

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

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National Grid's Proposed Standard Offer
Service Rates for the Period January 2015
through June 2015 (Residential and
Commercial)

DOCKET NO. 4393

COMMENTS OF
RETAIL ENERGY SUPPLY ASSOCIATION

The Retail Energy Supply Association ("RESA")¹ hereby its submits comments pursuant to the Public Utilities Commission's ("Commission") Revised Procedural Schedule issued on November 28, 2014 in the above-captioned proceeding.

BACKGROUND

On November 19, 2014, Narragansett Electric Company d/b/a National Grid ("National Grid" or "Company") filed with the Commission proposed standard offer service rates for the residential and commercial groups for the months of January 2015 through June 2015. Included with the filing were the results of competitive procurement

¹ RESA's members include: AEP Energy, Inc.; Champion Energy Services, LLC; Consolidated Edison Solutions, Inc.; Constellation NewEnergy, Inc.; Direct Energy Services, LLC; GDF SUEZ Energy Resources NA, Inc.; Homefield Energy; IDT Energy, Inc.; Integrys Energy Services, Inc.; Interstate Gas Supply, Inc. dba IGS Energy; Just Energy; Liberty Power; MC Squared Energy Services, LLC; Mint Energy, LLC; NextEra Energy Services; Noble Americas Energy Solutions LLC; NRG Energy, Inc.; PPL EnergyPlus, LLC; Stream Energy; TransCanada Power Marketing Ltd. and TriEagle Energy, L.P. The comments expressed in this filing represent only those of RESA as an organization and not necessarily the views of each particular RESA member.

for the months of January 2015 through December 2016 for the residential group, for the months of January 2015 through December 2015 for the commercial group.²

On November 25, 2014, the Department of Attorney General submitted a letter urging the Division “to scrutinize the amount requested and to make every effort to reduce it as much as possible.”³ In the letter the Attorney General states that if the Division ultimately allows an increase in rates, that it should act to minimize the seasonal hardship on consumers. The Attorney General suggests recovering standard offer costs for customers for the January 1, 2015 through June 30, 2015 period over 12 months rather than a six-month period.

On November 28, 2014, the Commission issued a Revised Procedural Schedule inviting public comment prior to the Public Hearing scheduled for December 16, 2014.

RESA hereby submits its comments.

COMMENTS

While RESA acknowledges that significant price increases can have a substantial effect on customers, especially low income consumers, RESA encourages the Commission to refrain from deferring the increase in National Grid’s standard offer service rates. Instead, RESA recommends that the Commission engage in increased education efforts regarding competitive supply opportunities, and promote budget billing options, energy assistance programs, and energy efficiency measures as alternatives for reducing the impact of the rate increases.

² See National Grid, Initial Filing (Nov. 19, 2014).

³ See Letter from the Department of Attorney General to the Public Utilities Commission (Nov. 25, 2014) (“Attorney General’s Letter”).

I. THE COMMISSION SHOULD NOT DEFER THE RATE INCREASE

The Commission has recognized that the development of a competitive marketplace for electricity is an important and continuing goal for the state. The Commission recently noted, “First, Rhode Island remains a retail choice state according to the terms of the Utility Restructuring Act and subsequent amendments.”⁴ It follows then that it is essential to the development of a robust competitive market to have prices set at levels that provide customers with appropriate price signals regarding the costs associated with providing the service, as established by the competitive market. Conversely, standard offer service prices that do not represent the actual cost of providing the service would inhibit the development of a competitive market and would thus be detrimental to all electricity consumers. Thus, no matter how significant, the Commission must avoid masking seasonal price variability as it is an avoidance of reality.

Recasting the fixed standard offer service option over a twelve month term rather than a six month term simply creates a scenario whereby standard offer service customers will pay below-market prices during the initial six-month period and pay above-market prices over the later six months. Such an approach would not reduce the price ultimately paid by such customers; it instead suppresses the market price signal early and improperly inflates the price signal later. Pricing standard offer service significantly below costs artificially impedes the development of a truly robust competitive market and the ability of non-regulated power producers to develop products at prices that would attract customers.

⁴ Docket 4149, Written Order issued 9/23/2010, p. 19.

Non-regulated power producers are the entities best positioned to respond to customers seeking to mitigate the costs of increased standard offer service rates. The competitive electricity market is intended to foster competition and choice. The Commission, therefore, should recognize that non-regulated power producers are well positioned to achieve what is sought by the Attorney General's office – to mitigate for consumers these high winter energy costs by making available fixed price options to smooth out rates over a longer period of time.

