



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

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December 12, 2014

SENT VIA FIRST CLASS MAIL AND ELECTRONIC MAIL:

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

RE: Proposed Standard Offer Rates – Docket 4393

Dear Ms. Massaro:

Enclosed is an original and ten (10) copies of a letter regarding the Proposed Standard Offer Rates from Marion S. Gold, Ph.D., Commissioner, Office of Energy Resources for submission in the above referenced matter.

If you need anything further, please feel free to contact me.

Sincerely,

Daniel W. Majcher, Esq.

DWM/njr

Enclosure

c. Docket 4393



December 11, 2014

The Honorable Margaret Curran
Chairperson
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

Re: Docket #4393 – Proposed Standard Offer Rates

Dear Chairperson Curran:

As you know, the Office of Energy Resources (OER) has been deeply concerned about the challenges facing our regional energy system and the impacts they are having on local end-use consumers. The proposed Standard Offer Service rates filed by National Grid with the Public Utilities Commission under Docket 4393 (effective January 1, 2015) are alarming and will certainly have an impact on a Rhode Island economy still striving for stability and growth. As the Commission deliberates on this matter, I want to offer a few points of context and highlight some of the ways in which our Office is working to address rising energy costs.

First, it is important to note that the proposed increases to Standard Offer Service rates reflect system-wide constraints and wholesale market forces that extend well beyond our state borders. As the Commission is aware, Rhode Island is part of a highly-complex, highly-integrated regional energy system. This system, and the wholesale energy markets behind it, has a significant impact on local electricity costs and our ability as a state to remain economically competitive. The rates before the Commission in this docket reflect market outcomes from that system, one which is highly-reliant on natural gas to power our homes and businesses. For example, in 2000, natural gas-fired generation accounted for less than 15 percent of New England's electricity needs; it now accounts for more than 45 percent of all demand, and is projected to grow to more than 52 percent by 2023. There have been some benefits in this shift toward gas, including the fact that the region now burns significantly less oil and coal than in years past. In turn, this has helped reduce the emission of harmful greenhouse gases from the electric generation sector.

However, despite New England's increasing dependence on natural gas, pipeline infrastructure has not kept pace. During periods of high natural gas demand – such as a cold winter day or a prolonged cold snap – fuel supply constraints occur along existing pipeline infrastructure, which must serve both thermal (heating) and electric generation demand. As gas supplies for generation become constrained, both natural gas and wholesale electric prices rise. These pricing pressures ultimately find their way into retail rates and are the primary driver behind the rate filing before you today. To put this in perspective, consider that during last winter, regional wholesale energy costs were approximately \$5 billion between December 2013 and February 2014. For the entire 2012 calendar year, wholesale costs totaled just \$5.2 billion. In other words, New England paid more for energy in just three months last winter than it did for the entire 2012 calendar year. In Rhode Island, wholesale electricity costs for the month of January 2014 more than doubled over the year. These energy system constraints not only impact real-time wholesale prices, but also future market expectations. It was the primary reason local consumers saw their electric

bills jump last January, and why they will unfortunately increase again this winter. Left unaddressed, such constraints and price pressures are unsustainable.

For more than a year, the OER has made a considerable effort to engage, educate, and foster dialogue with state leaders, stakeholders, and regional partners about New England's energy future and its impact on Rhode Island consumers. The OER has worked on behalf of the Chafee Administration and with the General Assembly to establish pathways toward longer-term energy infrastructure solutions that may help mitigate the aforementioned system constraints and reduce long-term price volatility for our consumers, fostering energy costs that are more competitive with neighboring regions. With its passage earlier this year, the Affordable Clean Energy Security (ACES) Act allows Rhode Island to participate in multi-state competitive procurement processes that may identify *cost-effective* energy infrastructure projects to enhance supplies of natural gas and/or provide access to clean energy resources, including large-scale hydropower. Importantly, ACES ensures that any state-level decision to invest in such projects is subject to open and transparent proceedings before the Commission, and informed by relevant state agencies to ensure consistency with economic and environmental policy goals.

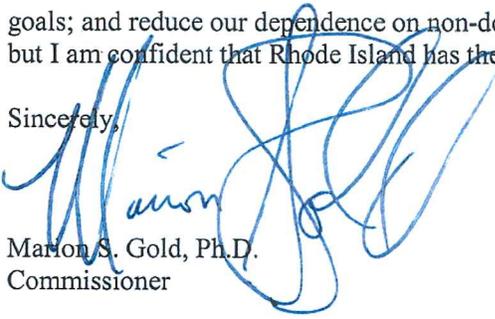
Thanks to the foresight of Governor Chafee and the General Assembly, Rhode Island is poised to act. However, our state needs partners to advance any regional procurement efforts and ensure that the costs of any viable projects are shared more broadly across New England. Admittedly, the expansion of regional energy infrastructure will take time and is just one piece of the solution to our energy system challenges. I fully recognize that local consumers are struggling with their energy burden *today*. That is why it is so important to connect local consumers to available energy efficiency investments and incentives as part of this proceeding. Efficiency measures offer consumers the lowest-cost option to meet their energy needs; represent permanent energy demand reductions that reduce costs at both the retail and wholesale levels; reduce annual and peak energy demand, thereby targeting the natural gas constraints driving system-wide volatility; and supports local economic activity and job growth. Energy efficiency is our most valuable tool to insulate against higher energy costs this winter and maximizing its potential must remain a state priority. The OER will continue to work with National Grid, the Energy Efficiency and Resource Management Council, TEC-RI, income-eligible representatives, and other stakeholders to maximize the effectiveness of our efficiency programs and ensure that all customer groups can access these cost-saving measures in a timely manner.

Beyond energy infrastructure and the robust deployment of energy efficiency, my Office is working across multiple fronts to diversify our energy supply portfolio and reduce energy burdens in a cost-effective, sustainable manner. For example, the OER has been assisting with the implementation of the Renewable Energy Growth Program, which will expand the deployment of distributed clean energy resources by 160 MW through 2019. It is also important that local consumers realize the full range of benefits associated with ratepayer investment in our state's clean energy programs. That is why the OER continues to work with the other New England states to ensure that state-level investments in distributed generation are adequately accounted for in regional system planning. Finally, the OER continues to examine ways to reduce market barriers and other "soft costs" associated with clean energy investments. One example of this is the state's updated electric licensing law, which now better defines the roles of electricians and other renewable energy support professionals on a job site. I look forward to updating the Commission in the coming months on these and many other issues facing our local energy consumers.

In closing, there is no question that local residents, businesses, and public sector entities face a difficult challenge as they struggle to meet their growing energy burdens. Yet, through a combination of state-level and regional actions, such as those outlined above, Rhode Island has the potential to reduce energy costs and mitigate price volatility; improve its economic competitiveness; foster investment and job growth opportunities; diversify our energy supply portfolio; advance greenhouse gas emission reduction

goals; and reduce our dependence on non-domestic supplies of fossil fuels. The work will not be easy, but I am confident that Rhode Island has the tools in place to meet these challenges and overcome them.

Sincerely,



Marlon S. Gold, Ph.D.
Commissioner