively decoupling sales from revenues. On the electric side, complete decoupling for every rate class is appropriate. However, on the gas side, per customer revenue targets would work in tandem with programs designed to convert customers to natural gas usage. This would be consistent with sound environmental policy to move customers away from oil consumption and toward more environmentally-friendly natural gas.

To the extent a utility already has a multi-year rate plan in place, such as Granite State, an interim lost base revenue mechanism can be put in place to achieve the objective of decoupling until the next base rate case. This would facilitate an immediate ramp up in energy efficiency programs in New Hampshire. This approach removes barriers to utilities ramping up their energy efficiency programs without requiring each utility to file a new base rate case in the near term. The more permanent forecasted rate year approach to decoupling could then be implemented at the expiration of the existing rate plan in an orderly manner as each utility files its next rate case.

B. Maintaining Special Reconciliations as Appropriate

In addition to employing decoupling as outlined above, the Commission should continue to employ the fully reconciling cost-recovery mechanisms already in place. These mechanisms also function to decouple sales revenues from cost recovery by allowing utilities to recover segregated components of their revenue requirements on a year-to-year basis. The Commission currently employs a range of cost-recovery mechanisms to enable utilities to collect their allowed revenue requirement over a multi-year period immediately following a base rate proceeding. For example, both EnergyNorth and Granite State reconcile and recover prudently incurred commodity costs, and Granite State reconciles and recovers FERC approved transmission costs annually. These reconciling provisions should be continued in the future. They have served the purposes of decoupling indirectly, but also serve the purpose of allowing cost recovery on a fairly current basis for items that are volatile or beyond the distribution utility's control. Rather, they are best dealt with on a neutral "dollar-for-dollar" recovery basis.

C. Implementing Rewards for Performance

Decoupling also does not obviate the need for incentives. As mentioned earlier in the comments, National Grid has been recognized as a leader in energy efficiency in the country. This was facilitated by Commission policies that provided incentives for performance. National Grid strongly believes that when utility and customer interests are aligned, superior performance by the utility results, maximizing customer benefits. National Grid therefore urges the Commission to continue existing incentive mechanisms, but the Commission should also be prepared to reward utilities in other ways for assisting in achievement of the energy efficiency and other demand response goals of New Hampshire. The principle is one of partnership. When

utilities participate as partners with their customers and regulators, the public policy goals can be achieved much faster and much more efficiently.

Commission's Questions

1. Whether existing rate treatment poses an obstacle to investment in energy efficiency?

Yes, existing rate treatment poses an obstacle to investment in energy efficiency. A utility that pursues energy efficiency aggressively jeopardizes its ability to provide excellent service to its customers. Ratemaking should be reformed to decouple the revenues that a utility needs to serve its customers from the volume of gas or electricity that it delivers.

On the electric side, load growth revenues have been an important component of funding operating and capital expenditures. On the gas side, gas distribution companies already have been experiencing a reduction in use per customer that has eroded revenues needed to operate the business.⁵ As such, even without gas efficiency programs, revenue erosion affects the operation and financing of the gas business. Aggressive gas efficiency programs will exacerbate this situation. Thus, in both the electricity and gas businesses, without an appropriate decoupling mechanism in place, the utility has a disincentive which poses an obstacle to the implementation of aggressive efficiency programs because they affect the ability of the company to operate its business because the company is working against itself financially.

⁵ Although gas companies have experienced decreasing use per residential customer over the past several years, there has been growth in use per customer in certain C&I classes. This revenue growth has helped to offset lost revenues on the residential side, as well as increases in costs. However, it has not been enough to offset the revenue losses caused by the residential sector.

2. Whether different rate treatment would promote such investment?

Yes, different rate treatment would promote energy efficiency investment without eroding the revenues that utilities need to provide excellent customer service. National Grid is prepared to lead the way in ramping up its energy efficiency programs in New Hampshire. In conjunction with statewide energy efficiency targets and the ability to earn incentives for good performance, utilities will be motivated to promote and strengthen energy efficiency initiatives without affecting their financial ability to provide safe and reliable service. The link between utility sales and revenues must be broken in order to remove obstacles, and incentives should be provided to ensure the aggressive promotion of energy efficiency.

3. The procedural question of whether these issues should be pursued further in this docket, through utility-specific rate cases, as part of a rulemaking, or through some other means?

As discussed earlier in the comments, National Grid believes decoupling utility revenues from sales is critical to the expansion of cost-effective energy efficiency opportunities in New Hampshire. Decoupling should be employed at the time of a ramp up in efficiency programs or when a utility files its next base rate case, whichever occurs first. In the absence of a base rate case, a lost base revenue mechanism can be put in place as an interim measure. Similarly, to the extent a utility has a multi-year rate plan in effect, the Commission should allow the utility to implement a lost-base revenue recovery mechanism at the time that energy efficiency programs are proposed to be ramped up over and above today's program levels. At the time of the next base rate case, a more complete decoupling mechanism can be implemented on a permanent basis, consistent with the proposal outlined in these comments.

