

BEFORE THE  
STATE OF RHODE ISLAND  
AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

_____ )	
In Re: NARRAGANSETT ELECTRIC COMPANY )	<b>Docket No. 4393</b>
d/b/a NATIONAL GRID )	<b>2014 Standard Offer</b>
RHODE ISLAND ELECTRICITY )	<b>Service Procurement</b>
_____ )	<b>Plan and 2014</b>
	<b>Renewable Energy</b>
	<b>Standard Procurement</b>
	<b>Plan</b>

DIRECT TESTIMONY

of

JOHN FARLEY

Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect of the State of Rhode Island

December 11, 2014

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

TABLE OF CONTENTS

	<u>Page</u>
Introduction .....	1
a. Qualifications .....	2
b. Purpose .....	5
c. Executive Summary of Testimony .....	5
I. The Situation.....	9
II. Anticipated Harm .....	18
III. Comparisons with Other Utilities in New England.....	21
IV. Comparison with National Grid’s own actions in New York .....	32
V. Remedies .....	37
Conclusion .....	50

Exhibits:

JF-1: State of New York Public Service Commission press release dated January 29, 2014 announcing authorization for National Grid to provide its customers with a \$32 million temporary credit to offset an unprecedented increase in electric supply costs.

JF-2: National Grid news release dated November 3, 2014: “National Grid to Implement Additional Measures to Help Stabilize Electricity Bills”

**Direct Testimony of John Farley**  
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**Docket No. 4393**

**INTRODUCTION**

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**Q. Please identify yourself.**

A. My name is John Farley. I am the president of John Farley Consulting LLC, an energy consulting firm. My mailing address is 4613 N. University Dr #484, Coral Springs, FL 33067. I previously served as the Executive Director of The Energy Council of Rhode Island (TEC-RI) from July 2004 to May 2010. I am testifying in this docket on behalf of Dan McKee, the Lieutenant Governor-Elect of the State of Rhode Island, who will be assuming office in early January, 2015.

**Q. For whose interests are you advocating in this case on behalf of Lieutenant Governor-Elect McKee?**

A. We are advocating on behalf of the small businesses of Rhode Island. As the Lieutenant Governor, Mr. McKee will serve as the chairperson of the Small Business Advisory Council. R.I.G.L. § 42-91-3(a) sets forth that the purpose of the council shall be to develop those specific and comprehensive recommendations for executive and legislative action as may be necessary and proper to maintain and encourage the continued viability of small businesses in the state. The large rate increase proposed by National Grid in this case would harm small businesses. This testimony will present specific recommendations on how to mitigate that harm immediately and on a going-forward basis.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1 **Q. Have you previously testified before this Commission?**

2 A. Yes I have, on several occasions in the past when I served as the Executive Director  
3 of the Energy Council of Rhode Island (TEC-RI).

4

5

**a. Qualifications**

6 **Q. What is your work background?**

7 A. I am currently the President of John Farley Consulting, an independent energy  
8 consulting firm specializing in the retail energy business. My practice focuses on  
9 utility rates, utility resource planning, energy efficiency, cost-effectiveness, and  
10 measurement & verification. I have thirty (30) years of professional experience in  
11 the energy field.

12

13 From 2004 to 2010, I served as the Executive Director of The Energy Council of  
14 Rhode Island. In that capacity, I represented business ratepayer interests at the  
15 Commission, the state house, environmental regulators, and collaborative activities,  
16 as well with energy suppliers and other energy service providers.

17

18 A major part of TEC-RI's work was to keep the members informed about emerging  
19 issues, opportunities, and threats in the energy marketplace. During my tenure,  
20 the leading issues were (1) supply adequacy in New England, (2) energy efficiency  
21 and demand response, and (3) electricity and natural gas procurement.

**Direct Testimony of John Farley**  
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**Docket No. 4393**

1           We had a well-regarded speakers' forum at our monthly meetings, where members  
2           were made aware of the trends in the market, and the procurement strategies of  
3           various energy marketers and consulting firms.

4  
5           When the state's retail natural gas and electricity markets were opened to  
6           competition, TEC-RI members were pioneers in shopping for competitive suppliers.  
7           Starting in the summer of 2003, I managed an electricity procurement pool for  
8           TEC-RI members in an environment that was in some respects quite similar to the  
9           one we are in right now. From May of 2003 to January of 2006, the standard  
10          offer rose from 4.66 cents per kWh to 10 cents per kWh.

11  
12          With the 2004 TEC-RI pool, the biggest challenge was convincing people that they  
13          should go ahead and sign a long-term contract for power even though it would be  
14          at a price that was slightly more than what they were paying at the time. The trends  
15          in the marketplace then, as now, indicated that the probability of the price  
16          increasing was much greater than the probability that the price would drop. Well,  
17          the market prices increased. And the TEC-RI members who listened to that advice  
18          ended up saving hundreds of thousands of dollars over the term of those contracts.

19

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1           During my career, I have held senior technical, executive, and sales positions with  
2           several leading firms and organizations spanning government, utility, consulting,  
3           energy services, and end user customer perspectives.

4  
5           Before forming my own company, I served as Vice President of Sales and Marketing  
6           for EPS Solutions, an information technology company serving the utility industry.  
7           Prior to that, I was the Manager of Information Services for TASC/LODESTAR,  
8           where my duties included managing an information service in conjunction with the  
9           Electric Power Research Institute (EPRI) to provide critical customer load profile  
10          data to utilities for pricing and planning. Prior to that, I served as Senior Analyst  
11          for seven years at COM/Energy, a combination gas and electric utility that has since  
12          merged into NSTAR. My career began as a technical advisor to the RI Governor's  
13          Energy Office, managing projects with small commercial energy auditing, renewable  
14          energy, and other energy efficiency applications.

15  
16   **Q.    What is your educational background?**

17   **A.**    I have a Bachelor of Science degree in Physics with highest honors from Providence  
18          College.

19

**Direct Testimony of John Farley  
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Docket No. 4393**

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**b. Purpose**

**Q. What is the purpose of this testimony?**

A. The purpose of my testimony is to explain the harm that National Grid’s proposed standard offer service (“SOS”) rate increase will inflict on small businesses in Rhode Island if it is not mitigated, and to request that the Commission take certain actions to mitigate these energy cost increases now and in the future. These remedies will be supported by specific evidence, as well as clear argumentation based on that evidence.

**c. Executive Summary of Testimony**

**Q. Please provide a summary of your testimony.**

A. In my testimony, I make the following eight points:

(1) Electricity market conditions in New England have changed dramatically in the past three years. This change has been caused by inadequate natural gas pipeline infrastructure, and it has been fueled by our region’s increasing dependence on natural gas-fired electric generation to meet our need for electricity. These conditions are not expected to moderate over the next several years.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1           (2) To date, National Grid has not changed their procurement plan for standard  
2           offer electricity in Rhode Island to respond to this fundamental change in market  
3           conditions.

4  
5           Their plan for procuring power for commercial customers in 2015 is essentially the  
6           same plan as they used in previous years dating all the way back to 2012. The  
7           potential shortcomings of this approach became all too real for small businesses  
8           when, in late November, 2014, National Grid made public their proposed  
9           standard offer service rates for January through June 2015.

10  
11          (3) National Grid has requested an unacceptably high increase to commercial  
12          standard offer service rates that if not mitigated will do tremendous harm to small  
13          businesses in Rhode Island.

14  
15          (4) Other utilities in the region have already adapted their procurement strategy in  
16          response to the change in market conditions.

17  
18          (5) These utilities have achieved superior results when compared to National Grid  
19          Electric in Rhode Island.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1 (6) National Grid granted immediate rate relief to their electricity ratepayers in  
2 New York last winter when a similar price spike would have caused great harm to  
3 those ratepayers.

4  
5 (7) Therefore , in consideration of the evidence, it is appropriate to require  
6 National Grid to make prudent changes to their procurement plan going forward,  
7 and to authorize National Grid to provide immediate rate relief in a similar manner  
8 to the rate relief that National Grid granted its New York customers last winter.

