

THE RI ENERGY EFFICIENCY AND RESOURCES MANAGEMENT COUNCIL

Minutes—August 14, 2008

Place: Department of Administration Conference Room (B)

Call to Order: Meeting was called to order at 3:30 by Chairman Ryan

Members Present: Andrew Dzykewicz, Joseph Cirillo, Christopher Powell, Daniel Justynski, Joseph Newsome, Vic Allienello, Alfred Degen, Paul Ryan, Tim Stout, and Ron Gerwatowski

Others Present: Jeremy Newburger, Tim Roughan, Marion Gold, Hannah Morini, Amanda Meisner, Rachel Sholly, Corrie Haley, Ken Payne, Karina Lutz, Peter Shattuck, Brett Lucht, Mike Guerard

Staff: Matteo Guglielmetti, Julie Capobianco, Janet Keller, Charles Hawkins

Consultant: Scudder Parker

Acceptance of Minutes: A motion to accept the minutes of the July EERMC meeting as presented was made and accepted.

Executive Director/Executive Secretary Report: Andrew Dzykewicz (Andy D.) opened the meeting by giving an update on the RFP for the proposed Wind Farm. Andy D. said that the 5 members of the review committee were reviewing proposals and an award is expected in Mid-September.

Andy D. discussed planning for the winter and that although he was encouraged by the drop in fuel prices in July, he expects a difficult winter ahead. The impact on the low-income community is obvious but of equal concern is the impact on homeowners and could cause another round of foreclosures, a decrease in disposable income and increased unemployment. He said that is impossible to buy our way out of the problem. Other means are needed and that we need to get people to do as much energy efficiency as possible. He noted that the URI outreach program would go beyond the usual energy expo. EERMC has a key role in this discussion.

Joe Newsome (Joe N.) asked what the EERMC could do.

Andy D. said that this problem was too big to just throw money at and the council has to think out of the box. An example of this is working with RIMFC on energy efficiency equity loans where the energy savings are used to pay back the loan. Andy invited the council members to give their ideas as stakeholders, each representing different perspectives.

Dan J. met with the head of the SBA and will follow-up. Andy noted the SBA met with the oil heat dealers and that the problem is solved downstream. But they are still worried about Motiva and oil heat customers not paying bills.

Joe Cirillo (Joe C.) stated a need to do the little things around the house to increase energy efficiency.

Vic Allienello spoke about the problem of home heating oil companies who purchased futures at over \$5 a gallon and now the price has dropped for 22 straight days they are locked in a the higher price.

Discussion of a plan to use RGGI auction proceeds

Janet Keller (Janet K.) of the OER gave a brief presentation explaining the RGGI Process. She explained the cap and trade regulatory process and the ten state compact to bring down carbon dioxide emissions. She passed out copies of a RI state law, passed in 2007, that instructed the OER, in consultation with the DEM and EERMC to come up with a plan to use the proceeds of the auction that will be held on September 25th. The reserve price is \$1.86 for each allowance. One sixth of the allowances will be available at that auction and the rest will be doled out in five more auctions. Janet thanked ENE for drafting a RGGI spending plan. A small group comprised of DEM, OER and ENE staff is reviewing the ENE draft. OER is working on the draft RGGI proceeds spending plan and the stakeholder and hearing process required by statute.

Andy D. stated that are a lot of issues involved in this process and consultation with the EERMC is required. The funding has to be used for customer benefits. EDC wants funding for renewables. He said the OER, ENE and DEM had met. Mr. Dzykewicz sees the need for weatherizing more houses for energy efficiency. He would like to take a look at alternative suppliers of energy efficiency, possible ESCOs. He would like the EERMC to look at these issues before money is allocated.

Andy D. stated that nobody knows what the final price of the allowances is going to be. Because anybody can buy these credits, someone could buy a huge amount of them making it difficult for utilities to generate electricity and drive prices up. The limit that can be purchased is one third. At \$ 4 million a ton, it could mean \$10 million for RI, but it could also mean \$6 million. Mr. Dzykewicz would like a serious discussion of the RGGI spending plan at the next meeting. He also said there are rumors of a legal challenge to the RGGI process by certain generators.