4. Whether decoupling would constitute an alternative form of regulation under RSA 374:3-a?

No, decoupling would not constitute an alternative form of regulation under RSA 374:3-a.

Whether or not a decoupling mechanism constitutes an alternative form of regulation under RSA 374:3-a is largely a function of how the decoupling mechanism is designed. National Grid believes that decoupling can be designed based on cost of service principles. National Grid's proposal for decoupling would set rates on the basis of cost of service ratemaking, using a forecasted test year rather than an historic test year. Forecasted test years still rely on cost of service. National Grid does not believe a decoupling mechanism that incorporates a forecasted test year is necessarily an alternative form of regulation. However, it should not be difficult to evaluate a particular decoupling proposal to ensure it is consistent with New Hampshire law and the Commission's rules for alternative forms of regulation.

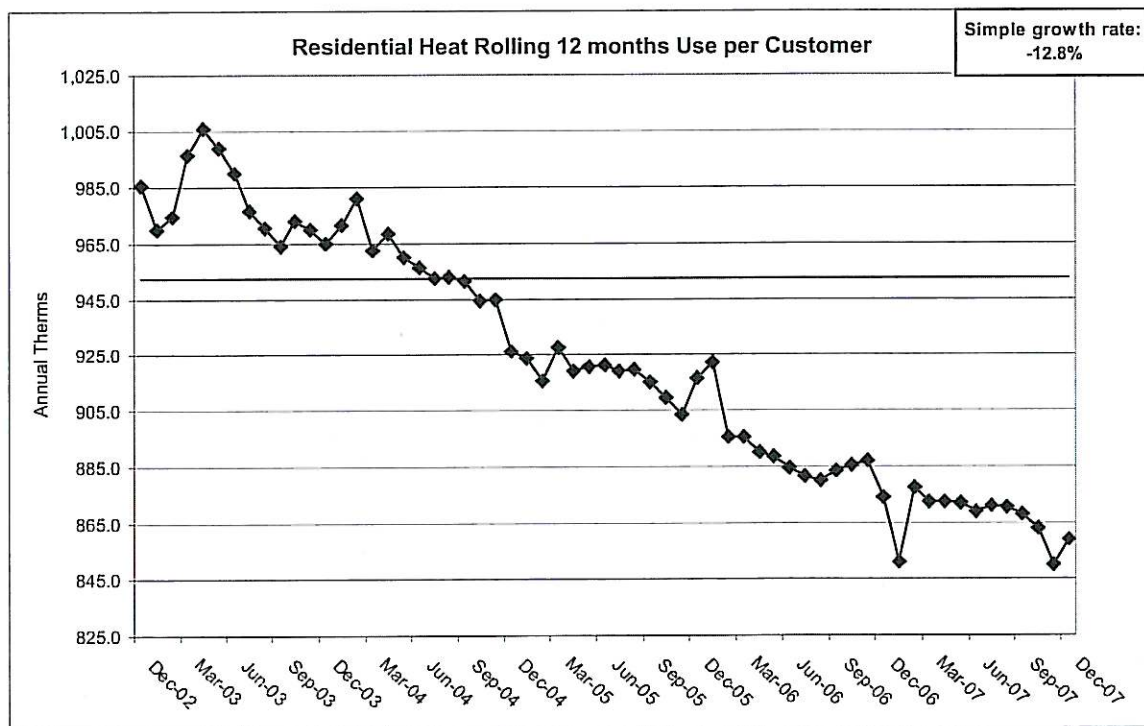
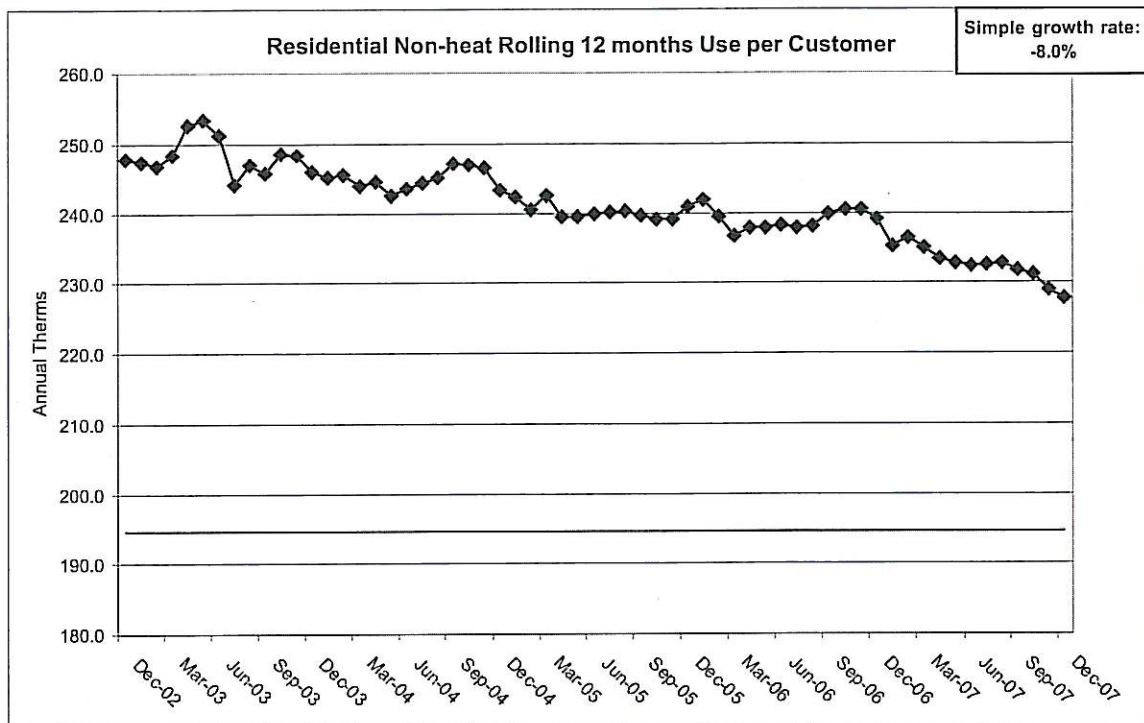
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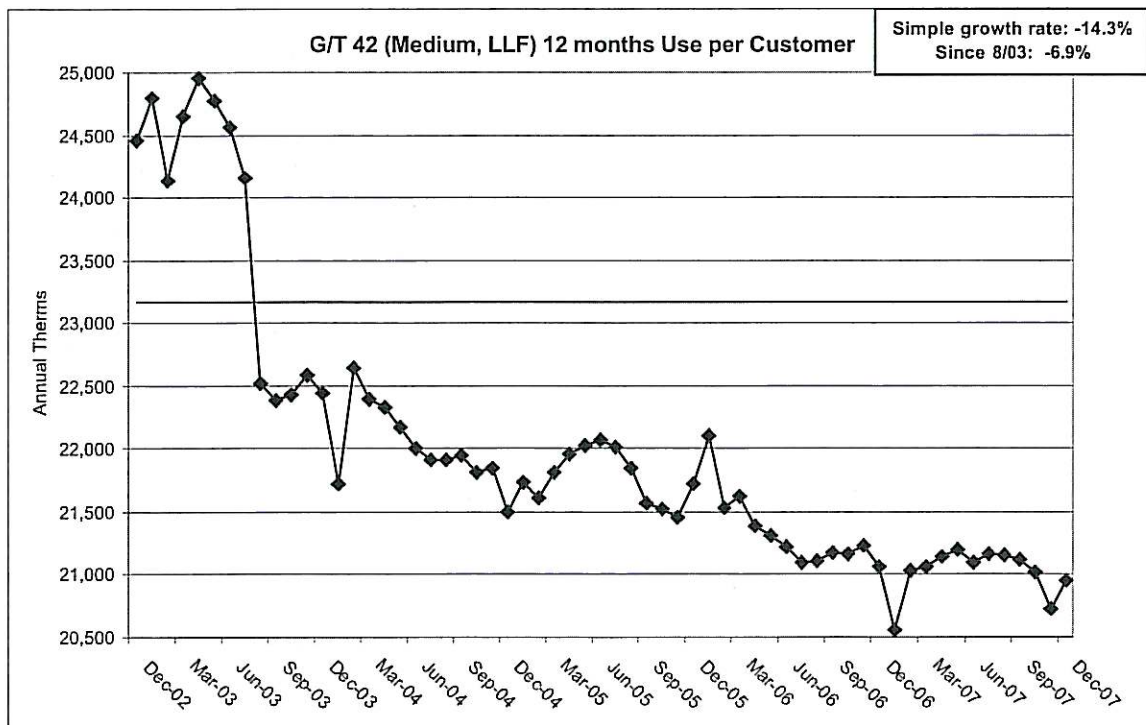
