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PUBLIC UTILITIES COMMISSION

Docket 4111

National Grid - Review of Proposed Town of New Shoreham Project

Hearing at PUC
March 9, 2010

Public Comments of The Energy Council of Rhode Island

Respectfully submitted by John Farley, Executive Director

Chairman Germani, Commissioners Bray and Roberti:

Thank you for the opportunity to provide public comments in this pivotal docket before you.

The Energy Council of Rhode Island is a membership organization made up of many of the largest users of energy in Rhode Island.

TEC-RI is a non-profit energy consortium, comprised of about 35 organizations. We consist of manufacturers, colleges & universities, hospitals, and other major business and institutional concerns.

We include some of the largest employers in the state. Our members provide over 50,000 Rhode Island jobs.

Our objective is to lower the cost of energy for Rhode Island businesses while preserving environmental quality and adequate supply.

First, we wish to thank the governor, the legislature, National Grid, Deepwater Wind, and the other parties who have played a role in making their best efforts to bring large scale renewable projects to fruition in and for Rhode Island.

We know that they are guided by sound principles and motivations: to provide local, domestic sources of energy for Rhode Island; to protect our environment; and to provide jobs for the Rhode Island economy.

Nevertheless, we have real and overriding concerns about the contract that is the subject of this docket.

The mission of TEC-RI is to lower the cost of energy for Rhode Island businesses while preserving the environment and enhancing the availability of supply.

By necessity, this work involves finding a good balance between competing goals.

We have concluded that this contract includes a price that is so high that it more than negates any other potential attractive features (such as job creation, added local supply, and environmental protection).

This Commission is charged with making sure this contract is in the best interest of Narragansett Electric ratepayers.

The fact is that we cannot understand why this contract is even before the Commission today.

First, no party in this case disputes that the contract is significantly above market, by a factor of at least 2.

Second, it is effectively a sole source bid.

Third, there are alternative local energy resources that are cheaper (some even below market price), offer the same environmental protection, and provide more jobs.

Fourth, the bill impacts on the largest electricity users and employers are punitive, more so than for other classes.

Fifth, and most incredibly, it appears that there are NO direct benefits that accrue to Narragansett Electric ratepayers from this contract.

Let's take these one at a time.

First, we are blessed in this docket with not 1 but 4 different experienced power market analysts that have provided their independent assessments of the price in this contract.

They disagree on a lot of things, but there is one thing they definitely agree on.

No party in this case disputes that the contract is significantly above market, by a factor of at least 2.

All parties to this case agree that this contract will result in very substantial above market costs that will be borne by the distribution ratepayers of Narragansett Electric Company. There is absolutely no debate about this.

Mr. Short in his public comments asserts this. He says the above market costs total \$471 million.

Mr. Hahn, representing RI ratepayers as the Division's expert witness, asserts the same thing – substantially above market. His figure is \$521 million over 20 years.

But so too does Mr. Milhous, who is National Grid's expert. He estimates that the above-market costs of the contract will total \$390 million over 20 years.

And finally, Mr Nickerson says the same thing – the contract will be substantially above market, over \$100 million over market - and he is Deepwater Wind's expert!

The experts on both sides also agree that this new renewable project is much more expensive than many other new renewable projects that qualify under the RI renewable energy standard and have similar sizes in MW. In fact the Division's expert witness shows some renewable projects that are not only cheaper than this proposal but in fact are cheaper than the market price. These include wind and landfill gas projects.

Some have assumed that the law in 39-26.1-7 requires this be an offshore wind project. It doesn't. I read it.

The law says that the electric distribution company shall solicit proposals [plural] for one “newly developed renewable energy resources project of 10 MW or less” “that includes a proposal to enhance the electric reliability and environmental quality of the Town of New Shoreham” .

It is the cable from Block Island to the mainland that enhances the electric reliability and environmental quality of the Town of New Shoreham. That means that ANY newly developed renewable energy resources project PLUS a cable to the mainland meets the requirements of the law.

So all of the projects that Mr. Hahn lists in his rebuttal are in play. This contract is higher than almost all of them.

