

July 10, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

**RE: Docket 4041 - 2010 Standard Offer Supply Procurement Plan
Amendments**

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a/ National Grid (“the Company”), I have enclosed ten (10) copies of the Company’s amendments to its revised filings that were made in this docket.

On April 29, 2009, the Company made a revised filing of both its 2010 Standard Offer Service (“SOS”) Procurement Plan and its Renewable Energy Standards (“RES”) Procurement Plan. Since that time, on June 26th the Legislature enacted R.I.G.L. §39-26.1-1 et seq. dealing with long-term contracting standards for renewable energy. In response to the newly enacted legislation, the Commission has opened Docket No. 4069 to establish rules and regulations governing long-term contracting for renewable energy resources. Likewise, in light of that legislation, the Company is filing the enclosed amendments to its previous filing in this docket.

Enclosed is the amended testimony of Madison Milhous in the RES Procurement Plan filing, including the amended written plan, which is an attachment to Mr. Milhous’s testimony. Also enclosed is the amended testimony of Mr. Al Smithling in the Company’s SOS Procurement Plan to conform it to the amended testimony of Mr. Milhous. Since the attachments to Mr. Smithling’s testimony remain the same, they have not been reproduced and included in this filing.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosure

cc: Docket 4041 Service List
Leo Wold, Esq.
Steve Scialabba, Division

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted to the individuals listed below.

Joanne M. Scanlon
National Grid

July 10, 2009
Date

**Docket No. 4041 National Grid – SOS and RES Procurement Plans
Service List Updated 7/2/2009**

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DIRECT TESTIMONY

OF

MADISON N. MILHOUS

TABLE OF CONTENTS

I. Introduction..... 1

II. Purpose of Testimony 3

III. Background..... 3

IV. RES Obligation 5

V. Proposed Procurement Process and Schedule 6

VI. Proposed Renewable Energy Procurement Plan..... 8

VII. Conclusion 8

1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Madison N. Milhous, Jr., and my business address is 100 East Old Country
4 Road Hicksville, New York 11801.

5 **Q. Please state your position.**

6 A. I am Director of Wholesale Market Relations for the Energy Portfolio Management
7 organization at National Grid. In this capacity, I am responsible for monitoring and
8 engaging in developments in market structure and operations in the New York
9 Independent System Operator (“NYISO”) and ISO-New England (“ISONE”), and in
10 other regulatory and policy developments which directly effect electric power
11 procurement. I represent National Grid on the NYISO Business Issues Committee and
12 its working groups. Recently, I served as acting director of Electric Load and Distributed
13 Generation, which is responsible for electric supply procurement for National Grid’s four
14 distribution companies. I continue to work with that department on electric power
15 market policy issues.

16 **Q. Will you describe your educational background?**

17 A. I have Bachelor of Engineering and Master of Science degrees in Aerospace Engineering
18 from Georgia Institute of Technology and a Master of Science Degree in Marine Science
19 from New York’s Stony Brook University.

1 **Q. What is your professional background?**

2 A. In my prior assignment, I handled the market relations function for KeySpan Energy
3 Supply, which was responsible for fuel supply and electric energy trading for the
4 generating units owned by KeySpan-Ravenswood, LLC (“Ravenswood”). I represented
5 Ravenswood on various committees and working groups of the NYISO, and provided
6 direct technical support to the electric trading operation. In 2006, I served as chair of the
7 NYISO Operating Committee. Previously, I was Director of the Power Engineering
8 Department, which provided engineering services for Ravenswood, and other KeySpan
9 generating units. Prior to that position, I was Director of the Electric Planning and
10 Forecasting Department, which provided resource and T&D system planning services to
11 the Long Island Power Authority. Preceding this assignment, I was the Manager of
12 Environmental Engineering at the Long Island Lighting Company, a predecessor
13 company to KeySpan. I am registered as a Professional Engineer in New York and South
14 Carolina. I am familiar with power generation equipment, environmental regulations
15 and permitting, electric transmission and distribution, load forecasting, and ISO market
16 structures and operations.

17 **Q. Have you previously testified before the Rhode Island Public Utilities Commission**
18 **(“Commission”)?**

19 A. No.

20

1 **Q. Have you testified before any other state regulatory agencies?**

2 A. Yes. I have testified before the New York Public Service Commission regarding electric
3 system planning and wholesale electric market activities, and before the New York State
4 Department of Environmental Conservation regarding environmental matters.