9  
10 (8) We are proposing a comprehensive remedy that will include steps that can be  
11 taken immediately, steps that be taken in the next few months, and steps to remedy  
12 the situation in the future.

13  
14 **Q. Please describe the remedies you are requesting from the Commission.**

15 **A.** We are requesting immediate rate relief, short-term action with procurement, and a  
16 new procurement plan, one that explicitly addresses the new market conditions.

17

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           (1) **Immediate:** we are asking the Commission to authorize National Grid to take  
2           immediate action to provide its commercial SOS customers with a \$12.6 million  
3           temporary credit<sup>1</sup> to offset this unprecedented increase in electric supply costs.

4  
5           National Grid should be allowed to defer the amount associated with these  
6           ratepayer credits and allow future recovery from customers in a manner and over a  
7           period to be determined by the Commission.

8  
9           (2) **Short-term:** The Commission should review the 2015 procurement plan in  
10          the next 30 days to determine how it can be prospectively modified due to changed  
11          market conditions. National Grid should adopt any features that can be  
12          implemented in 2015 with the goal of avoiding price spikes for the winter of 2015-  
13          2016 and taking advantage of opportunities to lower their cost of electricity.

14  
15          (3) **Going forward:** The Commission should establish explicit standards for  
16          procurement planning, and require National Grid to design a new procurement  
17          strategy, one that explicitly accounts for the changed (more extreme) market  
18          conditions and more effectively manages winter price volatility while ensuring least-  
19          cost power prices.

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<sup>1</sup> Please see section V, Remedies, for the details on how this credit was calculated.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

**I. THE SITUATION**

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**Q.** Please describe the situation we face today with electricity prices and procurement.

**A.** In 1862, as the Civil War was raging in our country, President Abraham Lincoln went to Congress, and in his second message to Congress, he said:

“Can we do better?  
The dogmas of the quiet past are inadequate to the stormy present.  
The occasion is piled high with difficulty, and we must rise with the occasion.  
As our case is new, so we must think anew, and act anew”.

Now I am not suggesting that what we have here is equivalent to a civil war!  
But I recall his words because they fit so well the situation we find ourselves facing today in this case that is before the Commission.  
We can do better for the small businesses of Rhode Island. Our case is new. So it requires new thinking and new actions.

**Q.** What has changed to make our situation so difficult and unprecedented?

**A.** The conditions of the electricity market in New England have changed. Electricity market conditions in New England have changed dramatically for the worse in the past three years.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1 This change has been caused by inadequate natural gas pipeline infrastructure, and it  
2 has been fueled by our region's increasing dependence on natural gas-fired electric  
3 generation to meet our need for electricity. These conditions are not expected to  
4 moderate over the next several years.

5  
6 **Q.** Please give us a sense of how extensive the problem is.

7 **A.** This is a natural gas supply problem, but it spills over to electricity. The basic  
8 problem is that New England has insufficient gas pipeline capacity to meet the peak  
9 demand for gas on the coldest days of the winter. Now it is the increased demand  
10 for natural gas for heating on cold days that is the culprit. But the gas distribution  
11 companies like National Grid Gas have signed firm contracts for pipeline capacity  
12 for their retail gas customers. By and large, the natural gas power plants do not  
13 have firm contracts for gas pipeline capacity. So they compete for that smaller and  
14 smaller amount of capacity that is left over. Demand for that capacity has grown  
15 and grown, with the result that prices get very high when it gets cold. Not the  
16 price for the commodity – the price to transport it into New England.

17 Along with that, New England as a region has grown more and more dependent on  
18 natural gas to meet its electricity needs. But in the winter many of those gas-fired  
19 power plants simply cannot generate much or any electricity on the coldest days.  
20 So the price for electricity skyrockets too.

21

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1       Let's put some numbers on this.

2

3       Forty percent of the generating capacity in New England is gas-fired. Gas fired  
4       units set prices in the ISO New England energy markets more than 80 percent of  
5       the time.

6

7       In addition, generators that did not use gas have been retiring, and more are  
8       expected to follow. Vermont Yankee is shutting down by the end of the year,  
9       along with several other generators that retired earlier in the year.

10

11       All told, 1,825 MW of coal, nuclear and oil fired generation that were available  
12       last winter will not be available for all or part of this winter. And Dominion has  
13       announced plans to retire New England's largest coal and oil-fired plant –Brayton  
14       Point Power Station (1,530 MW) – in 2017.

15

16       The upshot is that as bad as the problem is now, it could get worse in the future.

17       These new market conditions are not moderating; if anything, they are intensifying.

18       Gas distribution companies including National Grid continue to push conversions  
19       from oil to gas heat. The fuel of choice for new non-renewable generating capacity  
20       is certainly not coal or oil or nuclear – it's natural gas.

21

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 On winter days when natural gas pipelines have operated at full capacity, not  
2 enough gas has been available to serve all of New England's natural-gas-fired power  
3 plants. In fact, while gas-fired resources together represent more than 11,000 MW  
4 of generating capacity, ISO New England's operational experience has shown that  
5 during cold periods, the pipelines are capable of supporting less than half this  
6 amount.<sup>2</sup>

7  
8 ISO New England is trying to solve the problem by making longer-term changes to  
9 the wholesale market design that it hopes will create strong incentives for generators  
10 to firm up their fuel supply and improve their overall performance. But these  
11 changes will not go into effect until 2018.

12  
13 Ultimately, the problem will not truly be solved until the region invests in enough  
14 new pipeline capacity to meet the requirements of all the generators in New  
15 England.

16  
17 In the meantime, this new market pattern of pipeline shortages followed by price  
18 spikes in power markets will continue to exact a heavy toll on the ratepayers in  
19 Rhode Island and the region.

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<sup>2</sup> ISO New England. *2014/2015 Winter Outlook: Sufficient Power Supplies Expected, but Natural Gas Pipeline Constraints an Ongoing Concern*. November 20, 2014.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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**Q.** When did this fundamental change happen, and how long might it persist?

**A.** It began in 2013 and could be in place until 2020.

On November 20, 2014, ICF International submitted a report to ISO New England. The title of that report is *Assessment of New England's Natural Gas Pipeline Capacity to Satisfy Short and Near-Term Electric Generation Needs: Phase II*. The Phase I study was done in 2011/2012. The executive summary of the Phase II report states that, " Subsequent to the Phase I study, there have been several significant changes in the existing natural gas and electric power systems and projections for future changes that prompted ISO-NE to specify additional cases for gas supply and power sector demand."

The Phase II ICF report also finds that the New England market is likely to remain supply constrained through 2020. Also, there is a high probability that the electric sector will have a gas supply deficit on 24 to 34 days per winter by 2019/20.

Competitive Energy Services prepared a study for The Industrial Energy Consumer Group dated February 7, 2014 titled *Assessing Natural Gas Supply Options for New England and their Impacts on Natural Gas and Electricity Prices*.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1 Here is the lead finding in that study:

2 “There has been a fundamental shift in the New England natural gas market since  
3 2012 that is causing price spikes in the winter months to be much higher and more  
4 frequent than they have previously been. As a result, studies of the natural gas  
5 market that were done prior to the winter 2012/2013 or that rely on data prior to  
6 that period will understate significantly the financial consequences of inadequate  
7 natural gas pipeline capacity into New England.”

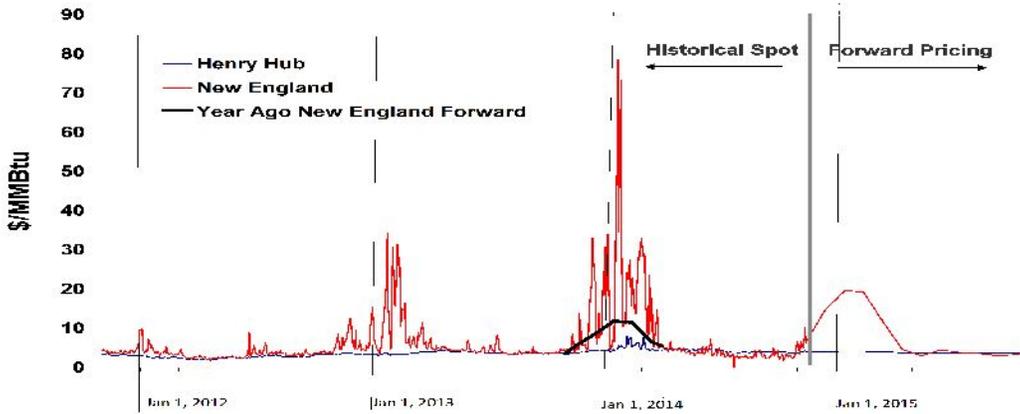
8  
9 They show that there was a “fundamental price shift in the natural gas market in  
10 New England in 2013 that sent natural gas prices soaring to levels three or more  
11 times higher than any prices experienced in the region over the prior 6 years.”