Chris Powell mentioned that he would like contractor incentives to get contractors to do more weatherization and energy efficiency.

Scudder Parker (Scudder P.) asked if the focus of RGGI was on electric generation. Andy D. stated that any carbon reduction is appropriate use of the funds.

National Grid Procurement Plan

Tim Stout (Tim S.), with the assistance of Jeremy Newburger (Jeremy N.) and Ron Gerwatowski (Ron G.) on teleconference, distributed copies of the National Grid Procurement Plan, and began a presentation on the plan and said he will follow with the System Reliability Procurement Plan. EERMC needs to approve it by 8/15/08.

Tim S. mentioned the input of the Collaborative on the plan. The intent of the plan is to capture all cost effective energy efficiency measures. The goal is to ramp up grid's energy efficiency program from its current \$15 million to about \$45 million a year by 2011. He mentioned increasing the incentive level to reach all aspects of energy efficiency. Andy D. asked about assumptions that were made on the present value calculation.

Jeremy N. stated that the 1st year showed the first year costs on the cost side and used a discount rate of 4.9% on the benefit side with 1.9% for inflation applied to the lifetime project measures. Net present value looks at savings of reduced generation to look at net benefits. Over the last 20 years, the easy energy efficiency has been tapped. More costly energy efficiency that will come in the second tier will cost more.

Tim S. said the life of measures is 12 to 13 years. He said that over the 3 years the B/C rating would drop from 4.1 to 2.9 as they add more expensive measures that have greater upfront costs, and higher equipment cost and therefore a higher participant incentive cost. Tim explained the lines in Table 1 showing annual savings in lifetime MWh and in lifetime MWs and the next line, these figures as combined into savings units. Andy asked what the savings units meant: Tim said it allowed Grid to convert MWhs & MWs to one unit and said that it was easier to express the savings target as units.

Jeremy said Grid thought the units better recognized the growing importance of demand (MW) and combined that with energy (MWh). He also said it was better to use lifetime rather than annual savings.

Andy commented that the units were confusing.

Scudder P. emphasized the importance of demand savings. He said it is better to use lifetime savings as a measure. You want to make sure utilities use the best ways to get more savings.

Dan J. asked about an even more basic question-why are we bringing it back to present value?

Tim S. said we are looking at it to look at cost effectiveness of program, that the total benefits aren't more than costs.

Chris P said that it is looking at the lifetime savings of a measure adjusted for inflation and a discount rate. Chris then asked about the source of the lifetime #s.

Tim S. said that there were two sources: Contractor tell Grid how long equipment lasts in the field and Grid reviews the lifetime numbers used by other utilities. Assumptions that were used 20 years ago are tweaked by National Grid to reflect today's situation.

Chris P. asked whether Grid used FEMP or ASHRAE numbers.

Jeremy N. said he thinks the Grid numbers are a little more conservative to reflect how long measures are actually in service.

Andy D. asked about the assumption of energy cost escalation.

Tim S. stated that energy cost is included in avoided costs that are taken from avoided cost studies done for the region every two years by Synapse.

Jeremy N. said that the most recent study was done in 2007 and is attached to the 2008 program plan filing. The avoided cost study is applied to the avoided cost of generation of energy as well as demand. The gas price forecast did not include the huge increase that occurred, so the benefits

would be higher than projected. On the other hand, an avoided cost study was done before the first FCM auction an overstated the cap value. So on balance the net benefits are overstated. The utilities all agreed to use the same avoided costs and not update with every jolt in fuel costs. over thirty years and avoided fuel over 30 years.

Chris P. asked if MW savings were separate from the Mw hr. savings goal

Tim s. responded that it is included in the lifetime MW hr and the MW saved.

Chris P. remarked that Grid's metric (savings units) meets both points of the savings target at the same time.

Tim S. stated that in order to move to the more complex efficiency measures incentives may be needed to get customer participation.

Chris P. asked about looking at program design to simplify.

Tim S. looked at every year to see if Grid can maximize services and minimize administrative costs. He said that there has been some decline in administration costs but nor across the board.

