To: Rhode Island Division of Public Utilities and Carriers
From: Dick Hahn, La Capra Associates
Re: National Grid 2012 Electric Retail Rate Filing, Docket 4314 and 2012 Renewable Energy Standard ("RES") Charge and Reconciliation, Docket 4227
Date: March 12, 2012

The Rhode Island Division of Public Utilities and Carriers ("Division") requested that La Capra Associates, Inc. review National Grid's 2012 Electric Retail Rate Filing requesting Commission approval of various charges and adjustment factors. This memorandum provides the results of our review of the documents.[1] We organize our discussion by the changes related to three major bill components or charges: standard offer, transition, and transmission. We also provide a brief discussion of the Company's 2012 RES filing. Based on this review and following telephone conversations with Company representatives, we find that the proposed charges, adjustment factors, and changes to the tariff should be approved at this time. Because proposed revenues are reconciled to actual costs, any forecast variances should be captured. We also suggest that additional information be made part of future filings. Given the limited time to review this filing, inclusion of this additional information would facilitate the Division's assessment of these proposed rates.

Standard Offer Service Adjustment Factors

The filing contains two sets of standard offer service ("SOS") related rate changes: (1) an adjustment factor that is designed to collect (or refund) net under (or over) recovery of SOS expense and (2) an administrative cost factor that is designed to collect various administrative expenses related to provision of SOS.

In terms of the first, the filing shows a total under recovery (with interest) of $151,347 for 2011, which compares to an over recovery of $263,141 for 2010. This 2011 total is a sum of the separately calculated totals for each of the three SOS procurement groups: residential, commercial, and industrial. These totals are then adjusted for additional interest during the recovery period, purchases of renewable energy credits ("RECs"), and the proceeds from net metering sales to ISO-NE and divided by forecasted customer group SOS sales for April 2012-March 2013 to arrive at the 3 different adjustment factors.

The administrative cost factor includes an allowance for SOS uncollected expense, which accounts for greater than 50% of this factor, and a number of administrative cost elements (chief of which is cash working capital). The 2012 filing shows total administrative expense of approximately $5.8 million compared to approximately $5.6 million in the 2011 filing. As with the adjustment factor, separate cost factors are calculated for the three customer groups.

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[1] We reviewed but do not comment on all the Company's requests, such as the calculation and treatment of the net metering charge.

Reconciliation of these costs are included in these totals and divided by the forecast SOS sales by customer group to arrive at 3 different factors.

Overall, our review indicates that these factors are consistent with the underlying data presented in the filing and orders in previous dockets and should be approved.

Transition Charge and Adjustments

The filing is requesting changes to both the transition charge and transition adjustment charge which is used to account for prior positive or negative balances.[2] For this filing, the adjustment charge is a credit due to a positive ending balance at the end of 2011 (due to over collection of charges in 2011). The transition charge itself is almost entirely a function of the CTC charges billed to National Grid by NEP. Since those charges increased in 2012 relative to 2011, the proposed transition charge is higher in 2012. Overall, we find the transition charge to be consistent with the NEP charges reported in the NEP and Montaup CTC Reconciliation Reports. We also find the adjustment charge to be consistent with the underlying data presented and orders in previous dockets. Both charges should be approved.

Transmission Charges

The Company is proposing changes to the base transmission charge, which is based on a Company-conducted forecast/estimate of transmission expenses to Narragansett Electric under the ISO/RTO Tariff and, factors related to (a) adjustments or reconciliation of past over collections and (b) uncollectable revenues. These last two factors are analogous to the adjustment factors related to standard offer service discussed above but are specific to transmission expenses and use different methods of allocating costs to the different rate classes than found in the SOS adjustment factors.

The filing is requesting Transmission Charges to recover $135.5 million in estimated 2012 transmission expenses and includes the combined costs of both Regional Network Service (RNS) and Local Network Service (LNS). RNS represents the cost of bulk or pooled transmission facilities (PTF), while LNS represents non-pooled transmission provided by NEP, who then allocates a portion of these charges to Narragansett. This requested total represents a 12.31% increase over 2011, or $14.9 million, of which $12 million has been allocated to Schedules A16/A60 or residential customer classes, which we find to be consistent with the load data provided by the company in discovery. (Schedule JAL-10, page 1 of 2.)

Testimony filed by James Loschiavo indicates that the majority of the $14.9 million increase is derived from a projected $10.9 million increase in NEP LNS charges (page 16 at 4, and Schedule JLL-1 page 2 of 2). While we have not identified any changes that should be made at this time, we suggest that additional detail and explanation regarding the increase in LNS rates be

[2] The transition reconciliation factor contains other smaller adjustments, including reconciliation of the low-income credit.

provided, such as the projects that make up the $53.7 million in new projects, the amount attributed to municipal tax, and the "Integrated Facilities Charge". Further we suggest determining whether CWIP allowed in previous years is carried forward even though construction of some plant additions is complete and will now be in rate base.

With respect to the RNS component of the transmission charges, the $1,994 million in planned additions are mostly associated with the MPRP and NEEWS projects. However, CWIP for these projects was included in the 2011 RNS rate, so it is unclear if the $1,994 million in projected capital additions represents the appropriate increase over 2011 rates. In future filings, the amount of CWIP in prior rates associated with specific projects should be deducted from projected capital additions for a future rate year. Lastly, we note that the actual RNS rate is effective on June 1, 2012. In past years, a preliminary estimate of this rate has been available around March 1, 2012. The Company has stated that such a preliminary estimate was not available this year. The availability of the actual RNS rate should be addressed in future filings.

2012 RES Charge and Reconciliation (Docket 4227)

The filing in Docket 4227 requests approval of an RES Charge for the April 2012-March 2013 period. This charge is one component of the standard offer charge that is found on customers' bills (in addition to the standard offer service charge, and the two standard offer service adjustment factors discussed above). In 2011, the RES charge was actually a credit to customers due to an over collection of RES expense for the October 2009 to December 2010 period. By contrast, the current filing requests a charge of $0.00253/kWh for usage on or after April 1, 2012.

This increase in the charge is mostly a result of the increases in REC market prices due to REC shortfalls. According to the Company's filing, this shortfall was identified as early as July 2009. However, there it does not appear that the Company altered their usual practice of issuing RFPs for SOS with a RES adder and standalone RFPs in order to select the more cost-effective option to meet near-term renewable requirements related to SOS. Given the results of the Company's tracking of the future RPS market and requirements, there does appear to have been an opportunity to propose a change in procurement strategy to mitigate exposure to the upward REC market pressure that appeared to have begun in mid-2011. Though we think the Company's procurement strategy is consistent with prior Commission orders and is reasonable based on this precedent, we do believe that there was potential for ratepayer savings if the Company had petitioned the Commission to take a more proactive approach to REC procurement based on their insights into the REC markets. While this would have required the Company to deviate from a Commission-approved plan, we recommend the Division discuss the positives and negatives of such an approach with the Company in order to hedge against extreme price swings in the REC market.