12  
13 Essentially, studies that rely on pre-2013 price and market information severely  
14 underestimate Henry Hub basis differentials in the winter and spot electricity prices,  
15 and do so by as much as a factor of three.

16  
17 The following graph (source data is Bloomberg, from a presentation given by John  
18 Daly of Northeast Utilities at the Restructuring Roundtable on November 21,  
19 2014) shows the *fundamental change* in winter gas prices that began in 2013 and  
20 intensified in 2014:

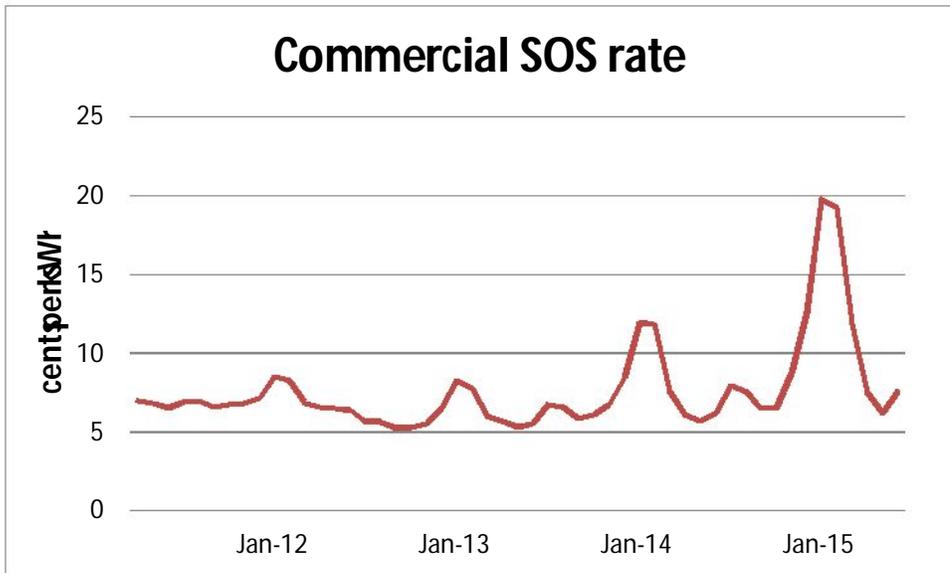
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**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**



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And look at the historic time series for National Grid Standard offer pricing:



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It's right here in the data that National Grid have been filing with their procurement plan: fundamental change in the gas and electric markets , causing more and more price volatility, and increasingly higher prices in the winter.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1  
2 The prices that National Grid has charged commercial customers on variable pricing  
3 tell the same story – fundamental change. The volatility started to show up in  
4 2013, and then intensified in 2014 and especially in the 2015 proposed prices.

5  
6 The takeaways from this are that (a) there has been **fundamental change** in the  
7 natural gas and electricity market conditions in New England, (b) the change started  
8 in **2013**, (c) it is intensifying and (d) it is expected to persist until **2020**.

9  
10 However, the National Grid procurement plan for the procurement remains  
11 unchanged from 2012. And the analytic work that undergirded the strategy was  
12 performed in 2010, several years prior to this fundamental change in the market.

13  
14 **Q.** So this is a New England wide natural gas pipeline problem, and a New England  
15 market electricity problem. Why are you seeking remedies that involve National  
16 Grid Electric in Rhode Island?

17 **A.** The majority of electricity consumed by Rhode Island homes and businesses is  
18 purchased under National Grid's standard offer service.  
19 Most small businesses rely on National Grid's procurement activities to get them  
20 least-cost electricity and protect them against extreme price volatility.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 But National Grid's procurement activities have simply not kept up with the  
2 changing market conditions. In fact, they have not made any substantive changes to  
3 their plan in several years.

4  
5 The 2015 plan for the commercial group is an exact duplicate of the 2014 plan.  
6 There is no change in the volume percentages, timing, or contract length. And the  
7 2014 plan was the same as the 2013 plan.

8  
9 They have not taken any additional steps this year to protect customers from  
10 increased volatility. They have not reworked their procurement plan to address this  
11 fundamental change in market conditions with the New England power market.

12  
13 In the face of these steadily worsening market conditions, one has to at least  
14 question the wisdom of continuing to rely on an old procurement plan that has not  
15 changed in any substantive way in several years.

16  
17 The potential that this inattention might result in an unacceptable outcome became  
18 all too real for small businesses when, in late November, 2014, National Grid  
19 made public their proposed standard offer service rates for January through June  
20 2015. This rate request would have the effect of raising rates to an unacceptably  
21 high level.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

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**II. ANTICIPATED HARM**

**Q.** Why should small businesses receive attention in this matter?

**A.** Small businesses are vital to the economic health of Rhode Island. According to the Small Business Profile for Rhode Island published in February of 2013 by the United States Small Business Administration, Office of Advocacy:

“Small businesses significantly impact Rhode Island’s economy. They represent 95.9 percent of all employers, and employ 55.4 percent of the private sector labor force. Small businesses are crucial to the fiscal condition of the state.”

Small businesses face a difficult operating environment right now in Rhode Island, and in fact energy prices are a major contributor to this difficult environment. Small businesses simply cannot absorb a rate increase of this magnitude.

The fragile economic recovery in Rhode Island could be brought to a halt if this full rate increase, as filed, is imposed upon small business.

**Q.** How would small businesses be harmed if the rate increase that National Grid has proposed goes into effect without changes?

**A.** The increase is very large.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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A typical SOS commercial customer on the C-06 rate who uses 1,000 kWh per month would receive an electricity bill increase in January of 24.3%. The supply portion of the bill would increase by 44%. Average C-06 usage per account equates to about 1,000 square feet of floorspace<sup>3</sup>. There are about 41,500 C-06 customers on standard offer service<sup>4</sup> as of October 2014.

A typical SOS G-02 rate commercial customer on the variable SOS price (and virtually all are, according to National Grid's response to McKee data request 1-1) who uses 25,000 kWh per month and has a demand of 50 kW would receive an electricity bill increase in January of 41%. The supply portion of that bill would increase by 55%. Average consumption equates to about 14,000 square feet per facility<sup>5</sup>. There are about 5,600 G-02 customers on standard offer service.

Price increases of this magnitude, all at once, will do tremendous harm to small businesses in Rhode Island.

In addition, these prices were made public too late for small businesses to do much about it before they take effect. They were announced on November 18, 2014,

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<sup>3</sup> Using regional average kWh per square feet from the Commercial Buildings Energy Consumption Survey.

<sup>4</sup> According to National Grid response to Division data request 2-3.

<sup>5</sup> Based on consumption and customer count data in docket 4323, Schedule JAL\_4.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 and are slated to take effect January 1, 2015. That does not leave enough time  
2 for most small businesses to find an alternative supplier or install major energy  
3 efficiency measures. Besides, at this late date, it's not likely that there is a good  
4 deal out there to be had. This took most small businesses completely by surprise  
5 and it's too late to do much about it on their own.

6  
7 **Q.** Is price volatility like this a particular problem for small businesses?

8 **A.** Yes. Small businesses are especially vulnerable to unexpected changes in their cost  
9 structures. Of course volatile energy prices put pressure on the finances of all  
10 consumers and businesses and harm Rhode Island's economic competitiveness.

11  
12 Volatility is bad for small businesses in several ways. First, it makes it more difficult  
13 to budget for energy expenditures when a big price increase hits unexpectedly.  
14 Second, it hurts cash flow. Third, in comparison to stable prices, volatile prices  
15 make it more difficult to evaluate and act on alternatives, including shopping for  
16 another supplier or investing in energy efficiency measures.

