



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

April 30, 2012

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

RE: Review of National Grid Power Purchase Agreement With Black Bear
Development Holdings, LLC
Docket No. 4319

Dear Ms. Massaro,

Enclosed please find for filing with the Commission on behalf of the Division of Public Utilities and Carriers ("Division"), an original and four (4) copies of the Division's Responses to the Commission's First Set of Data Requests.

Very truly yours,

Jon Hagopian
Special Assistant Attorney General

JGH/dmm

Encl.

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

REVIEW OF NATIONAL GRID POWER PURCHASE : DOCKET NO. 4319
AGREEMENT WITH BLACK BEAR DEVELOPMENT
HOLDINGS, LLC :

**DIVISION OF PUBLIC UTILITIES AND CARRIERS RESPONSES TO THE PUBLIC
UTILITIES COMMISSION'S FIRST SET OF DATA REQUESTS**

Commission 1-1

Request:

Please cite the PPA section(s) which designates a RI contractual delivery point.

Response:

The term "RI contractual delivery point" is not specifically defined in the PPA. It is a term used by Mr. Hahn in his memorandum to differentiate between the physical interconnection and delivery point (i.e., the Graham substation) and the pricing node where the contract price is determined (i.e., the RI zone). It is clear from the documents that it is the intent of the parties to have different physical and contractual delivery points. In the March 2, 2012 Summary Report to the Commission, Table 1 clearly shows that \$99.00 per MWH price escalated at 2% per year applies to deliveries to the RI zone. Exhibit G to the PPA clearly shows the physical delivery point as the Graham substation. Section 4.2(a) of the PPA describes the process through which an amount equal to the Zonal Price Separation (a defined term in the PPA) is charged by ISO-NE to NGRID. Exhibit E to the PPA states that the Zonal Price Separation amount is deducted from the PPA payments by NGRID to BBHP. These references demonstrate that the PPA is intended to achieve a contractual delivery point in the RI zone. The Company's testimony from page 12, line 14 to page 13, line 11 also describes the implementation of this pricing mechanism, which further demonstrates a RI contractual delivery point.

Prepared by: Richard S. Hahn

Commission 1-2

Request:

Mr. Hahn stated (Memorandum, p.14) that a lower capacity factor for the BBHP units would reduce the contribution of this project toward meeting the statutory 90 MW renewable requirement. Are you disagreeing with the 90% capacity factor projected by National Grid?

Response:

There is not enough information in the record at this point for Mr. Hahn to agree or disagree with the 90% capacity factor estimated by BBHP and used by NGRID in its economic evaluation of the proposed PPA. The existing hydro units at this site operate at about 70% capacity factor. The brief explanation offered by BBHP for the expected increase in capacity factor for the new hydro units at the same site to 90% may or may not materialize.

Prepared by: Richard S. Hahn

Commission 1-3

Request:

Are you suggesting that a different capacity factor should apply to the BBHP units?

Response:

No. If the proposed PPA were evaluated under a different assumption for capacity factor, the results of the economic evaluation would not change because the PPA calls for payments only for energy produced. However, it is Mr. Hahn's understanding that the Commission has determined that compliance with the long-term renewable contract standard will be determined by actual production, not the production estimated at the time the PPA is signed. (See the Commission's order in Docket 4069) At a 90% capacity factor, the expected output of the new BBHP units according to the Company's filing is about 31,268 MWH per year, which would contribute about 3.57 MW towards the total goal of 90 MW. If the actual capacity factor of the new BBHP units turns out to be 70%, the actual annual production falls to 24,320 MWH, which will contribute only 2.78 MW towards the total goal of 90 MW.

Prepared by: Richard S. Hahn

Commission 1-4

Request:

