

# Memorandum

**To: L. Massaro**

**Commission Clerk**

**From: S. Scialabba**

**Division of Public Utilities & Carriers**

**Date: 12/10/2014.**

**Re: Narragansett Electric – Standard Offer Rate Filing:**

**Docket 4393**

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## Procurement and Filing Summary

On November 19, 2014 Narragansett Electric Company d/b/a National Grid (“National Grid” or “Company”) filed with the Commission Proposed Standard Offer Service Rates for the Residential and Commercial Groups for the months of January 2015 through June 2015, and for the Industrial Group for the Months of January 2015 through March 2015. Included with the filing was the Results of Competitive Procurement for the months of January 2015 Through December 2016 for the Residential Group, for the Months of January 2015 through December 2015 for the Commercial Group, and for the Months January 2015 through March 2015 for the Industrial Group. A Request for Confidential Treatment for detailed bid results was submitted. The Confidential materials were submitted to the Division for our review.

Included in the filing are the Results of Competitive Procurement for the following groups and time periods:

**Industrial Group:** 100% of the load for January through March 2015.

National Grid received responses from multiple bidders and selected the lowest bidder. As shown in response to Division 2-3, 34% of the G-32 load and 16% of the G-62 load is served by standard offer. Obviously the majority of the power requirements of customers in these two Industrial classes is served by competitive suppliers.

**Commercial Group:** 30% of the load from January - December 2015.

With this most recent solicitation for another 30% of the standard offer (SO) load requirements, 90% of the total standard offer requirements for the Commercial Group for January-June 2015 have now been procured (NGrid will also purchase 10% of the load in the spot market per National Grid’s Commission approved plan<sup>1</sup>).

Also, 30% of the Commercial Group SO requirements for July 2015- December 2015 have been procured in the October 10, 2014 solicitation, as that was a 12 month procurement. For this July-December 2015 period, another 30% will be solicited in Q1 of 2015 (via a six-month procurement), and another 30% will be procured in Q2 of 2015 (via a 12 month procurement that will run through June 2016.)

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<sup>1</sup> The main provisions of the present standard offer procurement plan was approved in Docket 4149, Order No. 20125, issued 9/23/2010.

In summary, for the Commercial Group, the power for the January-June 2015 period has been procured under Full Requirements Service (FRS) contracts, each covering 30% of the load for the period, and final bids for each solicitation were received in May, August, and November of 2014. In each of these solicitations, NGrid received responses from multiple bidders and selected the lowest bidder. Again, in response to Division 2-3, NGrid indicates that 80% of class C-06 load (small, non-demand metered) is served through the Standard Offer, while 58% of the G-02 load (demand metered, under 200KW) is served through the Standard Offer.

**Residential Group: 15% of the load from January 2015 through December 2016.**

With this most recent solicitation, 90% of the Residential Group's load requirements for Jan-June 2015 have been purchased. (15% in 11/13, 20% in 2/14, and 20% in 5/14, 20% in 8/14 and 15% in 11/14). 10% of load requirements will be made in the spot market. As National Grid has done procurements for as long as 24 months for the Residential Group, 70% of the power requirements for July-December 2015 and 15% of requirements for Jan-December 2016 have already been procured. A summary of the Residential Group's procurement for the January-June 2015 period is as follows:

Table 1

<u>Bid Date</u>	<u>Amount of FRS Procured</u>	<u>Term Covered by Solicitation</u>
11/13/13	15%	24 months. Jan-14 to Dec-15
2/19/14	20%	18 months. Jul-14 to Dec-15
5/14/14	20%	6 months. Jan-15 to Jun-15
8/13/14	20%	12 months. Jan-15-Dec-15
11/12/14	15%	24 months. Jan-15 to Dec-16
Spot market purchases	10%	

In each of the Residential Group solicitations, National Grid received multiple responses and selected the lowest bidder. 92% of the residential customers' power supply is provided through the standard offer, while competitive suppliers provide 8%.

