

November 24, 2008

VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY

Honorable Jaclyn A. Brilling, Secretary
New York State Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

2008 NOV 25 AM 11:06

**Re: Case 08-E-1014 – Petition of Niagara Mohawk Power Corporation d/b/a
National Grid for Approval of an Energy Efficiency Portfolio Standard (EEPS)
“Fast Track” Utility-Administered Electric Energy Efficiency Program**

Dear Secretary Brilling:

Enclosed please find for filing an original and five (5) copies of the reply comments of Niagara Mohawk Power Corporation d/b/a National Grid in response to the initial comments filed by the Department of Public Service Staff and the New York Energy Research and Development Authority in the subject proceeding.

Kindly acknowledge receipt of this filing by date-stamping as received the enclosed duplicate copy of this letter and returning it in the enclosed, self-addressed envelope provided for your convenience. Thank you for your attention to this matter.

Respectfully submitted,



Catherine L. Nesser

Enc.

cc: Hon. Eleanor Stein, Administrative Law Judge, w/enclosure
Hon. Rudy Stegemoeller, Administrative Law Judge, w/enclosure
Janet Gail Besser, w/enclosure
Timothy Stout, w/enclosure
Active Parties via EEPS listserv

**STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

**Petition of Niagara Mohawk Power Corporation)
d/b/a National Grid for Approval of an Energy)
Efficiency Portfolio Standard (EEPS) “Fast)
Track” Utility-Administered Electric Energy)
Efficiency Program.)**

Case 08-E-1014

**REPLY COMMENTS
OF
NIAGARA MOHAWK POWER CORPORATION
d/b/a NATIONAL GRID
TO
INITIAL COMMENTS ON ITS PROPOSAL TO ADMINISTER TWO
EXPEDITED FAST TRACK ELECTRIC ENERGY EFFICIENCY PROGRAMS**

I. Introduction

Niagara Mohawk Power Corporation d/b/a National Grid (“National Grid” or the “Company”) submits these Reply Comments in response to the October 31, 2008 Notice Soliciting Comments in Case 08-E-1014 of the Company’s filed petition seeking approval of two Energy Efficiency Portfolio Standard (“EEPS”) expedited “Fast Track” energy efficiency programs (the “Notice”) and the initial comments to the Notice filed by the Department of Public Service Staff (“Staff”) and the New York Energy Research and Development Authority (“NYSERDA”).

The Commission's June 23, 2008 Order Establishing Energy Efficiency Portfolio Standard and Approving Programs (the "EEPS Order")¹ provided that "electric utilities may within 60 days of the issuance of this Order submit program plans for our approval to implement the two fast track utility "Expedited" programs in the scope and manner described in this Order and appendices."² Accordingly, on August 22, 2008 National Grid filed with the Commission two proposed electric energy efficiency programs consisting of a: (1) Residential High Efficiency Central Air Conditioning Program ("Residential HVAC Program"); and (2) Small Business Services Program ("Small Business Program") (the "60-day filing"). The Company supplemented its August 22, 2008 filing on September 26, 2008 to correct certain tables. To date, the Company has responded to eighty-seven interrogatory requests submitted by Staff in regard to the two electric energy efficiency programs proposed in its 60-day filing. On November 17, 2008, Staff filed initial comments on National Grid's 60-day filing in Case 08-E-1014 ("Staff's Initial Comments") but reserved the right to supplement such comments upon conclusion of discovery. On the same date, NYSERDA also filed initial comments on National Grid's 60-day filing in Case 08-E-1014.

Most notably, Staff has recommended that the Company's proposed Residential HVAC Program not be approved pending further analysis by Staff of the program's cost-effectiveness and the Company's proposed Small Business Program be rejected unless it can be implemented within the budget and goals set forth in the EEPS Order.³ Further, Staff has recommended that a new approach be substituted for the estimation of energy

¹ Case 07-M-0458 – *Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard*, Order Establishing Energy Efficiency Portfolio Standard and Approving Programs (issued and effective June 23, 2008) (the "EEPS Order").

² *Id.* at 71.

³ See Staff's Initial Comments at 34.

savings by measure and by program.⁴ Moreover, Staff is promoting a generic approach be employed statewide for the Residential HVAC Program.⁵ In consideration of the substantial comments submitted by Staff as well as the general comments submitted by NYSERDA, National Grid submits the following reply comments for consideration by the Commission. The Company is dismayed and disheartened that at this juncture, the ability to proceed with the delivery of expedited fast track electric energy efficiency programs, as approved in principle in the EEPS Order, is in jeopardy due to the new ground rules now being recommended by Staff. Further, any delays in implementing the two expedited fast track electric energy efficiency programs by utilities is counter to advancing the state's 15 x 15 goal.

II. Reply Comments

National Grid submits the following points for consideration by the Commission.

