STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY,	:	
d/b/a/NATIONAL GRID. STANDARD OFFER SERVICE	:	
PROCUREMENT PLAN	:	Docket 4041

PUBLIC COMMENTS OF THE ENERGY COUNCIL OF RHODE ISLAND

The Energy Council of Rhode Island ("TEC-RI") appreciates the opportunity to provide comments in this case. TEC-RI is a non-profit energy consortium made up of many of the largest commercial and industrial users of energy in Rhode Island. In docket 4041, National Grid ("the Company") is filing its Supply Procurement Plan to fulfill its obligations to supply Standard Offer Service ("SOS") starting in January 2010.

Background

As an introductory matter, TEC-RI participated in the stakeholder group meetings and technical sessions that the Public Utilities Commission ("Commission") held last winter. Based on the consensus of the stakeholders at that time concerning treatment of the large commercial and industrial rate classes, TEC-RI did not see the need to intervene in this docket. This was confirmed by the subsequent formal filings of the Company when their formal proposal matched the earlier consensus view.

Briefly, for calendar year 2010, the Company proposes to procure supply through load following full requirements service ("FRS") contracts. It identified two distinct classes of service, Large C&I and Small Customer, as delineated in witness Alan Smithling's July 10, 2009 testimony on page 4 of 17, lines 9 through 15.

For Large C&I customers, the Company is proposing to procure supply through a single three month FRS contract, procured on a quarterly basis. (Smithling, page 5, lines 17-18) The Large C&I service will have a fixed price that varies monthly and is based on the FRS supply contract prices.

On July 22, 2009 the Division of Public Utilities and Carriers ("Division") filed the testimony of its witness Mr. Richard S. Hahn in this docket.

Mr. Hahn recommended that the Company have three SOS procurement groups rather than two: Residential, Small Commercial, and Large C&I. Large C&I would differ from the Company's proposal in that it would not include the G02 rate class.

In addition, however, Mr. Hahn also asks the Company to consider the option of using 100% spot market prices for the Large C&I group, rather than Full Requirements Service contracts with three-month terms.

TEC-RI Comments

Mr. Hahn argues that this approach will (1) eliminate solicitation activities for the Large C&I customers, (2) avoid the "high risk premium" associated with volumetric risk, and (3) avoid the "rate impact" of the loss of large customers on the remaining customers that stay on SOS supply.

Mr. Hahn did not quantify these purported benefits of the spot market option. Also, the rate impact from losing large customers is not specified, making it difficult to comment on or assess.

Nevertheless, TEC-RI applauds the Division and Mr. Hahn for their willingness to suggest alternatives that can potentially bring more benefits to customers. However, we do have some significant concerns with forcing National Grid to implement the 100% spot market price option in 2010.

First and foremost, hourly spot market pricing clearly does not work well for all customers. To a large extent, our individual concerns primarily branch off this main point. While certain kinds of customers respond well to hourly pricing, others find it very difficult to do so[1]. By itself, therefore, spot market pricing would create winners and losers, and this creates a new challenge for National Grid and other parties who work with customers.

In jurisdictions like Pennsylvania, New York, and Maryland where hourly spot market pricing has been adopted for default or standard offer service, the theory has been that the spot market pricing will give customers the price signals they need to take actions to meet their needs. Those actions include (1) signing contracts with competitive suppliers with fixed prices or other terms better suited to that customer's needs; and (2) adopting price responsive strategies and technologies to shift load away from times when the price is high and to times when prices are low, or else curtail load during critically high price periods.

Clearly, then, these alternatives must be viable and readily available to customers before it makes sense to adopt this 100% spot market pricing for Standard Offer Service. However, TEC-RI has real concerns that these alternatives are not viable and readily available to all customers in the Large C&I customer group in Rhode Island at this time.

The competitive retail (as opposed to wholesale) electricity supply market in Rhode Island, while containing some excellent individual suppliers, is on the whole somewhat thin, meaning there are only a handful of active retail suppliers in the market. Were one or two of the dominant retail players to leave the RI retail market, it is an open question as to whether large customers would continue to have robust competitive choices for electricity supply. While not an overwhelming concern, this does argue for a moderate SOS strategy that provides some stability even for Large C&I customers in the short run.

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[1] See for example the findings of the Lawrence Berkeley National Laboratory in its report titled "Customer Response to Day-Ahead Market Hourly Pricing: Choices and Performance", June 2006, available online at http://eetd.lbl.gov/EA/emp/reports/58114.pdf .

In addition, much work remains to be done to provide large customers with the tools to respond effectively to hourly prices. Customers will need to be educated about the new pricing, as well as strategies to adapt to it. In addition, National Grid will need to develop straightforward means of communicating the day-ahead hourly pricing so customers have the advanced information they need to take action. There are also automation technologies that should be investigated and supported, ones that provide the ability for building control systems to automatically adjust operating characteristics of electricity consuming equipment in response to pre-defined price points. In short, the customers need to be equipped to thrive under an hourly pricing model.

We also would like to raise some concerns about the design of any future spot market pricing alternative should the conditions be right for one. For one, we strongly suggest that spot market pricing be introduced gradually. This will help National Grid gain experience with it and build the tools and business processes they need to make it work correctly. A gradual implementation will also be beneficial for customers, so they can adapt to it and similarly develop the capacities they need to do well with it. Finally, it gives the Commission and the Division the breathing room to make deliberate evaluations and decisions about its effectiveness and suitability to meet policy objectives.

