

ENERGY EFFICIENCY AND RESOURCE MANAGEMENT COUNCIL

Minutes—July 27, 2009

Conference Room B, DOA

Chairman Ryan called the meeting to order at 3:25 PM

Members Present: Joe Cirillo, Joe Newsome, Paul Ryan, Sam Krasnow, Dan Justynski, Christopher Powell and Tim Stoud

Others Present: David Brown, Jerry Elmer, Chris Connolly, Steven Surdut, Thomas Teehan, and Janet Besser

Staff: Charles Hawkins

Consultants: Scudder Parker, Mike Guerard and Andrew Brydges

Paul R announced that since Andy D. had resigned as Commissioner of the RIOER things could be in flux for the next two months. The ARRA Update and the OER Report will not be happening at this meeting and the May & June minutes will be approved for the September meeting

RGGI Spending Plan

Sam K. reported that Dan Prentiss indicated that the Plan could be adopted to reflect public comment by documenting any changes in a draft to a final regulation, and recording all public comment. Dan P. will draft a memo to this effect and Sam K., Dan P. and Janet will a report to the council at the next meeting. Joe N. asked if the RGGI funds were in the appropriate place. Scudder P. mentioned that VEIC had been in discussion with NGrid about the allocation of RGGI funds. He felt it was important to get RGGI allocated with the ARRA funding pending.

The next meeting will be held on the 3rd Thursday in August. Sam K. said that the SEP plan was nearing approved by DOE. There will be a 60 day window for the ERT to put together for the funding opportunity announcements.

Opportunity Report Update

Andy Brydges from KEMA reviewed progress on the Opportunity Report. Scudder P. said that Opportunity Report I satisfied the RI statute and this Phase II report was a more in depth study of RI's potential for energy efficiency consisting of residential phone surveys, commercial and industrial site visits, and revisions to the Phase I draft.

About 300 of 3000 residents contacted agreed to a 25 minute interview. Most of the results conformed to the assumed results

published in the phase I study, although the reported use of central air conditioning was about 10 % above assumptions and use of compact fluorescent light bulbs (CFLs) was higher than expected. Results included: 72% of respondents were aware of NGrid's energy efficiency efforts and 29% had participated; 32% had central air; 54% have room AC; 26% have electric water heating; 24% had second refrigerators and 26% had stand-alone freezers; 84% had purchased CFLs and 82% were using them.; 43% of incandescent lighting had been replaced with CFLs; 21% of respondents said that had mostly single-pane windows; 37% had LCD TV and 22% had plasma TV.

Paul R. questioned whether respondents' answers were accurate and Joe C. thought the 32% that had central air and the 21% that had single panel windows was a little odd. Paul R. asked if NGrid did surveys on residential bills. Tim S. answered that NGrid did a lot of surveying revolving around customer satisfaction but have not done a saturation survey in a while. Paul felt that this type of survey would get a greater response.

Andy B said that KEMA is targeting 100 commercial and 50 industrial sites for field surveys in August and September. The goal is to have the C&I report done by October/November.

Joe C. suggested a separate analysis of buildings that had changed uses such as Davol Square and noted that RI has many such buildings. Andy B. said that the energy use intensity was tracked and

new construction was split out from old construction. Scudder said he and Jeremy N. had been discussing how to get the data to NGrid as quickly as possible and noted that this involved estimating the energy efficiency potential that is technically and economically possible and then determining what is achievable meet a target or within a budget. The main steps in this process are: data collection; calibration to actual usage; developing technical and economic potential; and developing achievable or program potential.

Scudder discussed naturally occurring and a never occurring events. Naturally occurring events are those that people will do whether there is a program or not, such as CFLs and Energy Star dishwashers. Never occurring events include high intensity windows and super EE air conditioners that are much more costly.

Joe N. asked how broad the results will be and whether information on low-income residents will be reported. Paul R. that an on bill survey of residents would yield more accurate data.

