

**Cases: 06-M-0878
06-G-1185
06-G-1186**

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Energy Efficiency

Request #: DPS-285

Response Date: December 27, 2006

Respondent: B. Johnson

Q:

With regard to the witness' testimony in the merger case, provide or respond to the following:

1. Studies showing the effectiveness of KeySpan's New England energy-efficiency programs after their implementation. Also, explain how these programs are funded and indicate 1) the extent to which customers and/or other entities pay for the programs and 2) the extent to which law or regulation has mandated the level of the expenditure, the program it is applied to and the funding source.
2. Cost benefit studies demonstrating the amount of gas costs saved by customers in New England as compared to the overall cost of the programs. Provide the most recent year's costs of the New England energy efficiency programs, disaggregated between residential and non-residential customers, and the number of customers in each of these classes.
3. How does KeySpan specifically plan to allocate the proposed annual \$20 million (KeyNY) and \$10 million (KeyLI) of energy efficiency expenditures between the specific programs noted in the testimony?
4. Studies, analyses and any other information showing that all of the New England energy efficiency programs are easily applicable to KeySpan's New York State service territory given demographic and other differences between the New York State and New England territories.
5. Proposed timing of energy efficiency expenditures by year for each year of the 10 year

rate plan.

6. The rationale for deferring these program costs vs. inclusion of a proposed amount in delivery rates for the 10 year rate plan.

7. If the merger is not approved, would the request for the efficiency programs be dropped?

8. Types of and dollar expenditures (by type of program) for energy efficiency programs in the historic test year for KeySpan NY and KeySpan LI. Are the proposed \$20 million and \$10 million annual expenditures, referenced in witness testimony, in addition to test year amounts or do they represent total energy efficiency expenditures? Explain how programs now in place will be modified to accommodate the proposed programs.

9. The measures to be used to evaluate the amount of energy and costs saved by customers and the cost-effectiveness of the energy efficiency measures introduced.

10. The process to be used to evaluate the composition of the energy efficiency programs. Indicate how often KeySpan would determine the effectiveness of introduced energy efficiency programs. How and when would KeySpan decide to discontinue ineffective or uneconomic programs? Would KeySpan add new programs during the course of the 10 year rate plan? Would these costs also be deferred?

11. How many KeySpan personnel would oversee the energy efficiency programs? How would KeySpan advertise the availability of these programs to customers? Are these costs included in the \$20 million and \$10 million amounts referenced above and in the witness' testimony? If not, how would these costs be recovered?

A:

1.

On an annual basis, the Company provides reports to the Massachusetts Department of Telecommunications and Energy (DTE) and New Hampshire Public Utilities Commission (PUC) regarding program effectiveness. These reports include program participation, customer energy (therm) savings, and program expenditures. In addition, these annual reports include benefit-cost ratios using actual program activity as inputs. Please refer to Attachments 1 and 2, which summarize the most recent cost effectiveness results, provided to the DTE and PUC (in the approved format for each regulatory body) in the Company's annual compliance filings.

In both Massachusetts and New Hampshire, program costs are recovered from firm gas customers through a local distribution adjustment charge (LDAC).

The Residential Conservation Services Program (RCS) in Massachusetts is the only program that KeySpan manages that is mandated by statute. This program is overseen by the Massachusetts Division of Energy Resources (DOER).

KeySpan's other energy efficiency programs in Massachusetts and New Hampshire are provided to customers through a collaborative process that includes interested party input and oversight by the DTE or the PUC. A 3-year program plan is approved in New Hampshire and a 5-year program plan is approved in Massachusetts through a settlement process with interested parties with final regulatory approval. Funding levels are established in the settlement process subject to regulatory approval.

2.

Please refer to the response to Part 1, above, for the most recent benefit cost test results for program activity in Massachusetts and New Hampshire.

Please refer to Tables 1 and 2, below, for the most recent year's expenditures for the New England energy efficiency programs, disaggregated between residential and non-residential customers.

Please refer to Table-3, below, for the number of customers in each class in the Company's New England service territory.

