

May 17, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4150 - Long-Term Contracts for Renewable Energy Projects
National Grid Reply Comments

Dear Ms. Massaro:

I have enclosed ten (10) copies of National Grid's¹ Reply Comments in the above-referenced proceeding. These comments are in response to comments filed by the Division of Public Utilities and Carriers and Constellation Energy Commodities Group, Inc.

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: Leo Wold, Esq.
Steve Scialabba, Division

¹ Narragansett Electric Company d/b/a National Grid ("National Grid" or the "Company")

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically and/or sent via U.S. Mail to the individuals listed below. Copies of this filing were hand delivered to the RI Public Utilities Commission.

May 17, 2010

Joanne M. Scanlon
National Grid

Date

**Docket No. 4150 National Grid – Long-Term Contracting for Renewable Energy Projects Pursuant to R.I.G.L. Section 39-26.1 et seq.
Service List updated 3/19/10**

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND PUBLIC UTILITIES COMMISSION

Long-Term Contracts for Renewable Energy Projects

Docket No. 4150

**REPLY COMMENTS OF THE NARRAGANSETT ELECTRIC COMPANY,
D/B/A NATIONAL GRID
REGARDING LONG-TERM CONTRACTING FOR RENEWABLE
ENERGY**

I. INTRODUCTION

The Narragansett Electric Company d/b/a National Grid (“National Grid” or the “Company”) submits this reply to comments submitted by intervenor Constellation Energy Commodities Group, Inc. (“Constellation”) and by the Rhode Island Division of Public Utilities and Carriers (“Division”). On March 1, 2010, the Company filed its proposed timetable and method for solicitation and execution of long-term contracts entered into pursuant to R.I.G.L. §39-26.1-3. In compliance with the established procedural schedule, on April 15, 2010, Constellation submitted comments on the Company’s filing, and on April 30, the Division’s consultant, Richard Hahn, submitted comments with respect to both the Company’s proposed procurement plan and Constellation’s comments. The Company now takes this opportunity to respond to issues raised in Constellation’s and the Division’s comments.

II. COMMENTS

a. Long-Term REC-Only Contracts

Constellation has proposed that the Company accept Requests for Proposals (“RFPs”) for behind-the-meter solar installations that would bid the sale of only Renewable Energy Certificates (“RECs”). The energy and capacity from these installations would not be sold to National Grid but would instead supply the host location. In support of this approach, Constellation states that this configuration is best tailored to the characteristics of solar energy projects. The Division, however, questions whether Constellation’s proposal conflicts with the requirements of the Long-Term Contracting statute (the “Statute”), requiring each electric distribution company to annually solicit and enter into commercially reasonable long-term contracts “for the purchase of capacity, energy and attributes.” R.I.G.L. §39-26.1-3 (a). The Division also submits that a REC-only contract would complicate the Company’s bid evaluation process. On this topic, the Company is open to creative approaches to promoting renewable energy projects such as what is proposed by Constellation and is agreeable to considering REC-only contracts. The Company is, however, concerned with the loss of distribution revenues that could result from allowing this type of behind-the-meter energy supply and, before expressing its support, would need time to evaluate the impact such a plan would have in the absence of a revenue decoupling mechanism.

Constellation believes its proposal for REC-only contracts presents an effective and established approach to promoting successful development of solar projects, and that the Commission can interpret the statutory provisions in harmony with permitting REC-only long-term contracts. The Company noted that the Statute mandates annual solicitations for the purchase of capacity, energy, and attributes, but it does not specifically mandate how solar-generated products are bundled for purchase. Moreover, the Commission’s Rules and Regulations Governing Long-

Term Contracting Standards for Renewable Energy (the “Commission Rules”) provide for flexibility in the products that are contracted for by providing that long-term contracts include terms for the purchase and sale of “energy, capacity and/or renewable energy certificates.” Section 5.1 (ii), Commission Rules (Emphasis added). Thus, the Commission Rules seem to anticipate and allow for REC-only solar contracts.

The Division’s second basis for rejecting REC-only solar contracts is a concern that it would unduly complicate the Company’s bid evaluation process. By modifying the bid evaluation process, the Company could address this concern. For instance, if REC-only contracts are allowed under the Commission Rules, the Company would require bids for energy, capacity, and RECs while allowing an alternative REC-only submittal. In this way, the Company could fairly evaluate bids based on their bundled price.

b. Evaluating Solar Projects Against Other Solar Projects

Both Constellation and the Division propose that solar projects should be evaluated only against other solar projects. The Statute dedicates three MW of the minimum long-term contract capacity to solar or photovoltaic projects located in Rhode Island. Thus, the Company recognizes that under the evaluation process that it has proposed if multiple commercially reasonable solar bids are submitted it will, as a practical matter, ultimately be comparing solar projects to other solar projects. In evaluating solar bids, however, the Company must determine that the threshold statutory requirement that contracts are commercially reasonable has been met. Certainly, one approach to determining the commercial reasonableness of a solar project will be to compare its pricing against the pricing of other solar bids. The Company, however, believes that another necessary aspect of this evaluation is comparing the pricing of the solar bids to the pricing of other renewable energy projects. For instance, the Company could receive solar bids that are competitive with one another,

but are higher than solar bids generally and grossly in excess of other renewable energy resources. Limiting the evaluation to comparing solar bids to one another creates a reality vacuum and would limit the competitive nature of the bidding process.