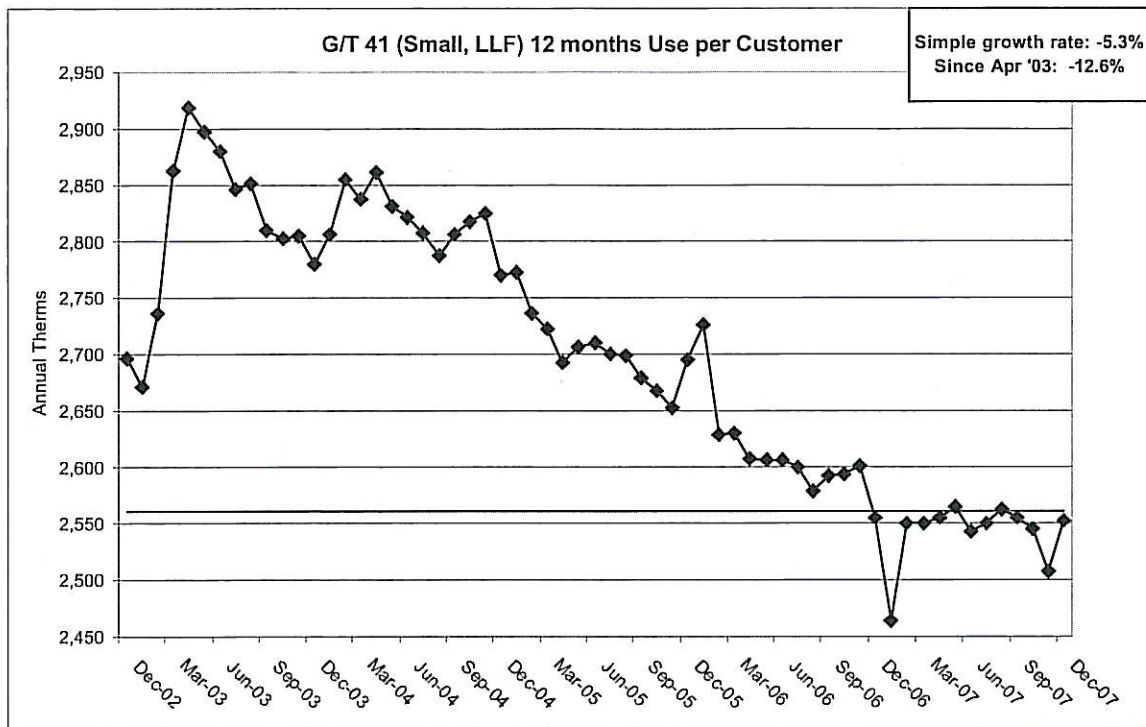
National Grid has provided Appendices A and B in response to the Commission's request for data and analysis regarding whether the company has experienced or expects to experience declining sales attributable to energy conservation, energy efficiency or demand response programs. pp. 1, Order of Notice (March 13, 2008). Appendix A illustrates declining use per customer for EnergyNorth from December 2002 through December 2007. Appendix B details cumulative lost revenues for Granite State related to the Core Energy Efficiency Programs.