Response to Staff Comments

1. National Grid's Proposed Residential HVAC Program

Staff's analysis suggests that the Company's proposed Residential HVAC Program is not cost-effective at this time due to the expected savings being lower than that set forth in the EEPS Order. Staff recommends that the Company's proposed Residential HVAC Program should not be approved for implementation pending further analysis. National Grid is aware of Staff's concerns with the Company's proposed Residential HVAC Program through various discovery requests and other

⁴ *Id.* at 35.

⁵ *Id.* at 36.

communications subsequent to the Company's 60-day filing. As National Grid has articulated in responses to Staff's interrogatories, anticipated savings from the Residential HVAC Program will vary widely across New York State. The number of cooling degree days and the corresponding humidity on any given day are key factors in determining how much central air conditioning systems run in a utility service territory. The Company has used evaluated savings from a customer billing analysis conducted in Massachusetts to support its projection of savings from the proposed Residential HVAC Program in upstate New York. Cooling degree days across National Grid's Massachusetts service territory are, on average, somewhat higher than typical cooling degree days in upstate New York. As a result, the Company believes that the savings it has proposed for upstate New York are not understated despite that other utility service territories may have much higher potential savings for each unit installed as a function of higher cooling degree days.

Staff suggest that the Company's Residential HVAC Program could possibly be more cost-effective if rebates were restricted to SEER levels of 15 or 16, and/or if program costs could be lowered.⁶ National Grid currently offers a more comprehensive central air conditioning program in its service territories in Massachusetts and Rhode Island called Cool Smart.⁷ However, National Grid did not initially propose such a program for its upstate New York service territory because NYSERDA as well as others suggested the use of a program focused on BPI-certified contractors. National Grid could modify its proposed Residential HVAC Program for upstate New York to incorporate

⁶ *Id.* at 18.

⁷ See www.coolsmart.com for program details.

elements of the Cool Smart program design to achieve additional energy savings and an improved TRC ratio. The Company is currently evaluating such a modification.

Staff recommends that installation contractors should be required to submit an Air Conditioning Contractors of America (“ACCA”) Manual J calculation to document that installed equipment was properly sized to be eligible for the incremental incentive.⁸ Technical elements of the Cool Smart program that might be incorporated include the requirement that an ACCA Manual J calculation be submitted with the program application. However, the Company recommends that a \$100 incentive be provided to contractors for submitting Manual J calculations. This is an important program component that will motivate contractor participation in the program in spite of the additional testing and paperwork required. National Grid currently offers this incentive to contractors in Massachusetts and Rhode Island. National Grid also recommends that the requirement for an ACCA Manual J calculation be in place for a higher incentive, but does not recommend it for the first tier of incentive offerings. National Grid finds that it is important to first motivate contractor participation in the program, and then to introduce more advanced installation requirements, such as the ENERGY STAR[®] quality installation requirements.

Staff determined that National Grid’s Residential HVAC Program proposal did not meet EEPS Order guidelines in regard to incentives as the Company proposed to provide installation rebates to customers only with no incentives for upstream promotion of efficient air conditioning equipment.⁹ However, Staff did agree that during the initial phase of the Residential HVAC Program, incentives to residential customers were an

⁸ See Staff’s Initial Comments at 6-7.

⁹ *Id.* at 6.

appropriate first step to promote the installation. In that Staff is proposing that upstream incentives be implemented later as the program matures, National Grid would be amenable to modifying its program incentives at an appropriate point in time.

2. Statewide Residential HVAC Program

The EEPS Order contemplated an expedited approval process for the utility-administered programs within the two electric categories (i.e., Residential ENERGY STAR[®] HVAC Program and Small Business Direct Installation Program) for which the Company and other utilities across the state have submitted 60-day filings and stated that the Commission “will not require that utilities conform to a single program model in these categories.”¹⁰ However, Staff now asserts that a generic statewide approach to the Residential HVAC Program should be employed that would require utilities to conform to a single model with identical program attributes including efficiency measures and eligibility levels.¹¹ Staff has based its recommendation on a belief that if individualized utility-administered Residential HVAC Programs are approved as proposed “there will be great confusion in the market (particularly adjacent service territories).”¹² However, Staff has failed to provide any supporting explanation for such concern. Staff’s assertion that there needs to be a generic statewide approach is clearly contrary to the Commission’s acknowledgement that utilities can “offer a diversity of approaches that may lead to a wider offering of programs than would occur under a centralized administrator.”¹³ Staff’s recommendation, if adopted, would perpetuate a centralized

¹⁰ See EEPS Order at 41.

¹¹ See Staff’s Initial Comments at 20.

¹² *Id.* at 19.

¹³ See EEPS Order at 49.

administrator model that will prevent the delivery of tailored programs. Moreover, such an approach will eliminate any opportunity to compare and contrast individual program attributes which may lead to improved program designs in the longer term.

