nationalgrid

April 18, 2008

VIA OVERNIGHT DELIVERY

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

Re: Case 07-M-0548 – Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard – Reply Brief of Niagara Mohawk Power Corporation d/b/a National Grid

Dear Secretary Brilling:

Enclosed please find for filing an original and five (5) copies of the Reply Brief of Niagara Mohawk Power Corporation d/b/a National Grid 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,

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ALJ Rudy Stegemoeller, w/enclosure
Peter Flynn, w/enclosure
Janet Gail Besser, w/enclosure
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Active Parties via listserv

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission	)	
Regarding an Energy Efficiency Portfolio	)	**Case 07-M-0548**
Standard	)	

REPLY BRIEF
OF
NIAGARA MOHAWK POWER CORPORATION
d/b/a NATIONAL GRID

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STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard	)))	**Case 07-M-0548**

REPLY BRIEF
OF
NIAGARA MOHAWK POWER CORPORATION
d/b/a NATIONAL GRID

I. Introduction

Niagara Mohawk Power Corporation d/b/a National Grid ("National Grid" or the "Company") submits this Reply Brief in response to the March 20, 2008 Ruling in Case 07-M-0548 (the "March 20 Ruling" or the "Ruling")[1] as amended by the April 3, 2008 Ruling extending the briefing schedule,[2] and the comments made within the initial briefs filed by numerous parties to this proceeding. The March 20 Ruling requested comments to be used to expedite Public Service Commission ("Commission") consideration of overall program design policy for the creation of an Energy Efficiency Portfolio Standard ("EEPS") in concert with bridge or Fast Track[3] energy efficiency measures in the context of a determination regarding utility participation. Specifically, the Ruling requested comments on the four limited issues as follows:

[1] Case 07-M-0548, *Proceeding on Motion of the Commission Regarding an Energy Efficiency Portfolio Standard*, Ruling on Staff Motion for Reconsideration and Revising Schedule (issued March 20, 2008) ("March 20 Ruling").
[2] Ruling Extending Briefing Schedule and Revising Filing Requirement (issued April 3, 2008).
[3] "Fast Track" has been defined in the context of the EEPS as a set of measures intended to augment existing energy efficiency programs with new or expanded initiatives to facilitate the State's ultimate success in reaching the 15% energy reduction goal by 2015.

(1) the updated Department of Public Service Staff ("Staff") Fast Track proposal to be filed on March 25, 2008, Staff's presentation at the March 5, 2008 Technical Conference, the NYSERDA Fast Track proposal, and any other Fast Track proposals previously submitted in this proceeding;

(2) the policy rationale for authorizing utility administration of energy efficiency programs in the broader context of the EEPS proceeding, including the reasons identified in the February 11, 2008 Straw Proposal (the "Straw Proposal") that stated "[u]tilities can bring access to end-use customers, especially mass market customers, an ability to leverage outside funding through on-bill financing, and the potential to integrate energy efficiency with overall energy resource planning" as well as the advisability of the Commission establishing periodic energy efficiency targets for each utility;

(3) whether the program cost and bill impact figures presented in the Technical Appendix to the Straw Proposal represent a reasonable estimate of the overall costs of those elements of the 15 x 15 initiative to be achieved through utility customer-funded programs and on-bill financing; and

(4) the advisability of allocating in advance energy efficiency targets and funding among NYSERDA and each utility, as per the Straw Proposal.

As previously stated in the Company's Initial Brief dated April 10, 2008 in response to the March 20 Ruling (the "Company's April 10 Initial Brief"), National Grid stands ready to implement a suite of integrated energy efficiency programs for its customers that will complement existing New York State Energy Research and Development Authority ("NYSERDA") programs and advance progress toward achieving the aggressive goal of reducing New York's electricity usage 15% from expected levels by 2015.

II. Reply Comments

In consideration of the diverse comments submitted by other parties, National Grid submits the following points for consideration by the Commission in the course of approving the design and implementation of EEPS initiatives which can jump start the attainment of near-term energy savings goals.

A. Each utility has differing circumstances and thus a "one-size-fits-all" approach would not be appropriate nor the most effective way to achieve near-term EEPS results.

Staff asserts that NYSERDA is the only entity that has: (i) demonstrated the capabilities to intervene effectively in market processes to influence customer decision-making; (ii) taken steps to increase energy efficient appliance and equipment options available to customers; (iii) worked at local, regional and national levels; and (iv) developed effective relationships with market participants and service providers. For such reasons, Staff believes that NYSERDA is the only logical entity to deliver fast track programs and has limited the utilities' role in bridge programs to only the Small Business Direct Installation and Residential ENERGY STAR® HVAC and Efficient Gas Equipment Programs. There are utilities that can do more and each utility's capabilities to administer fast track programs deserve to be evaluated on their own merits by the Commission.

