

Resolution Regarding National Grid Proposal for Mid-Term Corrections for Gas and Electric Energy Efficiency Programs in 2010

Proposed May 11, 2010

The Energy Efficiency Advisory Council (EEAC) has reviewed the attached proposal made by National Grid for mid-term corrections to its Gas Residential Weatherization and Residential Lost Opportunities Programs. The EEAC has also considered National Grid's proposed Mid-Term Modifications to its electric Residential Lost Opportunities Programs.

The EEAC is aware of and has considered the experience of the individual gas Program Administrators in overspending on their 2009 gas energy efficiency programs and their current efforts to recover overspent funds.

The EEAC understands the Program Administrators' need to be responsive to high demand for services as well as the Department of Public Utilities' procedures for Mid-Term Modifications.

The EEAC appreciates the time sensitivity of this proposal.

In consideration of the above, the EEAC resolves the following:

We endorse National Grid's proposal for a Mid-Term correction to its gas energy efficiency programs for 2010.

We endorse National Grid's proposal for a Mid-Term correction to its electric energy efficiency programs for 2010.

The EEAC endorses National Grid preparing formal Mid-Term Modifications filings for the Department of Public Utilities (D.P.U.) consistent with this proposal and with D.P.U. Guidelines.

National Grid Proposal to EEAC for Mid-Term Modifications: Gas Weatherization and New Home Construction Programs (Electric and Gas)

SUMMARY

Pursuant to Boston Gas Company, Colonial Gas Company and Essex Gas d/b/a National Grid, D.P.U. 09-121 § X (2010) and the Department of Public Utilities' Guidelines in D.P.U. 08-50-B, § 3.8, National Grid proposes Mid-Term Modifications for the Residential Weatherization and Residential Lost Opportunities (New Home Construction) natural gas energy efficiency programs.

Pursuant to Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid, D.P.U. Order 09-116 § X (2010) and the Department of Public Utilities' Guidelines in D.P.U. 08-50-B, § 3.8, National Grid proposes Midterm Modifications for the Residential Lost Opportunities (New Home Construction) non-low income and low income electric energy efficiency programs.

The recommended Mid-Term Modifications total \$3,931,964 for modifications to gas energy efficiency programs and \$708,667 for modifications to the electric energy efficiency programs.

The following describes performance under all four of these programs to date, program modification recommendations, and projections about the resulting bill impacts, savings, budget, participants, and performance incentive.

PROPOSED NATURAL GAS ENERGY EFFICIENCY PROGRAM MODIFICATIONS

Gas Weatherization Status and Proposal

As of April 30, high consumer demand in National Grid's Gas Weatherization program has led to expenditures at 57% of the approved annual budget, savings equal to 51% of goal for the year, and 66% of expected participation. If participation in this program continues at the current rate, the program will be approximately \$3.3 million over budget by year end or will not be able to serve customers by the end of June. In order to respond to this greater than anticipated response to program services, the Company proposes to maintain the incentive at 75%, up to \$2,000, request \$3,300,139 in additional funding for customer incentives for this program, and increase its annual savings goal by 259,776 therms. The benefit cost ratio for the modified program is projected to equal 1.5.

Spending and participation levels during the first quarter of 2010 in the Weatherization Program were higher than anticipated and can be attributed to a number of factors:

- The 2010 Weatherization Program was not approved until January 29, 2010, and program implementation changes did not take effect until March 1, 2010. One

key implementation change was the requirement that participants must first have an initial home audit.

- Participation was extraordinarily high in January and February as contractors rushed to install insulation and air sealing that they could no longer offer after March 1 without performing an initial audit.
- As an unintended consequence of the delayed start date, customers continued to receive rebates for windows under the 2009 program. This program was scheduled to be discontinued after the 2009 program ended, and we honored those rebates through a transition period, ending on March 31. The Weatherization program will count the savings.
- Overall, participation continues to be higher than expected because of increased customer awareness, MassSave marketing, and Government tax credits.

As of April 30, the program expenditures reached \$3,991,198, 57% of the approved program budget for 2010. Through this program, National Grid has installed 652 air sealing jobs, 1729 insulation jobs, and has achieved 284,125 annual therms. For the remainder of the year, participation is expected to be less than experienced in January and February because participants are now required to have an energy audit in order to receive weatherization measures. However, the Company anticipates an increase in program demand when the federal Home Star program begins. Home Star may offer homeowners additional weatherization rebates for 50% of costs, up to \$3,000, which would stimulate demand for weatherization services through the program. Congress is currently voting on the Home Star Energy Retrofit Act of 2010 and it is expected to begin this fall. The Company is commencing a market analysis of the weatherization incentive levels to determine the appropriate levels given the demand and influence of the Home Star program. The Company plans to share the results with the statewide collaborative.