Andy B. said the process for these studies is similar to other states and results were consistent.

De-Coupling

Sam K followed up on the EERMC's decision to join the docket for the decoupling docket with the following power point.

How are Rates Currently Set?

- 1. Electric and gas utilities appear before the PUC in a rate proceeding to determine the total fixed costs (i.e., lines, buildings, personnel) they are allowed to recover.**
- 2. The approved costs are then divided by estimated sales to determine the per kwh or per therm distribution charge.**
- 3. Once the rate is set, utilities have a strong incentive to find ways to increase sales in order to maximize their profits. The utility gets to keep the amount they collect even when it's more than the allowed revenue set in Step 1.**

Efficiency, DG/CHP, and demand side programs, which reduce energy consumption and sales, cut into utility earnings and are not likely to receive the full support from the utility that would maximize customer cost savings. Utility and customer interests are currently NOT aligned

Loss of sales due to energy efficiency and DG/CHP –or in other words customer savings–lower utility profitability dramatically

What is Decoupling?

Today, utility profits increase with sales –when customers conserve energy or employ cost saving DG/CHP, the utilities lose money.

Decoupling is a policy seen as helpful to achieving the larger goal of increasing investments in cost saving EE and DG/CHP

It is a way to regulate utilities differently. It breaks the link between

the utilities' revenues and profits from their sales volume

This can enable utilities to become full partners in energy efficiency and DG/CHP without losing money.

Decoupling changes only the way utilities are compensated for their distribution costs. Consumers pay two major fees on gas and electric bills: One for the energy they use and second is for the utility's cost of delivering the energy. Distribution costs are a component of the delivery charge, and include fixed costs, such as those for poles, distribution lines, substations, and personnel.

Although these costs are fixed, today consumers pay for them, in part, through a charge based on the amount of energy they use –which can lead to over-collection.

With decoupling, the distribution charges are adjusted annually slightly so that the utility does not collect more or less than it is allowed by the state regulators, regardless of any consumer change in energy consumption.

The utility becomes neutral to sales volume and therefore decoupling is step towards the larger goal of increasing investments in cost saving EE and DG/CHP

How Does Decoupling Work?

Full Decoupling Mechanism Keep it simple! –decoupling does not allow you to avoid all the debates in a rate case around the revenue requirement

Step 1: Determine, through a rate case, a methodology for annual

revenue requirement adjustments that does not involve sales levels, but rather relies on inflation, capital requirements, productivity, customer changes, or similar factors Open process so interested parties can vet purported utility costs

This is where the fight is and a lot of work is done to ensure valid costs.

Step 2: Simply true up actual distribution revenues to the allowed levels on an annual or quarterly basis and slightly adjust the volumetric distribution charges accordingly. If the utility has over-collected, then return the money to customers.

Attempt to “normalize” sales for weather or economic conditions as part of the true up can unnecessarily complicate the process.

Does decoupling guarantee utility profits? –No

Decoupling only permits a utility to recover an amount of revenue that has been approved by the public utility commission

This amount is calculated to allow for reasonably foreseeable costs as well as a fair rate of return on shareholder investment

Without decoupling, a utility can collect more than its allowed revenue if it sells more energy and any revenue that exceeds costs goes directly to profits for shareholders –decoupling eliminates this

Moreover, like any business, if a utility fails to manage its costs, its profits will decrease because a larger than expected portion of its allowed revenue will go to pay for costs, and reduce the amount that

shareholders see.

Upcoming Decoupling Activities

Connecticut: 2007, Connecticut House Bill No. 7432, An Act Concerning Electricity and Energy Efficiency, requires that all electric and natural gas utilities decouple at their next rate case

Massachusetts DPU issued a general policy order requiring all electric and natural gas utilities to decouple

The utilities are proposing decoupling mechanisms in individual rate cases, which have already started.