As indicated in the Company's April 10 Initial Brief, National Grid plans to file with the Commission within the coming weeks a comprehensive set of integrated electric and natural gas efficiency programs modeled on its existing programs in Massachusetts, Rhode Island and New Hampshire. This suite of proposed programs will respond to customers' energy efficiency needs utilizing a combination of market transformation strategies, services directly targeting end-users and key trade allies, and strategies to help minimize lost opportunities. These proposed programs are expected to provide energy savings and net benefits beginning in 2009 predicated on implementation in the last quarter of 2008. This filing will comport with the preferences expressed by parties such as the Alliance for Clean Energy New York ("ACE NY") that favored utility-administered programs being fully articulated by individual utilities so that informed decisions can be made by the Commission without undue reliance put on Staff's perspective of what programs utilities are most capable to deliver to customers in the near-term.

The New York State Consumer Protection Board ("CPB") does not support a larger role for utilities in the near-term beyond that specified in Staff's Fast Track proposal for the reason that NYSERDA programs have been tested and are nationally recognized. Once again, the Company believes that each utility's situation is unique and deserves to be evaluated on its own merits against such broad generalities. As articulated in the Company's April 10 Initial Brief, National Grid has a longstanding and proven record for successfully delivering energy efficiency programs in the other states it serves. Moreover, the Company is the recipient of national recognition for its leadership and outstanding contribution to energy savings and climate change mitigation impacts through its energy efficiency programs.

In contrast to the sentiments expressed by Staff and echoed by CPB, various other parties are supportive of an approach where utilities are authorized by the Commission to deliver near-term energy efficiency programs along with others such as NYSERDA. The New York Power Authority ("NYPA"), City of New York and Dutchess County are aligned in this regard and believe that shared responsibility best positions the state to achieve the 15 x 15 goal. Dutchess County makes the point that such programs need to be uniquely tailored to address regional and local needs and utilizing one approach for all of New York State is flawed. Multiple Intervenors ("MI") supports the evaluation of utility-proposed energy efficiency programs on their merits to the extent that such programs are designed to complement and/or supplement existing NYSERDA programs. The suite of proposed energy efficiency programs that National Grid will be filing with the Commission will complement and supplement existing NYSERDA programs. The Company will coordinate with NYSERDA and others in program administration and delivery, thereby avoiding duplication of effort, misuse of resources or the creation of market confusion. The Natural Resources Defense Council/Pace Energy Project and Climate Center/Association for Energy Affordability (collectively "NRDC/Pace/AEA") are also supportive of the utilities playing a more significant role in the delivery of energy efficiency programs as well as participating in partnerships with other program administrators where appropriate.

In contrast, NYSERDA would prefer that utilities' efforts are focused on finding efficiencies in their respective transmission and distribution systems through the development and implementation of advanced metering and SmartGrid technologies. Although National Grid is evaluating advanced metering and SmartGrid technologies and would implement such projects where it makes sense for customers, as stated in the Company's April 10 Initial Brief, achievement of the aggressive 15 x 15 goal will demand a much larger role for the utilities.

National Grid's belief that a "one-size-fits-all" approach is not appropriate in determining what entities should deliver energy efficiency programs extends to the EEPS governance model. Staff requests that the Commission approve its EEPS governance proposal that would employ a single statewide collaborative process facilitated by Staff. The Company has many years of experience working effectively through collaborative processes in its New England service territories and has found that such processes do not always work effectively and efficiently when the number of participants is large. Further, a single statewide process does not provide for a way to effectively address those issues unique to a particular regional or local area. The Company believes that the adoption of an overall governance model is premature and is best addressed in the context of longer term EEPS planning where the concept of partnerships and multiple program administrators can be appropriately addressed. National Grid supports the need for further development of the concepts explored by Working Group I in the area of EEPS governance.

B. Program target-setting and cost estimates should generally be built from the bottom-up by program administrators.

National Grid believes that each program administrator should be responsible for establishing savings targets for those programs for which they have delivery responsibility. As previously stated in the Company's April 10 Initial Brief, National Grid supports the bottom-up approach to target-setting recommended by Working Group III for the reason that it will lead to program delivery goals informed by those most knowledgeable about the customers who will be served and enhance the likelihood of realizing the 15 x 15 goal.

Staff supports the establishment of program goals through a bottom-up process. Similarly, ACE NY urges the Commission to require utilities to provide more comprehensive plans prior to the assignment of individual targets or the authorization of utility expenditures. The National Association of Energy Services Companies ("NAESCO") also supports individual program administrators developing proposed program targets and cost estimates as opposed to the top-down target-setting utilized in the Straw Proposal.

