

Division's Comments on the 2022 Energy Efficiency Annual Plan-First Draft

The Division of Public Utilities and Carriers (“Division”) respectfully offers the following comments on the first draft of The Narragansett Electric Company’s (“National Grid” or the “Company”) 2022 Annual Energy Efficiency and Conservation Plan (“2022 Annual EE Plan”), or simply, the “Plan.”

These comments are based upon review and consideration of the following materials:

- the July 15th first draft of the 2022 Annual EE Plan;
- the updated July 27th Technical Working Group presentation on the first draft 2022 Annual EE Plan;
- the July 22nd Technical Working Group presentation on the 2021 Annual EE Plan EnergyWise program overspending;
- the June 21st Notification of the Combined Heat and Power Project in Exeter – Rhode Island Grows; and
- the June 2021 Combined Heat and Power Notification Process Presentation.

Background

The Company proposes many changes to the design and delivery of programs as detailed in the tables on pages 23 to 39 of the 2022 Annual Plan Main Text. This Plan was most influenced by the COVID-19 pandemic, a shift away from the previous focus on lighting measures, a renewed emphasis on equity as a critical element of successful program delivery, and the inclusion of a large CHP project.

COVID-19 Pandemic

Program performance in 2020 and 2021 was atypical due to the COVID-19 pandemic.

- 2020 program year spending and savings were below plan and unspent funds were rolled into the budgets for the 2021 program year. This underspending was due to the temporary suspension of the program due to safety concerns, ongoing customer safety concerns with audits even after the program restarted, customers inability to pursue projects due to financial concerns stemming from job losses or furloughs, and challenges with workforce availability and safety concerns.
 - On the Electric side, the Company spent 83 percent of the budget and achieved 85 percent of the savings goal. However, the percent spending and savings varied significantly by sector. The Company spent nearly all the Residential budget and slightly overspent the C&I budget. The Company spent only 44 percent of the Low-Income budget.
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- On the Gas side, the Company spent 75 percent of the budget and achieved 62 percent of the savings goal. However, there was significant variation in performance by sector. The Company spent nearly all the C&I budget. The Company spent 72 percent of the Residential budget and just 45 percent of the Low-Income budget.
- 2021 program year customer demand for energy efficiency is significantly higher than projected.
 - The Company currently projects approximately 1,500 additional non-income eligible weatherization participants in the Gas Residential EnergyWise program. The Company reduced the weatherization incentives for these customers from 75 to 50 percent of project costs because demand was so high. As the economy began to recover and COVID-19 risks decreased with the increased availability of vaccines, many homeowners decided to invest in their homes. The Company currently projects a three-month backlog or wait until customers can get an audit. Participation is also projected to be higher for weatherization the Electric Residential Energy Wise program, but not nearly to the same extent as in the Gas portfolio.
 - Serving this additional demand equates to approximately \$8M additional dollars. As a result, spending for the Gas portfolio is currently on track to exceed the plan by more than 110 percent, even after including unspent 2020 program year funds.
- Customer demand for services in the 2022 program year remains uncertain. It is unclear if the current program interest will continue at the current pace or if interest will slow as the Delta variant increases safety concerns. It is also unclear if Rhode Island will reinstate mask mandates and shutdowns as the state enters the winter months and until infection rates can be brought under control. If shutdowns occur, there may be another economic downturn.

Shift Away from Lighting

2022 is the first year without a Residential EnergyStar Lighting program. The 5 percent of Electric Plan portfolio budgets allocated to the EnergyStar Lighting program in 2021 was reallocated to various programs in the C&I sector in 2022. It is important to note that there is a shift away from lighting in the C&I sector as well, though some lighting savings opportunity remains in the 2022 plan.