National Grid has reviewed the recommendations from the American Council for an Energy Efficient Economy (“ACEEE”) for the expedited electric energy efficiency programs to be implemented in New York included within Staff’s Initial Comments.¹⁴ The Company has recommended duct and air sealing as elements of the Enhanced Home Sealing Program included in its September 22, 2008 filing with the Commission of seven fast track electric energy efficiency programs (the “90-day filing”). As noted by ACEEE, National Grid has already proposed incentives for ECM Furnace Fans and ENERGY STAR® thermostats in its 60-day filing. In regard to ACEEE’s recommendation that National Grid (and other utilities) offer incentives for electric heat pump water heaters, National Grid has conducted a number of pilot installations for residential applications over the last ten years in its Massachusetts service territory and has found a high degree of failure and lower savings than projected. National Grid suggests waiting until this equipment has been commercially available in the market place for at least one year before offering incentives to customers.

Although National Grid does not advocate the use of a single statewide program design for the Residential HVAC Program, National Grid has reached out to the other electric utilities in the state and is willing to attempt to convene a joint utility discussion as soon as reasonably practical to at least review options for a common statewide program. Nonetheless, National Grid believes there are compelling reasons for variation in program offerings in different parts of the state which include, but are not limited to,

¹⁴ See Staff’s Initial Comments at 21-23.

differing motivations for participating in energy efficiency and demand response programs, differing cooling degree days and humidity levels, differing economic profiles, preponderance of multi-family or single family dwellings, types of equipment currently in use (which can vary significantly between single units for single family dwellings to large central cooling plants found in multi-family dwellings), uniqueness of labor and material costs, and availability of qualified contractors. In the absence of a compelling rationale for moving to a generic statewide program, National Grid believes that the intent articulated in the EEPS Order should be adhered to if the Commission is serious about expeditiously implementing the Residential HVAC Program.

3. Small Business Program

Staff recommends that National Grid's Small Business Program be rejected because the Company has not demonstrated that it is unable to achieve the expected savings set forth in EEPS Order and the Company be allowed to implement a Small Business Program only if it adheres to both the budget and savings goals set forth in the EEPS Order.¹⁵ National Grid has proposed a strategy to achieve the energy savings assigned to it in the EEPS Order¹⁶ through a mix of program efforts included in both its 60-day filing as well as 90-day energy efficiency filings. When added, these programs are expected to result in savings at least as high as the savings assigned to the Company. A comparison of the energy savings assigned to National Grid in the EEPS Order and the combined savings expected to be achieved from National Grid's 60- and 90-day fast track electric energy efficiency filings follows.

¹⁵ See Staff's Initial Comments at 34.

¹⁶ See EEPS Order at Table 11.

	Annual MWh Saved			
	2009	2010	2011	Total 2009 - 2011
Proposed 60- and 90- Day Savings as Filed	110,253	164,735	229,715	504,704
Utility Minimum Annual Incremental Targets in MWh	193,221	154,577	154,577	502,374
Variance Proposed to Target	(82,968)	10,158	75,138	2,330

National Grid's proposed savings goals for the Small Business Program have been informed by actual evaluated results of the Small Business Services Program it has implemented in its Massachusetts service territory. Evaluation studies supporting the proposed savings goals for the Small Business Program in upstate New York were provided in response to Staff interrogatories relative to the Company's 60-day filing in Case 08-E-1014. The studies provided included: (i) PA Consulting, *2007 Commercial and Industrial Programs Free-ridership and Spillover Study*, June 23, 2008; (ii) Summit Blue Consulting, *Multiple Small Business Services Programs Impact Evaluation, Final Report*, June 26, 2008; and (iii) RLW Analytics, *National Grid Lighting Controls Impact Evaluation, Final Report, 2005 Energy Initiative, Design 2000plus, and Small Business Services Programs*, June 4, 2007. National Grid believes that the savings goals it has proposed for the Small Business Program are well supported and appropriate.

Staff also takes issue with the Company's proposal to pay 80% of measure costs and recommends that the Company modify its proposed Small Business Program to reflect a 30% customer cost share.¹⁷ National Grid's 60-day filing was predicated on its belief that an 80/20 cost split would be more effective in overcoming barriers to participation among targeted customers and more quickly acquiring savings in support of achieving the 15 x 15 objective of the EEPS proceeding. The Company also envisioned

¹⁷ *Id.* at 24-25.

that it would propose a program change to reduce the Company's contribution to 70% if, after a year of experience in implementing the Small Business Program in upstate New York, a payment of 80% of the measure costs was no longer needed to motivate customers to install energy efficient equipment.

Although National Grid believes there are good reasons for initially offering the higher incentive, it is willing to modify its Small Business Program proposal to provide a Company contribution of 70% and a customer contribution of 30%. This 70/30 cost split, coupled with current electricity rates and on-bill financing with zero interest loans for up to two years, will, on average, still produce a positive cash flow for energy- efficient lighting and refrigeration measures installed through the Small Business Program as illustrated by the following tables.