New Hampshire: PUC Docket No. DE 07-064 –“intend to investigate ratemaking alternatives, such as decoupling, which would remove obstacles to and encourage energy efficiency”

Looking at both electric and natural gas and also considering the benefits/impacts related to DG/CHP

California

Has had decoupling for most of the past 25 years and adjustments have been so small consumers have been barely able to notice.

Chris P. thought that decoupling may be a disincentive for customers. The cost benefit they won't be realized because the cost will go back into the cost structure.

Sam K. said you had to look at the big picture. The majority of the

cost is the commodity. Chris mentioned a 50-50 split.

Chris P. asked if decoupling would be broken down by rate class. Jerry E. answered that the current proposal does not break it up. Chris P. said the commercial and industrial sector (C & I) concern is losing a big customer who closes or reduces load. He cited Clarion. With C&I being such a small rate class this can be a problem. Jerry E. said that that was a major reason for the opposition by C&I in the gas decoupling case. NGrid looked at this failure and corrected that problem in this proposal. By spreading the true-up among all rate classes you eliminate this problem.

A discussion was held about normalization for weather. Sam K. said that these discussions can be counter-productive. Chris P. said that lower administrative costs from decoupling will save money. He would love to see a metric that measures this. Janet Besser said that without decoupling you would have more rate cases with more administrative costs.

She said that the idea that under the decoupling proposal, NGrid would never have to come to the PUC for a rate case is wrong. Jerry E. said that in the current proposal NGrid has an obligation to go in front of the PUC for the annual reconciliation that sets the cost structure. You don't have the administrative costs of a full blown rate case but you do have the utility going annually to the PUC for oversight on allowed costs.

Jerry E. said decoupling is necessary for EE. He urged the Council not to just intervene in this case but to actively participate in the docket and send a witness to the decoupling hearing because PUC has addressed decoupling only in one gas case and turned it down by a 2-1 vote with Bob Holbrook the only member voting for it. Since then, Bob has been replaced by Paul Roberti, who led the fight against decoupling in the gas case. Jerry E. said that the EERMC is well respected by the PUC and by sending a witness the council could make the difference. Most of the objections to the gas DC case have been fixed. The council's participation could be critical involvement in getting decoupling approved by the PUC.

Sam K. agreed with Jerry E. and felt that with all the work the council has done to increase EE in RI it has to be engaged in docket. It is their statutory requirement. He asked whether members had ideas about the process.

Chris P. mentioned his Tec RI involvement. He felt the information presented was good but he wants to put the math around some of these numbers. What is the range of the cost benefits? What does this mean for customers? Does it help the credit rating of the utility? This data will help the council make a good decision. Dan J. felt that the only way to get NGrid to use less power is to pull away their ROE (return on equity) from the equation.

Jerry E. cited Least Cost Procurement (LCP) in RI as something that puts NGrid in a different position than other states. Here the utility is obligated by law to increase EE. So decoupling is more important in RI.

Sam K. mentioned that the Governor made a certification to USDOE on 2/26 that RI is moving in the direction of decoupling to access ARRA funding. Jerry E. said that ARRA funding was at risk. Chris P. said it all makes sense. The question is whether decoupling will increase rates. If the Council votes on this we need good facts and figures to clearly show the benefits to ratepayers.

Scudder mentioned that NGrid has been moving in good faith in LCP. The question is when do the shareholders become concerned about lost revenue.

Paul R. said he had no problem in authorizing getting a witness in support of decoupling. He wants a decoupling expert that is different than NGrid's so their opponents will have to deal with two witnesses.

Tom T. said there are a number of ways for the council to approach it. They could hire a witness or file comments. The EERMC is held in high regard at the PUC. Tom T. said DC helps the utility break dependence on consumption. In RI NGrid has been on the forefront of EE in RI since 1989.

David Brown from PP&L asked if there was good data in place. He cited the importance of details and the need to avoid mistakes made in other states.