The Company's proposal assumes that current incentive levels will be maintained for the remainder of 2010. These incentives equal 75% of cost, up to \$2,000 per participant. In order to maintain these incentive levels, National Grid will need to request \$3,300,139 in additional funding for incentives. National Grid modeled this option to resemble the RCS electric program in Massachusetts, which offers comparable incentives and has historically required audits. Experience in the RCS electric program suggests that 50% of audits will lead to further measure installations at this incentive level. With these assumptions, National Grid projects that it will install insulation in approximately 2,000 additional homes. Maintaining the incentive at 75% has several advantages. First, National Grid's gas customers would continue to receive incentives comparable to what is offered by the other program administrators. Second, this incentive level generates more savings and participants compared to a lower incentive level. However, the disadvantage of maintaining the incentive at 75% is the anticipated increase in short-term bill impacts.

As an alternative, the Company considered lowering the insulation incentive to 50% of the cost, up to \$2,000. This would result in a need for \$2,242,409 in additional funding for incentives, beginning in July 2010, to allow ample lead time to notify vendors, customers and others involved. At a lower incentive rate, the number of customers acting

upon audit recommendations for insulation will decrease. To model the appropriate level of participation for insulation installations, the Company looked to a similar weatherization program in Rhode Island that also offers 50% incentives. This program has a 33% conversion rate of audits to insulation installs, compared to an installation rate of approximately 46% with a 75% incentive. Under the Company's current 2010 plan, the goal is 2,500 insulation jobs. Assuming, the new incentives go into effect on July 1, the Company projects that approximately 540 additional customers will install insulation at the 50% incentive level. Lowering the incentive to 50% has two advantages: the Company would need to request less additional funding, and the incentive level complements the proposed Home Star legislation. Disadvantages include a lower measure installation rate that will result in less savings, offering an incentive level inconsistent with other gas program administrators, and not informing the change in incentive levels with the results of the market analysis referenced above. In addition, the Company is conducting a market research analysis to test customer response to alternative rebate levels and prefers to maintain rebate levels at current levels until the analysis is complete.

The proposed increase in funding and resulting savings will also provide National Grid with the potential to earn a higher performance incentive under the savings and value mechanisms. The Company does not anticipate that the increase will affect any of the performance metrics that are currently under review by the Department of Public Utilities.

The benefit-cost ratio of this program in the approved Plan is 1.6. With the proposed modification, the benefit-cost ratio will decrease to 1.5.¹ The Company will prepare a full benefit-cost analysis for inclusion in its D.P.U. filing.

Residential New Construction Program (Gas) Status and Proposal

National Grid has expended 29% of its approved annual budget for its gas New Homes Construction Program, achieved 33% of its therm savings and 40% of its gas participation goal. Based on market indicators such as builder interest and new construction commitments, both the electric and the gas programs anticipate increased demand for the program continuing through 2010. Without a midterm modification, the gas program will be approximately \$450,000 over budget, or will not be able to serve customers by October. The Company proposes to increase the funding for gas incentives by \$450,000, and increase participation and savings goals accordingly. The increase represents a 23% increase to the total program budget.

Spending and participation levels for New Home Construction have been higher than expected in both electric and gas for several reasons:

- During the 4th quarter of 2009 strong recruiting efforts in the multifamily sector resulted in greater than previously estimated units for both the gas and electric territories.

¹ The decrease in the benefit/cost ratio can be attributed to a change in the percentage of participating customers who install both air sealing and other weatherization program measures.

- The program is transforming to using an open energy rater market. As a result, nearly 17 individual HERS rating companies are actively recruiting projects and participation has grown more than expected because of their efforts.
- The 2009 performance metric supported improving codes and standards through trainings and advocacy in towns that were considering adopting the stretch code. These efforts increased new construction recruitment. To date, five towns in the National Grid territory, including Lowell, Lexington, Concord, Newton, and Arlington have adopted the stretch code and are now interested in participating in projects.

The benefit-cost ratio of this program in the approved Plan is 1.6. Since the additional funding will be for incentives and an incrementally higher target shareholder incentive with no other elements of cost increasing, the program benefit-cost ratio will increase to 1.79. The Company will prepare a full benefit-cost analysis illustrating these changes for inclusion in its D.P.U. filing.

Gas Energy Efficiency Program Projections

Projections for Weatherization and New Homes Construction midyear modifications are displayed in the following table:

Program		Incentive Budget	Performance Incentive¹	Participation Goal²	Insulation Jobs	Annual Therms Goal
Weatherization	2010 Approved Plan	\$ 6,217,439	\$ 166,023	3,740	2,500	554,051
	Mid-Year Modification	\$ 3,300,139	\$ 82,581	0	2,112	259,776
	2010 Revised Program	\$ 9,517,579	\$ 248,604	3,740	4,612	813,827
	Total					
New Homes Construction	2010 Approved Plan	\$ 1,974,770	\$91,524	696		257,606
	Mid-Year Modification	\$ 450,000	\$99,243	498		184,320
	2010 Revised Program	\$ 2,424,770	\$190,767	1,194		441,930
	Total					
Notes:						
1. Performance Incentive based on savings mechanism payout of \$0.0073925/dollar value and value mechanism payout of \$0.010301/total net benefits on the revised program total.						
2. Weatherization participants are estimated based on unique number of customers who receive air sealing.						