**Table-1-Most Recent Program Year Expenditures in Massachusetts
KeySpan Energy Delivery
ENERGY EFFICIENCY PROGRAM
Massachusetts
May 1, 2005 - April 30, 2006**

Programs	TOTAL EXPENDITURES
<u>Residential</u>	
Energy Star Homes	\$283,947
High Efficiency Heating	\$2,402,965
High Efficiency Water Heating	\$406,813
Residential Weatherization Program	\$649,179
ENERGY STAR Windows	\$638,954
ENERGY STAR Programmable Thermostat	\$302,791
Energy Analysis: Internet Audit	\$186,561
Residential Building Practices & Demonstration	\$5,108
Sub-total	\$4,876,318
<u>Low Income</u>	
Residential Low Income Program	<u>\$3,409,623</u>
<u>Commercial</u>	
C&I High Efficiency Heating	\$693,383
Multi Family Energy Efficiency Program	\$392,090
C&I Energy Efficiency Program	\$1,263,846
C&I Building Practices & Demonstration	\$221,289
Economic Redevelopment	\$713,465
Building Operator Certification	\$11,370
Business Analyzer: Internet Audit	<u>\$170,981</u>
Trade Ally Training	<u>\$34,033</u>
Sub-total	\$3,500,457
Total	\$11,786,398

**Table-2-Most Recent Program Year Expenditures in New Hampshire
KeySpan Energy Delivery
ENERGY EFFICIENCY PROGRAM
New Hampshire
May 1, 2005 - April 30, 2006**

Programs	TOTAL EXPENDITURES
<u>Residential</u>	
Energy Star Homes	\$35,112
High Efficiency Heating	\$146,664
High Efficiency Water Heating	\$32,939
Residential Weatherization Program	\$36,227
ENERGY STAR Windows	\$32,883
ENERGY STAR Programmable Thermostat	\$47,234
Energy Analysis: Internet Audit	\$15,605
Residential Conservation Services	\$60,304
Sub-total	\$406,968
 <u>Low Income</u>	
Residential Low Income Program	<u>\$429,930</u>
 <u>Commercial</u>	
C&I High Efficiency Heating	\$165,000
C&I Energy Efficiency Program	\$527,559
Economic Redevelopment	\$143,237
Business Analyzer: Internet Audit	<u>\$22,291</u>
Trade Ally Education and Codes & Standards	<u>\$44,913</u>
Sub-total	\$903,000
 Total	 \$1,739,898

Table-3-KeySpan New England Customer Counts by Class
KeySpan New England Number of Customers

	New Hampshire	Massachusetts	NE Consolidated
Residential	70,868	741,119	811,987
Commercial & Industrial	9,942	67,147	77,089
Total Customers	80,810	808,266	889,076

Source: KeySpan customer information system customer counts as of Sept. 29, 2006

3.

The Company proposes to introduce programs in New York and Long Island using a three-year ramp-up period. Program budgets and ramp-up times are based on prior experience. In the third year of program operation, the Company expects programs to be operating at the proposed funding levels of \$20 million in New York and \$10 million in Long Island. Please refer to Tables 4 and 5, below, for the Company's proposed mix of programs by sector and three-year ramp-up schedule. This schedule and program mix is based on past experience.