5 **II. Purpose of Testimony**

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

7 A. The purpose of my testimony is to present National Grid's Renewable Energy Standard
8 ("RES") Procurement Plan in accordance with Section 8.2 of the Commission's Rules
9 and Regulations Governing the Implementation of a Renewable Energy Standard ("RES
10 Regulations") and Order No. 19108. The following topics will be covered in my
11 testimony:

- 12 • National Grid's Proposed Procurement Schedule for 2010 RES
- 13 • Estimated RES Requirements
- 14 • National Grid's Proposed Procurement Plan
- 15 • Integration of the RES Plan with SOS procurement

16 **III. Background**

17 **Q. Why does National Grid need to submit a Renewable Energy Procurement Plan?**

18 A. On June 29, 2004, the Rhode Island legislature enacted into law a Renewable Energy
19 Standard (R.I. Gen. Laws § 39-26-1 et seq.). On December 8, 2005, the Commission
20 issued final regulations implementing the RES effective January 1, 2006. Pursuant to the

1 RES law and Commission regulations, beginning on January 1, 2007, National Grid and
2 all other obligated entities (as specified in Definition 3.24 of the RES Regulations) are
3 required to obtain a percentage of their energy supply from a mix of new and existing
4 renewable energy resources. Section 8.2 of the RES Regulations requires National Grid,
5 and all obligated electric utility distribution companies, to annually submit a Renewable
6 Energy Procurement Plan to the Commission that demonstrates its procedures for
7 obtaining resources that satisfy National Grid's RES obligations.

8 **Q. Did National Grid submit a Renewable Energy Procurement Plan for 2009?**

9 A. Yes. On November 14, 2008, National Grid filed its second Renewable Energy
10 Procurement Plan with the Commission (the "2009 RES Plan") which provided for the
11 procurement of a portion of National Grid's 2008 and 2009 RES obligations. The 2009
12 RES Plan was approved by the Commission at its December 23, 2008 Open Meeting and
13 in written Order No. 4012 (the "2009 RES Order"). In the 2009 RES Order, the
14 Commission required National Grid to file a 2010 Renewable Energy Procurement Plan
15 ("2010 RES Plan") no later than March 2, 2009.

16 **Q. Did National Grid submit a Renewable Energy Procurement Plan for 2010?**

17 A. Yes. On March 4, 2009, National Grid filed a Renewable Energy Procurement Plan with
18 the Commission (the "2010 RES Plan") which provided for the procurement of National
19 Grid's 2010 RES obligations. In its Open Meeting of March 16, 2009 and its written
20 Order No. 19602 issued on March 18, 2009 (the "Order"), the Commission rejected

1 National Grid's 2010 RES Plan and directed National Grid to file a new plan "which
2 includes long term renewable contracts." The Company made this revised filing on April
3 29, 2009 and included an alternative long-term procurement process, which could meet a
4 portion of the RES obligation for Standard Offer Service. The Company is filing
5 amendments to its Revised RES plan on July 10, 2009 to reflect changes in the recent
6 statutory rules and obligations relative to long-term contracting for renewable energy.

7 **Q. Does the amended RES filing address long-term contracting for renewable**
8 **resources?**

9 A. No. In light of the new legislation found at R.I.G.L. 39-26.1-1 et seq. and the
10 Commission's opening a new docket (No. 4069) to establish rules and regulations to
11 govern long-term contracting for renewable resources, the Company's amended filing in
12 this RES docket does not address long-term contracting for renewable resources.

13 **Q. Did National Grid seek to procure RECs under the Accelerated Procurement Plan?**

14 A. No. National Grid intends to procure RECs for 2010 in the process described in this
15 revised RES plan.

16 **IV. RES Obligation**

17 **Q. Has National Grid estimated its RES obligations for 2010 and beyond?**

18 A. Yes. National Grid has developed an estimate of its RES obligations for Standard Offer
19 Service in 2010 and beyond. Schedule MNM-1 is a summary of the estimate of Standard

1 Offer load in 2010. The following table is based on this estimate, assuming no
2 immediate large migration shifts to Competitive Power Suppliers (“CPS”) during the
3 transition from the existing SOS to the proposed SOS:
4

Compliance Year	RES Target Percentage New	RES Target Percentage Existing and New	Standard Offer Load (MWhs)	Standard Offer Existing RES Obligation (RECs)	Standard Offer New RES Obligation (RECs)
2010	2.5%	2.0%	7,180,000	143,600	179,500

5
6 Since National Grid is unable to predict customer migration behavior once the existing
7 SOS ends, National Grid is using this load as a proxy for the entire ten year period of
8 2010 through 2019. National Grid will revise this estimate as necessary in the annual
9 procurement plan filing.