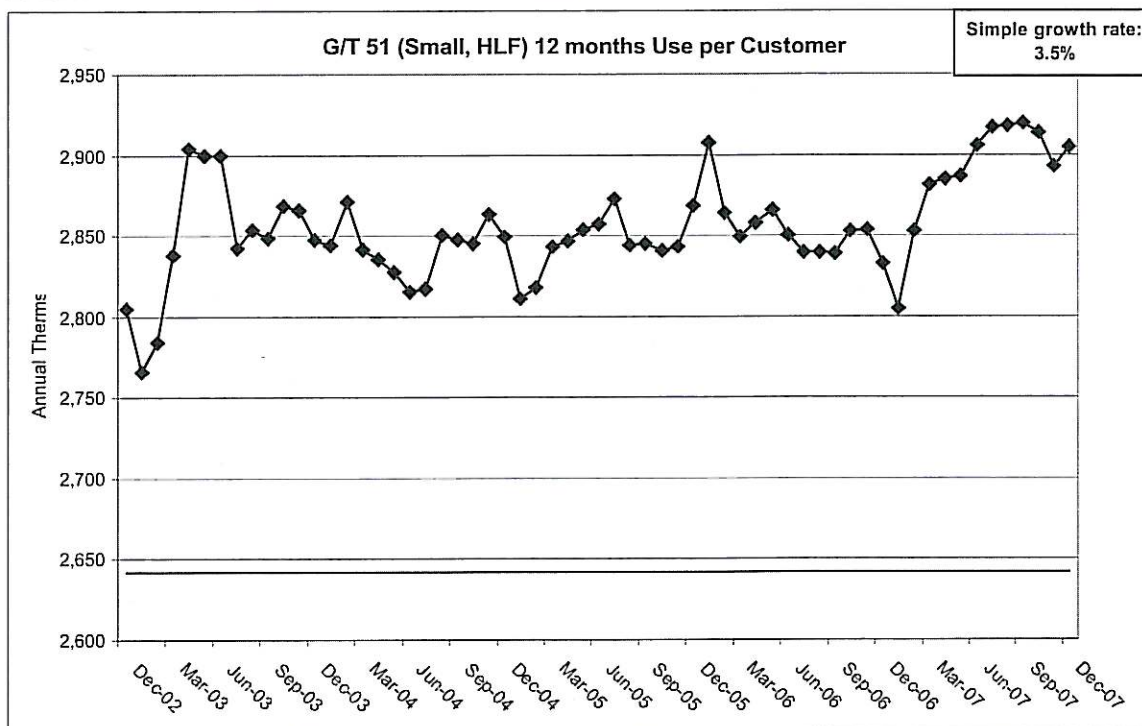
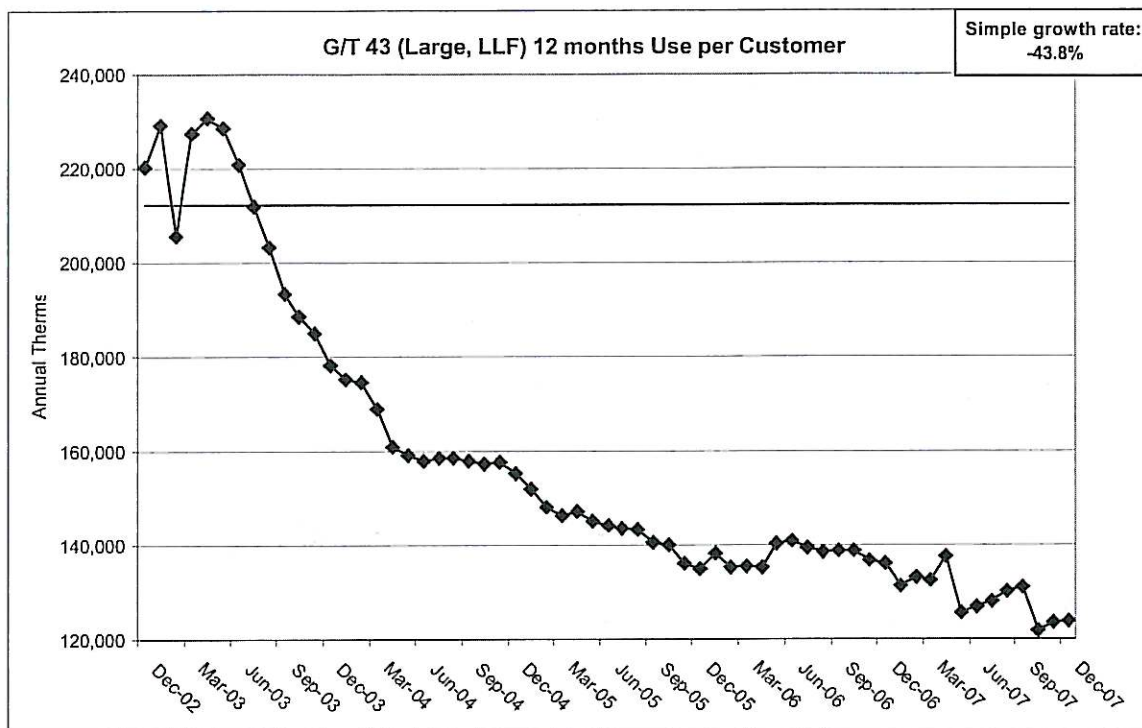
Conclusion