Included in the filing as well are:

- A calculation of the Standard Offer Service ("SOS") retail rates for the Industrial, Commercial, and Residential Groups for each month of the service period;
- A typical bill analysis for the SOS customers in each of the groups;

- A copy of SOS Request for Proposals (“RFPs”) to solicit SOS supply issued on October 10, 2014 for the period January through March, 2015 for the Industrial Group, January 2015 through December 2015 for the Commercial Group, and January 2015 through December, 2016 for the Residential Group;
- A redacted summary of the procurement process, and;
- Redacted versions of the executed confidential Master Power Agreements Forms of Confirmations between National Grid and the power suppliers for the power procurements discussed above.

Un-redacted versions of the Procurement Summary and Master Power Agreement Confirmations have been supplied to the Commission and Division under separate cover.

### Industrial Group Rates

The Standard Offer rates proposed for the Industrial Customer Group for January through March 2015, including the current per-kWh Standard Offer Adjustment Factor of \$(0.00360) and the Administrative Cost Factor of \$0.00139, and excluding the Renewable Energy Charge of \$0.0048 are:

- January 2015: \$0.2034/kWh.
- February 2015: \$0.20388/kWh.
- March 2015: \$0.12105/kWh.
- The three month average of the proposed January-March 2015 Industrial Group SOS Rates is \$0.17611, compared with the Jan-March 2014 average Industrial Standard Offer rate of \$0.0981/kWh. The average rate for the pricing period we are now concluding, October-December 2014, is \$0.08830/kWh.

### Residential and Commercial Groups’ Rates

The Standard Offer rate proposed for the **Residential Customer** Group for January through June 2015, including the current per-kWh Standard Offer Adjustment Factor of \$0.00171 and the Administrative Cost Factor of \$0.00155, and excluding the Renewable Energy Charge of \$0.0048 is \$0.12225/kWh. This is an increase in the Standard Offer rate of \$.04346/kWh, or 55%, compared with the current Standard Offer Charge of \$0.07879/kWh.

The **fixed price option** Standard Offer rate proposed for the **Commercial Customer** Group for January through June 2015, including the current per-kWh Standard Offer Adjustment Factor of \$0.0037 and Administrative Cost Factor of \$0.00162, and excluding the Renewable Energy Charge of \$0.0048 is \$0.12895/kWh. This is an increase in the fixed price option Standard Offer rate of \$0.04094/kWh, or 46% compared with the current fixed price option charge of \$0.08801/kWh.

The monthly **variable price** proposed Standard Offer rates for the **Commercial Group** are as follows:

January - \$0.20347; February - \$0.19809; March - \$0.12422; April - \$0.08063; May - \$0.06763; June - \$0.08162

In calendar year 2015, the Rhode Island load covered by the filed RFP is subject to a 8.5% Renewable Energy Standard (“RES”) requirement. Because the bidders either did not submit RES prices with the bids, or the bids that were submitted were higher than National Grid’s estimate of the market cost for Renewable Energy Certificates (RECs), National Grid did not include RES adders in the final purchase prices. The Company will attempt to procure the RES requirements through separate solicitations for RECs.

After review, I believe the standard offer power procurement and the filing are in compliance with order number 21094 issued in the Standard Offer Procurement Plan submitted by the Company and approved by the Commission at open meeting June 28, 2013 in Docket number 4393, and order number 20125, approved at open meeting on August 5, 2010, in Docket 4149.

Discussion on the energy market and standard offer pricing options.

As the Commission is undoubtedly aware, the New England electricity market is stressed, especially in the winter months, as a result of gas transmission pipeline constraints, natural gas heating requirements, increased reliance on natural gas as an electric generating fuel, winter reliability rules, and announced closing of non-gas generators such as Vermont Yankee (nuclear), Brayton Point (coal and oil) and Salem Harbor (coal and oil). Spot electricity prices spiked last winter, and wholesale suppliers are bidding in prices for the 2014-2015 winter period at levels much higher than seen historically. Comparative residential standard offer service rates elsewhere in New England, as compared to National Grid’s Rhode Island proposal are shown below.