National Grid correctly states that moving winter and summer rates away from the underlying costs can affect customer migration, which will likely add costs to future procurement bids.⁵ Specifically, customer migration will increase as customers switch to standard offer service in the winter and then switch back to non-regulated power producers in the summer. Higher and fluctuating migration patterns will require standard offer providers to incorporate higher load following cost estimates in their offer prices, or, in the extreme, may cause some suppliers to avoid participating in future solicitations. Higher load following costs and fewer companies submitting offers will only increase future rates for standard offer service in Rhode Island. The Commission has been particularly sensitive to procurement strategies and standard service price formulation that may have a chance of inducing suppliers to incorporate risk premiums into offer prices, which ultimately result in higher retail rates.⁶ Similarly, the Commission has rightly expressed concern about changes that may result in lower costs in the near term,

⁵ National Grid, Docket No. 4393, Responses to the Commission's Third Set of Data Requests, COMM 3-1, page 2.

⁶ Docket 4227, Written Order issued 9/20/2011, p. 12.

but which shift risks in a manner that may result in higher costs imposed on ratepayers in the future.⁷

In its memo to the Commission, the Division intimates that the fairly modest market penetration of non-regulated power producers in the residential segment in Rhode Island may ease the Commission's concerns regarding inequitable cost shifts between customers or higher rates in the future created by never-before-seen customer migration patterns.⁸ However, in prior deliberations the Commission has well recognized that, "Where there currently may be minimal activity in terms of the number of customers served by non-regulated suppliers, it does not necessarily follow that mass migration from standard offer service will not occur in the near future."⁹ Further, the Commission has recognized that price formulation that results in a disparity between the standard offer service rates and competitive market rates can lead to a mass migration to or from standard offer service and result in significant incremental costs being passed on to captive ratepayers, which raises real concerns with respect to equity and rate impacts.¹⁰ RESA encourages the Commission to adhere to cost causation principles and its precedent and decline to defer National Grid's rate increases as it will result in masking accurate price signals to consumers, shift the time-period over which the costs must be paid, and increase the rates for standard offer service in the future. Unquestionably sensitive to the impact on consumers, the Commission has nonetheless approved significant price increases in standard service rates in the past, highlighting the importance of avoiding the creation of large under-collections that will only lead to rate

⁷ Docket 4041, Written Order issued 5/7/2009, p. 17.

⁸ Memo from the Division of Public Utilities & Carriers to the Commission dated Dec. 12, 2014, pp. 5-6.

⁹ Docket 4149, Written Order issued 9/23/2010, p. 19.

¹⁰ *Id.*

shock later.¹¹ Thus, the Commission should implement National Grid's rate increase as originally proposed and pursue alternatives for educating consumers about ways in which to reduce the impact of the rate increase. First and foremost the Commission should encourage consumers to explore and take advantage of the lower rate alternatives presently being offered by non-regulated power producers. Consumers not yet ready to leave standard offer service should take advantage of budget billing offered through National Grid.

RESA agrees with the Attorney General that budget billing is an effective option for mitigating the effect of the high winter prices. RESA fully supports and encourages National Grid's proposal to further promote the use of its budget billing program.¹² Budget billing allows each customer to smooth out their energy costs across several months, with their individualized true-up reflecting their own usage. National Grid emphasizes that its budget billing program

. . . is the most effective solution to mitigate bill impacts to standard offer customers. This is because budget billing considers the components of both rate and volumetric usage, as well as both commodity and delivery portions of the bill. In contrast, modifying the structure of standard offer rates to twelve months does not help alleviate customers' bill impacts resulting from increased usage during the cold winter months, and introduces the risk of negatively impacting prices in the future.¹³

Budget billing will mitigate rate shock and work in conjunction with the state's goals of customer choice.

¹¹ Docket 3960, Written Order issued 8/20/2008, p. 9.

¹² National Grid, Docket No. 4393, Responses to the Commission's Third Set of Data Requests, COMM 3-1.