17  
18 Small businesses face more challenges in managing energy budgets, sorting out  
19 alternatives, and managing cash flow than larger entities do, including the Company.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

1 National Grid is in a far superior position when it comes to procuring electricity  
2 than small businesses are. They have much greater financial resources, expertise,  
3 and market presence.

4  
5 If nothing is done now to fix the problem, things could get even worse in the  
6 future, resulting in even greater harm to small business and the entire Rhode Island  
7 economy.

8  
9 **III. COMPARISONS WITH OTHER UTILITIES IN NEW ENGLAND**

10  
11 **Q. Is it not true that other major investor-owned utilities in New England are**  
12 **also raising their standard offer rates for this winter, in some cases by an**  
13 **even greater amount than National Grid’s proposal?**

14 **A.** Yes, but that is not the whole story.

15  
16 In fact, all this really shows is that all of the utilities that used the same kind of  
17 procurement plan got the same kind of results – poor - this time around.

18  
19 But utilities that executed a *different* procurement strategy achieved much *better*  
20 results for this winter, even though they are facing the *same* market conditions as  
21 National Grid Electric RI is.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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Several utilities in the region have adapted their procurement strategy in response to the change in market conditions. And these utilities have achieved superior results compared to National Grid Electric in Rhode Island.

Other electric utilities in New England, including one in Rhode Island, have taken a pro-active approach to procuring electricity supply in response to these changing market conditions. These other utilities have taken clear and well-thought out steps to mitigate cost increases and reduce price volatility in response to these unprecedented market conditions. The results to date show that this approach is performing better in limiting price increases and managing price volatility.

In the course of my research in preparing to testify, I encountered three examples of utilities in New England who have taken a very different approach to procurement than National Grid Electric has taken in Rhode Island.

**Q.** Please identify these utilities.

- A.** They are:
- € Groton Electric Light
  - € Chicopee Electric Light
  - € Pascoag Utility District

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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**Q. What did you discover about Groton Electric Light’s procurement activities in 2014?**

A. In August, 2014, Groton hedged more of their loads for the coming winter. Groton uses the strategy of dollar cost averaging to purchase their power supply. However, in August, they looked at their positions through December, 2018, and then looked at the Mass Hub day-ahead futures prices for the winter months as well as quarterly prices from 2015 through 2018. On that basis, they decided to purchase above the usual recommended hedge for January and February 2015.

**Q. What will Groton Electric Light’s rates be for the coming winter?**

A. It’s interesting, because they actually apologized for the need to increase their rates by **1.5 cents** this winter. Now compare that to the **4 cent** increase that National Grid is asking for.

**Q. What did you discover about Chicopee Electric Light’s procurement activities in 2014?**

A. “Municipal electric customers will not see a spike in rates”, read the November 21, 2014 headline on the WGGB.com web site. Jeffrey Cady, the general manager of Chicopee Electric Light, explained why:

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           “Right now, this is 2014. We’re already buying power out in 2019, ’20, and also  
2           ’15, ’16, and ’17, so in this way, it allows us to have a more level price as we go  
3           through time.”

4  
5           “Our rates are pretty steady. We’re just finishing our budget process right now.  
6           We’re not anticipating any significant increases” .

7  
8           There are a lot of small businesses in Rhode Island right now who dearly wish they  
9           could say the same thing.

10  
11          So why is there such a huge difference between what customers from Chicopee  
12          Electric Light pay and what customers from National Grid pay?

13          Mr. Cady’s answer deserves the closest scrutiny:

14  
15          “The larger companies....they’re mandated to go out at certain points and time to  
16          buy power. We’re able to look at the price and if it seems at that point the price is  
17          a little higher, we may buy less than we would have. We can wait until prices have  
18          stabilized a little bit before we buy additional power” .

19

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 **Q. These utilities operate in Massachusetts. Pascoag operates right in here in**  
2 **Rhode Island. How has Pascoag fared with their standard offer pricing**  
3 **lately?**

4 A. Yes, Pascoag Utility District operates in Rhode Island, and while they are a quasi-  
5 municipal electric distribution company, not for profit utility, they are subject to the  
6 same rules as National Grid is in Rhode Island, including retail competition.  
7 They provide electric service to about 5,000 customers in Pascoag and Harrisville  
8 Rhode Island.

9  
10 On November 21, 2014, Pascoag filed a change to their Standard Offer Service  
11 price with the Commission. Surprisingly, they did not file for an increase in price,  
12 even though they are facing the same market conditions as National Grid faces.

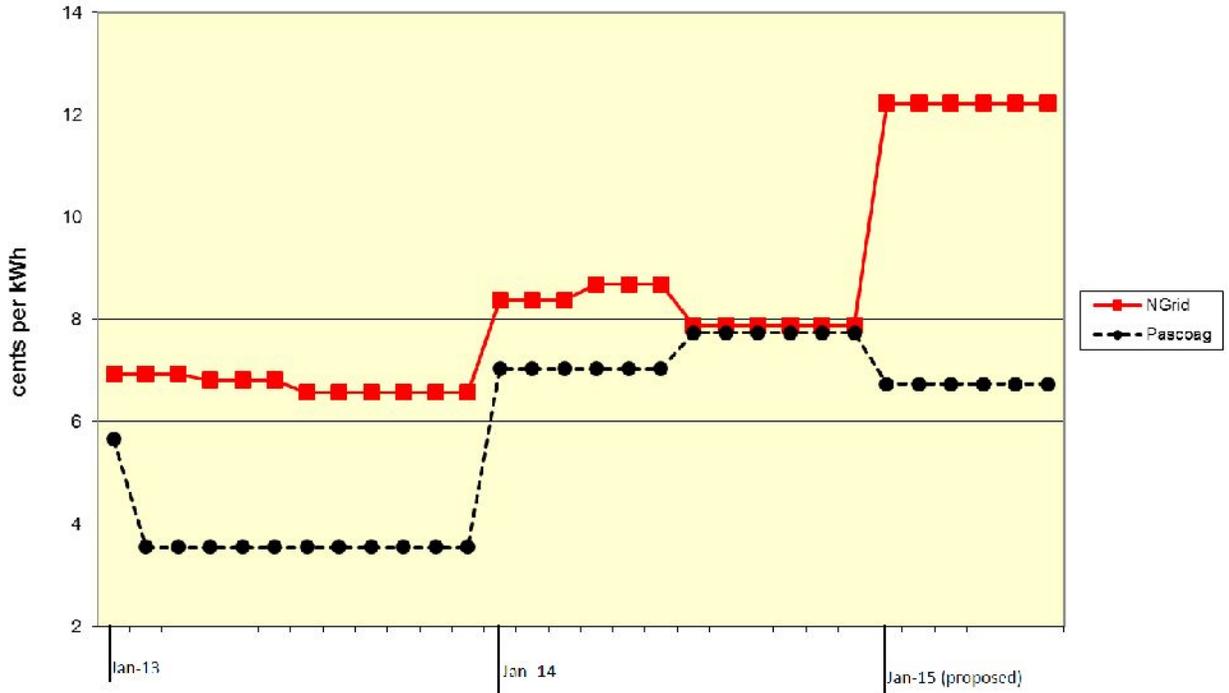
13  
14 Instead, they requested a REDUCTION in their Standard Offer Service price for  
15 this winter, beginning January 1, 2015. The rate is expected to go *down*, from  
16 7.7 cents per kWh down to 6.7 cents per kWh.

17  
18 Was this a fluke? No, not at all. Over a 30 month period from January 2013  
19 through December 2014, continuing with the projected prices through July 2015,  
20 Pascoag has consistently outperformed National Grid with its standard offer pricing:

21

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

**SOS: NGrid versus Pascoag**



1

2

In 2014, Pascoag faced the same futures prices and market conditions that National Grid faced in New England. And Pascoag had contracts that were set to expire at the end of December 2014. This left Pascoag in the Spring of 2014 with an open, unhedged position of 42% of its energy requirements in 2015 and beyond.