When you combine the *above market cost* that will be borne by National Grid ratepayers with the *Transmission cable costs* that will in all likelihood be borne nearly entirely by Narragansett Electric ratepayers

(since Block Island Power load and customer counts are a fraction of a % point compared to Narragansett Electric) , the increase in rates, in revenue requirements, in the first year of this contract is HIGHER than the rate increase recently granted to Narragansett in the distribution rate case docket 4065.

I want to pause to let that sink in.

Narragansett had not increased distribution rates in 10 years. Now this year they get a \$16.5 million distribution rate increase.

But this project will add \$ 20 million to Narragansett distribution rates in its first year of operation!!!

By the way, that is also a bigger number than the entire energy efficiency budget and renewables budget combined in 2008.

This Commission is charged with making sure this contract is in the best interest of Narragansett Electric ratepayers.

Yet Narragansett has asked you to approve the money to spend on this project.

If you approve it, you are saying that it is a better use of Narragansett distribution ratepayer money to spend on a project that is designed to improve the reliability of New Shoreham – customers served by another utility – than to spend that same ratepayer money on distribution assets and services that benefit the Narragansett ratepayers themselves.

Second, it is effectively a sole source bid.

The Narragansett RFP evaluation process required more than one bid in order to use the key metric of price to compare one project to the others. That should have disqualified the bid at the very outset.

Third, RI has other options to consider when investing in clean energy resources that are *local*, provided here in Rhode Island, that are *cheaper* than market supply, are projected to *create more jobs* for the money than this project, and can be implemented this year, so those jobs will be created sooner than this project.

Existing Rhode Island companies will benefit from that ratepayer investment because they will do the work, and Rhode Island ratepayers will benefit because the resource costs less than supply.

Here's the deal.

National Grid is basically asking you for permission to go ahead with an agreement that is going to result in spending \$32 million a year. \$24 million for the power and \$8 million for the cable.

Now, what are the alternatives?

You could do nothing and continue to buy conventional power.

Or you could also invest that \$32 million a year in energy efficiency.

Energy efficiency costs less than 5 cents per kWh saved. This wind contract starts out at 24 cents per kWh, and when you add in the cable it's up to over 30 cents per kWh.

So for the same money you get *6 times* the amount of clean energy with efficiency.

Jobs.

Let's talk a little about that subject, even though I realize that your job is to consider whether the rate increase is in the best interest of Narragansett Electric ratepayers, and you are not charged with creating jobs for RI.

If they sign this project and add this power to the grid, another supply side resource will be backed down. It will probably be natural gas power plant. We have a couple of those in Rhode Island.

So the loss of revenue to those generators means job loss.

And the above market hit to the Rhode Island economy means further job loss.

Now we have that alternative to invest in EE.

Well, National Grid filed a data request in their recent distribution rate case (4065) that provided a study of net number of jobs created by their 2009 to 2011 Energy Efficiency Procurement Plan. It's called the Goodman Study.

It looked at (1) direct jobs from the EE activities , (2) indirect jobs because of the increased ratepayer spending due to REDUCTIONS in energy bills from the EE, and the (3) job loss from reduced activity in energy supply.

So if you take the equivalent spend per year in this contract for New Shoreham project, and instead apply it to energy efficiency every year, the figures from the Goodman Study show that you will have a net job gain of over 350 jobs.

Now Deepwater says this project will produce 6... 6 jobs.

Except you have to back out the job loss from decreased ratepayer spending (hiring) because of the INCREASES in their electricity bills.

And there is the job loss from reduced activity in electric supply, ie the gas plants that generate less electricity.

Based on the parameters in the Goodman Study, the job losses associated with the contract before you today could be in the range of 100 jobs. Again that is a result of (1) backing down the gas plants and (2) raising the rates to the tune of \$20 million a year.

So you have two clean energy choices to spend precious ratepayer dollars on. With EE you gain jobs, with this offshore wind project you lose jobs. Your choice.....

Not only that however...

If you took the payments for power under the contract plus the revenue needed to pay for the cable, and invested it in EE instead, you would get over 6 times the MWh savings off the Grid.

This Commission is charged with making sure this contract is in the best interest of Narragansett Electric ratepayers.

