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General Counsel

September 5, 2003

BY HAND DELIVERY & BY ELECTRONIC MAIL

Ms. Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket 3463 – Narragansett Electric Report on DSM Performance Metrics

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company (“Narragansett” or “Company”) are ten copies of the Company’s Report on Performance Metrics Results. This report is being provided pursuant to the Commission’s direction as part of its Order No. 17516 in this proceeding, as well as the Commission’s direction in a March 2003 technical conference.

Thank you for your attention to this matter. Please contact me if you have any questions concerning this report.

Very truly yours,

Terry L. Schwennesen

Enclosures

c: Docket 3463 Service List

Report on Performance Metrics Results By The Narragansett Electric Company

At the Commission's direction, The Narragansett Electric Company ("Narragansett" or "Company") in consultation with the settling parties in Docket No. 3463 (the "Collaborative") developed five proposed performance metrics to be tracked during 2003. Although these performance metrics will have no impact on the Company's shareholder incentives during 2003, they are intended to provide a basis to further address the appropriate calculation method of shareholder incentives for the 2004 DSM programs (Commission Order 17516 in Docket No. 3463, pages 28-29). On March 19, 2003, the Commission conducted a Technical Record Conference to review the proposed performance metrics. The Commission agreed that the proposed performance metrics will likely provide the Commission with the information they will need to further consider the role of performance metrics in the Company's shareholder incentive mechanism and directed the Company to provide a report in late summer 2003 that will indicate how these metrics have worked. The purpose of this report is to provide the Commission with information about the Company's performance to date under each performance metric.

Each of the metrics is listed below along with a summary of the Company's progress in achieving the metric based on performance as of mid-August 2003.

C& I Metric 1: Building Operator Certification (BOC) Training **Enroll 20 RI facility building engineers, technicians, contractors, or operators in the NEEP- Level 1- O&M training certification course.**

Improving building performance represents a major opportunity to increase energy efficiency and effect peak demand reductions in the C&I sector. The BOC is a competency based training and certification program for building operators designed to improve the energy efficiency of commercial buildings. The metric tracks participation in Level 1 training for building operators to develop skills to evaluate building energy use, foster better work environments, increase customer education, and support market transformation.

In 2003, Narragansett Electric along with the Northeast Energy Efficiency Partnerships ("NEEP") recruited 25 people to attend the BOC Level 1 class. Twenty three people who work in commercial and industrial facilities that are served by Narragansett Electric attended the class. The remaining two people are Narragansett Electric employees who are responsible for the building maintenance and operation at Narragansett Electric. The classes concluded in May of 2003. The attendees were asked to evaluate the class and virtually all found the course to be "very useful." All respondents marked excellent or very good for the overall evaluation of the class and the instructors.

Due to numerous requests from the RI Energy Office and from Narragansett Electric's customers, Narragansett Electric is sponsoring a BOC Level II class. Most of the people who requested the Level II class participated in Level I although Level I is not a prerequisite for Level II. Level II will start in September of 2003.

C&I Metric 2: High Performance Schools**Contract with two new school projects through Design 2000*plus* to offer full incremental cost for high performance design and construction practices.**

Schools present a unique opportunity to not only adopt energy efficiency but to enhance student learning through better classroom design. This metric provides technical and financial support from the very beginning of school construction projects, emphasizes thermal, acoustic, and visual comfort, especially in lighting design, and helps cities and towns construct new schools that are high quality, environmentally sensitive, and cost less to operate.

Narragansett contracted with two new school projects in 2003. One new school project, the Metropolitan Career and Training Center in Providence, was completed during the second quarter of 2003. The Globe Park Elementary School in Woonsocket is in progress and is expected to be completed during the 3rd quarter of 2003.

C&I Metric 3: Comprehensiveness in Small Business Installations**Implement comprehensive installations at 50 small business customer sites.**

While the potential for significant energy savings in small businesses rest on improving lighting energy use, this metric adds other electrical efficiency opportunities including HVAC tune-ups and other non-lighting measures to the Small Business Services program. In combination, these improvements to program design support more comprehensiveness in customers' facilities and expand the depth and appeal of the program.

The pilot introduction of the HVAC tune-up measure has been well received. In view of the trial nature of the effort, RISE, the Small business Services implementation vendor, has sought to maximize its impact by offering tune-ups only in conjunction with acceptance of a lighting project proposal. They have enlisted about 50 Narragansett customers so far, and have completed 15. RISE expects to have all tune-ups completed next month.

With respect to other custom lighting and non-lighting measures, the results are still incomplete. RISE's strategy for broadening the scope of technologies covered by the program is to highlight them one at a time, with an intensified marketing focus for a specific period in targeted SIC codes to stimulate demand. Over the past several months, they have explored a number of custom approaches and technologies, two of which have been initiated at Papa Ginos and focused on controls and ventilation exhaust measures. These include:

- Simplified automated building controls and energy management systems for applications with multiple heat pumps, packaged cooling units, or other electrical end use control points;

- Ventilation exhaust fan controls in food service applications;
- Compressed air leak surveys;
- Hotel HVAC occupancy control;
- Variable frequency drives and premium efficiency motors in car washes and hot water pumping applications; and,
- An HVAC packaged upgrade approach, combining an instrumented tune-up with automated temperature control and an economizer add-on.

RISE believes that on-going efforts will yield more substantive results as they gain more experience with delivering these unique custom applications to small business customers.

Residential Metric 1: ENERGY STAR Clothes Washers

Achieve an 18% market share for ENERGY STAR qualified clothes washers in Rhode Island for the first two quarters of 2003.

The metric supports the increased penetration of ENERGY STAR Clothes Washers in Rhode Island.

The Company received market share data for ENERGY STAR appliances for the first quarter of 2003 in early June. For the first quarter of 2003, Rhode Island's market share of ENERGY STAR qualified clothes washers is 20.76%. This is a significant increase from the 14.7% market share after the first two quarters of 2002. For the last two years, this metric has increased each quarter, so we are quite confident that the total for the first two quarters will exceed the 18% goal, and hopefully exceed 20%. Data for the 2nd quarter of 2003 should be available in late August.

Residential Metric 2: ENERGY STAR Homes

Conduct plans analyses and home ratings, and sign ENERGY STAR builders agreements with 10% of the new homes built in Rhode Island.

The metric supports market transformation in the construction of new homes.

So far in 2003, Narragansett Electric has worked with 339 homes in Rhode Island. During the same time period, 1,755 permits were pulled. This indicates a 19.3% market share for Energy Star Homes in RI ($229 / 1,775 = 19.3\%$). In 2002, 2,804 building permits were pulled. If we assume the same number of permits will be pulled for the entire year of 2003, then we are at a 12% market share ($339/2804$). In any case, it appears that this goal will be met.