Table-4-Proposed Ramp Up Timeline for New York City

New York City		Year 1	Year 2	Year 3
Low Income		\$ 2,941,177	\$ 4,411,765	\$ 5,882,353
Residential		\$ 1,944,706	\$ 2,917,059	\$ 3,889,412
Weatherization		\$ 291,706	\$ 437,559	\$ 583,412
High Efficiency Heating		\$ 680,647	\$ 1,020,971	\$ 1,361,294
High Efficiency Water Heating		\$ 116,682	\$ 175,024	\$ 233,365
Energy Audit/Home Performance		\$ 388,941	\$ 583,412	\$ 777,882
Energy Star Products		\$ 291,706	\$ 437,559	\$ 583,412
Energy Star Homes		\$ 97,235	\$ 145,853	\$ 194,471
Energy Analysis: Internet Audit		\$ 38,894	\$ 58,341	\$ 77,788
Building Practices and Demonstrations		\$ 38,894	\$ 58,341	\$ 77,788
Multifamily and C&I		\$ 5,114,118	\$ 7,671,176	\$10,228,235
Comm Energy Efficiency Program		\$ 645,562	\$ 1,518,343	\$ 2,291,125
Economic Redevelopment		\$ 464,835	\$ 997,253	\$ 1,329,671
Comm High Efficiency Heating		\$ 967,118	\$ 1,150,676	\$ 1,534,235
Multifamily		\$ 2,427,473	\$ 3,291,209	\$ 4,254,946
Building Practices & Demo		\$ 204,564	\$ 306,847	\$ 409,129
Energy Analysis: Internet Audit		\$ 404,564	\$ 406,847	\$ 409,129
Total Budget		\$10,000,000	\$15,000,000	\$20,000,000

Table 5-Proposed Ramp Up Timeline for Long Island

Long Island				
		Year 1	Year 2	Year 3
Low Income		\$ 1,470,588	\$ 2,205,882	\$ 2,941,176
Residential		\$ 1,525,588	\$ 2,288,382	\$ 3,051,176
Weatherization		\$ 228,838	\$ 343,257	\$ 457,676
High Efficiency Heating		\$ 533,956	\$ 800,934	\$ 1,067,912
High Efficiency Water Heating		\$ 91,535	\$ 137,303	\$ 183,071
Energy Audit/Home Performance		\$ 305,118	\$ 457,676	\$ 610,235
Energy Star Products		\$ 122,047	\$ 183,071	\$ 244,094
Energy Star Homes		\$ 183,071	\$ 274,606	\$ 366,141
Energy Analysis: Internet Audit		\$ 30,512	\$ 45,768	\$ 61,024
Building Practices and Demonstrations		\$ 30,512	\$ 45,768	\$ 61,024
Multifamily and C&I		\$ 2,003,824	3,005,736	\$ 4,007,648
Comm Energy Efficiency Program		\$ 466,224	\$ 861,836	\$ 1,282,447
Economic Redevelopment		\$ 240,650	\$ 510,975	\$ 681,300
Comm High Efficiency Heating		\$ 395,421	\$ 430,631	\$ 440,841
Multifamily		\$ 641,224	\$ 961,836	\$ 1,282,447
Building Practices & Demo		\$ 105,153	\$ 120,229	\$ 160,306
Energy Analysis: Internet Audit		\$ 155,153	\$ 120,229	\$ 160,306
Total Budget		\$ 5,000,000	\$ 7,500,000	\$10,000,000

4.

The Company has not undertaken any specific studies to determine whether all of the New England energy efficiency programs are easily applicable to specific areas of KeySpan's New York State serve territory.

However, the Company's Long Island service territory is generally similar to the Company's New England service territory when considering customer mix and building structure types. Therefore, the mix of programs proposed for the Company's Long Island service territory is expected to closely mirror those currently offered in New England.

The Company's New York service territory is different than other Company service territories with respect to the density and size of Commercial and Multifamily building inventory. With that in mind, the Company has discussed this with other interested parties and plans to continue to engage interested parties in a collaborative dialogue to identify and develop the appropriate mix of programs to best serve its New York customers' needs.

5.

Please refer to the Company's response to Part 3, above. The Company proposes to use a ramp up period of three years to introduce programs into its New York and Long Island service territories. The Company proposes that the budgets for program years four through ten mirror the budget for program year 3 initially, but recognizes that adjustments will be required as program experience is gained and market barriers and opportunities develop. The Company anticipates a collaborative process to develop these modifications.

6.

The Company proposes to introduce energy efficiency programs using a three year ramp up period. Therefore, the Company expects that recovery of the full \$30 million annually in the first two years of program delivery would exceed program expenditures. Additionally, program expenditures by their very nature vary from year to year, and cost recovery in a deferred account prevents short-term over or under collections from customers for energy efficiency program activity from year to year.