6

7 **Q.** Has Pascoag adopted a different procurement strategy from National Grid? Have  
 8 they made any special adjustments to prepare for this winter?

9 **A.** Yes, Pascoag takes a very different approach to procuring electricity supply than  
 10 National Grid does.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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One thing that is apparent right away is just how transparent and open Pascoag is about their procurement information. This is a tremendous aid to customers trying to get a handle on future power prices.

Pascoag takes a portfolio approach to electricity procurement. It begins with a set of entitlements to a group of hydro-electric, wind, and nuclear power plants. These are stable, long-term agreements for non-carbon based energy, and the prices are very competitive. These entitlements take care of 48% of Pascoag's energy requirements.

The remaining 52% of Pascoag's energy requirement is met with mainly fossil fuel energy using two instruments:

(a) A 3-year contract entered into with TransCanada Power Marketing LTD. This contract begins in 2015.

(b) An innovative virtual gas-fired unit transaction with NextEra Energy Power Marketing that began in 2013.

After experiencing extreme spot market pricing in New England during last winter's Polar Vortex, Pascoag took action this year to hedge their requirements in 2015.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 Realizing that major improvements to gas pipeline capacity were not projected to be  
2 in place until late 2017 at the earliest, Pascoag, and its power supply advisor,  
3 Energy New England, thought it would be best to protect Pascoag's remaining open  
4 position through that period. They further recognized that the forward pricing  
5 markets were in a condition known as "contango". "Contango" is the name given  
6 for a market where the extended term prices are lower than the more immediate  
7 term prices.

8  
9 Recognizing that they were now operating in a very different and more volatile  
10 environment, Pascoag ran a solicitation seeking a 100% load-following hedge for  
11 the whole 2015-2017 term of the agreement. The high volatility in future spot-  
12 market pricing was expected to persist for the next three years or more.

13  
14 They recognized that forward prices had moved upwards, but were hopeful that a  
15 three year term would produce pricing that was efficient, and at the same time  
16 would eliminate the potential for further unhedged volatility during winter months  
17 in the next few years.

18

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 In April, 2014, after several rounds of negotiations and price improvement,  
2 Pascoag signed an agreement with TransCanada at the fixed price of 7.03 cents per  
3 kWh for the three-year period.<sup>6</sup>

4  
5 This will protect Pascoag's customers from the volatility like that which occurred last  
6 winter in New England, when spot market prices often exceeded 25 cents per kWh  
7 and at times hit 50 cents per kWh.

8  
9 Pascoag has been responsive to changing market conditions and the need that their  
10 customers have for protection from extreme price spikes. Their strategy and  
11 transactions have been crafted to fit the new market conditions.

12  
13 Their track record has been excellent as the Commission has recognized in its orders  
14 dealing with Pascoag extending back several years.

15  
16 They did not take a business as usual approach. They studied the market, and  
17 adapted their procurement strategy to the changing market conditions and trends.

18  
19 Once it became clear that they faced an unprecedented threat in the electricity spot  
20 markets, they took decisive yet thoughtful action to protect their customers.

---

<sup>6</sup> Pre-filed testimony of Michael R. Kirkwood, RIPUC docket 4529, dated November 5, 2014.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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**Q. But aren't there some major differences between Pascoag and National Grid?**

A. Yes there are. Obviously Pascoag has a much smaller customer base, and they have legacy entitlements in power plants that National Grid does not have.

Yet these very differences argue for a **more** pro-active and market-sensitive procurement effort by National Grid. Without the entitlements to power plants, National Grid customers are regularly exposed to market pricing for 100% of their requirements, while Pascoag customers face those market conditions for 52% of their requirements.

The electricity customers of National Grid deserve the same protection from price volatility that the customers of Pascoag do.

If protecting the 5,000 customers of Pascoag contributes to the economic health of Rhode Island, surely the over 400,000 customers that receive standard offer service from National Grid should be likewise protected.

**Q. What are the main conclusions from this comparative look?**

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1 A. The National Grid procurement strategy may have worked reasonably well in the  
2 past under different market conditions. Unfortunately, it is not serving ratepayers  
3 well under the current market conditions. On the other hand, utilities that have  
4 adapted their procurement plans to match the market conditions have achieved  
5 better results.

6  
7 Procurement strategies need to adjust to changing market conditions – especially  
8 extreme conditions.

9  
10 A strategy that performs *poorly* under extreme but foreseeable conditions needs to  
11 be *changed*.

12  
13 When the old plan is no longer working, it's time to come up with a *new* plan.

14  
15

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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**IV. COMPARISON WITH NATIONAL GRID’S OWN ACTIONS IN NEW YORK**

**Q.** These conclusions speak to remedies available to the Commission going forward with procurement planning. Has your research unearthed any relevant facts that could give the Commission guidance in granting immediate rate relief to small business and other ratepayers?

**A.** Yes, and it concerns National Grid’s electricity operations in the state of New York. When I was completing my research over the weekend, I came across two articles on the web that were very encouraging – for a few seconds anyway.

One article headline talked about National Grid implementing additional measures to help stabilize electricity bills this winter.

The second headline spoke of the public commission freezing National Grid electricity rates because of unusual price spikes.

Only come to find out that these were **New York** headlines, not **Rhode Island** headlines.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           It turns out that last year's severely cold winter weather also caused the price of  
2           electricity to spike in National Grid's New York service territory.

3  
4           So when small businesses in New York faced a 27% increase in their electricity  
5           prices, National Grid provided *millions of dollars of temporary credit* to help small  
6           businesses in upstate New York, who were already struggling to pay their bills, offset  
7           some of the cost.

8  
9           Now, small businesses in Rhode Island face up to a 41 % increase in their electricity  
10          bills. It is time for National Grid to provide enough temporary credit to those small  
11          businesses in Rhode Island, who are struggling to pay their bills, to help offset their  
12          costs as well.

13  
14          Surely National Grid does not consider a Rhode Island small business to be less  
15          important than a New York small business!

16  
17          Exhibit JF-1 is the press release from the State of New York Public Service  
18          Commission dated January 29, 2014 that announced the authorization for  
19          National Grid to take immediate action to provide its customers with a \$32 million  
20          temporary credit to offset and unprecedented increase in electric supply costs.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1   **Q.**   Has National Grid taken any other actions in New York in the area of electricity  
2           procurement that are relevant for this case in Rhode Island?

3   **A.**   Yes. The New York Public Service Commission reviewed the reasonableness of  
4           National Grid’s hedging practices and retail rate mechanisms to avoid similar  
5           electricity supply price hikes in the future.

6  
7           National Grid thought that revisiting those practices in light of the current market  
8           conditions was a good idea – in New York.

9  
10          National Grid’s hedging rate for electricity had not changed in three years, and was  
11          lower than previous hedging rates. Historic prices of natural gas, and by association,  
12          electricity, appeared to them at the time to be stable, and, in fact, falling. The  
13          reduced hedging, however, resulted in the utility having to purchase more electricity  
14          at near-term prices, exposing its customers to sharply higher rates brought on by the  
15          extremely cold winter weather.

16  
17          That was last winter.

18  
19          This winter, National Grid’s electricity customers in New York are projected to see  
20          bills that are 3 percent to 9 percent LOWER than last winter.

21

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           The decrease is due in part to additional steps the company has taken to further  
2           hedge – or lock in – electricity supply prices to reduce monthly volatility in  
3           customers' bills.

4  
5           National Grid also asked the New York PSC to approve a mechanism that would  
6           allow more flexibility in how the company recovers supply costs that turn out to be  
7           significantly higher than forecasted. They would collect the higher wholesale prices  
8           over a longer number of months to reduce the customer impacts.

9  
10          And the Company took steps for this coming winter to mitigate month-to-month  
11          supply price volatility for its residential and small commercial customers, further  
12          hedging electricity supply prices.<sup>7</sup>

13  
14          In other words, National Grid changed their procurement strategy in New York in  
15          order to be more responsive to changing market conditions.

16  
17          Why did they do it for New York but not for Rhode Island??