Assumes 80% of total cost			
Small Business Services Energy Efficiency Program			
	Budget	Annual MWh	TRC Benefit/Cost
2009	\$8,596,617	13,551	1.93
2010	\$23,028,754	40,652	2.33
2011	\$44,227,932	81,305	2.66
Total	\$75,853,304	135,508	2.47

Assumes 70% of total cost			
Small Business Services Energy Efficiency Program			
	Budget	Annual MWh	TRC Benefit/Cost
2009	\$8,596,617	15,487	1.99
2010	\$23,028,754	46,460	2.38
2011	\$44,227,932	92,920	2.71
Total	\$75,853,304	154,866	2.52

Upon lowering the customer incentive and decreasing the Company contribution to 70% of total cost, there is a further gain in the expected savings. With the lower Company contribution per participant, more participants can be served annually, which in turn increases the annual savings. As shown above, although proposed savings targets

increase when the budget is held constant while customer incentives are lowered, proposed savings goals for this program are still less than the goals Staff has suggested be imposed on the Company. As stated earlier, when the program efforts in both the Company's 60-day filing and 90-day filing are added together, these programs are expected to result in savings at least as high as the savings assigned to the Company. The below table illustrates the combined savings using the 70/30 cost split.

	Annual MWh Saved			
	2009	2010	2011	Total 2009 - 2011
Proposed 60- and 90- Day Savings with Changes Due to Lower Customer Incentive	112,189	170,543	241,330	524,062
Utility Minimum Annual Incremental Targets in MWh	193,221	154,577	154,577	502,374
Variance Proposed to Target	(81,032)	15,966	86,753	21,688

Staff recommends that each utility impose a fee of \$50 on customers for energy audits conducted under the Small Business Program with such fee to be deducted from the cost of measures installed.¹⁸ National Grid does not support the imposition of such a reimbursable audit fee as it would increase barriers to participation. Customers are likely to be reluctant to invest in an audit fee when they are uncertain or not sufficiently knowledgeable as to the expected benefits from the installation of energy efficiency improvements. Declining economic conditions only exacerbate this barrier to entry for small business owners. Further, "selling" a reimbursable audit fee adds to program complexity and creates an added administrative burden (e.g., vendor time to collect and track fees, acceptable form of payment decisions, etc). Moreover, the proposed design of the Company's Small Business Program reduces the likelihood that "customers may elect

¹⁸ *Id.* at 27.

to have the audit performed without any serious intention of making energy efficiency improvements recommended during the audit.”¹⁹ First, vendors delivering the program are only paid for projects if the energy efficiency improvements are installed. Second, prior to conducting an audit, vendors will pre-screen potential participants to determine whether customers are serious about investing in energy efficiency improvements and if energy efficiency opportunities are likely to exist in a particular customer’s business. Finally, a program design with no reimbursable audit fee enables vendors to leverage a pre-arranged visit to one customer’s business with cold-call visits to other businesses in the surrounding area (e.g., strip malls).

4. Evaluation Plans

Staff found that National Grid’s 60-day filing generally adheres to Staff’s Evaluation Guidelines.²⁰ However, Staff comments that the Company did not provide information on how the benefit cost analysis would be updated based on market experience with the programs.²¹ National Grid plans to review program cost-effectiveness at year-end, taking into account actual costs and actual program installations. If impact evaluation results are available, these analyses will take into account those evaluation findings as well. The Company plans to assess post-installation cost-effectiveness using the same avoided costs that were used to cost-justify program efforts prior to implementation.

Staff finds that the Company has not clearly explained the process to be used to incorporate “lessons learned” to enhance program design or how the Company will report

¹⁹ *Id.*

²⁰ *Id.* at 8.

²¹ *Id.* at 9.

such results.²² National Grid's evaluation analysts regularly attend residential implementation staff meetings and provide updates to implementation staff on findings from evaluation studies. Although all recommendations are considered, not all may result in program changes. Often, simple suggestions for process improvements may be implemented immediately. Similarly, the Company's evaluation analysts meet with the commercial and industrial implementation staff and convey lessons learned from evaluation studies. As noted above, although all recommendations are considered, not all may lead to program changes. For one reason, changes may not be made because the expected cost of such a change is greater than the expected benefits. Alternatively, a particular program may have been modified and the recommendation is no longer relevant. Any proposed significant program changes would be included in the appropriate filings for Staff review or Commission approval.

Staff further commented that the Company did not provide information on how benefit cost analyses would be updated based on market experience with the programs.²³ National Grid plans to review program cost-effectiveness at year-end, taking into account actual program costs and actual program installations. If impact evaluation results are available, these analyses will take into account those evaluation findings. The Company plans to assess post-installation cost-effectiveness using the same avoided costs that were used to cost-justify program efforts prior to implementation.