10 **V. Proposed Procurement Process and Schedule**

11 **Q. How will National Grid meet its RES obligations in 2010 and beyond?**

12 A. In light of the FRS load purchases made pursuant to the Accelerated Procurement Plan,
13 National Grid proposes to issue an RFP for NEPOOL-GIS certificates to meet its RES
14 obligations relative to SOS load covering the period January through September 2010.
15 For the period October through December 2010 and going forward, the Company
16 proposes to link its purchase of NEPOOL-GIS Certificates with its purchase of SOS Full
17 Requirements Service (“FRS”) load requirements. Linking the purchase of the remaining
18 RES obligation with the actual SOS load requirement would enable National Grid to

1 purchase its actual RES obligations and reduce the probability of National Grid buying
2 too many or too few NEPOOL-GIS Certificates than the SOS RES obligation it must
3 satisfy.

4 National Grid proposes to request separate pricing from SOS bidders to take on the RES
5 obligation at the same time as providing SOS service. The Company will evaluate the
6 RES pricing provided by the bidders and compare it to the Company's estimate of RES
7 market prices. If the pricing provided by the winning SOS supplier or suppliers is at or
8 less than National Grid's market estimate, then the SOS supplier will also be contracted
9 to provide the RES obligation. If the pricing is higher than National Grid's market
10 estimate, then National Grid will not include the RES obligation with the SOS supply.

11 To meet RES obligations not secured through the purchase of its SOS supply, National
12 Grid proposes to procure RES renewable energy certificates ("RECs") through a series of
13 stand alone RFPs issued by the Company, sufficient to meet its 2010 RES obligations.

14 The NEPOOL-GIS trading period for 2010 RECs will not begin until mid-July 2010 and
15 conclude mid-June 2011. As a result there is sufficient time for the Company to procure
16 these RECs. The Company may also evaluate unsolicited offers from brokers or other
17 parties for the sale of RECs. If the purchase of such RECs would provide an economic
18 benefit to the Company's customers, then the Company would agree to purchase the
19 RECs.

1 **VI. Proposed Renewable Energy Procurement Plan**

2 **Q. Please summarize the proposed renewable energy procurement plan.**

3 A. The plan is a process focused on the purchase of RECs for calendar year 2010
4 requirements. This procurement process is consistent with the 2009 Plan, and is
5 described above and included as Schedule MNM-2.

6 **VII. Conclusion**

7 **Q. Does this conclude your testimony?**

8 A. Yes.

INDEX TO SCHEDULES

Schedule MNM-1	Narragansett Wholesale Loads
Schedule MNM-2	2010 Renewable Energy Procurement Plan

SCHEDULE MNM – 1

NARRAGANSETT WHOLESALE LOADS

(GWHS)

Narragansett Wholesale Load (GWhs)				
	2007	2008		Forecast for 2010 = Average 2007-08
			Class	Group SOS CPS
Standard Offer Service	6,983	6,869	G62, G32	Large C&I and C&I > 200kW 1,964 896
Last Resort Service	250	258	G02	General Demand 1,324 159 Large Customers 3,288 1,055
Competitive Suppliers (CPS)	1,131	1,147	C06, S A16	Small General, Light 605 79 Residential 3,287 6 Small Customers 3,892 84
Total	8,364	8,274		Total Load 7,180 1,139

Forecasted numbers are illustrative.

**NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
R.I.P.U.C. DOCKET NO. 4041
SCHEDULE MNM-2**

SCHEDULE MNM – 2

2010 RENEWABLE ENERGY PROCUREMENT PLAN

2010 Renewable Energy Procurement Plan

I. Objectives

A. This plan satisfies Section 8.2 of the Commission’s Rules and Regulations Governing the Implementation of a Renewable Energy Standard (“RES Regulations”). Under Section 8.2, National Grid is required to annually submit a Renewable Energy Procurement Plan that sets out its procedures for obtaining resources that satisfy its obligations under the Rhode Island Renewable Energy Standard (“RES”) (R.I. Gen. Laws § 39-26-1 et seq.).

B. The plan is directed to procurement of the RES renewable energy certificates (“RECs”) to meet the obligations associated with provision of Standard Offer Service (“SOS”) for 2010. A competitive procurement process will be utilized for the purchase of 2010 requirements for both Existing and New RECs, either bundled with full-requirements load following service (for October – December 2010 only) or purchased separately.

