

**STATE OF RHODE ISLAND AND PROVIDENCE**  
**PLANTATIONS PUBLIC UTILITIES COMMISSION**  
**LEAST COST PROCUREMENT**

**STANDARDS ~~JULY-XXXX 28xx~~, 2018<sup>7</sup>**

**CHAPTER 1 – Energy Efficiency Procurement**

**1.1. Introduction**

- A. Energy Efficiency (EE) Procurement, as mandated by §39-1-27.7, is intended to complement system reliability and supply procurement as provided for in §39-1-27.8, with the common purpose of meeting electrical and natural gas energy needs in Rhode Island in a manner that is optimally cost-effective, reliable, prudent, and environmentally responsible.
- B. In order to adhere to the principles set forth in §39-1-27.7, and to meet Rhode Island’s energy system needs in a least cost manner, the EE Standards set forth guidelines for the development of least cost energy efficiency plans.

**1.2. Definitions**

- A. Energy Efficiency
  - i. Energy efficiency is defined as the reduction of energy consumption or strategic and beneficial management of the time of energy use within a defined system. A system may be a residence; a place of business; a public accommodation; or an energy production, delivery, and end-use consumption network.
  - ii. Energy Efficiency Plans<sup>1</sup> should be designed, where possible, to complement the objectives of Rhode Island’s energy efficiency; renewable energy; and clean energy programs, and describe their interaction with them, including, but not limited to, the System Reliability Procurement Plan; the Renewable Energy Standard; the Renewable Energy Growth Program; the Net Metering Program; and the Long-Term Contracting for Renewable Energy Standard. Energy Efficiency Plans should also be coordinated, where possible, with other applicable energy procurement, planning, and investment programs, including, but not limited to, Standard Offer Supply Procurement.
  - iii. Innovation. Energy Efficiency Plans should address new and emerging issues as they relate to Least Cost Procurement (e.g., CHP, strategic electrification, integration of grid modernization, gas service expansion, distributed generation and storage technologies, energy efficiency

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<sup>1</sup> Energy Efficiency Plans refers to both the EE Procurement Plan (or Three-Year Plan) and EE Program Plan (or Annual Plan), as applicable

services for non-regulated fuels, etc.), as appropriate, including how they may meet State policy objectives and provide system, customer, environmental, and societal benefits

iv. **Comprehensiveness.**

The distribution company should consistently design programs and strategies to ensure that all customers have an opportunity to benefit comprehensively through types of measures or depth of services, realizing both near-term and long-lived savings opportunities where appropriate, from expanded investments in this low-cost resource. The programs should be designed and implemented in a coordinated fashion by the distribution company, in active and ongoing consultation with the Energy Efficiency and Resource Management Council (Council).

- a. **Equity.** The portfolio of programs proposed by the distribution company should be designed to ensure that different sectors and all customers receive opportunities to participate and secure efficiency resources lower cost than the cost of supply.

**B. Cost-Effectiveness**

- i. The distribution company shall assess the cost-effectiveness of measures, programs, and portfolios according to a benefit-cost test that builds on the Total Resource Cost Test approved by the Public Utilities Commission (PUC) in Docket 4443, but that more fully reflects the policy objectives of the State with regard to energy, its costs, benefits, and environmental and societal impacts. The distribution company shall, after consultation with the Council, propose the specific benefits and costs to be reported, and factors to be included, in the Rhode Island Benefit Cost Test (RI Test) and include them in Energy Efficiency Plans. These benefits should include resource impacts, non-energy impacts, distribution system impacts, economic development impacts, and the value of greenhouse gas reductions, as described below. The accrual of specific non-energy impacts to only certain programs or technologies, such as income-eligible programs or combined heat and power, may be considered.

- ii. The distribution company shall apply the following principles when developing the RI Test:

- a. **Efficiency as a Resource.** EE is one of many resources that can be deployed to meet customers' needs. It should, therefore, be compared with both supply-side and demand-side alternative energy resources in a consistent and comprehensive manner.
- b. **Energy Policy Goals.** Rhode Island's cost-effectiveness test should account for its applicable policy goals, as articulated in legislation, PUC orders, regulations, guidelines, and other policy directives.
- c. **Hard-to-Quantify Impacts.** Efficiency assessment practices should account for all relevant, important impacts, even those that are difficult to quantify and monetize.

