

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S PROPOSED :
2013 STANDARD OFFER SUPPLY PROCUREMENT : DOCKET NO. 4315
PLAN AND 2013 RENEWABLE ENERGY SUPPLY :
PROCUREMENT PLAN :

REPORT AND ORDER

I. Background

Rhode Island General Laws Section 39-1-27.8 requires The Narragansett Electric Company d/b/a National Grid (“National Grid” or “Company”) to submit a proposed supply procurement plan on or before March 1 each year to the Public Utilities Commission (“Commission”) for review and approval. The procurement plan must “include the acquisition procedure, the pricing options being sought, and a proposed term of service for which standard offer service will be required.”¹ The Company is allowed to seek different acquisition procedures and alternative pricing structures for residential and non-residential customers and may offer various pricing and terms in its retail offering. As long as National Grid complies with the approved procurement plan, National Grid may “recover its costs incurred from providing standard offer service supply consistent with the approved procurement plan.”²

Rhode Island General Laws Section 39-26-4 requires National Grid to procure seven and one half percent (7.5%) of the electricity it sells at retail, adjusted for electric line losses, from renewable energy resources in 2013. National Grid is allowed to meet its obligation through the purchase of NE-GIS certificates, otherwise known as Renewable Energy Certificates (“RECs”). In the event National Grid is unable to meet

¹ R.I. Gen. Laws § 39-1-27.8.

² R.I. Gen. Laws § 39-1-27.8.

its obligations, it must make Alternative Compliance Payments (“ACPs”) to the Rhode Island Economic Development Corporation’s (“EDC”) Renewable Energy Development Fund, the purpose of which is to provide EDC with resources to fund renewable energy projects which will supply additional RECs to the market.³ National Grid has not had to make any ACPs for compliance years 2007 through 2011. The trading period for RECs runs from July 1 of the applicable year through June 15 of the following year. Therefore, the trading period for 2013 will be July 1, 2013 through June 15, 2014. However, National Grid may enter into contracts for RECs prior to the trading period with delivery and payment occurring during the trading period.

National Grid is required to submit an annual Renewable Energy Supply procurement plan pursuant to the Commission’s Rules and Regulations Governing the Implementation of a Renewable Energy Standard (“RES”). The plan must include at least one annual competitive solicitation.⁴

II. National Grid’s Proposed Procurement Plan

On February 28, 2012, National Grid filed its proposed Standard Offer Service (“SOS”) and RES Procurement Plans for 2013 together with the Direct Testimony of Margaret M. Janzen, Director of Wholesale Electric Supply for National Grid USA Service Company, Inc. Ms. Janzen stated that in the 2013 SOS procurement plan, “the Company is proposing to continue the practice of procuring SOS supply through a combination of [full requirements service] contracts and ISO-NE spot purchases with the mix of products tailored to meet the needs of each customer group.”⁵ Ms. Janzen noted

³ R.I. Gen. Laws § 39-26-4.

⁴ Rules and Regulations Governing the Implementation of a Renewable Energy Standard (Section 8).

⁵ Pre-Filed Testimony of Margaret Janzen at 8. The Industrial Group will be served through three month FRS contracts, solicited quarterly, for 100% of the load with the retail price changing monthly based on the

that for some customer groups, the proposed solicitations would include contracts with delivery periods beyond 2013.⁶ She stated that there are no proposed changes to the FRS procedures from those in the approved 2012 SOS procurement plan.⁷

Ms. Janzen discussed the Company's obligations to purchase energy from renewable generators under the Long-Term Contracting Standards for Renewable Energy ("LTC") Act, Distributed Generation Standards Contract ("DG") Act, the Net Metering Law, and the Qualifying Facilities Power Purchase Rate Tariff. She explained that because of the manner in which the ISO-NE Settlement process occurs, the Company will be able to appropriately track the energy produced by those facilities for purposes of passing through those costs to all distribution customers while separately identifying the spot market purchases made on behalf of SOS customers.⁸ She noted that the Company is not proposing to use the energy from renewable generators for its FRS contracts with various suppliers at this time.⁹

With regard to the 2013 RES procurement plan, Ms. Janzen stated that the Company is proposing modifications from the 2012 RES procurement plan in order to "utilize the RECs produced by the renewable generation projects that have executed Long Term Renewable Contracts with the Company under the [LTC and DG] Acts" to meet the "New" REC requirement.¹⁰ She indicated that the 2013 RES procurements will be integrated with the SOS procurement plan in that the Company will continue to request REC pricing in the SOS competitive solicitation although it may be unnecessary to award

underlying contract prices. The Commercial and Residential Groups will be served through a combination of 90% from FRS contracts and 10% from ISO-NE spot market purchases. The length of each contract and percentage of load covered by each contract will vary by customer group. *Id.* at 10, Schedule 1.