II. Requirements

Year	RES Target Percentage New	RES Target Percentage Existing or New	Total RES Target Percentage	Standard Offer Load* (MWhs)	Standard Offer Existing RES Obligation (RECs)	Standard Offer New RES Obligation (RECs)
2010	2.5	2.0	4.5	7,180,000	143,600	179,500
2011	3.5	2.0	5.5	7,180,000	143,600	251,300

* Based on 2008 actual requirements. National Grid will revise these values as more information is available for the SOS load in the period 2010 through 2020.

III. REC Procurement

A. Procurement of RECs (both new and existing) will be initially linked to purchase of SOS load requirements under full requirements load following contracts. Separate pricing would be requested from bidders to take on the RES obligations at the same time as providing this service. National Grid will evaluate the RES pricing provided by the bidders, and compare it to its best estimate of REC market prices. If the pricing provided by the winning SOS supplier is at or less than National Grid’s market price estimate, the SOS supplier will also be contracted to provide the RES obligation.

B. REC’s not purchased with SOS supply will be acquired through stand alone RFPs for RECs. National Grid may also evaluate unsolicited offers from brokers or other parties.

The following evaluation criteria were included in the 2009 Plan approved by the Commission in its December 23, 2008 Order.

- Lowest evaluated bid price
- Quantity of RECs offered
- Ability of supplier to meet its obligation to deliver NEPOOL GIS Certificates
- Firmness of delivery
- Supplier's past experience in providing service to National Grid
- Supplier's past experience in providing similar services to other companies in ISONE and other regions
- The suppliers demonstrated understanding of its obligations under the proposed Certificate Purchase Agreement
- Whether there have been any past or are any present events that may adversely affect the suppliers ability to provide NEPOOL-GIS certificates
- Location of the renewable resources(s) and how the renewable resource satisfies the goals of stabilizing long-term energy prices, enhancing environmental quality, and creating renewable related jobs in Rhode Island.

For a unit contingent offer, a supplier will also be required to demonstrate the likelihood that NEPOOL-GIS certificates will be created from a resource. For resource under construction, a supplier will be required to demonstrate the likelihood that the resource will create certificates during the contract period.

(REVISED)

DIRECT TESTIMONY

OF

ALAN P. SMITHLING

July 10, 2009

TABLE OF CONTENTS

I.	Introduction.....	1
II.	Purpose of Testimony	3
III.	Proposed SOS ProcurementPlan.....	4
IV.	Procurement Process and Schedule	10
V.	Evaluation Criteria.....	13
VI.	Risk Management Activities.....	15
VII.	Conclusion	17

1 **I. Introduction**

2 Q. Please state your name and business address.

3 A. My name is Alan P. Smithling, and my business address is 300 Erie Boulevard West,
4 Syracuse, New York 13202.

5
6 Q. Please state your position.

7 A. I am the Manager of Electric Supply for National Grid USA Service Company, Inc.
8 (“National Grid”). I manage the physical power procurement as well as the hedging
9 strategies and other energy supply related activities for National Grid’s operating
10 companies, including The Narragansett Electric Company d/b/a National Grid
11 (“Narragansett” or “Company”). For Narragansett, these activities include the
12 procurement of power for Standard Offer Service (“SOS”) and Last Resort Service
13 (“LRS”) as well as the procurement of renewable energy certificates (“RECs”).

14
15 Q. Will you describe your educational background?

16 A. I graduated from the State University of New York College of Environmental Science &
17 Forestry in 1980 with a Bachelor of Science in Forest Engineering. I received a Masters
18 in Geotechnical Engineering from Syracuse University in 1982.

19
20 Q. What is your professional background?

21 A. In December 1982, I joined Niagara Mohawk Power Corporation as a Junior Engineer in
22 the Transmission and Stations Engineering Department. In September 1988, I accepted a

1 position as a Supply Planner in the Energy Supply Department performing economic
2 analyses for our Fossil & Hydro generation portfolio. In this position I became an expert
3 user of the production costing model PROMOD. PROMOD is an hourly simulation of
4 the generation, transmission, zonal loads, and market prices, similar to the New York ISO
5 operation. I was in the Supply Planning area for thirteen (13) years, performing market
6 price forecasts, economic analyses, planning studies and electric rate design. In 2002, I
7 became the Risk Manager for the gas and electric wholesale commodity purchases for all
8 National Grid distribution companies. My responsibility was to identify and monitor
9 areas within National Grid that exposed the Company to changes in the market price of
10 electricity, natural gas or other commodities in accordance with the Corporate Risk
11 Management Policy. In February 2008, I accepted my current position of Manager
12 Electric Supply.

13
14 Q. Have you previously testified before the Rhode Island Public Utilities Commission
15 (“Commission”)?