Table 2

State/Utility (1)	Current/Prior Rate (2)	Approved/Upcoming Rate (3)	% Change in SO Rate (4)
<b>Connecticut</b>			
CL&P	10.0¢	12.5¢	25%
United Illuminating	8.7¢	13.3¢	53%
<b>Massachusetts</b>			
NSTAR	9.4¢	15.0¢	60%
Western Mass Elec	8.8¢	14.0¢	58%
National Grid	8.3¢	16.2¢	96%
Fitchburg Elec	8.5¢	14.1¢	66%
<b>New Hampshire</b>			
Unitil	8.4¢	15.5¢	86%
Liberty	7.7¢	15.5¢	100%
<b>Rhode Island</b>			
<b>National Grid</b>	<b>7.9¢</b>	<b>12.2¢</b>	<b>55%</b>

Note: Source of New England rate information is from a 12/4/14 presentation of Northeast Utilities to the ISO-NE Consumer Liaison Group on Electric Rates and Market Drivers. The beginning effective date of the rates in column (3) varies from 11/14 to 1/15 and all are for a six-month pricing period. The RI rate including the RES factor would be 12.705¢

In response to the Commission's Third and Fourth set of data requests, National Grid presented different residential pricing options that display the rates, typical bill impacts, and deferred power costs for scenarios that include (1) the current filing (2) establishing a 12 month rate (3) deferring 5% of the Jan-June 2015 power costs, and (4) deferring 10% of the Jan-June power costs. These are summarized below:

Table 3

<u>Option</u>	<u>Deferral Amount</u>	<u>Rate Period</u>	<u>¢ per kWh</u>	<u>Bill Impact (Res@500 kwh)</u>	<u>Total Bill</u>	<u>% Change</u>
Current			8.359¢		\$86.58	
No Deferral (As Filed)	\$0	Jan to June	12.705¢	\$22.64	\$109.22	26.14%
		July-Dec	8.914¢	(\$19.74)	\$89.74	(18.08)%
5% Deferral	\$8.3 million	Jan-June	12.111¢	\$19.54	\$106.12	22.57%
		July-Dec	9.46¢	(\$13.81)	\$92.31	(13.01)%
10% Deferral	\$16.7 million	Jan-June	11.516¢	\$16.44	\$103.02	18.99%
		July-Dec	10.006¢	(\$7.86)	\$95.16	(7.63)%
16.9% Deferral (12month rate)	\$28.2 million	Jan-June	10.728¢	\$12.34	\$98.92	14.25%
		July-Dec	10.728¢	\$0.00	\$98.92	0.00%

Note: Rates in Table 3 include all standard offer supply charges, including the RES charge.

Since the time when the present form of standard offer procurement and pricing began, 1/1/10, the residential pricing period and the period for which contractual costs were incurred have been consistent, and those are the six month periods of January–June and July–December. There has never been a designed deferral of power supply costs intended to be recovered in a future period. Such a pricing policy, which reduces present rates below market, and puts future rates above market, can create some issues that should be considered.

The Commission has recognized that, when discussing standard offer policy issues in its Order in Docket 4149, “*Rhode Island remains a retail choice state according to the terms of the Utility Restructuring Act*”<sup>2</sup>. Any movement of standard offer prices away from the underlying supply cost can impact the competitive suppliers ability to compete with the standard offer. Competitive suppliers likely do not have the ability to defer power supply cost with a statutory right to full cost recovery, as National Grid has. Further, National Grid points out in its response to Comm 3-1 that moving winter and summer rates away from the underlying costs can affect customer migration which the Company believes may add cost to future procurement bids due to higher risk premiums. The Company additionally offers its Budget Billing program as a preferred way for customers to smooth out their electric costs over the course of the year, while not interfering with the workings of the retail and wholesale markets, and not creating deferred costs to be recovered in the future. While the impact of pricing options on the competitive retail market is a consideration, the Division would note

<sup>2</sup> Docket 4149, Order 20125, page 19.

the small amount of migration to competitive supply in the residential and small commercial classes that has occurred after sixteen years of retail choice, as well the minimal amount of marketing effort we have observed from suppliers to the small customer classes.