Renewed Emphasis on Equity

Improving access to energy efficiency program benefits, including economic and employment stability, is an especially high priority. The Company committed to several specific action items in 2022, including:

1. tracking and reporting renters and rental unit participation;
2. beginning voluntary reporting of minority and women owned businesses that provided services to the EnergyWise program;
3. increasing emphasis on identifying and encouraging customers eligible for the low-income discounted rate to move to the discounted rate;
4. creating a welcome package to encourage participation of customers who move to the low-income discounted rate in applicable efficiency programming, specifically Residential Income Eligible Services;
5. leveraging its new codes and standards advancement support service to target the nonparticipant portions of the markets served across all sectors; and,
6. incorporating the Equity Working Group's recommendations to build program enhancements, tailor marketing efforts, and enhance tracking systems to better meet the needs of identified non or low-participating customer groups.

CHP Project

Slide 14 of the July 22nd Technical Working Group presentation on the 2022 Annual EE Plan shows that the proposed RI Grows CHP project is a significant component of the Electric C&I large retrofit program, representing 529,300 lifetime MWh savings which is 34 percent of the Electric C&I plan. Assuming most of the \$13.2M incentive is paid in 2022, the project will represent roughly 20 percent of the Electric C&I budget.

Legislation Updating the State's Climate Goals

In April 2021, the *Act on Climate Legislation* was signed into law. This legislation accelerates the timeline of legislated GHG reductions in Rhode Island to 10% below 1990 levels by 2020; 45% by 2030; 80% by 2040; and net-zero emissions by 2050.

Division Comments

The Division offers five areas of comment on the plan including: (1) EE charges, (2) budgets, (3) extent/timing of economic recovery assumed in the plan, (4) high residential customer demand for weatherization measures, (5) CHP, (6) economic benefits, and (7) equity. Each area is discussed in a section below.

EE Charges

The single most significant area of concern that the Division has with the plan is the projected increase in the EE charges. Budget increases, coupled with increases in the cost of saved energy due to the phase out of lighting measures on the electric side and the carryover of overspending on the gas side, is resulting in the highest EE charges ever. The EE charge increases are shown in Figures 1 and 2 for the electric and gas portfolios, respectively. While the Public Utilities Commission (“PUC”) aimed to stabilize budgets to stabilize changes to the EE charge. These factors, some which were anticipated and others which were not expected, are contributing to EE charge increases of 45 to 50 percent as compared to 2021.

Figure 1. Electric Plan EE Charge Over Time (\$/kWh)