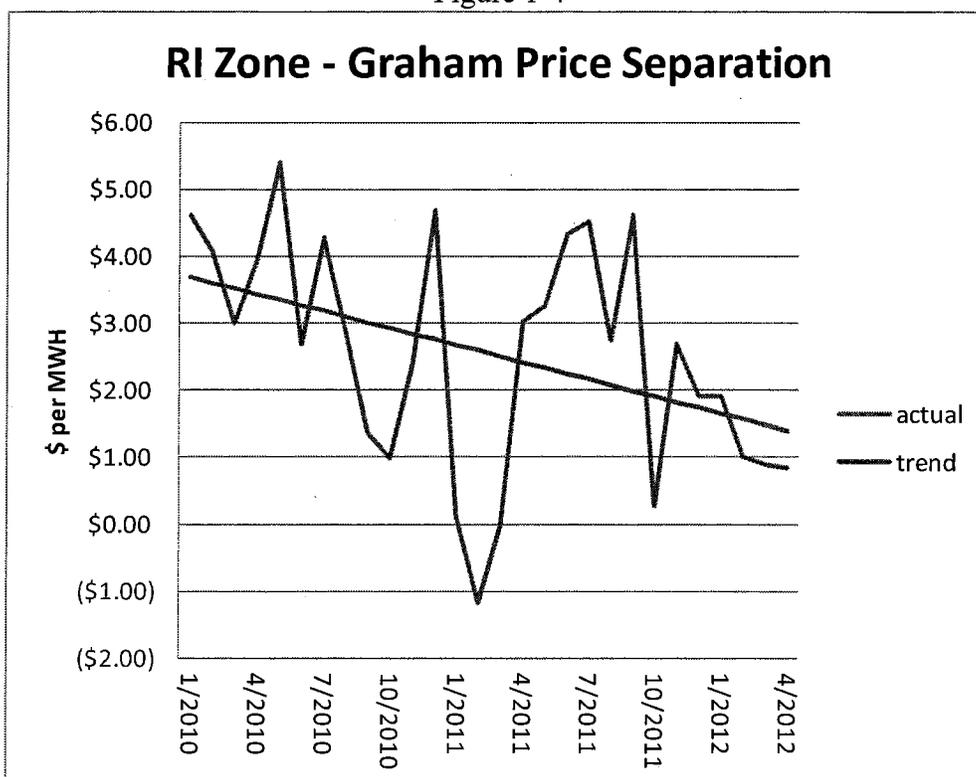
Please explain in layman's terms what is meant by "The second step may be for NGRID and BBHP to enter into a Real Time IBT within the ISO-NE market settlement system." Please include in your response definitions of "internal bilateral transactions" and "ISO-NE market settlement system". (Hahn Memorandum, p.6)

Response:

The following is a simple description of the ISO-NE Settlement Market System ("SMS") and Internal Bilateral Transactions ("IBTs"). ISO-NE manages an open and highly competitive market for electric energy. Because most states in New England have embraced retail competition, there are many entities that sell power supplies at the retail level. These include competitive suppliers, such as Constellation, and Standard Offer Service suppliers, such as NGRID. Such retail providers are referred to as Load Serving Entities ("LSEs"). A large industrial customer can become a participant in ISO-NE and serve as its own LSE. In New England, there are also Generators that wish to sell their output at the wholesale level into ISO-NE's market. A participant in the ISO-NE energy market can be a Generator only (i.e., no load serving obligation), an LSE only (no generation owned), or a participant that is both a Generator and an LSE. Each day, Generators submit hourly offers to sell their output, and LSEs submit hourly bids to buy power to serve their load obligations. The market "clears" at a price where the offer to sell equals the bid to buy. Because of losses and congestion in the electrical transmission system, market clearing prices can vary by location throughout the ISO-NE control area. These clearing prices are referred to as Locational Marginal Prices or LMPs and they exist for pricing nodes and load zones throughout New England.

Figure 1-4 below shows actual monthly Locational Marginal Prices for the RI zone and the Graham substation since January 2010. These prices are available from the ISO-NE web site. This graph shows the historical price separation between the RI Zone and the Graham substation, which is clearly on a downward trend.

Figure 1-4



The ISO-NE SMS accounts for all of the purchase and sale transactions created through the operation of the ISO-NE Energy market. ISO-NE collects payments from LSEs for the power purchased from the ISO-NE energy market to meet their load obligations. ISO-NE pays generators for the power that they supply to the ISO-NE energy market. Each market participant receives a settlement statement from ISO-NE detailing their charges and credits. This is what Mr. Hahn refers to as the settlement process.

A bilateral transaction is a contract between two parties or entities. In a real estate transaction where both buyer and seller sign a purchase and sale agreement, this is an example of a bilateral transaction.