⁶ Pre-Filed Testimony of Margaret Janzen at 9.

⁷ *Id.* at 17.

⁸ *Id.* at 11-14; National Grid's Response to Commission DR 1-2.

⁹ *Id.* at 14.

¹⁰ *Id.* at 18.

RES pricing depending on the level of RECs produced under the Long Term Renewable Contracts referenced above.¹¹ The Company also will not award REC pricing to FRS suppliers where the bid is higher than that projected by the Company. In addition to utilizing RECs from long term contracts, those procured through competitive solicitations, both stand-alone and with the SOS solicitation, National Grid will accept and evaluate unsolicited offers for RECs.¹²

Explaining National Grid's decision to utilize New RECs from the long term contracts to satisfy its RES obligation for 2013, Ms. Janzen explained that this approach will minimize transaction costs to customers because if the Company sells the RECs into the market, it will then have to re-purchase them in order to meet the RES obligation. Therefore, there would be transaction costs associated with both the sale into the market and the repurchase. Adherence to the Company's proposal would eliminate multiple transaction costs which will benefit customers. Furthermore, according to Ms. Janzen, there would be no detrimental impact on the market for RECs in Rhode Island because the Company will charge SOS customers the market price for these RECs, thus avoiding any cross subsidy that would impact these REC prices. The Company would use recent standalone solicitation results, broker information, public REC indexes and the results from competitive solicitations in Massachusetts to determine the appropriate market price for the RECs procured under the Long Term Renewable Contracts.¹³

Looking ahead, Ms. Janzen noted that while the RECs produced from the Long-Term Contracts will not be sufficient to meet the Company's obligation for 2013, projections suggest that in 2015, these RECs will exceed the RES obligation and

¹¹ *Id.* at 20-21.

¹² *Id.* at 19-22.

¹³ *Id.* at 22-25.

therefore, it will be necessary to sell the excess RECs into the market through a competitive solicitation. The Company expects to propose crediting distribution customers with the sale proceeds. Furthermore, it will no longer be necessary to link the REC solicitation to the SOS solicitations.¹⁴

III. Division's Testimony

On May 2, 2012, the Division submitted a Memorandum of its consultant, Richard Hahn, of La Capra Associates, reviewing National Grid's proposals. Mr. Hahn recommended approval of the 2013 SOS procurement plan as filed noting that he found no strong reason to deviate from the procurement schedules used in the 2012 procurement plan. With regard to the Company's decision not to include purchases of energy and capacity from the Long Term Renewable Contracts, Net Metered Facilities or Qualifying Facilities, but to pass through the expenses and revenues to distribution customers, Mr. Hahn believed this to be a reasonable approach based on his review of Rhode Island law.¹⁵

With regard to the RES procurement plan, Mr. Hahn expressed concern that the Company was not being as proactive as it could be with its REC procurements in what he labeled a tightening market. With regard to Ms. Janzen's assertion that it may not be necessary after 2013 to link the REC solicitations with the SOS solicitations, Mr. Hahn cautioned that in a tightening market, the Company should still request pricing of RECs as part of the SOS solicitations in the event deliveries under the Long Term Renewable Contracts is less than expected.¹⁶

¹⁴ *Id.* at 25-26.

¹⁵ Memorandum of Richard Hahn (5/2/12) at 1-2.

¹⁶ *Id.* at 2-3.