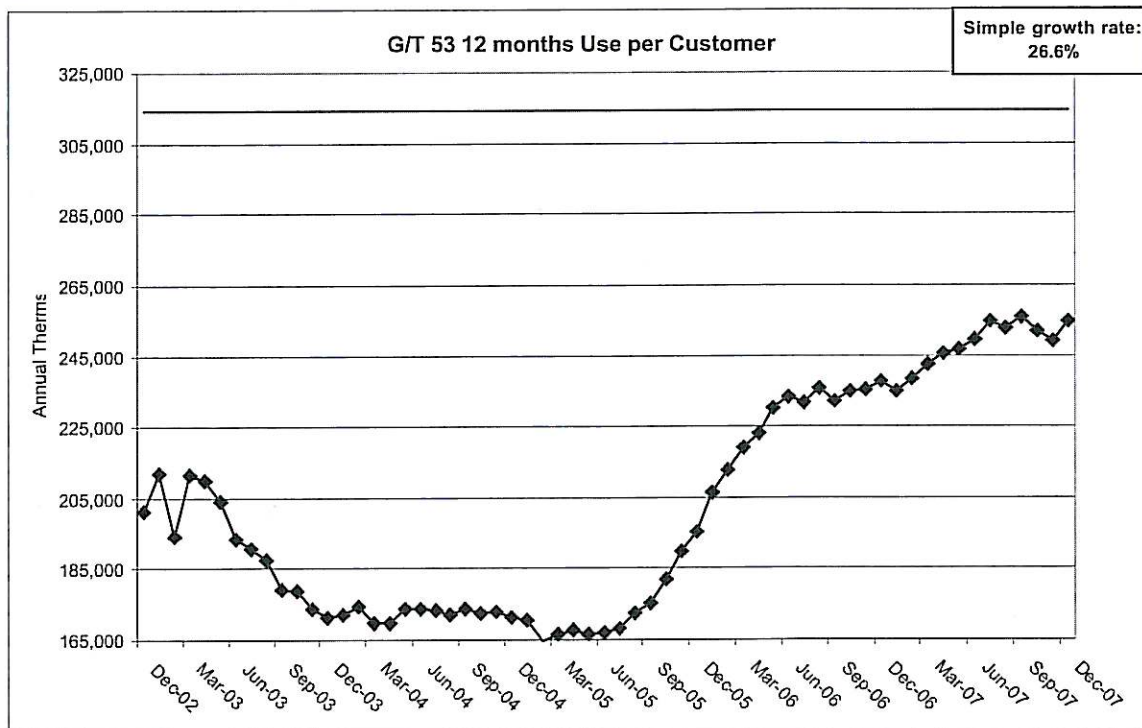
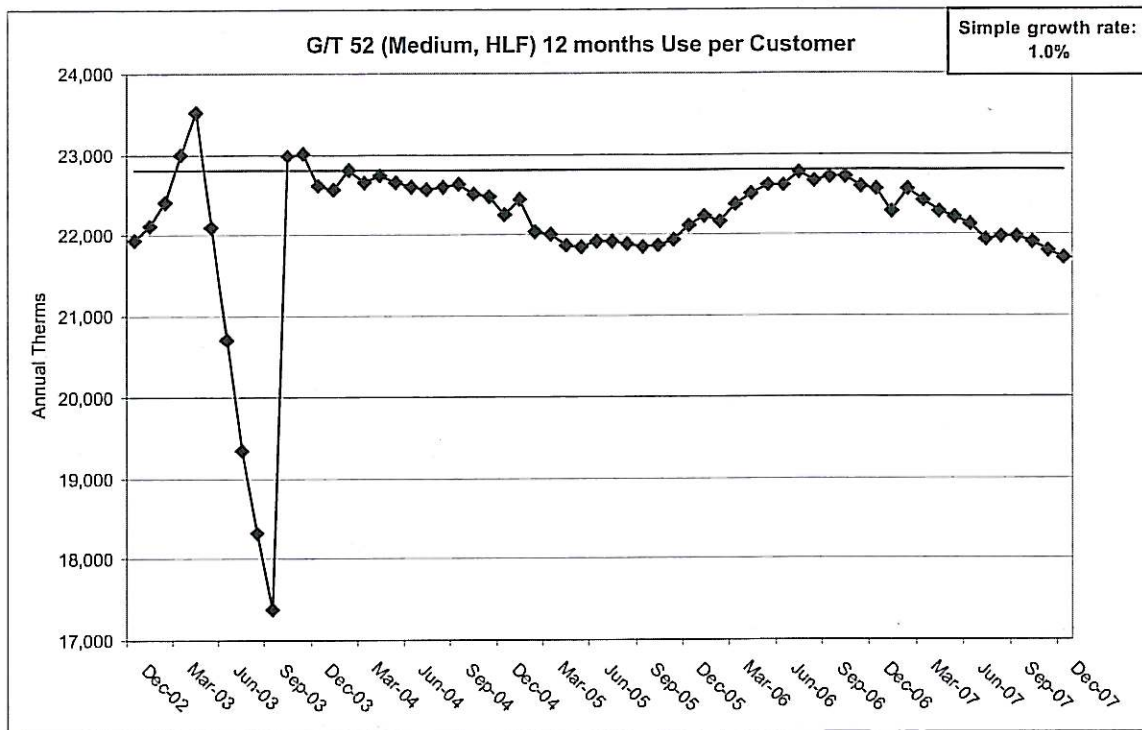
National Grid appreciates the opportunity to provide these comments. As explained in the comments, National Grid is committed to the promotion and expansion of energy efficiency