¹³ *Id.*

While RESA shares in the Attorney General's concern relating to the consumer impact from high basic service rates, RESA disagrees with the Attorney General's office that the gas adjustment case that it cited in its November 24, 2014 letter provides precedential guidance to the Commission. In its letter, the Attorney General's office references a decision rendered by the Commission in a New England Gas cost recovery charge case wherein the Commission allowed for a certain amount of under-collections in exchange for a reduced price increase in the near-term. A critical difference between the natural gas and electricity markets in Rhode Island is that residential gas consumers can only purchase gas from National Grid. Unlike electricity, there is no residential retail choice for natural gas in Rhode Island. Consequently, in the case of cost deferrals for residential gas customers, any under-collections for gas costs ultimately will be collected later from the same group of customers. Because retail electricity customers have choice, the Commission must recognize that any element of cost deferral could result in residential customers who remain on standard offer service through the end of 2015 paying more than its share of the deferred costs, making up for those residential customers who switch from standard service to non-regulated power producers.

National Grid's Standard Offer Billing Adjustment ("SOBA") attempts to address this concern. National Grid explains that it will continue to utilize the SOBA with residential customers who leave standard offer service to receive electricity supply from a non-regulated power producer.¹⁴ National Grid goes on to say that, by doing so, "these customers pay their share of standard offer service costs and remaining residential standard offer service customers are not burdened with the obligation to pay the

¹⁴ National Grid, Docket No. 4393, Responses to the Commission's Third Set of Data Requests, COMM 3-1, page 2.

migrating customers' winter costs that were deferred to the summer." While necessary for managing equitable treatment among consumers, it nonetheless can be confusing and surprising to shopping customers. If the Commission were to approve any amount of deferral, the dollar amount of the adjustment that a shopping customer would have to pay would increase, perhaps adding to the confusion and damaging the shopping experience to the detriment of the competitive market and the benefits that it brings to consumers. As noted above, there are better ways to manage the high winter prices than a deferral mechanism, namely customer shopping and National Grid's budget billing.

II. CUSTOMER EDUCATION EFFORTS AND OTHER PROGRAMS CAN INCREASE AWARENESS OF THE COMPETITIVE RETAIL ELECTRIC MARKET AND ENERGY ASSISTANCE PROGRAMS

RESA strongly recommends that the Commission consider customer education efforts to raise awareness of non-regulated power producer options as a tool to provide customers the information they need to best mitigate high basic service rates. RESA believes that more customer outreach will be necessary to provide customers with the education to make an informed and economically-sound decision regarding whether to remain on standard offer service or select a non-regulated power producer.

RESA recommends that the Commission initiate a stakeholder process to re-evaluate National Grid's existing programs for bill inserts and other competitive supply information initiatives, including a review of the cost and frequency of such programs. The goal of the collaborative process should be to expeditiously create and implement programs that allow customers to quickly enroll with competitive supply offers that provide rate mitigation from standard offer service rates. There are bill insert and other competitive supplier referral programs from other states that can serve as a model for

consideration in Rhode Island. For example, in Pennsylvania the Public Utility Commission directed all utilities to implement customer referral programs in mid to late 2013 and these programs have proven incredibly successful.¹⁵ In just one year of implementation, the programs have resulted in over 250,000 new customers enrolling with competitive suppliers offering a 7 percent discount off of the utility's price to compare.¹⁶

RESA also encourages the Commission to consider the implementation of an accelerated switching protocol to assist electricity customers with their enrollment and switching to alternative pricing options. Presently, from the point of a customer's meter read date, it can take one to two billing cycles for a customer to enroll/un-enroll or switch to alternative pricing plans. Customers should be able to act quickly to switch suppliers and choose products that meet their needs. When consumers see prices changing dramatically as can occur during extreme weather events such as this past winter (or prolonged summer heat waves), they should have the ability to select products that offer better pricing or price protection and to effectuate that change almost immediately.

Following last winter's Polar Vortex, the expedited switching protocol has been under active review by several leading state regulatory bodies. On April 3, 2014 the Pennsylvania Public Utility Commission approved regulations that require EDCs to reduce the time it takes customers to change electric suppliers to three (3) business days. On July 28, 2014 the New York Public Service Commission published a staff proposal to accelerate switching times to five (5) business days. On May 5, 2014, the Maryland

¹⁵ See, <http://www.papowerswitch.com/standard-offer-program> for a description of the Pennsylvania programs.

¹⁶ http://www.papowerswitch.com/assets/pdf/EDC_SOP_Stats083114.pdf

Public Service Commission in its Public Conference 35 proceeding, among other consumer protection and market enhancement matters, is actively investigating the implementation of an expedited switching protocol. Therefore, RESA encourages the Commission to establish a collaborative process to explore the merits and practicality of implementing an expedited switching practice as well as other consumer and market enhancements that will benefit electricity consumers in the state.