16 A. Yes, in this docket.

17
18 Q. Have you testified before any other state regulatory agencies?

19 A. Yes. I’ve testified before the New York Public Service Commission regarding supply
20 procurement activities.

21

22

1 **II. Purpose of Testimony**

2 Q. What is the purpose of your testimony?

3 A. The purpose of my testimony is to describe Narragansett's Supply Procurement Plan (the
4 "Plan") for procuring its SOS requirements beginning January 1, 2010. The Plan is
5 attached as Schedule APS-1.
6

7 Q. What is the basis for the Company's submitting its proposed Supply Procurement Plan
8 for Commission approval?

9 A. Rhode Island General Laws §§39-1-27.3 and 39-1-27.8 require the Company to arrange
10 for a power supply for customers who are not otherwise receiving electric service from a
11 non-regulated power supplier. Pursuant to §39-1-27.8, from 2009 through 2018, the
12 Company must file an annual supply procurement plan with the Commission that
13 includes the procurement procedure, the pricing options being sought, and a proposed
14 term of service for which SOS will be acquired. All such components of the procurement
15 plan are subject to review and approval by the Commission.
16

17 Q. When will Narragansett's current SOS contracts expire?

18 A. Narragansett has procured its SOS requirements through a number of long-term contracts
19 which will expire as of December 31, 2009. A new supply must be procured by
20 January 1, 2010.

21 Q. How much customer load was served in 2008 under SOS and Last Resort Service?

22 A. The SOS and Last Resort Service load in 2008 is summarized in the following table:

	Total Load (MWhs)	Power Purchase Costs
Standard Offer Service	6,869,226	\$ 696,869,215
Last Resort Service	258,466	\$ 27,867,438
Competitive Supplier	1,146,674	n/a
Rhode Island Total	8,274,366	\$ 724,736,653

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III. Proposed SOS Procurement Plan

Q. Please summarize the proposed supply procurement plan for SOS.

A. The calendar year 2010 SOS supply will be physically procured through load following full requirements service (“FRS”) contracts, which will be solicited through a Request for Proposal (“RFP”) process.

The RFP will include requirements for contracts that will serve two distinct classes of service: 1) Large Commercial & Industrial (“Large C&I”), consisting of customers receiving service on General C&I Rate G-02, 200 kW Demand Rate G-32 and 3,000 kW Demand Rate G-62 and Backup Service Rates B-32 and B62 and 2) Residential and small Commercial and Industrial (“Small Customer”) consisting of customers receiving service on Basic Residential Rate A-16, Low Income Discount Rate A-60, Small C&I Rate C-06, Limited Private Lighting Rate S-10 and General Streetlighting Rate S-14.

National Grid is also proposing to begin the transition to a managed portfolio approach and has filed the Accelerated Procurement Plan (“APP”) on April 9, 2009 with the Commission. The APP filing explains the expedited process the Company is proposing

1 to use to reduce supply cost volatility for the Small Customer Group. This SOS Plan
2 takes into consideration the APP filing, which is a complementary hedging plan.

3
4 In addition, effective January 1, 2010, Last Resort Service (“LRS”) customers will be
5 transferred to SOS and LRS will no longer be available as a separately procured and
6 priced service. The availability provisions for SOS will be discussed in further detail in
7 the testimony of Ms. Lloyd.

8
9 In the LRS Acquisition Plan approved by the RIPUC in Docket No. 3605 by Order No.
10 19572 issued on February 13, 2009, the Commission, recognizing the possible filing of
11 an SOS plan that obviated the need for a separate LRS procurement, extended the final
12 LRS procurement period from six months to eight months, to coincide with the end of the
13 current SOS period. Consequently, the final LRS procurement period for both the C&I
14 and Residential group now covers the time period May 2009 through December 2009.

15
16 Q. How is the Company proposing to procure SOS supply for Large C&I customers?

17 A. For Large C&I customers, the Company is proposing to procure supply through a single
18 three month FRS contract, procured on a quarterly basis.

19
20 Q. How is the Company proposing to procure SOS supply for the Small Customer class?

21 A. SOS supply for the Small Customer class will be procured through a managed portfolio
22 approach utilizing FRS contracts, and fixed price financial contracts. Initially, a nine

1 month FRS Contract will be procured to physically supply the Small Customer group
2 load. Subsequent FRS contracts will be issued on a six month schedule. The contract
3 procurements will be coincident with the procurement for Large C&I supply contracts.
4 The settlement of the financial contracts executed on behalf of the Small Customers will
5 be used in the calculation of their retail rates.