The filed proposed residential rates are consistent with prior Commission pricing policy and precedent, and are the result of the Company following the approved procurement plan and obtaining competitive responses to its RFPs. National Grid does not earn a profit on the electricity its customers use and has no incentive to retain standard offer customers. As can be seen by the comparative rates shown in Table 2, the Rhode Island procurement policy has mitigated the rate impacts of this winter's prices, as compared with the other New England states, as the procurement uses six price points and performs procurements over varied and longer terms. As a result, the volatility in the near term wholesale market has already been mitigated to a significant extent. The residential Standard Offer rate proposed by National Grid is not unprecedented. The Commission had approved a similar increase in the Standard Offer rate, from 9.2¢ to 12.4¢, kwh for the six month period 7/15/08 – 12/31/08<sup>3</sup>. This resulted in a 22% increase in 500 kwh residential bills at that time. The reasons in that case were similar – increased contractual costs due to fuel price increases. In its decision in that case, the Commission noted its policy of not allowing large undercollections to accrue in the Standard Offer account. On 1/1/09, the Standard Offer rate was able to be reduced back to 9.2¢ due to changed market conditions (a drop in fuel prices) which lowered National Grid's contractual cost.

Despite this, the rate increase and bill impacts resulting from National Grid's current proposal are still large by any objective standard and the Commission's concern about customer impacts, as evidenced by its data requests, is justified. After review and consideration of the pricing options displayed in Table 3 above, if the Commission were to consider any option other than the filed proposal, the Division finds the 10% deferral as the most reasonable of the options. It maintains an appropriate price signal that reflects the fact that electricity this winter period is extraordinarily expensive in New England, while providing a significant amount of relief from the filed rate. Further, it still provides for a reduction for the July-December 2015 period, which the 12 month rate does not.

The Division urges National Grid to promote its Budget Billing program for electric customers, and communications with customers should include information on the availability of such a program, as well as the company's energy efficiency programs.

Further, the Division recommends that the RES charge shown on National Grid's bills to standard offer customers be rolled into the billed standard offer rate rather than continue to be shown as a separate charge in the "Energy Supply" portion of the bill. Competitive suppliers include their RES obligation in their power rates, and National Grid's practice, resulting from a prior Commission directive, makes it more difficult and confusing for customers to compare standard offer rates with competitive supplier offerings.

Regarding the Commercial Group rates, the issue of pricing options is somewhat more complicated than for the Residential Group. There are two pricing mechanisms for the Commercial Group, a monthly rate that mirrors National Grid's monthly cost, and a flat rate, which averages the rate over the cost for the six-month pricing period. Depending on whether the customer is on the C-06 rate or the G-02 rate determines which pricing method the customer goes on, and there are some limited abilities for the customers to switch between pricing options. Further, to date National Grid has only procured 30% of the supply for the Commercial Group for the period beginning after June of 2015. That makes estimating a future price point difficult. While the deferral amount can be estimated, the future supply cost to which the deferred amount will be added is still largely unknown. The Commission's data requests have not inquired about pricing options for the Commercial Group, though an intervenor has raised the issue of rate impacts for this group in its intervention. If this is to be considered, National Grid should weigh in about the implications of moving away from the

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<sup>3</sup> See PUC Order No. 19378 in Docket 3960, written order dated 8/20/08.

current pricing policy for the Commercial Group and any associated potential issues. All Commercial Group customers should explore available competitive supply options. Additionally, all standard offer Commercial Group customers for whom volatile rates are problematic, not just month to month volatility but also period to period volatility, should consider enrolling in 12 month Budget Billing with National Grid.

Cc: Docket 4393 service list  
Thomas Ahern, Administrator