Beyond that, we also assert that it is absolutely crucial that the customers receive day-ahead pricing, and furthermore that those prices be firm prices. That is the only fair way to treat customers, because it gives them the ability to respond knowing that the prices won't be different when it comes time for billing.

Finally, when it comes to the design of any spot market pricing, we assert that 200 kW customer demand would almost certainly be too low as a cutoff point, at least initially. Mr. Hahn pointed to Pennsylvania as a good reference for adopting spot market pricing. Our review of tariff sheets from two major utilities in Pennsylvania revealed that customers with a peak demand of less than 500 kW were excluded from hourly spot market prices. This deserves further study.

When it comes to administrative burden, we are not convinced that hourly spot market pricing will be administratively simpler or cheaper than three month FRS contracts. It certainly is simpler for the procurement office, but it will introduce new complexity and work load to the billing department at National Grid. It is by no means a sure thing that the net of all that will be a savings or an improvement. This is another aspect of the decision that could be studied in the next year to help guide any decision as to whether or not to implement spot market pricing.

We also note that National Grid has not chosen to implement spot market pricing in Massachusetts, but instead it is our understanding that they are using three month full requirements service contracts there. We would be interested to hear more about why, and what their experience has been in Massachusetts when it comes to earning customer satisfaction and fostering a competitive market.

Finally, Mr. Hahn states that under both his and the Company's approach, SOS prices will change monthly (page 24, line 9). This seems to be inconsistent with his earlier statement that the Company would charge customers based on hourly prices. Under his 100% spot price option, will individual customer bills be calculated (1) using hourly prices and their individual hourly loads, or (2) using one monthly price for the aggregate load that is the resultant average price coming out of the ISO settlement? We are assuming the former, based on our review of the utility tariffs in Pennsylvania, a state that Mr. Hahn cites in his testimony. But this would need to be clarified, because these are two fundamentally different approaches to retail pricing.

Turning to the fundamental issues at hand, we agree with Mr. Hahn that they key issue is risk and how that risk is managed. Mr. Hahn indicates that under this "100% spot market" approach, the customers would assume all of the price risk. Actual load would settle against actual after the fact hourly prices, and the Company would charge customers based on those hourly rates. Mr. Hahn states that, under this approach, the Company assumes no risk.

It is not clear to us why the Company would assume any more risk under its own proposal to do three month full requirements service contracts than it would under spot market pricing. The winning bidder(s) would presumably assume the price and volumetric risks of the contract, not National Grid.

In any event, TEC-RI thinks that consideration of these alternatives comes down to what Large C&I customers as a group see as the right tradeoff between (1) paying a risk premium to the supplier in order for the supplier to absorb the risk, and (2) absorbing that same risk themselves. It is the customers, after all, who are buying the product. Given the current situation, TEC-RI is convinced that **the Company's three month FRS contract approach strikes an excellent balance here,** and that 100% spot market pricing shifts too much risk directly to the customers without knowing or ensuring they have the necessary means to mitigate that risk.

In his August 14, 2009 rebuttal testimony, the Company witness Mr. Smithling responded to Mr. Hahn's recommendation by stating that the Company is willing to consider using 100% spot market prices rather than FRS contracts with three month terms for the largest customers in its next SOS supply procurement plan to be filed by March 1, 2010. The Company needs to maintain the three month FRS contracts for the Large Group until at least March 31, 2011, while the Company reviews the necessary components to fully implement hourly prices.

At the end of the day, Mr. Hahn, the Division's witness, does not ask the Commission to approve this option of using 100% spot prices for the Large C&I group. He asks only that the Company consider it. Mr. Hahn also does not specify hard and fast time frames, either for when the Company would evaluate this option or for when it could be adopted.

We think this is an issue for another day. There are many questions that need to be answered concerning how this would work in practice. Most importantly, we think it would not be in the best interests of Large C&I customers at this time.

TEC-RI is not categorically opposed to hourly pricing as a product offering in Standard Offer Service for Large C&I customers. We think such pricing could, under the right conditions, ultimately bring potential benefits by providing market price signals which in turn will spur certain customers to make economically optional choices including price response and contracting with competitive suppliers.

However, any move to this pricing option should be done carefully and thoughtfully, with particular attention paid to the impact of our large customers in Rhode Island. This would not be the case were the Commission to order National Grid to implement spot pricing right away in 2010.

TEC-RI is convinced that, for the time being, the *Company's proposal to use three month FRS contracts* strikes the proper balance between market-based pricing and stability, a balance that matches the current needs of our Large C&I customer base. We draw that conclusion based on the experiences of our members in the marketplace to date, and after considering the varying needs of different members currently with respect to electricity procurement.

We further agree with the Company's recommendation to maintain the three month FRS contracts for the Large Group until at least March 31, 2011, while the Company reviews the necessary components to fully implement hourly prices.

We therefore urge the Commission to approve the Company's proposal for Large C&I procurement, maintaining three month Full Requirements Service contracts for the Large C&I group until at least March 31, 2011.

Again, thank you for the opportunity to provide these comments.

Respectfully Submitted,

The Energy Council of Rhode Island

By its executive director,

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