6
7 Q. Why is the Company proposing to establish two distinct supply procurement classes?

8 A. In establishing the supply procurement classes, the Company first evaluated the existing
9 market options available to customers. Large C&I customers currently have access to
10 competitive supply alternatives. Approximately 13% of the Large C&I customer load in
11 Rhode Island is currently taking service from a competitive supplier. Similarly,
12 Massachusetts had only 24% of the industrial customers load with a competitive supplier
13 at the end of their Standard Offer Service (February 2005), as compared to approximately
14 80% today. Small Customers, on the other hand, have fewer competitive alternatives
15 available; presently, only about 5% of the Massachusetts Residential customer load is
16 currently receiving service from competitive suppliers and only 1% in Rhode Island.

17
18 Q. What were the Company's goals in developing the Plan?

19 A. The Company's goals in developing the Plan were to comply with the statutory
20 requirements for procuring SOS as follows:

- 21 1. to procure an uninterrupted commodity supply and provide transitional pricing for
22 existing SOS and LRS customers;

- 1 2. to provide a service that does not impede the development of the competitive
2 supply markets;
- 3 3. to provide a service for 2010 that could be easily implemented without complex
4 rate design changes for customers;
- 5 4. to provide Small Customers with price stability from month to month and in the
6 longer term; and
- 7 5. to provide a transitional period for the Company to fully design and implement a
8 more managed portfolio for the Small Customer group, intended to provide a
9 greater level of price stability.

10

11 Q. How will SOS be priced to Large C&I customers?

12 A. The Large C&I service will have a fixed price that varies monthly and is based on the
13 FRS supply contract prices. The relatively short three-month procurement and pricing
14 period will establish rates that are market based, but provide more stability than other
15 pricing options such as real-time or hourly pricing. This pricing structure will
16 communicate an appropriate price signal to customers who have competitive supply
17 options and allow customers to evaluate their needs and options prior to obtaining service
18 from a Competitive Supplier.

19

20 Q. How will SOS be priced to Small customers?

21 A. Initially, the Small Customer group rates will be fixed for a nine-month period and
22 thereafter will be set on six-month basis in order to provide price stability similar to the

1 previous SOS rates. The underlying supply costs supporting each six-month period will
2 gradually result in decreased price volatility as more financial hedges with longer terms
3 are laddered over time to create a portfolio of hedges. This methodology will reduce the
4 likelihood of large changes in rates between the six-month fixed prices periods.

5
6 The proposed Standard Offer tariff and pricing provisions are discussed further in Ms.
7 Lloyd's testimony.

8
9 Q. What are the expected loads for these two SOS groups?

10 A. The Schedule APS-2 shows the historical wholesale SOS Loads and the forecasted loads
11 for both customer groups. The forecasted load for the Large C&I customer class is 3.3
12 million MWhs, while the forecasted load for the Small Customer class is 3.9 million
13 MWhs.

14
15 Q. How does the Company's proposed procurement process differ from the process
16 approved by the Commission initially in Docket No. 3605 for LRS?

17 A. The Company's proposed SOS Plan for 2010 is similar to the process previously
18 approved by the Commission for procuring LRS. The RFP process and FRS contract
19 structure will be identical. The only substantive change is the addition of fixed price
20 financial contracts, with varying contractual lengths and quantity, to the supply portfolio
21 for Small Customers. This will assist the Company in the transition to a managed
22 portfolio approach. The Company is proposing to acquire one FRS supply contract for

1 100% of the Large C&I Customer load on a quarterly basis, instead of the six month
2 contracts presently procured for LRS. Similar to LRS, the Small Customer class will be
3 physically supplied with a single six-month FRS contract (totaling 100% of the load). In
4 addition, the settlement of the financial hedges performed on behalf of the Small
5 Customers will be used in calculating their retail rates.

6
7 Q. How does the Company's proposed procurement process differ from the process for
8 Massachusetts Basic Service?

9 A. The Company's proposed process is the same as the process used to procure power for
10 Massachusetts Electric Company's Large C&I customers. The Company's process for
11 the Rhode Island Small Customer class is similar but has some differences from the
12 process used to procure supply for Massachusetts Electric Company's Basic Service
13 customers. In Massachusetts, the Small Customer supply for a six-month period is based
14 upon a laddering of two FRS contracts. One contract for 50% of the load is acquired
15 eight months prior to the supply period, and the other contract for the remaining 50% of
16 the load is acquired two months prior to the supply period. The RFP contracts are signed
17 in March and September for the six month periods May through October and November
18 through April, respectively.