- d. **Symmetry.** Efficiency assessment practices should be symmetrical, for example, by including both costs and benefits for each relevant type of impact.
  - e. **Forward Looking.** Analysis of the impacts of efficiency investments should be forward-looking, capturing the difference between costs and benefits that would occur over the life of efficiency measures with those that would occur absent the efficiency investments. Sunk costs and benefits are not relevant to a cost-effectiveness analysis.
  - f. **Transparency.** Efficiency assessment practices should be completely transparent, and should fully document and reveal all relevant inputs, assumptions, methodologies, and results.
- iii. With respect to the value of greenhouse gas reductions, the RI Test shall include the costs of CO<sub>2</sub> mitigation as they are imposed and are projected to be imposed by the Regional Greenhouse Gas Initiative. The RI Test shall also include any other utility system costs associated with reasonably anticipated future greenhouse gas reduction requirements at the state, regional, or federal level for both electric and gas programs. A comparable benefit for greenhouse gas reduction resulting from natural gas or delivered fuel energy efficiency or displacement may be considered. The RI Test may include the value of greenhouse gas reduction not embedded in any of the above. The RI Test may also include the costs and benefits of other emissions and their generation or reduction through Least Cost Procurement.
  - iv. Benefits and costs that are projected to occur over the term of the Energy Efficiency Plans shall be stated in present value terms in the RI Test calculation using a discount rate that appropriately reflects the risks of the investment of customer funds in energy efficiency; in other words, a discount rate that indicates that energy efficiency is a low-risk resource in terms of cost of capital risk, project risk, and portfolio risk. The discount rate shall be reviewed and updated in the Energy Efficiency Plans, as appropriate, to ensure that the applied discount rate is based on the most recent information available.
  - v. The distribution company shall provide a discussion of the carbon impacts efficiency and reliability investment plans will create, whether captured as benefits or not.
  - vi. The distribution company shall measure cost effectiveness according to the RI Test. In order to assess the impact of adopting the RI Test, the distribution company shall provide a comparison of its cost-effectiveness analysis under the Total Resource Cost (TRC) Test, as approved by the PUC in Docket No. 4580, to the RI Test, as adopted in this proceeding as part of its 2018-2020 Three- Year Plan and for each 2018, 2019 and 2020 Annual Plan filing.

### C. Less than the Cost of Supply

- i. The distribution company shall determine whether Efficiency portfolios will be considered to cost less than supply by comparing if the levelized cost of the

portfolio per unit of lifetime energy saved is less than with the relevant supply cost as defined in item C.iii of this section. The comparison with the cost of supply is a distinct criterion from the cost-effectiveness requirement in item B of this section.

- ii. The levelized cost of the portfolio shall be calculated as the total of all direct spending by the distribution utility, including customer incentives and rebates, administrative costs, implementation contracts, marketing costs, and evaluation activities. Performance incentive payments to the distribution utility at nominal levels and the costs of regulatory support shall also be included. Customer contributions to the cost of efficiency measures are not included in the cost of the efficiency portfolio. The levelized cost shall be calculated using the same discount rate used for the RI Test.
- iii. For the electric efficiency portfolio, the cost of supply shall be calculated using an average of the distribution company's most recent standard offer prices in effect at during the 12 months preceding the time-date of Plan filing. An average standard offer price across all customer sectors shall be used, weighted by the relative lifetime energy savings planned or realized for each sector. For the gas efficiency portfolio, the cost of supply shall be calculated using the most recent Avoided Energy Supply Component Study (AESC) prepared by the AESC Study Group and published triennially. An average levelized avoided cost across all sectors shall be used, weighted by the relative lifetime energy savings planned or realized for each sector.

C.D. Reliable

- i. Build on prior plans. Energy Efficiency Plans shall describe the recent energy efficiency programs offered by the distribution company and highlight how the Energy Efficiency Plans supplement and expand upon these offerings at the appropriate level of detail, including, but not limited to, new measures, implementation strategies, measures specifically intended for demand or load management, and new programs as appropriate.
  - a. Build on prior programs. Distribution company program development shall proceed by building upon what has been learned to date in distribution company program experience, systematically identifying new opportunities and pursuing comprehensiveness of measure implementation, as appropriate and feasible.