Staff suggests that information, particularly with regard to some of the actual measurement and verification techniques (e.g., specific sampling approaches, a detailed impact evaluation approach for all programs) be presented more clearly in the Company's

²² *Id.*

²³ *Id.*

evaluation plan.²⁴ In its 60-day filing, National Grid committed to comply with the Evaluation Guidelines issued by Staff. The Company provided an overview of its plans to complete both process evaluations and impact evaluations. Upon Commission approval of the expedited fast track electric energy efficiency programs, National Grid will go out to bid to hire an evaluation consultant to support planned evaluation efforts. Bidders will be requested to describe sampling strategies and approaches to be used to achieve the evaluation objectives outlined in the Request for Proposals. National Grid will coordinate with the Evaluation Advisory Group (“EAG”) as it undertakes its planned evaluation studies. The EAG will be invited to participate in project initiation meetings and will be kept apprised of ongoing program evaluation findings. If presentations by the evaluation consultant are planned, the EAG will be invited to participate. Evaluation reports will also be shared with the EAG.

5. Free-Ridership, Spillover and Snapback

Staff finds that National Grid’s plan does not discuss how it proposes to address and quantify factors associated with net-gross analysis such as free-ridership, spillover and snapback effects.²⁵ A program’s free-ridership rate is the percentage of program participants who would have implemented program measures or practices in the absence of a particular program.²⁶ Spillover refers to reductions in energy consumption and/or demand caused by the presence of a given energy efficiency program, beyond the program-related gross savings of the participants. There can be participant and/or non-

²⁴ *Id.*

²⁵ *Id.* at 8.

²⁶ See http://www.epa.gov/cleanenergy/documents/evaluation_guide.pdf, at Appendix B-3.

participant spillover.²⁷ Snapback, also referred to as the “rebound effect,” refers to a change in energy-usage behavior that yields an increased level of service and occurs as a result of taking an energy efficiency action.²⁸ Although snapback may lead to a reduction in achieved energy savings compared to initial estimates, the effect is often indicative of a non-energy benefit such as increased comfort (e.g., turning up the thermostat).

National Grid proposes to quantify program free-ridership and spillover and apply these “impact factors” to gross program savings to arrive at net program savings. The Company currently uses a standardized approach to assess commercial and industrial program free-ridership and spillover in its New England energy efficiency programs. The approach was designed to provide a methodology suitable for all Massachusetts energy efficiency program sponsors to meet the regulatory requirements to report annual program impacts. The method developed survey instruments and analysis to provide a “snapshot” of the market as it currently operates, and is typically repeated every two years. National Grid intends to apply the same methodology in its New York service territory.

The Company has proposed to conduct a billing data analysis to determine energy savings achieved in the Small Business Program. This analysis will result in estimated savings that account for snapback. National Grid has also described its plans for assessing net savings in the proposed Residential HVAC Program within its 60-day filing.

²⁷ See http://www.epa.gov/cleanenergy/documents/evaluation_guide.pdf, at Appendix B-5.

²⁸ See http://www.epa.gov/cleanenergy/documents/evaluation_guide.pdf, at Appendix B-4.

6. Quality Assurance Plan

Staff recommends that the Company's quality assurance program for the Residential HVAC Program should include provisions to ensure that installed equipment is both correctly sized and properly installed, with duct sealing as needed, to provide the expected level of savings.²⁹ National Grid agrees that quality assurance is a critical component of a successful program. Proper sizing of equipment can be assured through the use of an ACCA Manual J calculation as discussed earlier herein. In regard to duct sealing, National Grid has found in its experience in New England that customers do not always consent to duct sealing if their only interest is in replacing a failing central air conditioning unit. To combat this problem, National Grid in New England offers an incentive of \$1.00 per CFM of duct leakage reduction to the contractor, as measured with a duct blaster or other appropriate tool.

Program elements that could make sense for statewide application that would address quality assurance concerns include requiring that an ACCA Manual J calculation be submitted, offering contractors a \$100 incentive for submitting Manual J calculations, and standardizing certain training content. Standardizing certain aspects of training provided to contractors participating in the program may reduce costs and better ensure quality. Contractor training and orientation are critical to the success of the Residential HVAC Program. National Grid will coordinate with Consolidated Edison, Orange & Rockland, NYSEG, RG&E and Central Hudson to explore the development of consistent training for contractors across the utilities' respective service territories.

Staff further recommends that the quality assurance program for both the Residential HVAC Program and the Small Business Program should include provisions

²⁹ *Id.* at 14.

for remediation of any problems that are found during inspections.³⁰ For the Residential HVAC Program, National Grid's fulfillment house will randomly select 10% of the completed rebate forms for follow-up inspections and the Company will contract with an appropriately experienced vendor to perform these installations inspections. The nature of the inspection will be to ensure that the correct equipment was installed for which the customer received the rebate and there are no obvious health and safety violations. The standard will be to verify that the contractor followed state and local laws in installing the equipment. National Grid will inform the customer and contractor in writing of any problems discovered regarding the installation and follow-up with the customer to ascertain if the problem has been resolved. National Grid will inform the Building Performance Institute of any unresolved contractor problems as appropriate. For the Small Business Program, the Company will incorporate a variety of quality control measures in order to prevent or address problems concerning the installation of energy efficient measures. These measures include:

- a. Installation vendors under contract with the Company will only be paid for work performed and equipment installed after customers have signed a certification of installation certifying that the customer is satisfied with the installation.
- b. Tracking and reporting on projects that have been flagged as having problems identified during post-installation inspections utilizing the Company's software database *InDemand*.