19
20 Q. If the procurement process is similar to Massachusetts Basic Service, will the
21 Massachusetts and Rhode Island RFPs be issued simultaneously and the FRS contracts be
22 acquired together?

1 A. No. The Company intends to issue separate RFPs and obtain separate contracts for
2 Rhode Island SOS and Massachusetts Basic Service.
3

4 **IV. Procurement Process and Schedule**

5 Q. Please explain the procedure that the Company will utilize to physically procure SOS.

6 A. Similar to its recent LRS solicitations, the Company will take the following steps:

- 7 1. Issue a Request for Proposal (“RFP”) to all interested wholesale power suppliers
8 approximately 75 days prior to the start of the new service period;
- 9 2. Require that all suppliers have signed a Master Power Agreement (“MPA”); if a new
10 supplier or a supplier without an MPA wishes to submit bids, it must also submit the
11 marked up MPA template with the indicative bids;
- 12 3. Receive initial responses to the RFP, which will include background information on
13 each Respondent and the indicative pricing for the FRS contracts;
- 14 4. Review the FRS contract indicative bids with the Rhode Island Division of Public
15 Utilities and Carriers (“Division”);
- 16 5. Receive final binding prices and evaluate final prices and security requirements
17 within the day;
- 18 6. Review final binding prices for the FRS Contracts with the Division;
- 19 7. Select a supplier(s) and execute a power supply confirm(s); and
- 20 8. File a summary of the procurement process including bids received, on a confidential
21 basis, with the Commission for its information. This will include a summary of the
22 basis for selecting any non-conforming bids.

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Q. Please explain the procedure that the Company will utilize to procure fixed price financial swap contracts.

A. National Grid will utilize ISO-New England Internal Hub forward electric futures as a method to hedge the cost volatility associated with the energy component of electric prices. Schedule APS-1, Attachment 1 shows the layering of financial swap contracts for portions of the estimated Small Customer load over a period of time. Acquiring these financial swaps will create an average market price for each specified time period. The value of these hedges will be settled on the same day as the physical load following FRS contracts is awarded. In effect, this transfers the locked-in hedge price of the financial swap to the FRS Contracts, as if the FRS contracts had been acquired in a laddered approach. In addition to the FRS contract prices, the value of the financial swaps would be used in the calculation of the Small Customer retail rates. For an example of the interaction of financial swap and FRS contract, see Schedule APS-4.

Q. Can you provide the Company's template for the MPA to be used by all suppliers?

A. The MPA template is provided in the Plan (Schedule APS-1, Attachment 3). The Company may accept changes to the MPA template if such changes proposed by suppliers do not shift risk to the Company's customers.

Q. What form of RFP will the Company use to obtain FRS Contracts?

A. A copy of the proposed RFP is provided in the Plan (Schedule APS-1, Attachment 2). As shown in the sample RFP, the Company is proposing to reserve the right to make non-

1 substantive changes to the form and requirements of the RFP to address any issues that
2 may arise during the solicitation process. In addition, the Company reserves the right to
3 make non-substantive changes to the form and requirements of the RFP to address any
4 issues that may arise or to incorporate best practices learned between the date of the
5 Company's filing in this Docket and the date the RFP is issued; provided, however, that
6 the Company will inform the Commission and the Division in writing of such changes, if
7 any.

8
9 Q. What is the Company's proposed schedule for acquiring SOS FRS Contracts?

10 A. A schedule of proposed RFP award dates for the acquisition of SOS FRS Contracts for
11 2010 is provided in the Plan (Schedule APS-1, Attachment 1).

12
13 Q. What is the Company's proposed schedule for acquiring financial hedges for the Small
14 Customers?

15 A. The procurement of the financial swap for January 2010 through September 2010 for
16 95% of the estimated Small Customer load would be acquired within weeks of the
17 approval of the APP. In addition, 50% of the estimated load would also be procured at
18 that time in a financial swap for the period October 2010 through April 2011. A tentative
19 schedule to acquire additional financial swaps is included in Schedule APS-1,
20 Attachment 1. The schedule and financial swap structure would be flexible to be able to
21 adjust to changes market conditions and portfolio requirements. The Company proposes
22 to set up a matrix of minimum and maximum financial swaps and their timing to ensure

1 the acquisition of sufficient financial swaps through a specified time period as we
2 transition into the fully managed portfolio.

3
4 Q. What type of contracts will the Company use for the financial swap transactions?

5 A. The Company will be using industry standardized contracts from the International Swap
6 Derivatives Association (ISDA). The Confirmations will be deal specific; refer to the
7 APP Attachment 4 for the Confirmation for the proposed financial swap for the time
8 period January 2010 through September 2010.