An IBT is a defined term in the ISO-NE SMS that is a transaction between a seller of power and a buyer of power within the ISO-NE energy market. In very simple terms, an IBT is defined by a seller location or price point, a buyer location or price point, and an amount of power in MW to be sold to the buyer by the seller. The buyer becomes responsible for the price difference between the sellers' location and the buyer's location. IBTs are entered into the ISO-NE SMS, so that ISO-NE will know how to properly reflect the desired outcome in the settlement statements of the seller and the buyer.

Using BBHP as an example, an IBT is created with BBHP as the seller and the seller's price point the LMP at the Graham substation (assume \$50 per MWH). NGRID is the buyer with a buyer's price point at the RI load zone (assume \$55 per MWH). The IBT is for the output of the

BBHP (assume 3 MWH per hour). Thus, NGRID receives credit of the output of the BBHP units in the RI load zone at \$55 per MWH, but incurs a charge from ISO-NE of \$15 per hour $[(\$55 - \$50) \times 3]$.

The ISO-NE web site offers training modules that facilitate an understanding of how this market works. An example of a training module can be found at http://www.iso-ne.com/support/training/courses/wem101/12_energy_market_accounting.pdf.

The PPA between BBHP and NGRID is a bilateral transaction, but it is not an IBT. The IBT will be entered into the ISO-NE SMS to implement the outcome desired by the PPA.

Prepared by: Richard S. Hahn

Commission 1-5

Request:

Referring to page 4 of the Hahn Memorandum, please explain in detail why the price to ratepayers would still be \$99/MWH in the event the PPA price paid by NGRID to BBHP was reduced to \$94.00. Are payments made by NGRID to ISO-NE passed through to ratepayers? If so, through what mechanism/charge are these payments passed through to ratepayers?

Response:

The \$99.00 PPA price escalated at 2% is reduced by the amount of the Zonal Price Separation. A charge or cost equal to the Zonal Price Separation will appear on NGRID's statement from ISO-NE which is essentially an invoice from ISO-NE to NGRID that has both charges and credits for many items. It is Mr. Hahn's assumption that NGRID will pass these costs along to its customers. Based upon Mr. Hahn's understanding of utility cost accounting, the following process, or something similar to it, will be used by NGRID to identify and record these costs. NGRID will create an expense account and / or subaccount in which to record costs associated with the BBHP PPA. When BBHP invoices NGRID for PPA payments, NGRID will pay that invoice and record an expense on the Company's books in the BBHP PPA account. The amount of expense recorded will equal the \$99.00 PPA price escalated at 2% less the amount of the Zonal Price Separation. Similarly, NGRID will pay ISO-NE for Zonal Price Separation and

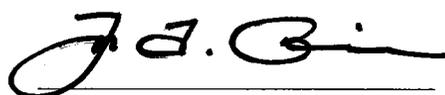
record that amount in the same BBHP account. Thus the total cost to Rhode Island ratepayers is the \$99.00 PPA price escalated at 2%.

If NGRID resells the attributes or products purchased from BBHP into ISO-NE markets (as allowed by Chapter 39-26.1-5(b) and according to NGRID's stated intentions), then any revenues received would be credited against the expenses charged to NGRID's BBHP expense account. The net results of these expenses and revenues, which could be positive or negative, would be included in the Company's distribution rates through a uniform reconciling annual factor pursuant to Chapter 39-26.1-5(f). Thus, Rhode Island ratepayers will pay the full \$99.00 per MWH escalated at 2%, including ISO-NE charges for Zonal Price Separation, less any revenues for attributes re-sold.

It should be noted that NGRID's statement from ISO-NE will likely contain other costs and revenues that are unrelated to the BBHP PPA. For example, there may be certain charges from ISO-NE to NGRID that are related to NGRID's provisions of Standard Offer Service. These charges would be included in the expense account that was set up for the provisions of Standard Offer Service and recovered only from SOS customers. NGRID's accounting system should be capable of separating the charges from ISO-NE and assigning these costs to the proper accounts for accurate cost recovery.

Prepared by: Richard S. Hahn

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



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Dated: April 30, 2012

CERTIFICATION OF SERVICE

I hereby certify that on the 30th day of April, 2012, that I transmitted an electronic copy of the within Data Responses to the attached service list and to Luly Massaro, Division Clerk via electronic mail and regular mail.



**Docket No. 4319 National Grid – PPA w/ Black Bear Development Holdings, LLC
Service List updated 4/3/12**

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