



State of Rhode Island and Providence Plantations

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*Patrick C. Lynch, Attorney General*

February 20, 2007

**BY ELECTRONIC AND REGULAR MAIL**

Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**Re: National Grid Implementation Of  
Renewable Energy Standard Charge –  
Docket No. 3765**

Dear Ms. Massaro:

Enclosed for filing in this docket are an original and nine copies of the surrebuttal testimony of Timothy Woolf, Vice-President of Synapse Energy Economics, Inc, on behalf of the Division of Public Utilities and Carriers.

If you have any questions, please feel free to call.

Sincerely,

William K. Lueker  
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Docket 3765 Service List

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID )  
IMPLEMENTATION OF )  
RENEWABLE ENERGY )  
STANDARD CHARGE )

DOCKET NO. 3765

**Surrebuttal Testimony of  
Timothy Woolf**

**On Behalf of  
The Division of Public Utilities and Carriers**

**Regarding National Grid's  
Renewable Energy Standard Procurement Plan**

**February 20, 2007**

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**Q. What is your name, position and business address?**

A. My name is Timothy Woolf. I am the Vice-President of Synapse Energy Economics, Inc, 22 Pearl Street, Cambridge, MA 02139.

**Q. Have you previously submitted testimony in this proceeding?**

A. Yes. On January 17, 2007 I submitted direct testimony in this docket on behalf of the Division of Public Utilities and Carriers (the Division).

**Q. What is the purpose of your surrebuttal testimony?**

A. The purpose of my surrebuttal testimony is to respond to some of the points made by witnesses for National Grid (the Company).

**Q. Please summarize your surrebuttal testimony.**

A. I agree with the Company, as well as other interveners in this docket, that a state agency model for procuring renewable power and renewable energy credits (RECs) has merit. Therefore, I support the proposal to convene a working group of relevant stakeholders to discuss this issue in more depth.

I disagree with the argument made by the Company witnesses that long-term contracts are unwise or imprudent because of uncertainties in the electricity market.

Nonetheless, given the unresolved issues at this time regarding the least-cost procurement process and the state agency model for procuring renewable power, I recommend that the Commission approve the Company's RES Procurement Plan, as modified in the rebuttal testimony of Company witness Michael Hager.

**Q. Do you agree with the Company and other witnesses that there could be benefits to having a state agency procure renewable power or RECs to assist load serving entities in complying with the renewable energy standard?**

A. Yes. Such a model can help address the concern about customer migration from the Company's Standard Offer service. A state agency can also use additional sources of funds, such as revenues from the renewable energy charge and the alternative compliance payment, to assist with the purchase of renewable power and RECs. A state agency can also apply a broader, longer-term societal perspective on the purchase of renewable power and RECs. A state agency can also support load serving entities other than the Company – to the extent that they develop over time – in complying with the RES

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through purchases of an optimal mix of short-, medium- and long-term renewable power and REC contracts.

**Q. Do you have any concerns regarding the Company witnesses' discussion of long-term contracts?**

A. Yes. Both Mr. Hager and Mr. Gerwatowski argue that the Company should not enter into long-term contracts (with terms longer than three to five years) because there is too much uncertainty in the market. Mr. Hager notes that "unlike liquid forward markets for wholesale power and forecasts of wholesale power prices, there are just too many subjective variables for anyone to say that it would be reasonable to rely on the forecast of market prices for certificates. It truly would be a guessing game."<sup>1</sup> Mr. Gerwatowski notes that "a fair application of the prudence standard would typically rule out entering into agreements based on mere speculation and guessing that the cost "might" be lower. In this case, there is no reliable forecast available."<sup>2</sup>

**Q. Do you agree that there is uncertainty in the price of RECs, particularly over the long-term?**

A. Yes. There are many factors that could affect the REC market in New England, some of which are difficult to anticipate with much certainty. In addition, prices for RECs might turn out to be volatile from year to year, depending upon the rate at which new renewable resources are developed in the region.

**Q. Does this mean that the Company, or other load serving entities, should not enter into relatively long-term contracts for renewable power or RECs?**

A. No. The Company's argument implies that in the face of uncertainty short-term contracts and spot market purchases are always going to be lower cost than long-term contracts. This is not necessarily the case. To the extent there is uncertainty in the future, the costs of long-term contracts could be higher *or lower* than the cost of short-term contracts or spot market purchases. This is true by definition – i.e., this is what uncertainty means.

The Company's argument implies that in the face of uncertainty inaction is somehow better than action. Their argument suggests that if the cost of a REC, say, five years from

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<sup>1</sup> Rebuttal testimony of M.J. Hager, page 4.

<sup>2</sup> Rebuttal Testimony of R.T. Gerwatowski, pages 12 and 13.

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now cannot be forecast with sufficient certainty, then the lowest-risk and lowest-cost action is to do nothing about it until later. But a decision has to be made either way. By not acting on an opportunity for a long-term contract, the Company must make an implicit assumption that the short-term option is less costly than the long-term option. But there is no better basis for assuming this than there is for assuming the exact opposite. Either assumption may be based on “mere speculation.”

**Q. Is there a better approach to addressing uncertainty?**

A. Yes. There are two approaches that are commonly used to address uncertainty. Both of these approaches are frequently used in financial applications, where investors need to consider different risks, rewards and uncertainties associated with different financial instruments.

The first approach is the simple concept of maintaining a diversified portfolio. In the context of purchasing RECs, one way to diversify the portfolio is to include a balance of spot market, short-, medium- and long-term REC contracts.

The second approach is dollar-cost averaging, which relies upon purchasing a discreet portion of the total commodity needed at pre-determined intervals; in order to avoid the risk of purchasing most, or all, of the needed commodity at a time when the market price is relatively high. In the context of purchasing RECs, the Company could begin purchasing small portions of its future REC requirements through long-term contracts at regular intervals (e.g., every 6 to 12 months); in order to mitigate any risks associated with volatile REC markets over time.

**Q. Why is it important to clarify these points regarding long-term contracts at this time?**

A. If the Commission endorses the proposal for a stakeholder working group to discuss the potential for a state agency to purchase renewable power, it is important that the working group discussion compare and contrast a variety of purchasing options. Long-term contracts for renewable energy will be an important part of these options, and the Company may continue to have some role in purchasing renewable power – even on a long-term basis. It is premature to rule out this option at this time.

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**Q. What do you recommend to the Commission?**

A. I recommend that the Commission approve the Company's RES Procurement Plan, as amended in the rebuttal testimony of Michael Hager. This Plan represents a reasonable plan of action for now. Some of the issues raised in the Procurement Plan will need to be revisited in the future as relevant policy approaches – particularly the least-cost procurement practices and the state agency model for procuring renewable power – become more clearly defined.

**Q. Does this conclude your testimony at this time?**

A. Yes, it does.