D.E. Prudent

- i. Plan based on potential assessments. The distribution company shall use the Council's Opportunity Report, as issued on July 15, 2008, or other assessments of potential, as resources in developing its Three-Year Plan. The distribution company shall include in its Three-Year Plan an outline of proposed strategies to supplement and build upon these assessments of potential.
- ii. Unlocks capital and effectively uses funding sources. Energy Efficiency Plans shall include a section outlining and discussing new strategies to make available the capital needed to effectively overcome barriers to implement projects in addition to direct financial incentives provided in order to cost-effectively

achieve the Least Cost Procurement mandate. Such proposed strategies shall move beyond traditional financing strategies and shall include new capital availability strategies and partnerships that effectively overcome market barriers in each market segment in which it is feasible to do so.

- iii. Integration. Energy Efficiency Plans shall address how the distribution company plans to integrate gas and electric energy efficiency programs to optimize customer energy efficiency and provide benefits from synergies between the two energy systems and their respective programs.
- iv. Three-Year Plans shall be developed to propose strategies to achieve the energy efficiency savings targets that shall be proposed by the Council and approved by the PUC for that three-year period. Such strategies shall secure energy, capacity, and system benefits and also be designed to ensure the programs will be delivered successfully, cost-effectively, and cost-efficiently over the long term. In addition to satisfying other provisions of these Standards, the Three- Year Plan shall contribute to a sustainable energy efficiency economy in Rhode Island, respond to and transform evolving market conditions, strive to increase participation, and provide widespread consumer benefits.
- v. Energy Efficiency investments shall be made on behalf of all customers. This will ensure consistency with existing program structure under which all customers pay for, and benefit from, Rhode Island's efficiency programs.
  - a. Efficacy. All efforts to establish and maintain program capability shall be done in a manner that ensures quality delivery and is economical and efficient. The Utility shall include wherever possible and practical partnerships with existing educational and job training entities.

E.F. Environmentally Responsible

- i. Environmental responsibility is indicated by the procurement of energy savings, compliance with State environmental policies, and the proper valuation of greenhouse gas reduction benefits.

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**1.6 Role of the Council in Energy Efficiency Plan Development and Approval**

- A. The Council shall take a leadership role in ensuring that Rhode Island ratepayers receive excellent value from the Three-Year Plan being implemented on their behalf. The Council shall do this by collaborating closely with the distribution company on design and implementation of the M&E efforts presented by the distribution company under the terms of Section 1.4.D and, if necessary, provide recommendations for modification that will strengthen the assessment of distribution company programs.

- B. In addition to the other roles for the Council indicated in this filing, the distribution company shall seek ongoing input from, and collaboration with, the Council on development of the Three-Year Plan and Annual Plans, and on development of annual updates, if any, to the Three-Year Plan. The distribution company shall seek to receive the endorsement of the Energy Efficiency Plan by the Council prior to submission to the PUC.
- C. The distribution company and the Council shall report to the PUC a process for Council input and review of its 2008 EE Procurement Plan and EE Program Plan by July 15, 2008, and triennially thereafter.
- D. The Council shall vote whether to endorse the Three-Year Plan by August 15, 2008, and triennially thereafter. If the Council does not endorse the Three-Year Plan, then the Council shall document the reasons and submit comments on the Three-Year Plan to the PUC for their consideration in final review of the Three-Year Plan.
- E. The distribution company shall, in consultation with the Council, propose a process for Council input and review of its Three-Year Plan and Annual Plan. This process is intended to build on the mutual expertise and interests of the Council and the distribution company, as well as meet the oversight responsibilities of the Council.
- F. The distribution company shall submit a draft Annual Plan to the Council and the Division of Public Utilities and Carriers for their review and comment annually, at least one week before the Council's scheduled meeting prior to the filing date that year.
- G. The Council shall vote whether to endorse the Annual Plan prior to the prescribed filing date. If the Council does not endorse the Annual Plan, the Council shall document its reasons and submit comments on the Annual Plan to the PUC for its consideration in final review of the Annual Plan.
- H. The Council shall prepare memos on its assessment of the cost effectiveness of the Three-Year Plans and Annual Plans, pursuant to R.I. Gen. Laws §39-1-27.7(c)(5), and submit them to the PUC no later than ~~two~~three weeks following the filing of the respective Energy Efficiency Plans with the PUC.