³⁰ *Id.*

- c. The Company's lighting equipment and refrigeration equipment vendors will provide for the replacement of non-functioning equipment under warranty. The materials and services are replaced at no cost to the customer.

7. Cost-Effectiveness /Total Resource Cost Tests

Staff has replaced the avoided costs used by National Grid in the TRC benefit/cost analyses for the programs with its own revised estimates for reasons of "accuracy and comparability."³¹ This midstream replacement of the Company's avoided cost estimates with Staff's updated estimates substantially reduces the Total Resource Cost ("TRC") benefit/cost ratios for National Grid's proposed Residential HVAC Program and Small Business Program and renders the Residential HVAC Program no longer cost-effective per Staff's analysis. National Grid has provided a well-supported avoided cost study to document the avoided costs used in the Company's TRC benefit/cost analyses relevant to its upstate New York service territory. Staff has not provided any corresponding documentation by which its revised avoided costs can be understood and put into perspective. Further, this reduction in the avoided costs would appear to render any comparisons to the TRC benefit/cost ratios set forth in the EEPS Order no longer valid. Moreover, Staff's introduction of revised avoided cost figures, if such revised costs are appropriate, calls into question the validity of the EEPS Order targets which are the basis by which the utilities' proposed programs are being evaluated by Staff. National Grid would suggest that Staff's avoided costs from March 2008, which formed the basis for the EEPS Order targets, and the Company's well-supported avoided cost study should remain the basis for the evaluation of the Company's proposed

³¹ *Id.* at 16.

expedited fast track energy efficiency programs. As programs are implemented and subsequently subjected to annual review, avoided cost forecasts, programs and targets can be revised as the Commission deems appropriate.

Going forward, the EAG could possibly be tasked with undertaking a statewide avoided cost study that would address NYISO zonal differences, among other issues, and allow for key assumptions to be fully vetted. In the meantime, National Grid believes it has provided a well-supported study for its benefit/cost analysis which should be the basis for comparison against the EEPS Order TRC targets.

8. Procurement

Staff recommends competitive bidding as the preferred procurement practice for all equipment purchases and service contracts for energy efficiency programs and further recommends that a utility who intends to sole-source any energy efficiency equipment or services should be required to submit a proposal to do so to the Director of the Office of Energy Efficiency and the Environment for review and approval.³²

National Grid has an established company procurement process which requires documentation of any sole-sourced materials, equipment or services. It is the Company's general practice to competitively bid materials, equipment or services. However, there may be certain circumstances where sole-source procurement is appropriate, particularly when time is of the essence or highly-specialized and limited availability expertise is required. An occasion could arise could arise in the delivery of energy efficiency programs where there is a need to serve customers quickly and National Grid's ability to leverage existing contracts with vendors may require sole-source procurement. For

³² *Id.* at 37.

example, National Grid has proposed to sole-source low income program delivery to NYSERDA in upstate NY and the Association for Energy Affordability in Metro NY, due to the fact that these organizations already provide these services, possess the required expertise, and have the ability to serve such customers immediately through existing networks and delivery systems. In order to sole-source any energy efficiency materials, equipment or services, National Grid energy efficiency management must document the justification for the Company's Procurement Department management. Approval to sole-source must be signed by the vice presidents for both the Energy Efficiency and National Grid's Procurement Departments. National Grid's internal procedures and controls render the suggestion that the Director of the Office of Energy Efficiency and the Environment also review and approve any sole-source energy efficiency procurement to be redundant and unnecessary. Moreover, the delays in being required to secure such external approvals would undermine any sense of urgency that was the basis for such sole-source procurement.

9. Customer Eligibility

Staff recommends that customers who pay the SBC for only a portion of their electric usage should be allowed to participate in energy efficiency programs with incentives prorated proportionately.³³ National Grid understands the rationale behind Staff's recommendation to prorate such incentives. However, adopting this practice will result in undue complexity in program implementation, administration, and tracking efforts. National Grid recommends against such a practice in that the incremental effort

³³ *Id.* at 36.

and resulting costs to prorate the incentive would effectively diminish the value of the energy efficiency program services to these customers.