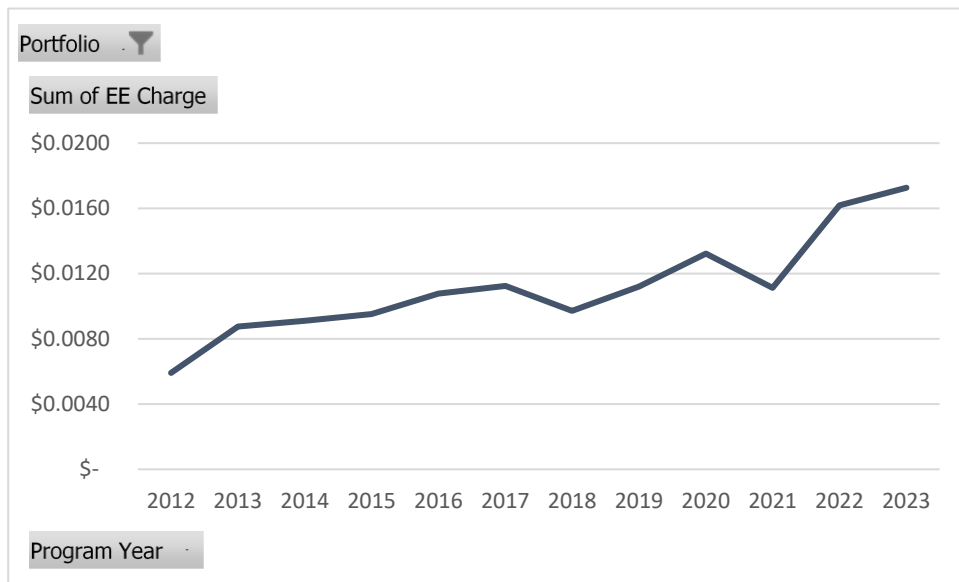
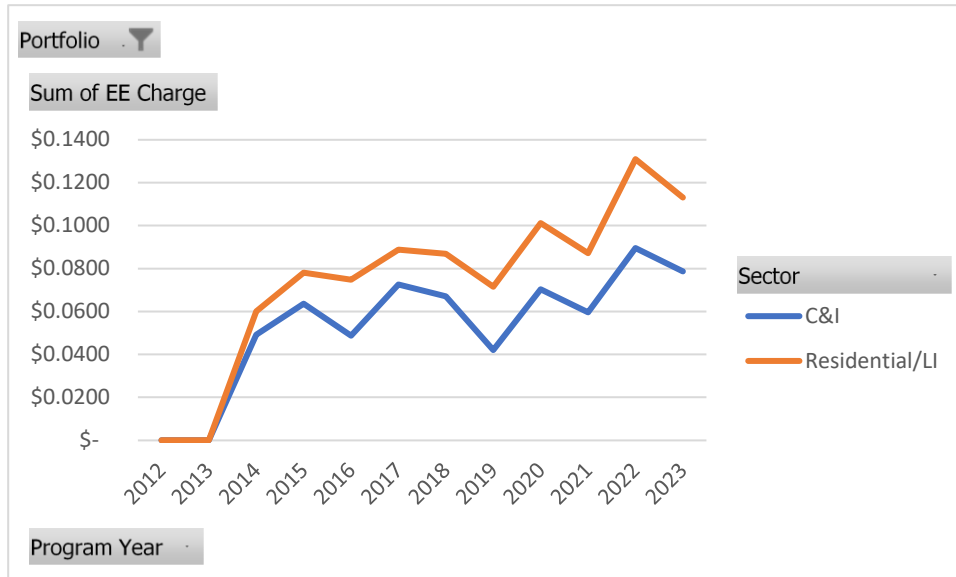


Figure 2. Gas Plan EE Charges Over Time (\$/therm)



The Division recommends stabilizing the EE charge by reducing the electric and gas portfolio budgets. We note that the Residential Gas HVAC program is not cost-effective without economic benefits (with a 0.97 BCR) and has a lifetime cost of saved energy that is 45 percent higher than in 2021. We recommend phasing out incentives for fossil fuel heating systems, which are a significant component of the Residential Gas HVAC program.

We also recommend the EE charge be calculated separately for each sector on the electric side, the way it is on the gas side. This will prevent cross-subsidization as the allocation of budgets by sector changes over time in response to customer demand and the cost to serve customers.

Budgets

Figures 3 and 4 below show the budgets by sector and in total from 2019 to 2022 for the electric and gas portfolios, respectively. For both the electric and gas portfolios, the 2022 Plan proposes the highest budgets for all sectors, including for low income.