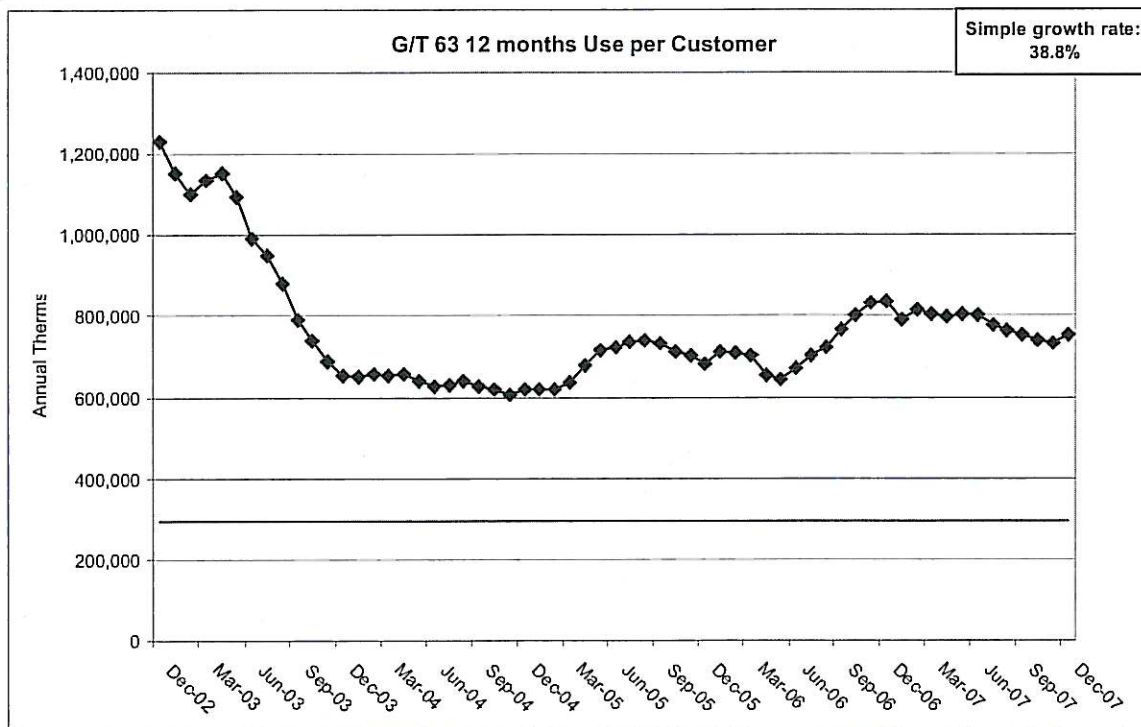
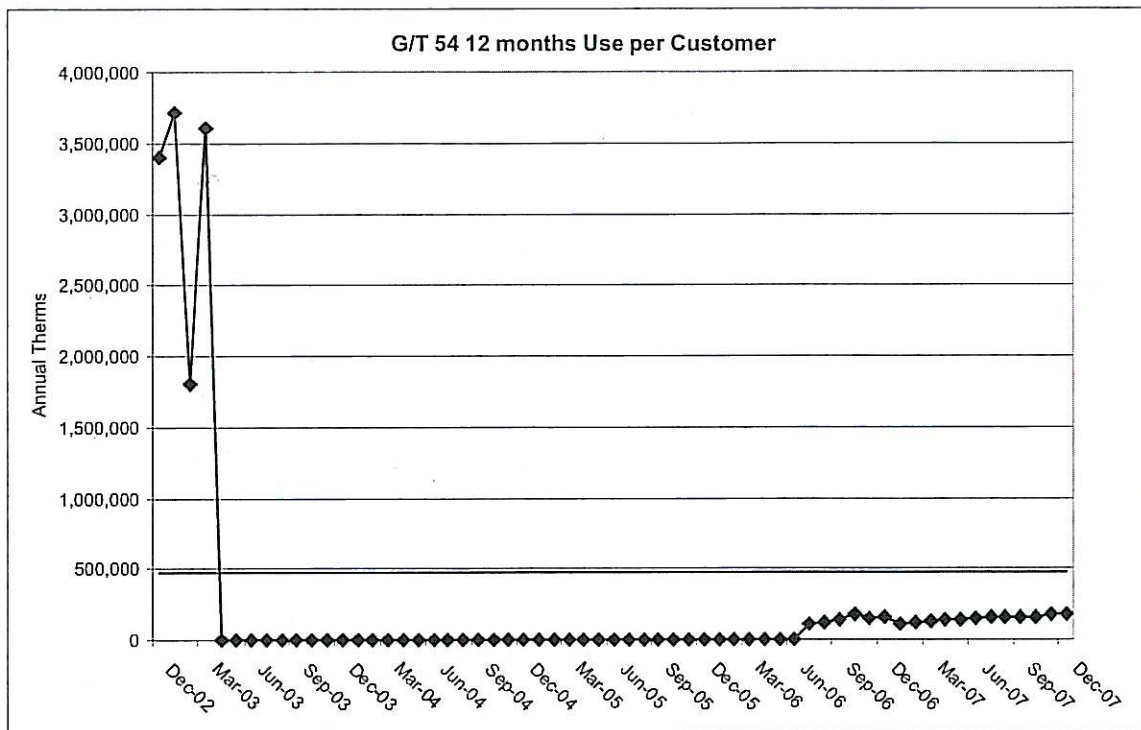
in New Hampshire. However, in order for this to happen, consistent with utilities having sufficient revenues to provide excellent customer service, a properly designed decoupling mechanism must be implemented at the same time as ramped up energy efficiency or demand response programs. Consequently, National Grid urges the Commission to adopt a policy to modify existing ratemaking practices to sever the link between utility revenues and energy consumption. National Grid looks forward to working with the Commission toward that end and to participating in the next steps in this proceeding.