18

---

<sup>7</sup> National Grid press release dated November 3, 2014: “National Grid to Implement Additional Measures to Help Stabilize Electricity Bills”, reproduced herein as Exhibit JF-2.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           They took action to change their hedging strategy, and now prices are coming down  
2           by 3% to 9% in New York this winter.

3

4           They took no such action in Rhode Island, and prices are going up 24-41% for  
5           small business customers in Rhode Island.

6

7

**Direct Testimony of John Farley  
Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect  
of the State of Rhode Island  
Docket No. 4393**

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**VI. REMEDIES**

**Q. What remedies is Dan McKee requesting that the Commission grant in this docket at this time for the benefit of small business customers?**

A. In considering the evidence provided in this testimony, it is appropriate to require National Grid to make prudent changes to their procurement plan going forward, and to authorize National Grid to provide immediate rate relief to its small business standard offer customers in a similar manner to the rate relief that National Grid granted in New York customers last winter.

Our remedies are comprehensive. They include an action that can be taken immediately to grant rate relief, steps that can be taken in the next few months, and steps to further mitigate rate increases in the future.

**Q. Please describe the specific remedies you are requesting from the Commission.**

A. We are requesting immediate rate relief, short-term action with procurement, and a new procurement plan, one that explicitly addresses the new market conditions.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           (1) **Immediate:** we are asking the Commission to authorize National Grid to take  
2           immediate action to provide its commercial customers with a \$12.6 million  
3           temporary credit to offset this unprecedented increase in electric supply costs.

4  
5           National Grid should be allowed to defer the amount associated with these  
6           ratepayer credits and allow future recovery from customers in a manner and over a  
7           period to be determined by the Commission.

8  
9           There are two standard offer price options for customers in the commercial group.  
10          There is a fixed price option, and a variable price option. Customers who select the  
11          fixed price option pay the same price for a 6 month period, while customers who  
12          select the variable price option pay a different price every month.

13  
14          Virtually all of the customers on Rate C-06 are on the fixed price option, and  
15          virtually all of the Rate G-02 and street-lighting customers are currently on the  
16          variable price option.

17  
18          The purpose of the credit we request is to offset the price spike which is set to  
19          occur in January and February of 2015.

**Direct Testimony of John Farley  
Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect  
of the State of Rhode Island  
Docket No. 4393**

1 The price spike is quantified as the difference between the monthly price for  
2 December 2014 (publicly available as of May 27, 2014) and the monthly prices  
3 for January and February 2015 (not made available until November 19, 2014).

4  
5 The credit would benefit all SOS customers in the commercial group, those on the  
6 fixed price option and those on the variable price option. National Grid provided  
7 this type of credit to their small business customers in New York last February.

8  
9 The following table shows how the size of the credit (\$12.6 million) was calculated:

10

Commercial Group credit to offset price spike on SOS for Jan and Feb 2015

<i>Consumption</i>	ICAP loss factor			<i>Prices</i>
		1.069		\$/kWh
source for wholesale load is 2015 SOS supply procurement plan Schedule 3B				
	Wholesale		Retail	
	MWh	Loss factor	MWh	
Jan-15	100844	94%	94,335	0.19815
Feb-15	92876	94%	86,881	0.19277
Dec-14				0.12602

*Credit*

for January	\$ 6,804,376
for February	\$ 5,799,320

Total	<b>\$12,603,696</b>
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**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

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(2) **Short-term:** The Commission should review the 2015 procurement plan in the next 30 days to determine how it can be prospectively modified to be more responsive to current market conditions.

In particular, the Commission should review National Grid's hedging strategy to see how it can be enhanced to provide more protection to small business and other customers from price volatility.

National Grid should adopt any features that can be implemented in 2015, with the goal of avoiding price spikes for the winter of 2015-2016 and taking advantage of opportunities to lower their cost of electricity.

(3) **Going forward:** The Commission should require National Grid to design a new procurement strategy, one that explicitly accounts for the changing (more extreme) market conditions and more effectively manages winter price volatility while ensuring least-cost power prices. And the Commission should ensure that National Grid institutes a regular process to review market conditions and revisit their procurement plans accordingly.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           There has been fundamental change in the natural gas and electricity market  
2           conditions in New England. The change started in 2013, it is intensifying, and it is  
3           now expected to persist until 2020.

4  
5           The dogmas of the quiet past are inadequate to the stormy present.

6  
7           National Grid, in conjunction with the Commission, the Division, and interested  
8           parties, should be authorized to undertake a new study to determine how well  
9           different procurement strategies perform under these fundamentally different  
10          market conditions. The old study was done in 2010 before this fundamental shift  
11          occurred. The new study should consider a wider range of alternative procurement  
12          strategies to match the more extreme market conditions that are upon us.

13  
14          These plans should be revisited regularly to make sure they are still robust as  
15          market conditions change.

16  
17          New procurement plans should at a minimum include the following features:

- 18               I.       A risk management plan with careful consideration of hedging  
19               instruments.
- 20               II.      The flexibility to procure power in the manner that best fits market  
21               conditions for a given period of time. This includes:

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

- 1           a. The freedom to procure power any day of the year.
- 2           b. Flexibility in the volumes procured.
- 3           c. The ability to procure power for different contract lengths to fit the
- 4                 circumstances in the market.
- 5           d. Innovations that could provide better prices and lower volatility.

6

7           National Grid should give serious consideration to the following possible alternative  
8           approaches with their new procurement plans:

- 9           a. Full requirements service contracts.
- 10          b. A structured portfolio approach.
- 11          c. A different portfolio strategy for each class.
- 12          d. Long term contracts for portions of the residential and commercial class
- 13                 loads.
- 14          e. A requirement that the winning bidders secure firm fuel supply for all
- 15                 contracts.
- 16          f. Using the renewable procurement creatively to help mitigate price volatility
- 17                 in standard offer service.
- 18          g. Establishing expected and minimum performance standards for the
- 19                 procurement function, with incentives for performance above the expected
- 20                 standard, and penalties for performance below the minimum standard.
- 21          h. Taking an ownership position in a generating unit.

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

- 1           i. Negotiating much longer long term contracts: perhaps up to 10 years.
- 2           j. Identifying any legislative and regulatory changes that are needed to
- 3           implement the best-performing, most robust strategies.
- 4

5           Long term contracts and ownership positions may be especially attractive in these

6           current market conditions, for two reasons. First, these may turn out to be among

7           the best performing strategies in volatile market conditions.

8

9           But second, it may also turn out to help improve the market conditions themselves

10          if they are done properly. If a large utility such as National Grid signs a long term

11          contract for power or takes an ownership stake in a power plant, they can write into

12          the agreement that the generators must secure firm fuel supply for the winter

13          months.

14

15          For natural gas-fired power plants, that means the generator would arrange for firm

16          pipeline capacity. This would in turn provide commitments to pipeline companies

17          interested in expansions of their pipeline system into New England. These

18          commitments would increase the likelihood that these pipeline expansion projects

19          would actually be constructed sooner rather than later.

20

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           On a regular basis, at least annually and whenever market conditions have changed  
2           in any significant way, National Grid should perform a fresh analysis of how  
3           different strategies perform under the expected market conditions going forward.

4  
5           A simple way to think about this is that the Commission ought to adopt similar  
6           standards for conventional power procurement to the standards that are already in  
7           place for renewable power procurement. Those standards are available on the  
8           Commission web site at [http://www.ripuc.state.ri.us/utilityinfo/RES\\_Rules.pdf](http://www.ripuc.state.ri.us/utilityinfo/RES_Rules.pdf)

9  
10          Finally, we ask that steps be taken to make buying electricity more customer  
11          friendly. National Grid has acknowledged that their business is delivering energy to  
12          customers. They are just as happy to have their customers buy from a competitive  
13          supplier as they are to sell them the power themselves at standard offer prices.

14  
15          But today that is anything but straightforward to do, especially for the residential  
16          and small commercial customers. Shopping is confusing. It's all apples and oranges  
17          when you compare price plans. Who's reputable and who's a fly-by-night  
18          operation?

19

**Direct Testimony of John Farley**  
**Submitted on Behalf of Dan McKee, the Lieutenant Governor-Elect**  
**of the State of Rhode Island**  
**Docket No. 4393**

1           So more work needs to be done. And now is the time to do that work, because  
2           customers need the help, and these high prices will get them thinking about their  
3           options.