Figure 3. Electric Portfolio Budget by Sector and in Total

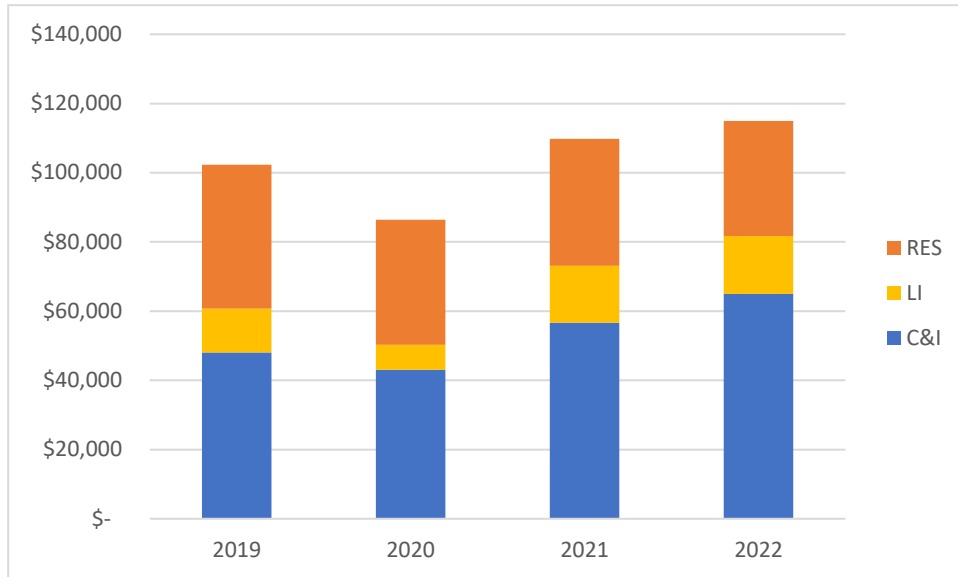
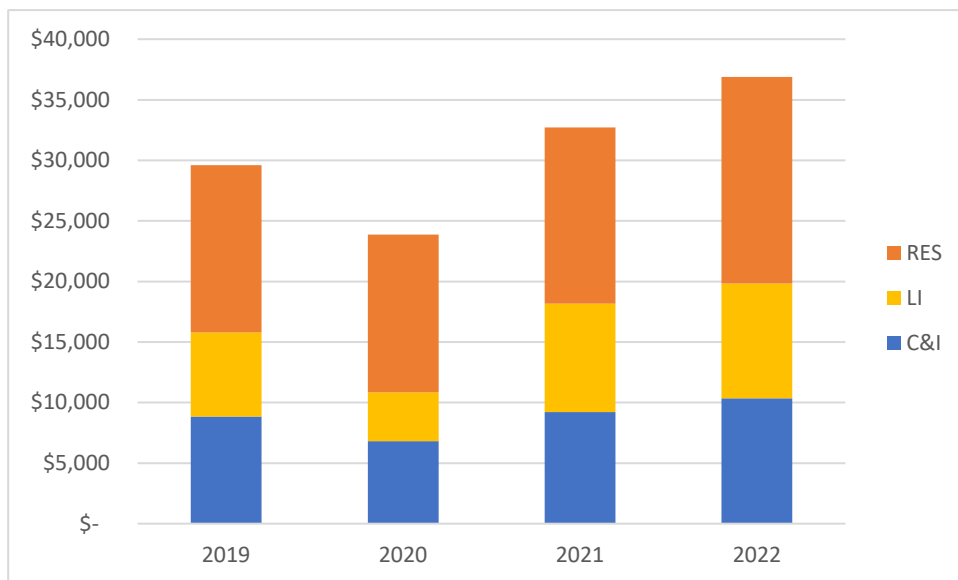


Figure 4. Gas Portfolio Budget by Sector and in Total



Figures 5 and 6 show the percent of budget allocated to each sector for the electric and gas portfolios, respectively. Figure 3 shows an increase in low-income sector funding allocations in the electric portfolio as well as a shift in the spending allocation from Residential to C&I.

