

September 21, 2012

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket 4338 - Tariff Advice Filing to Amend R.I.P.U.C. No. 2081, Long-Term Contracting For Renewable Energy Provision  
National Grid's Reply Comments**

Dear Ms Massaro:

Enclosed please find ten (10) copies of National Grid's<sup>1</sup> Reply Comments in the above-referenced proceeding. These comments are in response to comments filed by the Division of Public Utilities and Carriers on September 11, 2012.

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

Enclosures

cc: Docket 4338 Service List  
Leo Wold, Esq.  
Steve Scialabba, Division

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

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically transmitted to the individuals listed below. Copies of this filing were hand delivered to the RI Public Utilities Commission.



September 21, 2012

**Docket No. 4338 National Grid – Tariff Advice Filing to Amend RIPUC No. 2081, Long-Term Contracting for Renewable Energy Recovery Provision Service List updated 9/21/12**

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

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**In Re: Tariff Advice Filing to Amend R.I.P.U.C. No. 2081,  
Long-Term Contracting For Renewable Energy Provision**

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Docket No. 4338

**REPLY COMMENTS OF THE  
NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID  
REGARDING LONG-TERM CONTRACTING FOR RENEWABLE ENERGY  
RECOVERY PROVISION**

**I. Introduction**

National Grid<sup>1</sup> hereby submits this reply to the written comments submitted by the Rhode Island Division of Public Utilities and Carriers (the “Division”). On July 2, 2012, the Company filed by tariff advice to amend R.I.P.U.C. No. 2081, Long-Term Contracting for Renewable Energy Provision (“LTCRER”) to implement certain cost-recovery provisions contained in the Long-Term Contracting Standard for Renewable Energy<sup>2</sup> and the Distributed Generation Standard Contracts Act.<sup>3</sup> In compliance with the established procedural schedule, on September 10, 2012, the Division’s consultant, Richard Hahn, submitted comments with respect to the Company’s proposed amendments to the LTCRER. In its comments, the Division agreed with the Company that it is necessary to revise the tariff in order to implement this cost-recovery mechanism, and that, generally, the Company’s proposal is reasonable. However, the Division has recommended certain changes regarding the implementation of the tariff. The Company now takes this opportunity to respond to issues raised in the Division’s comments.

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

<sup>2</sup> See R.I.G.L. § 39-26.1 *et seq.*

<sup>3</sup> See R.I.G.L. § 39-26.2 *et seq.*

## **II. Comments**

### **a. Tariff Language**

The Division recommends that the Company use a once-a-year reconciliation, consistent with other Rhode Island tariffs, and proposes two separate tariff sheets: one for the semi-annual LTCRER charge and one for the annual adjustment charge. The Company does not object to implementing separate tariff provisions for the semi-annual charge and the reconciliation provision. However, the Company proposes to include language in the reconciliation provision that allows the Company to adjust the LTCRER charge more than once per year in the event that the over- or under-collection of LTCRER expenses is significant. The Company's Transmission Service Cost Adjustment Provision, R.I.P.U.C. 2080 contains similar language to this effect.

### **b. Coordination With Other Tariffs / Charges**

The Division recommends that the annual LTCRER adjustment occur once per year, and have an effective date of April 1 to coincide with the effective dates of the Standard Offer Service ("SOS")/Renewable Energy Standard ("RES") reconciliations. The Company's proposal in this filing was intended to limit the number of LTCRER rate changes per year to no more than two. However, the Company does not object to including the LTCRER reconciliation as part of the annual retail reconciliation submitted each February for rates effective April 1 if the Division and the Commission prefer to treat this reconciliation in a manner similar to the Company's other reconciling provisions. However, as indicated above, the Company believes that it is important to maintain the ability to adjust the LTCRER more than once per year in the event that a significant over- or under-collection occurs.

c. REC Prices

The Division recommends the establishment of a quarterly “transfer price” for RECs that will determine the charge to SOS customers in order to satisfy the RES, as well as the credit to all Delivery Service customers. The Company agrees with the Division that a transfer price should be established quarterly, as described in the Pre-filed Direct Testimony of Margaret M. Janzen, which states:

Finally, in order to determine the market cost of the New RECs to assess to SOS customers, the Company proposes to utilize the most representative market data sources, such as recent standalone RES solicitation results, broker information, published REC indexes, competitive solicitations in other states with a similar REC class, or other data sources that may not yet be available. The Company proposes to perform this determination of the market costs of the New RECs on a quarterly basis as they are delivered. RECs will be delivered to the Company through the New England Power Pool Generator Information System ("GIS") on a quarterly basis, and the Company will assess their value at delivery every three months by calculating the average of the available market prices two weeks before and after the delivery. To illustrate, after the first quarter of generation is completed, the New RECs are "minted" or created within the GIS and then delivered to the Company. At this point, the Company would average the available market price points for the period two weeks prior to and after the delivery date.<sup>4</sup> (Emphasis added.)

The Company further elaborated on this price-setting process in its Response to Division Data Request 1-6(b):

On a quarterly basis, the Company will obtain market prices for a period of ten business days before the opening of the NEPOOL Generator Information System trading period and ten business days after. The Company will then average those market prices to calculate a market REC value.

