

May 2, 2012

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket 4319 - Review of Power Purchase Agreement With Black Bear Development Holdings, LLC Pursuant to RI General Laws § 39-26.1 et seq. Responses to Commission Data Requests – Set 3**

Dear Ms. Massaro:

Enclosed are ten (10) copies of National Grid's<sup>1</sup> responses to the Commission's Third Set of Data Requests issued on April 25, 2012 in the above-captioned proceeding.

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

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4319 Service List  
Jon Hagopian, Esq.  
Steve Scialabba, Division

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<sup>1</sup> The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "National Grid" or the "Company").

Commission 3-1

Request:

Please identify the PPA section(s) that specify that the basis for the energy pricing of the Black Bear PPA is the ISO-NE Rhode Island Zone.

Response:

The PPA does not explicitly state that the pricing is for the ISO-NE Rhode Island zone; however, the Rhode Island zonal pricing is reflected in the adjustment to the bundled pricing for zonal price separation as set forth in Exhibit E of the PPA, as originally proposed. However, the Company is in the process of amending the PPA to reflect pricing at the ISO-NE Maine zone. See the Company's response to Commission 3-6.

Also, note that based on the Company's most recent discussions with ISO-NE, the Company has determined that an Asset Registration Form would not result in settlement at the Rhode Island zone, as previously indicated on pages 12-13 of the pre-filed direct testimony of Madison N. Milhous, Jr. and Corinne M. Abrams. Rather, an Internal Bilateral Transaction (IBT) would be required to settle at the Rhode Island zone. While Section 4.2 of the PPA explicitly provides for the option to transfer the energy to Buyer by an IBT, these discussions with ISO-NE also indicate that the price separation would need to be treated differently than as currently structured in the PPA. The Company is in the process of amending the PPA to provide for the option to transfer the energy through an IBT and settled at either the Rhode Island zone or the Maine zone. See also the Company's response to Commission 3-6.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-2

Request:

Do you agree or disagree with Mr. Hahn's assessment (Hahn Memorandum, p.11) that future zonal price separation between Maine and Rhode Island is on a downward trend? Why?

Response:

National Grid agrees that in the long-term, the price separation between Rhode Island and Maine could potentially be reduced, and is not likely to increase beyond the levels in the ESAI forecast.

At the time the PPA was structured, and based on posted ISO-NE reports, periodic ESAI market assessments, and some limited discussions with ISO-NE staff, the Company recognized the following with respect to ISO-NE transmission projects:

- The New England East West solution (NEEWS) and the lower SEMA transmission projects would substantially reduce price separation in southern New England.
- The Maine Power Reliability Program (MPRP) would improve deliverability of power in Maine, but would not increase the transfer limit between Maine and the rest of New England.
- Significant additional transmission would be required in the future to enable delivery of land-based wind projects in Northern New England that would likely be required to meet New England's regional renewable energy goals.

In recent discussions with ESAI, the Company learned that on March 15, ISO-NE presented preliminary findings that the MPRP would increase the present transfer limits across the Maine-New Hampshire interface. At the conceptual level, this recent information, together with the likelihood that new transmission would be built to accommodate renewable resources in Northern New England, would lead to the conclusion that there is relatively low risk that price-separation between Maine and Rhode Island would increase significantly. Accordingly, the Company is in the process of amending the PPA to reflect pricing at the Maine zone. See the Company's response to Commission 3-6.

Commission 3-3

Request:

Do you agree or disagree with Mr. Hahn's statement (Hahn Memorandum, p.14) that under the terms of the Black Bear PPA, any reduction in PPA payments made by the Company to Black Bear due to zonal price separation would be offset by an equivalent amount of higher charges in the Company's ISO-NE settlement statement. Why?