In its decision and order in the Deepwater proceeding, the Commission established a two-pronged analysis to determine the commercial reasonableness of a particular project: (1) comparing the price of the project to other renewable energy projects generally and (2) comparing the projects internal rate of return (“IRR”) to those which an experienced power market analyst would expect from other renewable energy projects. Docket 4111, Order No. 19941, p. 71. The Commission noted the need to apply the definition of commercial reasonableness consistently in reviewing all contracts, although it did recognize, as the Company recognizes, that with respect to contracting for the 3 MW solar set-aside the determination of commercial reasonableness “must be analyzed in a method to be determined by the Commission.” *Id.* at fn. 345. The Company submits that the appropriate method for determining the commercial reasonableness of solar proposals should not be limited entirely to a comparison with other solar projects, but should include, as enunciated in the Deepwater proceeding, a comparison to other renewable energy projects generally.

c. Minimum Size for a Proposed Solar Project

Both Constellation and the Division recommend lowering the minimum contract size. The Company has recommended a minimum contract size of 1 MW. In contrast, Constellation recommends a minimum solar project size of 500 kW, and the Division lowers that size to 250 kW. The Division bases its recommendation on a review of the sizes of solar projects in other jurisdictions. Additionally, the Division is concerned that reducing the minimum size of a proposed solar project to 500 kW could allow only one solar project to be selected each year, while a 250 kW

minimum would alternately allow for several smaller projects, but would not preclude one large solar project to be selected each year.

Upon review of both Constellation's and the Division's comments, the Company does not object to lowering the minimum contract size. For purposes of clarification, however, the parties and the Commission should note that for solar/photovoltaic ("PV") projects, the proposed RFP provides that the "minimum contract size" is essentially the nameplate rating for a facility.¹ In contrast, the "contract capacity" is determined by the product of the maximum net generating capability of the facility (the nameplate) and the expected net annual capacity factor.² With this in mind, then, the 1MW target contract capacity proposed by the Company for solar equates to a single project with a nameplate rating of about 7.7 MW, assuming a capacity of 13%.³ The 500 kW minimum capacity proposed by Constellation and the 250 kW minimum capacity proposed by the Division appear to refer to nameplate capacity. If that is the case, it is clear that many projects in this size range could be accommodated. Given this frame of reference, the Company believes that the 500 kW minimum contract size recommended by Constellation would be more than sufficient to allow the acceptance of a number of projects.

d. Non-Unit Contingent Bids

The Company concurs with the Division that the relatively benign requirements for information regarding site control that are contained in the Company's proposed RFP should be retained. With respect to site control, as the Division points out, Section 2.2.3.3 of the RFP permits a letter of intent to satisfy the site control requirement so long as it is followed by a binding site

¹ National Grid Request for Proposals, footnote 6 at p. 6.

² National Grid Request for Proposals, Section 2.2.2.5 at p. 6.

³ For solar/PV energy, the Statute established a minimum long-term contract capacity target of 3 MW to be attained over a four-year schedule in increments of 25 percent each year. Thus, the yearly minimum target is 750 kW. One-fourth of the 3 MW statutory requirement would be 750 kW; however, the Company deliberately rounded up the target to allow some flexibility in the first solicitation.

control agreement at a later date. Similarly, the RFP's requirements relating to environmental permitting, proposed engineering and technology, and operation and maintenance plans are all relevant factors for the Company to evaluate. These requirements would apply to all solar bidders equally and are not unreasonably burdensome. Thus, the Company agrees with the Division that these requirements of these RFP should remain.

e. In-Service Requirement

The Company has no objection to Constellation's proposal to modify the RFP at section 2.3.2.2 to provide for a 1.5 year in-service requirement after contract execution for solar PV systems.

f. Security Requirements

The Company acknowledges that relaxing security requirements on contracts that contemplate REC-only sales would be a reasonable modification, particularly in light of the lower capacity factor expected for solar projects.

g. Miscellaneous

The Company is agreeable to amending the procurement process to adopt the following modifications and clarifications proposed by the Division.

- Providing the Division would have 30 days to review bids.
- Providing the Company's forecasted market prices earlier in the procurement timeline.
- Allowing a bidder who has either not submitted a Notice of Intent or has not attended a Bidder's Conference to nevertheless submit a proposal.
- Maintaining that late proposals be rejected.

III. CONCLUSION

National Grid submits these reply comments in an effort to narrow any areas of disagreement between the parties and to address legitimate concerns and suggestions relating to solar/photovoltaic contracts. The Company's reply comments are guided by a receptivity to creative approaches to encourage the development of solar renewable energy resources in Rhode Island, yet tempered by the statutory requirement that it enter into contracts that are "commercially reasonable."

The Narragansett Electric Company d/b/a
National Grid
By its attorneys,

A handwritten signature in blue ink, appearing to read "T. Teehan".

Celia B. O'Brien / S /

Thomas R. Teehan (RI Bar 4698)
Celia O'Brien (RI Bar 4484)

Dated: May 17, 2010