Gas Weatherization and Gas New Homes Construction funding increases will result in an increase to National Grid’s Local Distribution Adjustment Factor (“LDAF”). The increase to the LDAF under the proposal for both programs would be an estimated \$0.00639/therm assuming recovery over a 12 month period, totaling \$3,931,964.

If the D.P.U. authorizes the Mid-Term Modifications, the incremental charge will be included in the Company’s next LDAF filing, which would be scheduled to take effect in November 2010.

In order to preliminarily analyze the bill impacts for the increased incentive budget to fund the weatherization and gas new construction programs, we used the Boston Gas R-3 rate class, and input the incremental savings and budgets. The Company will include a full analysis of bill impacts in its filing to the D.P.U..

<i>Incremental Gas Bill Impacts on Non-Participant, Boston Gas R-3</i>		As Filed	Weatherization & New Homes
	Dollar Amount	\$ 3.15	\$ 3.75
	Increase in Average Bill	2.57%	3.06%
Notes			
1. This bill impact represents and estimate; it is based on older bill impact models. Used as a proxy for modeling potential effect on non-participant.			

PROPOSED ELECTRIC ENERGY EFFICIENCY PROGRAM MODIFICATIONS

Residential New Construction (Electric) Status and Proposal

As of April 30, National Grid spent 58% of its approved low-income and non-low income electric Residential New Construction program funds, achieved 75% of its annual MWh savings and 90% of its participation goal. Without a midterm modification, the electric program will either overspend by approximately \$650,000 or be unable to serve customers by October. The Company requests \$450,000 to increase non-low income program incentive funds and \$200,000 to increase low income program incentive funds. The Company proposes to increase savings and participation accordingly.

The higher than expected spending and participation levels for the New Homes Construction electric program are the same as described in the previous Residential New Construction Program (Gas) Status and Proposal section. National Grid, along with the other MA Program Administrators will be making one modification in July 2010 when Massachusetts will adopt the IECC2009 codes. The new codes will result in an adjustment to the number of CFLs that the program will subsidize. This change will decrease program costs and have no adverse effect on savings.

Electric Energy Efficiency Program Projections

As a Mid-Term Modification, the Company proposes to collect an additional \$650,000 for electric incentives and an additional \$58,667 for the commensurate increase in the target savings and value mechanisms due to the expected increase in both benefits and net benefits. This would be divided between the low income and non-low income portions of the Residential New Construction program, illustrated in the table below. The program's administrative costs will not change. The additional funds will be used to create additional savings and participation, illustrated in the following table:

New Homes Construction - Electric Midyear Modification		Program Budget	Performance Incentive ¹	Participation Goal	Annual Savings Goal Estimate in MWh
<i>Non-Low Income</i>	2010 Approved Plan	\$ 1,598,695	\$56,444	538	1,170
	Mid-Year Modification	\$ 450,000	\$55,099	500	1,317
	2010 Revised Program Total	\$ 2,048,695	\$111,543	1,033	2,487
<i>Low Income</i>	2010 Approved Plan	\$ 261,068	\$8,595	177	162
	Mid-Year Correction Increment	\$ 200,000	\$3,568	100	122
	2010 Revised Program Total	\$ 461,068	\$12,163	277	339
Notes					
1. Electric Performance Incentive based on pay out rate of \$0.00715 for Benefits and \$0.00805 for Net Benefits.					

The Mid-Term Modification will not affect any performance metrics. The current benefit cost ratio of the non low income electric program is 1.36, and it will increase to 1.61 with the Mid-Term Modification. The low income electric program benefit cost ratio is 1.45 and will increase to 1.47 with the Mid-Term Modification. The Company will prepare a full benefit-cost analysis for inclusion in its D.P.U. filing.

Electric Bill Impacts of Requested Budget Increases

To fund the Electric New Homes Construction modification, National Grid would need to increase the residential EERF by an estimated \$0.00009 per kWh. This is equivalent to \$0.047 cents per month for a 500 kWh customer.

If the D.P.U. authorizes the Mid-Term Modification, then the Company anticipates that it would not file a revised EERF for 2010. Instead, if the Company receives approval to expend the funds in 2010, the actual expenditures would be included in the fund balance reconciliation. The prior period adjustment amount would be included in the EERF calculated in next year's filing which would occur on or before March 1, 2011.

In order to analyze the bill impacts for the new construction programs, National Grid used the MECO R1 electric rate class, and input the incremental savings and budgets for the proposal. The Company will include a full analysis of bill impacts in its filing to the D.P.U..

<i>Incremental Electric Bill Impacts on Non-Participant, MECO R-1</i>		As Filed	Standard and Low Income
	Dollar Amount	\$ 2.93	\$ 2.99
	Increase in Average Bill	2.43%	2.47%
Notes			
1. This bill impact represents and estimate; it is based on older bill impact models. Used as a proxy for modeling potential effect on non-participant.			