7.

The Company believes that energy efficiency programs have significant value as evidenced by the very positive Benefit Cost Ratios (BCRs). Experience in other jurisdictions has demonstrated that the programs are cost effective and there is no reason to expect any different result in New York. Therefore, the Company proposes to offer these programs, assuming rate recovery, whether or not the merger is approved.

8.

KeySpan currently does not offer energy efficiency programs to its customers in New York. Therefore, none of the proposed expenditures are included in the historic test year for New York or Long Island. The proposed \$30 million represents the Company's total annual energy efficiency expenditure proposal.

9.

The Company currently gauges cost-effectiveness of programs using a Total Resource Cost Test (TRC). The model is comprehensive and uses the following types of data as inputs:

- Costs, useful lives, and energy savings of energy efficiency measures
- Load shape impacts of natural gas energy efficiency measures
- Avoided costs of natural gas and other fuels
- Projected measure or program penetration assuming no program
- Projected measure or program penetration with a program
- Participant costs
- Energy efficiency organization or utility costs (including rebates or financial incentives)
- Non-energy benefits of measures or programs
- Discount rate
- Inflation rate

Input assumptions for program benefit cost testing are obtained primarily through primary and secondary research as well as computer modeling software packages such as REM Rate or Market Manager.

10.

The Company proposes to use a collaborative approach to evaluating the composition of future energy efficiency program offerings for its New York service territory and customers. Initially, the Company proposes to offer program that have been demonstrated to be cost-effective and successful in other jurisdictions. In New York, the Company proposes to evaluate the cost effectiveness of its proposed programs using the TRC test referenced earlier. Additionally, the Company expects that the TRC test used will be modified to meet the methodology approved by the New York State Public Service Commission in case 04-E-0572, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Consolidated Edison Company of New York, Inc. for Electric Service.

The Company regularly evaluates the effectiveness and economic viability of its programs. If the Company, along with other interested parties, determines that a program is no longer effective or economically viable it will be discontinued or modified as soon as possible without creating a disruption in the marketplace.

Throughout its history the Company has modified, eliminated, and added programs as market conditions warrant and with approval of the appropriate regulatory agency.

The costs for these new or modified programs would be treated in the same manner as programs proposed in this filing.

11.

The Company presently employs fifteen (15) people to administer the existing New England energy efficiency programs with an annual budget of approximately \$14 million. The Company anticipates that it can deliver programs in New York by leveraging its existing organization. Specific staffing levels would be determined based upon final program budgets and program delivery mechanisms.

The Company's approach to program administration is to use its staff for planning, evaluation, reporting and day to day oversight of the overall program portfolio. Outside program implementation vendors are selected through an RFP process and are used to deliver program services to customers. Company personnel are responsible for oversight and management of program implementation vendors.

Communication and education of customers and trade allies is critical to the success of the Company's proposed energy efficiency programs. One of the most common barriers to the increased use of energy efficient equipment or practices is a lack of awareness by customers of the potential energy and financial savings. In addition, a common barrier is the lack of awareness by customers as to how its utility can help them reduce their energy costs. To overcome these barriers and help customers make informed energy decisions, the Company plans to maintain a consistent and appropriate level of program outreach to its customers and trade allies.

One component of program outreach will be the ongoing development and refinement of brochures, direct mail pieces, bill inserts, and educational literature for the Company's initiatives. Another outlet will be communication through media placement in the form of radio and newspaper advertisements.

The Company's staff also has numerous opportunities to disseminate energy efficiency information on a personal level. Examples include exhibiting at home shows, trade shows, community events, landlord events, new homeowner workshops, energy information fairs, awareness events at major employers, etc. The corporate Web site will be used to promote energy efficiency. The Company will also prepare training curriculum for members of the customer care staff in the Company's call centers, who will be trained on the Company's Energy Efficiency Programs and how to direct customers to programs.

All of the above costs for all the proposed programs for New York and Long Island are included in the \$30 million annual budget referenced in the Company's filing.