

July 19, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Long-Term Contracts for Renewable Energy Projects
Pursuant to Rhode Island General Laws Section 39-26.1 et seq.
Legislative Amendment to Solicitation Schedule and ISO-NE Pricing Rule Change**

Dear Ms. Massaro:

This letter is to notify the Commission of two recent developments impacting the content of the Company's Request for Proposals ("RFP") issued on July 1, 2013 pursuant to R.I.G.L. §39-26.1-3 and the Commission's Rules and Regulations Governing Long-Term Contracting Standards for Renewable Energy, as well as the Company's 2012 RFP, whereby the Company was close to executing a power purchase agreement ("PPA") with the winning bidder from that RFP. The first development is a change in the ISO New England Inc. ("ISO-NE") pricing rules that will alter the way in which the wholesale power markets operate for generators and their load serving entities by requiring generators to pay the ISO-NE for the right to produce energy in the hours in which the price is negative. The second development is a change in the timetable for solicitations under R.I.G.L. §39-26.1-3. The Company is currently assessing the impact of these changes on the solicitation process, and has postponed the bidder's conference that had been scheduled for July 15, 2013 in order to allow time to engage with the Division regarding these recent developments.

Negative Pricing

On July 1, 2013, ISO-NE filed with the Federal Energy Regulatory Commission a series of changes to its Transmission, Markets and Services Tariff, including a revision to the ISO-NE market rules that would reduce the minimum bid in the spot wholesale energy market operated by ISO-NE from \$0/MWh to negative \$150/MWh. There are periods of time in the wholesale energy markets when there is more generation than load across the entire region (i.e. supply exceeds demand), and at other times, there is more generation in a particular point on the transmission system than the transmission system can handle (i.e. congestion). In those cases, the energy price in the market (either region-wide or at the particular point on the system, respectively) drops to \$0.00/MWh.

Currently, the lowest bid price in the market is \$0.00. Even with the energy bid price at \$0.00/MWh, some generators would prefer to run as opposed to shutting down, as it may be economic for those generators to do so. For example, those generators might incur costs in shutting down that are in excess of their cost to continue running or, in the case of certain renewable generators, shutting down would cause them to lose the value of production tax credits. When more generators are willing to run at \$0.00 than the system either needs or can accept, the ISO-NE uses administrative protocols to decide which generators must curtail their production and to what extent. When the negative pricing rules become effective (currently projected to be in December 2014), the lowest bid price in the market will become negative \$150/MWh. Generators will be able to continue to produce in any hour that prices are negative and will have to pay ISO-NE to continue to deliver power to the grid in those hours.

The possibility of negative energy prices in the ISO-NE markets could increase the relative cost to the Company's customers for power purchased pursuant to fixed price PPAs compared to the market price for that power. These PPAs are unit contingent, meaning that customers pay only for power that is produced. Currently, customers are exposed to market prices as low as \$0.00/MWh, so the difference between the contract price and the market price for energy in any hour will not exceed the price at which the energy is purchased under the PPA. With negative pricing, the generator can continue to produce energy even when the market price for energy is below \$0.00, so customers who are purchasing this power under a PPA are now exposed to market prices as low as negative \$150/MWh, as currently proposed by the ISO-NE. In other words, the above-market cost to customers of a PPA would be the fixed price of the energy under the PPA *plus* the amount by which the price is negative in that hour.

Impact on Current PPA Negotiations and 2013 RFP

In response to this negative pricing rule by ISO-NE, the Company proposed certain changes to the PPA it is currently negotiating with the winning bidder in its 2012 RFP that would, in effect, reduce the PPA price by any amount by which the market price for energy is below \$0.00/MWh in any hour. This would, in effect, put the Company's customers in the same position as if the market price were \$0.00/MWh, such that the above-market cost would not exceed the price paid under the PPA. That developer has responded with a higher price to account for taking additional market risk related to the negative pricing. The Company must determine how to address this issue in its current 2013 RFP, and assess the impact a decision to have the developer bear the risk of negative market prices will have on the prices charged under a PPA.

Notably, Connecticut and Massachusetts have recently grappled with this issue as well. Connecticut issued an RFP that would shift the risk of negative pricing to the developers in the same manner as proposed by the Company in its current PPA negotiations. The electric utilities in Massachusetts, including the Company's affiliates, are considering whether to make a similar adjustment in the PPAs to be entered into pursuant to the RFP that was issued in that jurisdiction earlier this year. Accordingly, the Company plans to consult with the Division for their input on how to address this negative pricing issue in the context of the current 2013 RFP, as well as the Company's current PPA negotiations.

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Amendment to R.I.G.L. §39-26.1-3

There was also a recent amendment to R.I.G.L. §39-26.1-3 that changed the timing for satisfying one-hundred percent (100%) of the minimum long-term contract capacity from December 30, 2013 to December 30, 2014, such that the Company is not required to complete the last solicitation until next year. In light of the legislative change to the solicitation schedule, coupled with the ISO-NE rule change discussed above, the Company, in consultation with the Division, needs time to assess the impact of these changes on the solicitation process as a whole. After the Company has had the opportunity to engage with the Division regarding these recent changes, the Company will make the appropriate filing with the Commission to facilitate the necessary next steps.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

cc: Leo Wold, Esq.
Karen Lyons, Esq.
Steve Scialabba, Division