Andy D. asked how Grid validates savings.

Tim S. stated that Grid will do before and after readings of all of their energy efficiency programs. He stated that Grid's verification plan is one of the most robust in the country and other states are looking at it.

Tim S. referred to Page 15 dealing with shareholder incentives. How should this mechanism change? He said the Grid incentive at 4.4%, is about the lowest of any jurisdiction in country. He talked about a two-tier system where Grid would continue and/or expand existing programs in tier one at 4%, but in the more difficult tier 2 level the incentive could rise to 8% for creative programs that have not been done in the past. Combined incentive level if Grid achieves all the savings and have additional incentives for going beyond their traditional goals would be about 5.4%.

Andy D. said that legislation said that the incentive would be subject of a contested rate case. Andy said that if that is the case it is premature to be discussing it.

Tim S. said that since incentives are an inherent part of the plan That issue should have the understanding of the Collaborative

Chris P. said that there would have to be a rate case to decide this.

Scudder P. said that this issue was addressed in the standards. It basically says the utility has ability to earn incentives with advice of the council.

Andy D. stated that the language in the law was clear about the contested case.

Al Degen agreed with Andy D. and means the PUC has to open a contested case with a public hearing.

A discussion was then held about whether the council can approve the plan without the incentives.

Chris P. asked why other jurisdictions have had higher incentive rates.

Tim S. stated that in order to get the whole company on board, top to bottom, incentives are needed. You need to motivate and reward people to achieve goals. Having an incentive is very important. Getting the financial people and program managers to see how it benefits the company. A 4.4% incentive does not send a strong enough signal.

Dan J. said that there is no risk to Grid since all costs are recovered from ratepayers. What happens if you don't get buy in. There is a carrot but no stick.

Tim S. asked Jeremy N. to discuss how incentives were dealt with by the Collaborative.

Jeremy N. said that there had been no consensus in the Collaborative on the incentive proposal. He said that if Grid does not meet 60% of their goal they don't earn any incentives. If Grid does not spend a certain amount of their budget then we adjust the target for savings. Don't earn an incentive by under spending is what they are saving.

Scudder P. stated that incentives help a utility think of itself in a different way. You need a utility that is an ally in reducing customer's bills. Incentives are part of a message that moves a corporate culture towards energy efficiency.

Jeremy N. was asked how grid got to the 60% threshold as a cutoff for incentives. He said that it was once 50% in RI and then bumped it up to 60% and carried that forward in the report.

Andy stated that he felt 60% is too low. He stated that he thought LCP was going to create a new paradigm and just because 60% was what it was in the past it does not mean it should be that in the future.

Andy D. asked who on the Collaborative thought 8% was OK and who had problems with it.

Jeremy N. mentioned that the Division of Public Utilities has objections and Janet K also expressed concern from the OER side. It was decided that there was not consensus on incentives and that it should be left up to the council.

Tim S. stated that the council can move forward by agreeing to the plan without the incentives

Andy. D. suggested that the incentive language should be the same as the paragraph in the legislation.

Tim S. wanted to go over Attachment B., Table 1, total funding and goals. This looks at where the funding will come from. A big chunk will come from the System Benefits Charge (SBC). After 2009, the council has to decide if RGGI funds will be used. The determination about RGGI

funding will determine whether the SBC or base rates need to be increased. In the table it shows Grid increasing spending from \$14.9 million to \$45 million by 2011 on energy efficiency programs. It is an increase in benefits but also a huge increase in cost and it has to be paid for somehow.

Andy D. posed the question “Where is the nine cents”. If energy efficiency costs 3 cents and supply is 12 cents, where the 9-cent savings that is suppose to go to the ratepayers. Why do you have to raise rates?

Mr. Stout responded that it would happen over time and that participants would get the benefits over time.

Andy D. stated that what he sees is additional rates for most and a few will benefit.

Scudder P. stated that the net benefits of the program over time is where the difference will show up. It is an investment strategy to get to the lower cost.

Andy D. said it should be set up so that the investment comes over time as well. The nine cents savings is what sold him and it is what he sold to the Governor. This plan is additional rates for some and savings to a few.