Response:

Mr. Hahn's statement is correct. Under the proposed structure, any charges the Company receives as a result of the zonal price separation would be netted from the payments to Black Bear under the PPA, resulting in a net-zero sum. See also the Company's response to Commission 3-1.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-4

Request:

Do you agree with Mr. Hahn’s distinction (Hahn Memorandum, p. 6) that if approved, as currently proposed, the Orono B project would shield ratepayers from *changes* in congestion costs but not in *the pricing* resulting from those changes? Why/why not?

Response:

As originally proposed, the PPA provides for a fixed price for the energy, capacity and RECs for the 15 year term. This fixed price provides customers with a “shield” from the variable component of the congestion and losses. However, the Company is in the process of amending the PPA to reflect pricing at the Maine zone. See also the Company’s response to Commission 3-5 and Commission 3-6.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-5

Request:

Will charges paid by National Grid to ISO-NE relating to price separation associated with the Black Bear PPA be passed on to R.I. ratepayers?

Response:

No, not directly. Under the Long-Term Contracting Standard, R.I.G.L. § 39-26.1 *et seq.*, the difference between the contract cost and the market value of the products, i.e. capacity, energy, and RECs, is credited or charged to distribution customers, regardless of whether the energy and RECs are sold into the market, or used for Standard Offer Service. Price separation is a factor for resources located outside the Rhode Island zone. For example, as originally proposed in the PPA, the contract price is “fixed” in that it covers the price separation, i.e., the relevant energy market price is the Rhode Island Locational Marginal Price (“LMP”), as shown in Exhibit 2 to the pre-filed direct testimony of Madison N. Milhous, Jr. and Corinne M. Abrams. As originally proposed, the Company would recover the price separation from Black Bear, not customers. If the PPA is structured such that the contract price does not cover price separation, this cost would then be paid by the Company and accounted for in the determination of net above or below market cost. This is the mathematical equivalent to calculating the difference between the contract cost and the energy market value at the Maine LMP.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-6

Request:

Is National Grid willing to amend the PPA to change the contractual delivery point to the ME zone?

Response:

Yes. The Company and Black Bear are in the process of amending the PPA to modify the pricing and to eliminate the zonal price separation adjustment feature (other than with respect to IBTs that settle at the Rhode Island zone). The actual “Delivery Point” under the PPA has been, and will continue to be, “the specific Node on the Pool Transmission Facilities, as determined by ISO-NE, where [Black Bear] shall transmit its Energy to [the Company].” The parties intend to file the amendment with the Commission for approval in conjunction with approval of the PPA, and will submit supplemental testimony explaining the amended pricing structure.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-7

Request:

If the Orono B Project meets the 50% capacity requirement (required by December 31, 2011), how confident is the Company in meeting the 75% capacity requirement by December 31, 2012?

Response:

If approved, the Black Bear Hydro PPA will enable the Company to meet its 50% requirement for 2011, and in such event, the Company reasonably believes that it will be able to meet its 2012 capacity requirement of 75%.

This conclusion is based on the responses to the first two solicitations, and the expectation that there would be more responses to the next solicitation. In the report on the second solicitation filed on March 19, 2012, the Company observed that the responses may have been limited by the fact that only 3.6 MW of contract capacity was needed in order to meet the 50% requirement for 2011. It is reasonable to expect more bids, and larger projects, when the procurement requirement is larger. It is also reasonable to expect that a number of those bids will be for projects located outside Rhode Island.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-8

Request:

Rule 4.2(a)(5) of the Long-Term Contracting Rules requires the Company to set forth a criteria for evaluating direct economic benefits to the state of Rhode Island when evaluating the commercially reasonable standard. Rule 5.4 specifically allows the Company to use rate stabilization as a criterion for evaluating the direct economic benefits to the state of Rhode Island when the Company's solicitation would result in contracts in excess of the annual solicitation schedule. This presumes that stabilization of rates can be used by the Company, in certain circumstances, to determine whether the contract is commercially reasonable. This is consistent with the statutory definition of the commercially reasonable standard which considers the reasonableness of contract pricing.