4  
5           Work needs to be done in developing the competitive supply market: attracting,  
6           qualifying and interacting with reputable retail suppliers.

7  
8           Work needs to be done coaching and informing customers.

9  
10          And processes need to be put in place to make the whole process easy.

11  
12          There probably need to be new intermediary organizations for the mass market  
13          customers, performing a similar role to that which TEC-RI plays for the largest  
14          energy users in the state. These mass market intermediaries could include trade  
15          organizations, municipalities, and corporations that already sell related products to  
16          the mass market customer. So there is work to be done in recruiting and training  
17          them. These intermediaries will also need help getting up to speed on buying  
18          electricity, and then staying up to speed with useful, easy to find information  
19          including indicative pricing.

20

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**Docket No. 4393**

1 Work needs to be done to bring down the acquisition costs for serving the mass  
2 markets, or else there will continue to be very little interest in that market by the  
3 competitive suppliers.

4  
5 Work also needs to be done to improve access to information.

6  
7 It is very difficult to find what you need from the current way that National Grid  
8 files their procurement documents with the PUC. Again the key is to be customer  
9 friendly. When decisions are made about access to information or other policies,  
10 the tie has to go to the customer (not the supplier).

11  
12 There should be customer-friendly, regular reporting to customers to give them the  
13 updates they need to stay on top of the market.

14  
15 It makes little sense to customers when a document which explains what National  
16 Grid did for customers in the market turns out to be a redacted document!

17  
18 It should be easy to find a list of reputable competitive suppliers and indicative  
19 pricing. An example of the kind of tool customers need can be found on the NY  
20 PSC web site at [www.newyorkpowertochoose.com](http://www.newyorkpowertochoose.com) .

21

**Direct Testimony of John Farley**  
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**Docket No. 4393**

1           Given what we now know about the market in New England, the really bad months  
2           for electricity pricing are now January and February. This year, we the customers  
3           did not know what those prices would be until November 19. That's too late! We  
4           need to have indicative pricing for January and February much earlier than that.

5  
6           National Grid is going to have some indication about prices next January and  
7           February early on in the year. There needs be some way of giving customers that  
8           price information by August, or September at the latest, really as soon as they are  
9           available to National Grid. That way the customer is armed with the facts they  
10          need to make informed judgments about price bids from alternative suppliers before  
11          things start to get really difficult in November and December.

12  
13          Small business customers – especially those who are currently on the variable price  
14          option - need the *monthly* bid prices *as soon as they are final*. Ninety days is too  
15          long to wait. It puts customers at a competitive disadvantage when they are  
16          shopping for alternative bids.

17  
18          With that in mind, it is clear that steps need to be taken to increase the  
19          transparency of National Grid's procurement activities.

20

**Direct Testimony of John Farley**  
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**Docket No. 4393**

1 It is simply not possible to fairly represent the interests of customer groups with  
2 filings that redact all of the vital information needed to assess what is happening in  
3 the market. Here are three specific changes that can be made right away:

4  
5 I. Allow opportunities for stakeholder intervention and participation in the  
6 strategy setting and bid review. Stakeholders would sign confidentiality  
7 agreements to protect truly sensitive information.

8 II. Make prices public as soon as National Grid signs a contract.

9 III. Consider moving the effective date for winter standard offer service price  
10 changes from January 1<sup>st</sup> to November 1<sup>st</sup>. The proposed rates would  
11 then be made public and filed for approval with the Commission no later  
12 than October 1. This will give customers more time to solicit bids from  
13 competitive suppliers before the onset of the high cost winter period.

14  
15 In summary, the plans should be flexible, robust, customer friendly, and revisited  
16 regularly in order to continue to adapt to changing market conditions in the future.

17  
18 Lastly, the Commission and Division should determine how best to motivate  
19 National Grid to achieve consistently high levels of performance in designing and  
20 implementing their electricity procurement plans that meet the needs of the  
21 ratepayers.

**Direct Testimony of John Farley**  
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**Docket No. 4393**

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Today, National Grid has very little incentive – beyond their sense of duty and their professional commitment to excellence – but very little financial incentive to innovate and achieve excellence with their procurement of conventional power.

Their track record with gas procurement is another story. Their gas procurement strategy has enabled them to maintain a stable, competitive natural gas price for their customers in this very volatile market. They actively manage their portfolio and use risk management techniques to lower exposure to price volatility.

And they also have an incentive plan that rewards them for excellence in gas procurement.

It is time to institute something similar for electricity procurement.

**Direct Testimony of John Farley**  
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**Docket No. 4393**

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**CONCLUSION**

**Q. How should we see our job in mitigating these high prices?**

A. We do face a stormy present. The occasion is piled high with difficulty. So we must rise with the occasion.

As our case is new, so we must think anew and act anew.

As bad as things are right now, it is possible that we will face an even more challenging situation next winter, and the winter after that.

Now we all know what is at stake. It is time to take whatever actions are required to meet the challenges we face.

Let's think anew and act anew to do better by the small businesses of Rhode Island. They are our favorite restaurants, our gyms, our schools. Construction firms. Our churches and synagogues. Small manufacturers, architects and engineers. Our real estate offices, bank branches, barber and beauty shops. Our doctors' offices, medical labs, and insurance agents. Our favorite places to shop for Christmas gifts, and for food for Super Bowl Sunday, and candy and flowers on Valentine's Day.

They are on main street and down town and everywhere in between, and they are the backbone of the Rhode Island economy.

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**Docket No. 4393**

1   **Q.   Does this conclude your testimony?**

2   **A.   Yes it does.**

3

**Direct Testimony of John Farley**  
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**Docket No. 4393**

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1

**Exhibit JF-1**

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

STATE OF NEW YORK

# Public Service Commission

Audrey Zibelman, Chair

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14005/14-E-0026

## **PSC ANNOUNCES STEPS TO SOFTEN BLOW FROM WEATHER-RELATED ELECTRIC BILL SPIKES**

**— State Authorizes National Grid to Provide Temporary Credits to Offset Unprecedented Spikes in Rates; Calls on Other Utilities to Work with Customers to Reduce Bill Impact —**

Albany, NY— 01/29/14 — Audrey Zibelman, Chair of the New York State Public Service Commission (Commission), today announced that the Commission has authorized National Grid to take immediate action to provide its customers with a \$32 million temporary credit to offset an unprecedented increase in electric supply costs. The surges, expected in February, would result in bill spikes for upstate residential and small business customers.

“The unusually cold weather that has gripped the region has caused energy supply prices to surge in New York State and throughout the Northeast,” said Chair Zibelman. “This price spike is impacting National Grid’s upstate service territory, where electricity prices could increase by as much as 27 percent in February. These millions of dollars in temporary credit will help upstate New Yorkers and small businesses, who may already be struggling to pay their bills, offset some of this cost.”

While all utility customers in New York State are facing higher-than-normal electric bills due to the unusually cold weather, electric supply increases for National Grid’s upstate residential and small business customers had been expected to be much higher in February than any other area in the state.

Given the unusual electric supply price hikes that National Grid has been experiencing, the Commission felt that it was reasonable to take action now to offset the increase. Meanwhile, given the nature of this region-specific increase in supply costs, the Commission will be reviewing the reasonableness of National Grid’s hedging practices and retail rate mechanisms to avoid similar occurrences in the future.

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**of the State of Rhode Island**  
**Docket No. 4393**

Without taking immediate action, some National Grid's residential customers would have seen above average price increases in the month ahead. Based on forecasted commodity prices for February, predicted increases for total typical residential bill using 600 kWh ranged between \$12.75 (17.6 percent) and \$29.74 (27.2 percent), depending on the customer's location. For small commercial customers, predicted increases for the total typical bill using 1,500 kWh ranged between \$34.66 (17.9 percent) and \$77.88 (27.6 percent), depending on the customer's location.

In response to the unprecedented customer bill impacts that were forecasted, National Grid, after consulting with Commission staff, petitioned for authorization to modify its supply mechanism by introducing a one-time customer credit to keep total rates, which includes delivery plus commodity charges, to be billed in February at the same rates as those that were in effect in January.