Figure 5. Percent of Electric Portfolio Budget by Sector

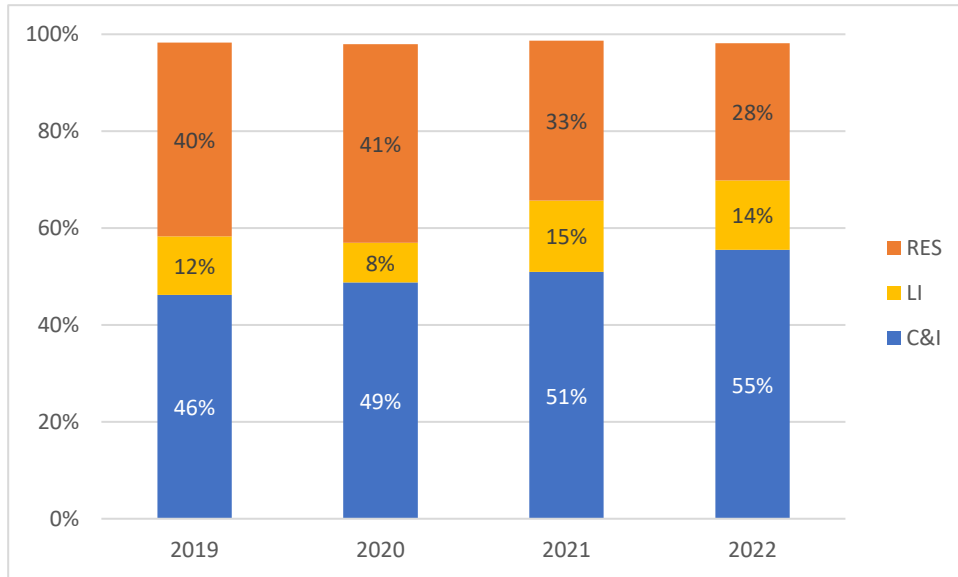
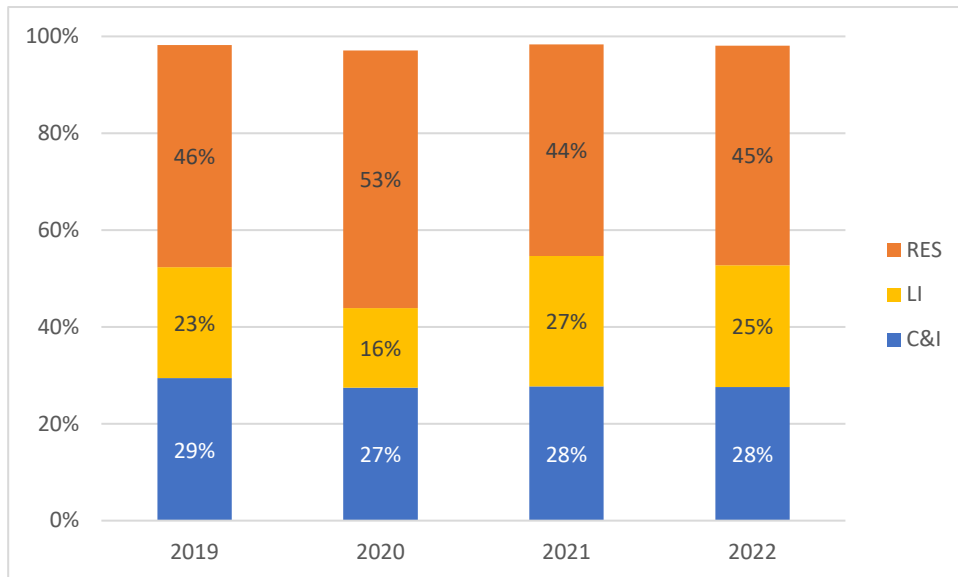


Figure 6 also shows an increase in the allocation of funding to serve low-income customers in the gas portfolio. It is important to note that the 2021 gas plan does not reflect the effect of the increased customer demand for weatherization measures for non-income eligible customers which will increase spending in the Residential sector.

Figure 6. Percent of Gas Portfolio Budget by Sector



Extent/Timing of Economic Recovery Assumed in the Plan

It is important to note that customer uptake of EE for the first half of 2021 significantly exceeded expectations. Economic recovery started in the second quarter of 2021 and accelerated rapidly.

Confusion around the Company's forecasts of sales and customer demand for EE and differences of opinion led to much discussion and debate during the 2021-2023 and 2021 EE plan hearing.

The extent and timing of economic recovery assumed by the Company in developing the plan remains unclear in this plan. The Division recommends language be added to the plan to address the current sales forecast assumptions and assumptions regarding customer uptake of EE measures, with a section for each portfolio (electric and gas) and sector within each portfolio (residential, low-income, and C&I) as the impacts may be different.

High Residential Customer Demand for Weatherization Measures

The very high residential customer demand in 2021 for weatherization measures such as insulation and air sealing has very important implications for the 2022 plan. High demand for a weatherization is rare and the opportunity should not be lost to act on this development. While weatherization tends to be a more costly measure it provides deeper savings and potentially enables heating electrification in the future and associated electric savings at that time.