9
10 Q. If the FRS procurement process is similar to all other New England utilities, will there be
11 a problem acquiring power or contracts with Suppliers?

12 A. No. The Company believes the proposed timing of Rhode Island SOS RFPs does not
13 coincide with other major utility RFPs. Refer to Schedule APS-3 for the overview of
14 other utility bid blocks obtained through RFPs.

15
16 V. **Evaluation Criteria**

17 Q. Why is the Company proposing to receive initial, indicative bids as well as final, binding
18 bids on the FRS Contracts?

19 A. FRS contract final bids are typically due at 10:00 am, but due to the volatility in
20 wholesale market prices, the final bids are only valid until 3:00 pm. The Company
21 requests initial, indicative bids at the time responses are received so that it can perform an
22 initial ranking of the bids and verify that bid pricing is in a form acceptable to the

1 Company. The Company then reviews the qualifications of each bidder and addresses
2 any outstanding commercial/contractual/security issues with bidders so that the Company
3 is prepared to promptly accept a final, binding price upon its receipt.

4
5 Q. How will the Company select the winning FRS supplier(s)?

6 A. The Company will select a winning supplier or suppliers from those bidders that have
7 demonstrated that they are able to provide the service during the delivery period, have
8 acceptable financial strength or have provide required financial security, and have
9 executed a Master Power Agreement. Of this pool of bidders, the winning supplier or
10 suppliers will be the bidder(s) that result in the lowest overall cost for SOS.

11
12 Q. Will the Company select a different FRS supplier for the Residential service and the C&I
13 service?

14 A. Supplier selection will depend entirely on bids received.

15
16 Q. Will the Division have the ability to provide input to the selection process?

17 A. Yes. During the bid evaluation process, the Company will provide the Division with a
18 summary of the initial bids and of the final bids. The Division will have an opportunity
19 to provide comments, concerns, and other input to the Company upon its review of the
20 materials provided. The Company will be responsible for making the final decision as to
21 which bid and contractual terms will be accepted.

1 Q. What information will be made available to the Commission?

2 A. After executing a power supply contract, the Company will make a confidential filing
3 with the Commission, for informational purposes, providing a summary of the initial and
4 final bids received as well as the final executed power supply contract. In addition, if
5 applicable, the Company will also provide an explanation for any Company decision to
6 accept deviations from the terms set forth in this Procurement Plan

7

8 Q. When will SOS retail price changes occur?

9 A. For Large C&I customers monthly prices will be established for each quarter and filed
10 along with the results of the RFP, with new rates effective each January 1, April 1, July
11 1, and October 1. For Small Customers, SOS rates will initially be effective for a nine
12 month period, January through September 2010. Thereafter, new rates will be
13 established as part of the February and August procurements and fixed for six months,
14 effective each April 1 and October 1. The Company will file the SOS rates with the
15 Commission at least 30 days prior to the effective dates.

16

17

18

19 **VI. Risk Management Activities**

20 Q. How will National Grid ensure the financial swap counterparties and its FRS suppliers
21 perform as agreed to in the executed contracts?

1 A. National Grid will require all suppliers to provide some form of security when entering
2 into a Confirmation. The security requirement for FRS contracts will be based on the
3 expected volume of load for the bid block and a mark-to-market margining clause. As
4 forward market prices change, the supplier will be required to post security for those
5 incremental changes. If a supplier fails to perform as required in the executed agreement,
6 National Grid would be able to utilize the posted security to purchase replacement power
7 (FRS contract) without incurring any additional costs for its customers. Such security
8 would be provided by a seller in the following forms:

- 9 • Unsecured line of credit for a rated counterparty
- 10 • Parental Guaranty
- 11 • Letter of Credit
- 12 • Cash deposit with National Grid
- 13 • Other form of security mutually agreed to by National Grid and seller
- 14

15 The terms of such security requirement are similar to the security requirement National
16 Grid has included in all of its commodity procurements for Last Resort Service. The
17 security terms are contained in Article 7 of the Master Purchase Agreement. Financial
18 swap contracts will also have similar credit requirements and mark-to-market margining
19 clauses.

20
21
22 Q. How will National Grid incorporate lessons learned in future procurements?

1 A. As part of the required filing of the annual SOS Procurement Plan, National Grid will
2 propose changes to the Procurement Plan resulting from lessons learned during the prior
3 compliance year.

4

5 **VII. Conclusion**

6 Q. Does this conclude your testimony?

7 A. Yes.