In addition to taking specific steps to aid National Grid's residential and small business customers, Chair Zibelman announced today that she was strongly encouraging all investor-owned utilities in the state to notify eligible residential customers about the advantages of using a budget plan to spread out the recent price increases in supply costs. With a no-fee budget plan, a customer could spread out their bill payments over a 12-month period, rather than paying a larger-than-expected increase in a single month. Chair Zibelman also said customers having difficulty paying their bills should contact their utility for payment assistance programs and deferred payment plan options.

While average residential bills for the other utilities have increased over the same time period, those increases are less than what is being experienced by National Grid customers. The unique aspect of what National Grid customers are experiencing in terms of higher-than-normal price increases prompted the Commission to act.

While the Commission regulates and sets delivery rates, supply or commodity rates fluctuate based on supply and demand in the market. In recent months, demand for electricity and natural gas, which is used to generate electricity and provide heat, has been unprecedented due to the extremely cold weather that has gripped large parts of the country.

Earlier this month, New York set a new winter record peak demand for electricity of 25,738 megawatts (MW), beating the previous record winter peak demand of 25,541 MW set on December 20, 2004, according to the New York Independent System Operator. Demand remains high while the cold spell continues.

The Commission also ordered that National Grid be allowed to essentially defer the amount associated with the ratepayer credits, estimated at approximately \$32 million, and allow future recovery from customers in a manner and over a period to be determined later by the Commission. The credit will allow the expected increase in February prices to be spread out over a longer period of time.

**Direct Testimony of John Farley**  
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**Docket No. 4393**

The Commission's decision may be obtained by going to the Commission Documents section of the Commission's Web site at [www.dps.ny.gov](http://www.dps.ny.gov) and entering Case Number 14-E-0026 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.

-30-

**Direct Testimony of John Farley  
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Docket No. 4393**

**Exhibit JF-2**

**Direct Testimony of John Farley**  
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**Docket No. 4393**

[https://www.nationalgridus.com/niagaramohawk/a3-1\\_news2.asp?document=8903](https://www.nationalgridus.com/niagaramohawk/a3-1_news2.asp?document=8903)

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News Releases

NATIONAL GRID TO IMPLEMENT ADDITIONAL MEASURES TO HELP STABILIZE  
ELECTRICITY BILLS

**Changes Designed to Mitigate Effects of Dramatic Swings in Wholesale Supply Prices**

November 3, 2014 –National Grid has received approval to implement a number of changes to help mitigate the effect of dramatic swings in monthly electricity supply prices for its upstate New York customers if there is a repeat of last season’s wild weather.

Last winter’s polar vortex brought prolonged, below-normal temperatures that resulted in higher-than-normal wholesale electricity prices, increased customer usage, and dramatic swings on the supply portion of monthly bills for residential and small commercial customers.

The New York Public Service Commission recently approved National Grid’s recommendations that will provide the company flexibility to better manage the impact that volatile wholesale electricity supply prices can have on these customers’ bills.

The changes, which took effect last week, will:

- € Allow National Grid to reconcile supply price forecasts by region to better align costs for customers. For residential and small commercial customers, the monthly electricity supply portion of energy bills is based on a forecast set at the end of the previous month. If actual prices are higher or lower than forecasted, the differences are either credited or charged to customers in subsequent months. The company will now credit or charge customers based on the actual regional variances in supply costs, rather than across upstate New York as a whole.
- € Allow the company greater flexibility in the timing of its reconciliations for its mass market customers. This flexibility will allow the recovery of significantly higher than forecasted supply costs over multiple months, instead of in a single month, to reduce the spikes that reconciliations can cause on customer bills, like those experienced last winter.
- € Allow the company to tailor its hedging strategies by region, as it locks in prices in advance and passes those hedges to those regional customers. As a result, National Grid will maintain two electricity supply hedging portfolios for its mass market customers, one for western and central New York, where pricing characteristics are similar; and another for eastern New York, which typically sees higher supply prices because of electricity transmission and natural gas pipeline constraints in the region.

The company had already taken steps for the coming winter to mitigate month-to-month supply price volatility for its residential and small commercial customers, including further hedging electricity supply prices for customers who choose to have National Grid purchase their supply.

**Direct Testimony of John Farley**  
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**of the State of Rhode Island**  
**Docket No. 4393**

While these steps should help reduce the dramatic swings on the electricity supply portion of bills, the company cautioned that severe cold can affect both the market price for supply and the amount of energy a customer uses. On average, residential customers use 30 percent more electricity from November through March than they do in the fall and spring months.

National Grid has projected electricity bills to be 3 to 9 percent lower than last winter, depending on location and assuming a return to more typical winter weather. Natural gas bills for home heating are also expected to drop from last winter by 10 percent or more, again assuming more typical weather.

A customer's bill consists of two components – energy delivery and electricity supply. The energy delivery portion of the bill includes National Grid's costs to operate and maintain its networks, including emergency services and storm restoration. Delivery rates are regulated by the Public Service Commission, and are lower today than they were just a few years ago.

When it comes to the electricity supply portion of the bill, customers have the option to choose from a variety of electricity suppliers, some of whom now offer fixed prices. Information regarding energy suppliers can be found at [www.nationalgrid.com](http://www.nationalgrid.com) under the "Supplier Choice" section or at [www.newyorkpowertochoose.com](http://www.newyorkpowertochoose.com). Customers who elect to have National Grid purchase their electricity supply will see those costs passed along without markup. The company does not profit from purchasing electricity on customers' behalf.

National Grid encourages customers to shop for the supplier that best fits their energy and lifestyle needs. Customers should research alternative suppliers, compare prices and fully understand contract terms before signing. More information on how to choose an energy supplier, including frequently asked questions, can be found on National Grid's web site under "Energy Choice" or on the PSC's web site.

No matter what the winter weather may bring, National Grid reminds customers that employing conservation and energy efficiency and taking advantage of payment options can help manage bills. Options include:

- € Enrolling in the Budget Billing program to help spread payments out more evenly across the year. This is particularly helpful to individuals on fixed incomes.
- € Energy Efficiency – Simple no-cost and low-cost tips can help manage energy consumption. Detailed information on all of National Grid's energy efficiency programs and additional efficiency tips can be found at their [energy efficiency](#) page and by visiting [NYSERDA's energy efficiency web site](#).
- € Taking advantage of Consumer Advocacy programs available to help eligible low-income customers pay their bills. Customers who have concerns about their ability to pay are urged to call National Grid at 1-800-642-4272 as soon as possible. The sooner a customer calls, the easier it is for the company to offer assistance.
- € The Low Income Home Energy Assistance Program provides financial assistance to income-eligible applicants. Households receiving public assistance, Supplemental

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**Docket No. 4393**

Security Income or food stamps are the most likely to be eligible for LIHEAP. This federal program opens in November and is available on a first-come, first-served basis to all utility customers. Customers who believe they qualify are urged to call their local office of the New York State Office for the Aging or their county's Department of Social Services for more information.

**About National Grid**

National Grid (LSE: NG; NYSE:NGG) is an electricity and gas company that connects consumers to energy sources through its networks. The company is at the heart of one of the greatest challenges facing our society - to create new, sustainable energy solutions for the future and developing an energy system that underpins economic prosperity in the 21st century. National Grid holds a vital position at the center of the energy system and it 'joins everything up'.

In the northeast US, we connect more than seven million gas and electric customers to vital energy sources, essential for our modern lifestyles. In Great Britain, we run the gas and electricity systems that our society is built on, delivering gas and electricity across the country.

National Grid delivers electricity to approximately 3.3 million customers in Massachusetts, New York and Rhode Island. It is the largest distributor of natural gas in northeastern U.S., serving approximately 3.4 million customers in New York, Massachusetts and Rhode Island.

For more information please visit our website: [www.nationalgridus.com](http://www.nationalgridus.com)

Follow us on [Twitter](#), watch us on [YouTube](#), friend us on [Facebook](#), find our photos on [Instagram](#)

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Docket No. 4393**

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