Jerry E. said that filing comments does not come in as evidence at the proceedings, so employing a witness makes a stronger statement. In his experience Paul R. said he always liked to have live witnesses who can be cross examined. Chris P. wanted more info. What is the impact on ratepayers? Janet B. said that NGrid can provide the examples. She emphasized that with the escalation of EE programs NGrid cannot afford to not recover costs. Corporate headquarters was already asking questions about RI. The impact of not recovering cost means less ROE for the company. It does affect NGrid's credit rating.

Jerry E. cited timelines and urged the council to act immediately because of filing deadlines. . Paul R said he it is a good issue to get behind. Scudder suggested having the Regulatory Assistance Project help.

Sam K. encouraged everyone to help Dan P. to work up draft testimony and to tie the testimony to the LCP efforts already underway.

Chris P. asked of his membership in TEC RI was a conflict? Paul R.

said that the easiest way to avoid a conflict would for Chris P. not to vote. Chris P. said there could be a conflict between the TEC RI testimony and the EERMC witness.

Dan J. said he supported decoupling. He brought up weather concerns but did not think they should factor into decoupling.

Chris P. brought up various rate cases, how will the rate design issue change with this model. Janet B. said that the rate design models will not change.

Joe N. asked if this was not the same thing hospitals went through thirty years ago when they realized prevention was not particularly good for their industry. So they negotiated a cost plus reimbursement system so things even out. It worked well for 25 years but uncollectibles are now a serious problem. How does that figure in to decoupling when more and more people can't pay their electric bills. How do shutoffs factor in?

Tom T. mentioned a new PUC docket to review collection rules and regulations. Decoupling is really an attempt to separate revenue from usage. Janet B. said that bad debt will be figuring into the costs separate from decoupling. Jerry E. said decoupling will leave in place all revenue requirements including bad debt. Decoupling won't affect good or bad policy on bad debt.

Joe C. brought up a ProJo article on the demise of large tenements and how they are falling apart. Can RI get a federal grant to address this issue? It is economy of scale. It is more efficient for NGrid to provide power to these close together tenements than suburban properties. Can we bring back this resource?

Scudder P. commented that the cutting edge for EE is in existing buildings. Doing dramatic retro-fits help with providing affordable housing. That is where dramatic climate change is possible. He suggested using ARRA funding. Chris P. mentioned the Capitol Good Fund presentation from the March meeting as a good way to accomplish this.

Sam K. said that through e-mails the council should look at options for witnesses before the next meeting. Paul R. proposed authorizing the identification of the witness now and at the 8/20 meeting having the witness giving the cost so the EERMC can authorize the cost.

Joe C. made a motion to authorize a ceiling of \$20,000 to hire an expert witness for the decoupling part of the docket only. Paul R. seconded the motion and it passed unanimously. Chris P. voted for the authorizing the witness.

Charlie H. said that the OER supported decoupling but wanted to make sure the PUC still has jurisdiction and review over rate cases.

Paul R. wanted to work out the mechanics of hiring the witness at the next meeting.

Sam K. suggested that the agenda for the next meeting should include: an ARRA update; a report on the RGGI spending Plan; a report on the work of the DSM Subcommittee on the 2010 EE Plans; and decoupling.

Public Comment

Paul R. suggested having Ralph Poor, VEIC's consultant on M&V present a paper that he has shared with NGrid in October.

Paul R. expressed concern about the EERMC budget given changes at the OER. The council needs to see over the next 6-8 weeks who is going to be the council's liaison with the OER. This puts the council in a state of flux. Chris P. felt that at the next meeting a discussion is needed about OER leadership. The council needs to address the fact that the OER is losing two critical people. Sam K. and Paul R. will try to figure out who to talk to in state government. This topic should be on the agenda for the next meeting

Tim S. suggested putting financing for the EE Plans at the next meeting. NGrid needs financing to move these programs along especially with Cities and towns.

Chris P. made a motion to adjourn the meeting. It was seconded by Joe N. and passed unanimously. The meeting was adjourned at 5:30.