



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

November 8, 2011

Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

RE: **OFFICE OF ENERGY RESOURCES
DISTRIBUTED GENERATION CEILING PRICES
DOCKET NO. 4288**

Dear Luly,

Enclosed please find for filing with the Commission on behalf of the Division of Public Utilities and Carriers ("Division"), an original and nine (9) copies of the Division's Reply Comments to Comments filed regarding the issue of "avoided cost" in the above entitled matter.

Very truly yours,

Jon G. Hagopian
Special Assistant Attorney General

JGH/dmm

Encl.

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

**IN RE: R.I. OFFICE OF ENERGY RESOURCES
PROPOSED DISTRIBUTED GENERATION
STANDARD CONTRACT AND CEILING PRICES**

DOCKET NO. 4288

**DIVISION OF PUBLIC UTILITIES AND CARRIERS
REPLY COMMENTS**

The Division of Public Utilities and Carriers (the “Division”) submits the following comments regarding the request that the Commission adopt the ceiling prices here as Rhode Island’s definition of “avoided cost. This is a request that must be denied. The term “avoided cost” is viewed in the context of what “avoided cost” means to the cost to the utility relative to its providing the next increment of energy. In other words, it is not the costs and expense to the seller of the energy but rather that of the buyer (the utility who would otherwise be supplying this increment of energy). The Division recognizes that the Commission here is vested with the authority consistent with PURPA to decide whether an energy price is in excess of “avoided cost” by taking into account the cost of electric energy from the generators being avoided, e.g. generators with certain characteristics. See Division Memorandum 10/14/11 Docket 4268 at pp. 5-9.

Turning to the ceiling prices here, it would be improper to accept these as the Rhode Island definition for “avoided cost” for a number of reasons. First, avoided costs are set through a market-based prism and what the utility would otherwise pay for that type of generation. National Grid’s current power purchase rate (R.I.P.U.C. No. 2035) references these market prices.

Second, this Docket has not been instituted for the purpose of determining the utility's avoided cost. In fact, in the 2011 session of the General Assembly, the Rhode Island Legislature passed legislation that defined in statute the avoided cost rate as follows: *"Such excess renewable net metering credit shall be equal to the electric distribution company's avoided cost rate, which is hereby declared to be the electric distribution company's standard offer service kilo-watt hour (kwh) charge for the rate class and time-of-use billing period (if applicable) applicable to the distribution customer account(s) at the eligible net metering site."* R.I. Gen. Laws §39-26.2-2(4). National Grid has a pending tariff proposal, R.I.P.U.C. No. 2074 cancelling R.I.P.U.C. No. 2035, in Docket 4268 that establishes the purchase rate for Qualifying Facilities meeting the definition of renewable energy resources as per R.I. Gen. Laws § 39-26-5 as the Standard Offer rate, consistent with the aforementioned new law.

The proposed ceiling prices on their face, according to the OER report, have been derived through a model that has been informed through such factors as the required return on equity to the generator, which is simply not relevant to the analysis of "avoided cost" to National Grid. The inclusion of the value of RECs to the process is also a driver which is not relevant to "avoided cost." The OER report on recommended ceiling prices at page 25 provides that the CREST model it used, "can take as inputs assumptions for capital and operating costs, performance incentive and financing parameters, and produce cost of energy estimates on a levelized, or escalating basis." The avoided cost model was not intended to be used in the same manner as the CREST Model used to arrive at the ceiling prices. For all the foregoing reasons the request to use the ceiling prices as the definition of avoided cost should be denied.

Respectfully submitted,

Thomas Ahern, Administrator
State of Rhode Island
Division of Public Utilities and
Carriers

By his attorney,



Jon G. Hagopian, Esq. (#4123)
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Dated: November 8, 2011

CERTIFICATE OF SERVICE

I hereby certify that a true and accurate copy of the within was sent via e-mail to the following on this 8th day of November, 2011.



Docket No. 4288 – Office of Energy Resources Filings: 1) Proposed Distributed Generation (DG) Standard Contract Act Classes and Ceiling Prices for 2011; and 2) Proposed DG Standard Contract Service List updated 11/3/11

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