On the subject of utility incentive mechanisms related to the delivery of energy efficiency programs, National Grid supports performance-based incentives that are accounted for in the program costs before any such program is approved by the Commission. Staff stated that utilities should be allowed to achieve reasonable levels of incentives for measurable contributions towards achieving program goals and targets. Similarly, NRDC/Pace/AEA, NEEC NY and ACE NY support a reasonable level of incentives for utility-administered programs provided there is a corresponding penalty for underperformance. This is consistent with the philosophy articulated by NYSERDA where incentives should be included in any calculation of program costs, methodologies for program cost-effectiveness or benefit/cost methodology as well as in the Total Resource Cost ("TRC") test. Moreover, it addresses MI's concern that utility incentives in association with the delivery of energy efficiency programs could burden certain programs to the point that they would be less cost-effective than comparable NYSERDA offerings. As noted by the Community Environmental Center ("CEC"), properly documented utility proposals to deliver energy efficiency programs must include adequate information on expected program costs and benefits to allow the Commission to make an informed assessment.

If the Commission adopts the Tariffed Installation Program ("TIP") as proposed by the Dormitory Authority of the State of New York ("DASNY"), utilities would be responsible for developing on-bill financing mechanisms that would then allow eligible customers to install energy efficiency improvements without incurring upfront costs. Costs incurred by the utilities in designing and implementing billing system changes need to be included in the EEPS surcharge or the System Benefits Charge ("SBC"). As previously stated in the Company's April 10 Initial Brief, the Commission must adopt realistic timeframes for the implementation of TIP and a one-size-fits-all approach may not be workable given the variations in utility customer billing systems and differing IT complexities that such a process may present. Staff recommends that the Commission direct utilities to design on-bill financing within sixty (60) days of such an order. From National Grid's perspective, a more realistic timeframe would be one hundred twenty (120) days following an order for electric programs and approximately nine (9) months following an order for the design of on-bill financing for gas programs.

Staff has further requested that the Commission direct utilities to develop a common protocol to identify and reduce transmission and distribution ("T&D") system inefficiencies in the context of EEPS goals and to require each utility to undertake a study with results within six (6) months of an order requiring same. National Grid believes that the scope of such a study must first be defined before the schedule is established. Moreover, the Company believes that all costs associated with such a study that is undertaken in the context of the EEPS proceeding should be recoverable through the SBC or EEPS surcharge.

Lastly, although the Company advocates the establishment of an overall statewide natural gas efficiency target, it takes issue with Staff's recommendations to do so by mid-May based solely on the findings set forth in the Optimal Energy study.[4] National Grid believes that parties should be provided an opportunity to review and comment on such study beforehand.

C. Programs need to be consistently measured in order to fairly and appropriately recognize successes and timely identify when adjustments as needed.

National Grid supports the recommendations set forth by Working Group III advocating that "[e]ach program administrator would be responsible for the day-to-day management and conduct of evaluation activities for their programs using competitively selected third-party evaluation contractors. Management and conduct of these evaluations would be in accordance with the standards and protocols agreed to by the EFT, DPS and program administrators, and the proposed evaluation plans."[5] In contrast, CPB supports the concept of having Staff oversee program evaluation and believes administration should be separate from the evaluation function. National Grid believes that as long as the benefit/cost exceeds 1.0, a program is cost-effective and worth

[4] Refers to the 2008 update of the statewide natural gas efficiency potential study performed by Optimal Energy, Inc. for NYSERDA in 2006.
[5] *See* Working Group III Final Report, dated December 5, 2007, at p. 36.

pursuing. However, CPB suggests that only those energy efficiency programs that have the highest benefit/cost ratio should be selected for implementation. Adopting a policy that limits energy efficiency programs to only those with the highest benefit/cost ratios would effectively limit the scope and breadth of the EEPS program to only the lowest hanging fruit. If the State is truly committed to achieving its aggressive 15 x 15 goal, EEPS program policies should encourage far greater penetration in customers' homes and businesses.

MI suggests that independent evaluation should be extended to NYSERDA. As was stated in the recommendations put forth by Working Group III relative to the establishment of an Evaluation Task Force ("ETF"), it would be highly desirable if all program administrators were held to the same standard for evaluation, including the adoption of evaluation protocols.

III. Conclusion

As stated in the Company's April 10 Initial Brief, the Commission would be foregoing the opportunity for near-term EEPS goal achievements were it to rely nearly exclusively on existing NYSERDA programs to jump start efforts towards achieving the 15 x 15 goal. The Company urges the Commission to give the appropriate consideration to the valuable role that National Grid and other utilities can play in the near-term as well as in the longer term EEPS. The more comprehensive the approach and the greater the utilities' involvement, beginning with fast-track initiatives, the more likely are the chances of achieving greater market penetration and higher savings from the start for customers. National Grid appreciates the opportunity to submit reply comments in this important proceeding.

Respectfully submitted,

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d/b/a NATIONAL GRID

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