RESA supports creating and/or expanding efforts to educate consumers about the various energy assistance and energy efficiency programs. Low Income Home Energy Assistance Program (“LIHEAP”) provides eligible households with help in paying a portion of winter heating bills.”¹⁷ LIHEAP is funded by the U.S. Department of Health and Human Services. Eligibility for LIHEAP is based on household size and gross annual income of every household member eighteen years or older, provided the household gross annual income cannot exceed sixty percent (60%) of the estimated state median income. The Rhode Island Good Neighbor Energy Fund “has provided energy assistance to Rhode Islanders in temporary crisis who cannot pay their energy bills and do not qualify for federal or state energy funds.”¹⁸ The fund is sponsored by several regional energy companies, including National Grid, and is administered by The Salvation Army. In addition, an ad campaign could provide information on energy efficiency and educate consumers about the potential savings on a utility bill from less energy consumption. The Low Income Weatherization Assistance Program (“WAP”)

¹⁷ See Housing and Economic Development, Low Income Home Energy Assistance Program (LIHEAP), available at <http://www.energy.ri.gov/lowincome/liheap.php> (last visited Dec. 13, 2014).

¹⁸ See The Rhode Island Good Neighbor Energy Fund, available at <http://www.rigoodneighbor.com> (last visited Dec. 13, 2014).

“provides eligible households with full-scale home energy efficiency services,” including air sealing to reduce infiltration, limited energy related repairs, and attic, sidewall, floor, and pipe and/or duct insulation.¹⁹ Households eligible for LIHEAP are also eligible for WAP, and funding is provided by the U.S. Department of Energy.

Coordination and collaboration between non-regulated power producers, distribution companies, and the organizations listed above can increase visibility of these programs and evaluate methods to provided additional funds to those programs that are not fully funded. RESA is encouraged by, and hopes to build off of, existing distribution company efforts.

RESA notes that the Massachusetts Department of Public Utilities (the “Department”) recently considered the same issue that is now before this Commission. In October 2014, the Attorney General of Massachusetts filed a letter with the Department requesting that it work with National Grid and other stakeholders to determine what part of any of National Grid’s basic service rates for November 1, 2014 through April 30, 2015 for its residential and small commercial could be deferred to the next basic service term. The Department concluded in a November 6, 2014 order:

[i]t is not in the public interest to adopt either of the Basic Service Proposals. Specifically, the Department finds that recalculating National Grid’s basic service rate might have unintended consequences, including increasing the price of future basic service bids due to increased regulatory risk for suppliers, and increasing costs to non-basic service customers. Also, the Department finds that recalculating National Grid’s basic service rates would result in higher costs for National Grid ratepayers by adding carrying costs. Therefore, the Department will not recalculate National Grid’s basic service rates that were effective November 1, 2014.²⁰

¹⁹ See Housing and Economic Development, Weatherization Assistance Program (WAP), available at <http://www.energy.ri.gov/lowincome/wap.php> (last visited Dec. 13, 2014).

²⁰ Docket 14-NSF-D3-A, Order at 15.

In addition, in its Order the Department directed the electric distribution companies “to continue their ramped up efforts to educate customers about the competitive supply market and to mitigate the impact of increases in basic service rates through promoting customers’ participation in budget billing and energy efficiency programs.”²¹

RESA acknowledges the need for an expedited resolution of this proceeding due to the January 1, 2015 effective date of National Grid’s standard offer service rates, future basic service rate solicitations, and the impending winter months. However, RESA would support a technical or stakeholder meeting on an expedited basis to discuss how to structure and fund a customer education ad campaign.

CONCLUSION

For all the foregoing reasons, RESA encourages the Commission not to mitigate high basic service rates through a deferral mechanism. Instead, RESA supports the expanded use of outreach tools through National Grid, such as bill inserts, to provide information about the competitive retail electric market. In addition, launching a collaborative customer education ad campaign could provide awareness about budget billing, energy assistance, and energy efficiency programs that help defray some of the electricity costs. RESA and its members would actively participate in the design and implementation of such a campaign to help ensure customers receive adequate notice of energy assistance and energy efficiency programs while also providing for the continuation of a robust and sustainable competitive retail market in Rhode Island.

²¹ *Id.*

Respectfully submitted,
RETAIL ENERGY SUPPLY
ASSOCIATION

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