In this docket, however, the Company is proposing to use the benefit to ratepayers of cost savings and long-term rate stabilization associated with the pricing of the Black Bear PPA as a criterion for satisfying the direct economic benefits test (Rule 5.2). Also, in Docket 4316, the Company has proposed revising the RFP process to allow pricing benefits to satisfy the direct economic benefits test. For purposes of this docket, since pricing is already evaluated as part of the commercially reasonable standard, unless and until the evaluation of pricing benefits becomes part of the direct economic benefits test, if the Company considers pricing benefits as part of the direct economic benefits test, isn't it effectively circumventing the true meaning of the direct economic benefits requirement of Rule 5.2?

Response:

No. The Company believes that pricing benefits are integral to a determination of commercially reasonable and economic benefit. See the Company's response to Commission 3-9. The Company has included economic benefit in its non-price evaluation criteria, which was included as Appendix B (Non-Price Bid Evaluation Protocol, Rhode Island Renewable Energy Solicitation, August 2010) in the report on the first competitive solicitation, filed on March 21, 2011. Section E1 Economic Benefits to Rhode Island, includes three categories: Direct Job Benefits, Indirect Job Benefits, and Property Tax and Other Revenues. As an alternative to indirect job benefits, a project may receive credit "through a significant advantage in pricing of the bundled renewable product relative to other projects submitting bids." The revisions to the RFP filed in Docket 4316 were intended to clarify that a pricing benefit would be included in the consideration of economic benefits. Thus, in the price and non-price scoring, a project not providing direct job benefits or property taxes and other revenues (e.g. projects located outside of

Commission 3-8 (continued, p2)

Rhode Island), could still receive credit in the non-price scoring for economic benefit based on price when compared to a long range price forecast.

Prepared by or under the supervision of: Corinne M. Abrams

Commission 3-9

Request:

Is the Company asserting that the projected pricing benefits and/or stabilization of rates resulting from the Black Bear PPA would satisfy both the commercially reasonable standard (Rule 3.1 and R.I.G.L. §39-26.1-2) and the economic benefits standard (Rule 5.4)? If so, please explain how this interpretation fulfills the express legislative intent of the Long-Term Contracting Standard (R.I.G.L. §39-26.1-1) of stabilizing long-term energy prices and *creating jobs in Rhode Island*.

Response:

Yes. See the Company's response to Commission 3-8. The Company believes that there are two ways to interpret R.I.G.L. § 39-26.1 *et seq.* and the Rules and Regulations. The first interpretation is a liberal interpretation and the one that the Company urges the Commission to adopt. This interpretation would allow beneficial pricing that could not otherwise be achieved in Rhode Island to satisfy the economic benefits standard in Rule 5.2 and Rule 5.4. This benefit is realized by the projected cost savings to customers as a result of the Company paying less than the forecasted market price over the term of the contract. Such interpretation is consistent with the express legislative intent of the statute, which is "to encourage and facilitate the creation of commercially reasonable long-term contracts. . . with the goals of stabilizing long-term energy prices, enhancing environmental quality, creating jobs in Rhode Island in the renewable energy sector, and facilitating the financing of renewable energy generation within the jurisdictional boundaries of the state *or adjacent state* or federal waters *or providing direct economic benefit to the state.*" (Emphasis added). Further, the use of the conjunctive "or" suggests that it is reasonable to consider the stated goals in totality, and not with the requirement that each project selected for a long-term contract must satisfy all criteria equally. Given the results of the first two solicitations, it is reasonable to anticipate a range of projects meeting these goals at the point that the full 90 MW requirement is reached.

The second interpretation is a more strict interpretation, which would require that each project create jobs or other direct economic benefits. In the event that the Commission adopts this strict interpretation, it could prevent the Company from entering into long-term contracts with interstate projects. Such result could also present constitutional challenges, thereby frustrating the legislative purpose of the statute.