IV. Commission Findings

At an open meeting on June 12, 2012, the Commission reviewed the record and approved National Grid's 2013 SOS and RES Procurement Plans as filed. The SOS Procurement Plan has not changed from the previously approved plan and there is no evidence in the record that the electricity supply market has changed in a way that would necessitate a change. In approving the RES Procurement Plan, the Commission finds that it is designed to meet the requirements of R.I. Gen. Laws § 39-26-4 in a manner that will allow National Grid to procure a sufficient number of RECs at a reasonable cost. The Commission specifically endorses the use of New RECs produced from the Long Term Contracts which National Grid is statutorily required to enter into to meet the requirements of R.I. Gen. Laws § 39-26-4. The Commission is satisfied that National Grid has met the burden set forth in R.I. Gen. Laws § 39-26.1-6(d) that requires the Commission, before allowing the use of the RECs to meet the RES obligation, to find that such use "would not have a detrimental impact on energy markets, and on the market for NE-GIS certificates, and is otherwise in the interest of utility customers."¹⁷ The Commission finds that there would be no detrimental impact on either the energy market or the REC market because the RECs will be charged to SOS customers at the market rate that would be paid anyway. Furthermore, the use of RECs to meet the RES obligation is in the customers' interests because this methodology will reduce transaction costs, thereby pricing the RECs closer to the market price without an added unnecessary premium.¹⁸

¹⁷ R.I. Gen. Laws § 39-26.1-6(d).

¹⁸ See Pre-Filed Testimony of Margaret Janzen at 23-24.

While the Commission understands the concerns expressed by Mr. Hahn regarding a proposal to unlink the SOS Procurement Process and the REC procurement process, this proposal will be appropriately addressed in future procurement plans. In discovery responses, Ms. Janzen clearly stated that for 2013, the Company would continue to request separate REC pricing in the SOS competitive solicitations. The Commission also notes that Ms. Janzen indicated that the Company shared Mr. Hahn's concerns regarding the tightening REC market and believes that using the New RECs procured under the Long-Term Renewable Contracts, through linkage with the SOS solicitations and the flexibility afforded by standalone RES solicitations, should allow the Company to avoid shortfalls.¹⁹

Accordingly, it is hereby

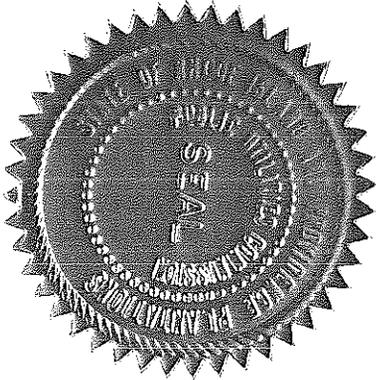
(20795) ORDERED:

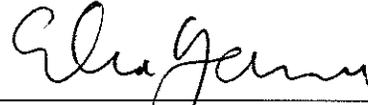
1. Narragansett Electric Company d/b/a National Grid's 2013 Renewable Energy Standard Procurement Plan is hereby approved.
2. Narragansett Electric Company d/b/a National Grid's 2013 SOS Procurement Plan is hereby approved.
3. Narragansett Electric Company d/b/a National Grid shall file its proposed 2014 SOS Procurement Plan on or before March 1, 2013.
4. Narragansett Electric Company d/b/a National Grid shall comply with all other instructions contained in this Order.

¹⁹ National Grid's Response to Commission DR 1-4. Ms. Janzen estimated that the Company will be able to procure approximately 60,000 2012 New RECs from the Rhode Island LFG Genco, LLC contract. In 2013, the Company expects to procure approximately 246,000 2013 RECs from long term contracts and distributed generation contracts. National Grid's Response to Commission DR 1-8.

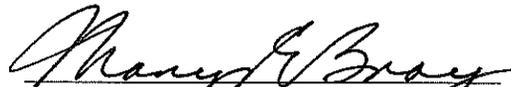
EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 12, 2012
PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED
AUGUST 10, 2012.

PUBLIC UTILITIES COMMISSION





Elia Germani, Chairman



Mary E. Bray, Commissioner



Paul J. Roberti, Commissioner

NOTICE OF RIGHT OF APPEAL PURSUANT TO R.I.G.L. SECTION 39-5-1, ANY PERSON AGGRIEVED BY A DECISION OR ORDER OF THE COMMISSION MAY, WITHIN SEVEN DAYS (7) DAYS FROM THE DATE OF THE ORDER, PETITION THE SUPREME COURT FOR A WRIT OF CERTIORARI TO REVIEW THE LEGALITY AND REASONABLENESS OF THE DECISION OR ORDER.