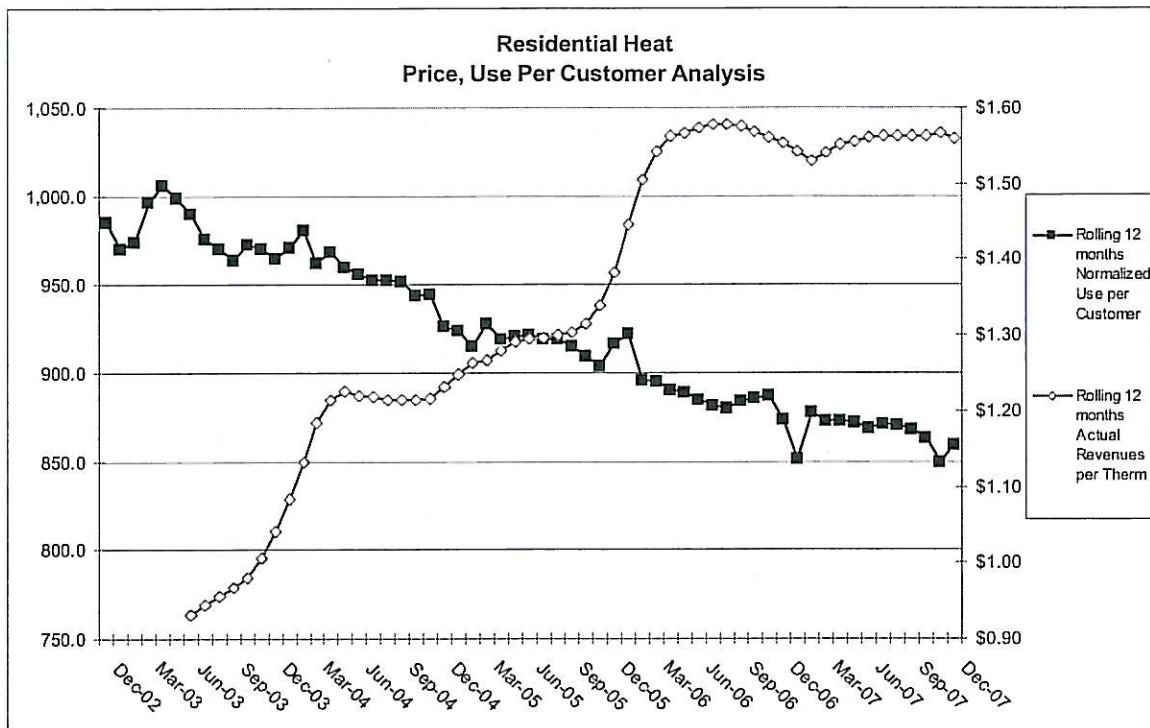












National Grid - Electric
Summary of Estimated Lost Distribution Revenues
For the Years 2002 - 2007

<u>Year</u>	<u>Annual kWh Savings</u>	<u>Estimated Incremental Lost Distribution Revenues (000's)</u>	<u>Estimated Annual Lost Distribution Revenues (000's)</u>
	(a)	(b)	(c)
2002	4,801,000	\$75	\$75
2003	4,990,000	\$85	\$160
2004	4,018,000	\$76	\$236
2005	3,558,000	\$66	\$302
2006	4,000,000	\$74	\$376
2007	2,962,161	\$70	<u>\$446</u>
2002 - 2007 Cumulative Estimated Lost Distribution Revenues			\$1,595

(a) Annual kWh Savings - Energy Efficiency Year End Reports

(b) Estimate of lost distribution revenue associated with measures installed in current year.

(c) Estimate of lost distribution revenue in current year associated with measures installed in current year and previous years.

2002 - Column (b)

2003-2005: Current Year Column (b) + Previous Year Column (c)