However, it is not clear if the plan's participation projections for 2022 reasonably account for the increased uptake the Company is seeing in 2021.

We recommend that all reasonably anticipated customer demand for weatherization measures be reflected in the 2022 Plan.

Also, the Company should plan to analyze the participation data as soon as possible and report if these customers have previously participated in EE programs or are new (i.e. have never participated in programs). Lastly, the Company should use this opportunity to gauge interest and ability of these customers to pursue heating electrification in the future. If additional funding becomes available to convert these customers from fossil fuel to electric heating, the Company should be prepared to follow up with these customers.

CHP

The Division is in the process of reviewing the information the Company submitted related to the RI Grows CHP project and we do not have the information we need to comment on the merits or drawbacks of the project at this time. After reviewing the materials submitted, we believe it would be helpful in the future if the materials the Company provides could include a document summarizing the project. The summary document should include:

- A description of the project, the goals of the project, and the timing of the project;
 - A section demonstrating that the project meets all eligibility criteria to qualify for ratepayer funding;
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- A calculation of the total incentives and description of how the incentives were calculated;
- A discussion of how the project qualifies for these incentives (e.g. what energy efficiency measures will be implemented to meet the required energy use reduction);
- A calculation of the proportion of total project incentive that is proposed to be incorporated into each program year of the EE plan; and
- The budget, incentives, customer contribution, electric savings, other fuel use and/or savings, carbon emissions, benefits, and BCR of the proposal, in a similar format as these key metrics appear in the EE plans.

Additionally, the budget, incentives, customer contribution, electric savings, other fuel use and/or savings, carbon emissions, benefits, and BCR that appear within the CHP project proposal should be broken out and shown as a separate CHP line item within the Company's EE plan.

Economic Benefits

We appreciate the Company's presentation of the BCR without economic benefits in this plan. However, the Company's presentation of economic benefits continues to be problematic. The Company is continuing to net out a portion of the benefits because of the potential for overlap/double-counting with the BCA. This does not make sense since the results are presented separately. This separation is what prevents the overlap. By netting out the direct portion of the macroeconomic benefits, the Company is not indicating the full magnitude of the benefits. Also, the macroeconomic benefits are presented in GDP terms. It is much better to report the macroeconomic benefits in terms of job-years.

We request the Company estimate macroeconomic benefits, without netting out the indirect impacts. We also request the Company present these benefits in terms of job-years in the EE plan and CHP proposal, alongside the BCR results.

Equity

While Division appreciates that the Company is taking some action in 2022, we recommend the Company further accelerate its progress. The Division recommends the Company begin to subsegment its multifamily and C&I buildings with an eye towards identifying buildings housing disadvantaged customers and buildings serving disadvantaged customers. Buildings that house disadvantaged customers may include: long term care facilities, nursing homes, 55+ and 65+ apartments and condo buildings, group homes for people with disabilities, and veteran's homes, among others. Buildings serving disadvantaged customers may include: senior centers, community centers, food pantries, urgent care facilities, homeless shelters, and day cares/nursery schools, among others. Once subsegments are identified, the Company should report on the

number of buildings by segment and EE program participation rates. The Company should also develop targeted outreach to increase participation by building types of interest that have lower EE program participation.

Recommendations

In summary, the Division:

1. requests that the Company ensure the plan captures all reasonably likely interest in Residential weatherization projects in 2022.
 2. recommends the Company stabilize the EE charges in 2022 relative to 2021. We propose the Company consider phasing out funds for fossil fuel heating system replacements.
 3. recommends the EE charge be calculated by sector for the electric portfolio, the way it is currently for the gas portfolio.
 4. requests changes to the way economic benefits are presented in the EE plan and CHP proposal.
 5. requests that the Company accelerate efforts to incorporate equity by further sub segmenting the multifamily and C&I sectors into housing for disadvantaged customers and buildings serving disadvantaged customers.
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