In the Division’s comments, it suggests that the transfer price for the first quarter 2013 should be established on or about April 15, 2013 to “avoid the risk of setting all REC prices at a

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<sup>4</sup> See July 2, 2012 Pre-Filed Direct Testimony of Margaret M. Janzen, Docket 4338, at page 10, lines 14-20; page 11, lines 1-7.

single point in time.”<sup>5</sup> The Company agrees with the Division that REC prices should not be set at a single point in time; however, it respectfully disagrees with the recommendation to set REC prices on or before April 15 for this first quarter. The reason is that the trading period for the first quarter of 2013 will not open until July 15, 2013, which would be the first opportunity for the RECs to be delivered to the Company’s GIS account. The Company reiterates its proposal to establish the price at delivery every three months using available pricing information for the ten business days before and after delivery (e.g. July 15, 2013 for the first quarter 2013). All New RECs generated and delivered for a specific three-month trading period will receive the same price (which would be the average of twenty data points). To further clarify, the Company proposes to establish the transfer price of RECs throughout the year per the following illustrative schedule:

<b>Quarter (3-month Generation Period)</b>	<b>Transfer Date (when available in GIS at end of each Quarter)</b>	<b>Time period for gathering price data (approx 10 days before and after Transfer Date)</b>
1Q13 (Jan – Mar 2013)	July 15, 2013	July 1-30, 2013
2Q13 (Apr – Jun 2013)	Oct 15, 2013	Oct 1-30, 2013
3Q13 (Jul – Sep 2013)	Jan 15, 2014	Jan 1-30, 2014
4Q13 (Oct – Dec 2013)	Apr 15, 2014	Apr 1-30, 2014
1Q14 (Jan – Mar 2014)	July 15, 2014	July 1-30, 2014
2Q14 (Apr – Jun 2014)	Oct 15, 2014	Oct 1-30, 2014
...	...	...

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<sup>5</sup> Rhode Island Division of Public Utilities and Carriers September 10, 2012 Memorandum, at page 4.

It should be noted that the NEPOOL may modify the GIS trading periods for RECs at some point in the future, at which point the Company would establish the transfer price whenever the RECs are delivered.

The Division also suggests using published indices as much as possible because they are more transparent than broker quotes. The Company generally agrees conceptually, but, unfortunately, there is a dearth of published indices for the Rhode Island New REC class. The Company is aware of only one published index for Rhode Island New RECs, which is the SNL RECs Index.<sup>6</sup> The data source for this index is environmental brokers. As Ms. Janzen described in her pre-filed direct testimony, and as further described in the Company's responses to data requests, the Company will utilize any available information (recent standalone RES solicitation results, broker information, and other future sources) to determine market price. In the future, the Company will incorporate more published indices if they become available.

d. Interest Rate

The Division recommends that the Company use its actual cost of short-term debt as the interest rate for determining additional collections or refunds as part of the reconciliation process. The Company notes that historically the interest rate paid on customer deposits has been accepted as the appropriate short-term interest rate to be applied to over- or under-collections in each of the Company's annual reconciling provisions. However, the Company does not object to utilizing the actual cost of short-term debt in calculating the interest charges applicable to the final reconciliation balance of the LTCRER reconciliation.

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<sup>6</sup> SNL Financial LC ("SNL") is a financial information firm that publishes news and analysis for several industries including energy. Subscribers can access a weekly article that summarizes the activity in the emission and REC markets. This article also includes a table of the SNL RECs Index, which displays REC prices for different jurisdictions, vintages, and prices. The content on the SNL website is the property of SNL Financial LC.

e. Contract Remuneration

The Division recommends that the Company collect its financial remuneration pursuant to Rhode Island General Laws § 39-26.1-4 on a retrospective basis. The Company does not object to the Division's proposal related to the application of the remuneration.

f. Spot Market Price Methodology

Although the Division did not address capacity costs embedded in the spot market estimate in its comments, the Company has reevaluated its calculation methodology used to estimate the capacity component of the spot market price based on discussions with the Division's consultant, Richard Hahn. In the Company's response to Division Data Request 1-4, the Company provided the calculations to estimate the 10% spot market purchases for the July 2012 through December 2012 rate period. The Company would like to take this opportunity to propose an enhanced calculation methodology based on discussions with Mr. Hahn.

The Company's current methodology calculates the estimated monthly capacity charges using the peak demand in the previous year multiplied by the Forward Capacity Market price. The Company then converts this charge to a \$/MWh format by utilizing a load factor percentage. In the most recently completed rate period (January to June 2012), the estimated capacity \$/MWh charge included in the January to June 2012 SOS rates was underestimated by approximately 21% for the Residential Group, and by approximately 1% for the Commercial Group.

In Order 20431 in Docket No. 4227, the Commission ordered the Company to include a bid premium calculation as part of the SOS solicitation process. This bid premium calculation, based on examples provided by the Division's consultant, utilizes Installed Capacity ("ICAP") tags for the capacity cost component. The capacity calculation is essentially the same as that

used in the ISO-NE settlement report. The difference is that the Company incorporates forecasted inputs while the settlement report utilizes actual values. The Company believes it would be best to utilize this method for setting the spot market component of SOS rates because it should consistently create more accurate capacity estimates than the Company's current method. In the most recently completed rate period (January to June 2012), the estimated capacity \$/MWh charge included in the January to June 2012 SOS rates would have been underestimated by approximately 1% for the Residential Group (compared to 21%), and by approximately 4% (compared to 1%) for the Commercial Group.

The Company proposes to use this new capacity calculation consistently across future SOS rate calculations, the LTCRER calculations, as well as the SOS RFP solicitations.

Respectfully submitted,

The Narragansett Electric Company  
d/b/a National Grid

By its attorney,



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Jennifer Brooks Hutchinson (RI Bar #6176)

Dated: September 21, 2012