If you approve this contract, you are essentially saying that it's a good deal to invest in a 100,000 MWh resource – where there is probably net job loss – even though that same amount of money could buy a 600,000 MWh resource – and a net job gain.

100,000 MWh and job loss... OR
600,000 MWh and job gain...

Your choice!

We say if you want to get 100,000 MWh, spend 1/6 of the money and invest in EE!

Fourth, the bill impacts on the largest electricity users and employers are punitive, much worse than for other classes. The surcharge that is proposed by Narragansett will have a disproportionately negative impact on the largest electricity users and employers in the state.

We have taken a look at the National Grid numbers and have discovered that the rate impacts for our members are very substantial indeed.

We have seen the numbers, and for several of the largest users and employers, the increases are **\$1, \$2, \$3, \$400,00 per year.**

Now some might say that since it's 2.6 mils across the board, everybody is taking the same hit.

That is definitely not the case!

Even if it were, a dollar is a dollar, and \$300,000 is real money and it's taken out of the RI economy either way.

In addition, though, the plain fact is that electricity is a bigger deal cost-wise for some customers than for others.

You have to consider the share of operating costs that electricity represents for the business.

If I am a homeowner and electricity is 3% of my household budget, and electricity prices go up by 10% , no big deal. That's 0.3% of my budget.

However, if I am a business where electricity is 50% of my operating costs, and electricity goes up by 10%, that IS a big deal. My operating costs just went up by 5%, and that may be the difference between making money and losing money that year.

Most importantly, however, the fact is that on the distribution side of the business, rate classes pay different rates based on their utilization of the distribution system. If my distribution rate is 1 cent and it goes up by 0.2 cents that is a 20% increase in my distribution bill. If my distribution rate is 4 cents and it goes up by 0.2 cents that is only a 5% increase in my distribution bill.

The bottom line is that the 2.6 mil increase that NGrid has calculated for this project represents a 9% increase in relation to distribution rates overall.

Now, the increase is 7% of the distribution rate for the residential customer.

But it's **29%** of the distribution rate for the large industrial G62 customer class as a whole.

It's **over 40%** of the distribution rate for the largest user in TEC-RI!

Any one of these reasons ought to be enough to reject this contract.

But you want to know something?

There is one overriding fact that is so obvious that it is staring us right in the face.

It is Narragansett Electric who is before you today asking for you to approve this contract.

When Narragansett Electric comes to the Rhode Island Public Utilities Commission to approve a contract that will impact rates, it has to make the argument that the rate increase is in the interest of ratepayers.

Narragansett Electric ratepayers, that is.

This Commission is charged with making sure this contract is in the best interest of Narragansett Electric ratepayers.

My honorable friends, that case has not been made.

My friends, it has not even been attempted.

NO direct benefits accrue to Narragansett Electric ratepayers from this contract.

This wind project and the cable may in fact end up enhancing the electric reliability and environmental quality of the Town of New Shoreham, not to mention economic benefits to the ratepayers on that island.

If so, it will be primarily a result of the cable, because the cable will provide cheaper power from the mainland, a more reliable grid for Block Island, and back down diesel generation on the island.

But where are the benefits to Narragansett Electric ratepayers?

The cable only gives us the right to buy 24 cent power when mainland power is half that price or less.

The intermittency of wind power makes it a dubious choice to improve reliability.

There are many other choices for new renewable resources that will provide the same environmental benefits at much less cost. Your own web site has dozens of RES certification applications from these cheaper new renewable resources.

Please - if you can - identify one benefit from this contract to Narragansett Electric ratepayers.

Since the reliability and environmental benefits accrue to the ratepayers of another utility, we Narragansett ratepayers should at least have a 50/50 shot at breaking even on this contract.

We have no shot at breaking even.

Nobody thinks that. Not even Mr. Nickerson.

This Commission is charged with making sure this contract is in the best interest of Narragansett Electric ratepayers.

If you really think that it is OK to further increase distribution rates by \$20 million a year (and we don't!), shouldn't you at least direct it toward something that actually helps the ratepayers who will be coming up with the money?

How can you effectively increase distribution rates for the largest user (and a major employer) by over 40% to fund a project that provides no tangible benefits for the Narragansett distribution ratepayer???