10. Marketing Plans

Although Staff finds that National Grid's proposed marketing plans are satisfactory, it believes that the details of coordination with other parties, such as NYSERDA, are lacking and recommends that the marketing plans for both the Residential HVAC Program and Small Business Program be embellished to provide such details.³⁴ The Company's Small Business Program will be primarily marketed by vendors under contract with the Company in their assigned areas of the Niagara Mohawk service territory. Such vendors are expected to use a variety of marketing channels including:

- Mailer with return card requesting an audit
- "Cold calling" (e.g., strip mall customers) where the vendor is conducting an audit at one place of business and visits other businesses in the same geographic area
- Web Site
- Incoming Phone Calls
- Meetings/Gatherings such as a Small Business Economic Development Day

It is the intention of the Company to coordinate with NYSERDA and other parties (e.g., gas energy efficiency program providers) to insure that customers are provided information pertaining to other applicable programs in upstate New York.

³⁴ *Id.* at 15.

11. Market Research

Staff recommends that utilities proposing to use evaluation funding for market research have such proposals expressly reviewed by the EAG and approved by the Director of the Office of Energy Efficiency and the Environment.³⁵ National Grid objects to this proposed requirement. Market research is a key element of a program evaluation effort. For example, process evaluations often include customer surveys, a form of market research. In addition, market research is often needed to support future program design and enhancement efforts.

12. Implementation Plans

Staff recommends that each utility be required to submit an implementation plan that describes in detail the overall energy efficiency program and how the individual program will operate.³⁶ National Grid appreciates Staff's interest in having this supporting information on the Company's energy efficiency programs. However, National Grid finds that much of the information listed on pages 30-31 of Staff's Initial Comments already exists in the Company's 60-day filing, and the remaining information has or can be provided to Staff upon request.

13. Program Modifications

Staff recommends that utility proposals for changes to approved budgets, eligible energy efficiency measures, or customer rebates be submitted to Staff for review and

³⁵ *Id.* at 33.

³⁶ *Id.* at 30.

comment at least 90 days before the proposed implementation date.³⁷ Staff further recommends that proposals resulting in budget reallocations representing a cumulative change of 10% or more from the total approved annual budget should be submitted for Commission approval before implementation.³⁸ National Grid accepts DPS staff's proposal to notify staff of proposed changes to approved budgets, eligible energy efficiency measures, or customer rebates for review and comment 90 days prior to the proposed implementation date. National Grid's understanding is that within the 90 day period, Staff would identify any issues with the proposed changes in a timely manner such that the Company may consider the comments in time to make modifications to the proposal, if appropriate. Barring Staff comment or objection to the proposed implementation, the proposed changes will take effect on the date proposed. National Grid also agrees that any proposal that would result in budget reallocations that would represent a cumulative change of 10% or more from the total approved annual budget should be submitted for Commission approval before implementation.

14. Reporting

Staff recommends quarterly and annual reporting. Quarterly reports should be due no later than 45 days after the conclusion of the calendar quarter and annual reports should be due no later than 60 days after the conclusion of the calendar year.³⁹ National Grid can support such a recommendation. However, Staff also recommends implementation of a monthly "scorecard report."⁴⁰ The scorecard should include number

³⁷ *Id.* at 29.

³⁸ *Id.*

³⁹ *Id.*

⁴⁰ *Id.*

of measures installed, number of customers served, dollars spent, progress toward goals and will be due 14 days following the conclusion of the month. The EAG will develop recommendations on the format and specific requirements for such reports subject to approval by the Director of the Office of Energy Efficiency and the Environment. The proposed requirement for monthly reporting through a monthly “scorecard report” would result in excessive reporting requirements. National Grid objects to the additional requirement for monthly reporting. Quarterly and annual reporting will provide sufficient information about progress being made through the program implementation effort. Excessive reporting requirements result in increased administration expenses.

15. Technical Manual

Staff employed an independent consultant, TecMarket Works, to “develop a technical manual illustrating standardized approaches, calculations and assumptions for program administrators to estimate Fast Track program energy savings at the measure level.”⁴¹

National Grid appreciates the initiative Staff has taken to develop such a technical manual included in initial draft form in Appendix A to Staff’s Initial Comments. It is a potentially valuable contribution to the library of data available to program administrators in New York. However, there is insufficient time for the Company to complete a thorough review of the technical manual and address same in these reply comments. Upon only a cursory review, National Grid notes that some of the technical manual’s approaches, particularly those for weather-sensitive measures, represent a significant departure from the way the Company has designed its proposed programs, which are also

⁴¹ *Id.* at 27.

based on engineering factors, evaluation results from similar programs, and general experience. The Company believes that a forum should exist where approaches, calculations, and assumptions of various parties may be exchanged so that the methodology adopted represents a common standard based upon common understanding.

National Grid therefore recommends that the EAG review the analysis that has been completed and undertake to update the technical manual based on thoughtful comments provided by all parties. This EAG process should be allowed sufficient time and proceed in such a manner that does not impede action on the expedited program proposals. Working through the EAG, which was established to perform just this sort of role, would also help address some of the current limitations of the technical manual so noted by Staff,⁴² particularly the issue of incorporating evaluation results in the savings to yield net savings estimates. Prior to final adoption but upon the existence of a final version of the technical manual, a public review process should be conducted by the Commission. Upon final adoption, energy efficiency program administrators should be given the opportunity to revise their proposed savings goals taking into account the methodology set forth in the technical manual.