Tim S. said it is unrealistic that everyone’s bill would go down after one year. Participants get benefits and then you get more participants over time. Over time you are not building new generation and then system savings come in.

Andy D. stated if you target the energy efficiency to areas that have excess capacity it really does not do much. However, if you do it in an area that is in need of a transmission upgrade then you are having an effect on systems costs.

Ron G. said energy efficiency is cheaper than supply over the long term. You need to promise people that their bills won’t be as high if down the road if energy efficiency is not done.

Andy D. said cost to everyone should go down. Instead, only participants in the project will see their rates will go down.

Andy D. mentioned the money spent on state buildings to save 27%.

Tim R., Director of Distributed Resources at Grid, who worked on reliability plan joined in. He talked about the tip of the hockey puck curve. The premise is where would you be without the energy efficiency. RI would be in a lot worse shape without it. Who could have predicted \$5 gallon oil?

Tim S. suggested holding off on this discussion until Sam returns. The question is whether the Council can endorse the plan without the incentives included.

Jeremy N. talked about getting a timely decision on the RGGI money. He wants to highlight three-year budget goals with specific request for 2009. They may need to get money from higher rates or DSM charge. Therefore a timely decision is needed on RGGI funding

Andy D. stated that the OER will make the decision on the RGGI spending plan with consultation with council.

Dan J. said that in order to be able to do twice as much energy efficiency a funding mechanism is needed. It could be a possible 80% increase in the SBC fee. Jeremy said this is correct. If RGGI funds are included that number would decrease.

Chairman Ryan proposed a motion to approve the procurement plan with the following provisions:

1. That the section of the plan regarding the proposed incentives to national Grid be removed since it will be part of a contested case before the PUC.
2. That approval of the plan is preliminary and that the EERMC reserves the right to comment further even if the comments are negative.

Dan J. said the council has to consider the spending plan.

Chris Powell said that if RGGI funds do not materialize then it is a given that there will be an increase of 1.3 mils on the DSM.

Dan J. said that even if RGGI money comes in the council may want to fund other initiatives.

Chris P. said common sense says that energy efficiency will be cheaper than supply and that is why the EERMC is here.

At this point Jeremy N. stated that he had to get off the phone. He stated that it would be better for Grid to have approval of the plan and the incentive docket be moved along at the same time.

Janet K. then thanked Jeremy N. for his efforts in assembling the procurement plan and being responsive to the concerns of participants.

Andy D. wanted the Council to think about the impact of charges like the DSM, the Renewable Energy fee and RGGI on people. When all of his is added up suddenly you are talking about real money.

Chairman Ryan then urged the council to review the procurement plan carefully and to be prepared to comment on the parts that are important to the constituencies they represent. He stated that the EERMC should not just be cheerleaders for every energy efficiency plan that comes along. He then asked if there were any other amendments to vote on.

Dan J. said that the ratepayers who participant in the program will be have lower bills no matter what the DSM charge is. He wanted small, businesses to be able to spread out cost of energy efficiency over a longer span. That is why he would like more time to review these types of aspects of the plan.

Dan J. then moved to vote on the plan with the above conditions. Joe C. then seconded the motion.

Joe. C. stated that he would like to have any future draft plans bound and in a hard copy for the voting member of the council.

The council then voted unanimously to approve the plan with the above conditions.

Tim S. asked if the Council would like to consider the Systems Reliability procurement Plan.

The consensus of the council was it was getting late and that it should be on the agenda for the 9/11 meeting.

Marion Gold then gave a briefing on the activities of the URI's Draft Energy Outreach Plan. She mentioned that, with the assistance of the OER, two-hour workshops in various RI cities and towns were being planned. This would build up to OER's statewide energy event which will be held at the Ryan Center at URI. She also mentioned a partnership with Channel 10 for energy outreach.

Joe Newsome said that the Council should start to focus on the upcoming winter at the next meeting.

Chairman Ryan said the Council would reserve at least a half hour for this discussion at the next meeting.

Adjournment: A motion was made to adjourn. It was approved at 6:10 PM.