16. NEEP Initiative

Staff recommends that the EAG review New York State's role in the Evaluation, Measurement and Verification ("EM&V") Forum which is a current initiative of the Northeast Energy Efficiency Partnerships ("NEEP").⁴³ The NEEP EM&V Forum has identified its initial research priorities, many of which appear to be consistent with

⁴² *Id.* at 28.

⁴³ *Id.* at 32.

research priorities identified in New York. The NEEP EM&V Forum is likely to provide the opportunity to address these priorities in a way that will be more cost-efficient when compared to New York proceeding on a parallel track to address the same priorities. National Grid recommends that New York become an active participant in the NEEP EM&V Forum.

17. General Comments

Staff has noted in particular that it is not in a position to fully comment on project management issues and certain elements of program implementation plans at this time. Staff also commented that the TRC ratios it presented are preliminary pending completion of discovery and a more thorough review of the Company's measure costs and savings and budget assumptions. National Grid respectfully requests that the Commission provide the opportunity for the Company (and other parties) to review and comment upon any supplemental comments, suggestions or recommendations that Staff may make upon completion of discovery and further analysis.

Staff has noted that efforts to ensure that energy efficiency costs are not being "double counted" as part of base rates "is better accomplished in utility rate cases."⁴⁴ However, the Commission appears to have adopted a contrary position in its September 18, 2008 Order Adopting an Interim Energy Efficiency Program and Modifying the Joint Proposal in Case 08-G-0609⁴⁵ where it said "it would be best if all energy efficiency program matters were considered and addressed more collectively and not in utility

⁴⁴ *Id.* at 3.

⁴⁵ Case 08-G-0609 – *Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation for Gas Service*, Order Adopting an Interim Energy Efficiency Program and Modifying the Joint Proposal (issued and effective September 18, 2008).

company rate proceedings.”⁴⁶ Addressing energy efficiency matters in the respective energy efficiency dockets rather than in rate case proceedings would further the Commission’s policy objective set forth in Case 08-G-0609.

More importantly, National Grid’s 60-day filing was predicated on the expedited fast track programs being timely approved and implemented on or about October 1, 2008. The extensive discovery and review process and the continuing uncertainty as to when program implementation might be able to proceed will require National Grid to revise its annual savings targets forecasts to reflect the difference between program start dates sometime in the first quarter of 2009 and the 60-day filing which was predicated on programs commencing on or about October 1, 2008.

B. Response to NYSERDA Comments

National Grid met with NYSERDA on October 15, 2008 to discuss coordination of the Company’s interim gas programs with NYSERDA’s programs. National Grid agrees that it would be helpful to share savings and incentives for specific customer activities as opposed to requiring customers to choose between a National Grid program and a NYSERDA program. If the Commission so approves, National Grid is prepared to work with NYSERDA to develop shared savings, incentives, and reporting mechanisms to ensure that customers receive appropriate incentives for comprehensive, whole-house work. This will facilitate one-stop shopping for customers, reduce contractor confusion, and improve energy efficiency offerings in upstate New York, an economically depressed region.

⁴⁶ *Id.* at 16.

National Grid also supports NYSERDA's recommendation that the EAG define a process that will establish a central data repository for collecting, warehousing, managing and sharing data.

However, National Grid does not agree with NYSERDA's recommendation of paying the enhanced incentive to the customer. Since HVAC replacement may be a once in a lifetime opportunity, National Grid wants to offer the most robust program possible to capture as many new efficient HVAC systems with high quality installation as possible. This is particularly critical in upstate New York, where there is often no local licensing of HVAC contractors, so it is difficult to assure customers that potential contractors will do a quality installation. National Grid has received requests from contractors and trade allies in Metro New York to provide incentives to contractors to encourage them to increase the efficiency of the equipment they install and increase the quality of the installations by incorporating a whole house perspective. Based on this feedback from the market, where National Grid has offered customer incentives only for residential HVAC in Metro New York since 2007, National Grid incorporated this component into its proposed Residential HVAC Program. National Grid provides incentives to contractors for completing specific training or tasks in New England and has found this to be a very effective way to encourage contractor behavior and market transformation.


National Grid would be willing to work with NYSERDA to develop their understanding of the avoided costs, discount rates and other National Grid-developed inputs to the benefit cost analysis.

III. Conclusion

National Grid appreciates the opportunity to submit reply comments to the initial comments provided by Staff and NYSERDA. Although the Company remains committed to advancing the delivery of energy efficiency benefits to its customers in upstate New York, it is concerned with the protracted delay in being able to commence with the implementation of these two expedited fast track electric energy efficiency programs and what this delay may further signal in terms of being able to proceed to implementation of National Grid's more comprehensive programs set forth in its 90-day filing.

Respectfully submitted,

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