

April 15, 2014

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4485 - 2014 Retail Rates Filing
Docket 4393 - 2014 Renewable Energy Standard Charge and Reconciliation
Response to Record Request 3**

Dear Ms. Massaro:

Enclosed are ten (10) copies of National Grid's¹ response to Record Request 3.

This transmittal completes the Company's responses to Record Requests issued at the Public Utilities Commission Evidentiary Hearing on March 25, 2014 concerning the above-referenced proceedings.

Thank you for your attention to this transmittal. If you have any questions, please contact me at (401) 784-7288

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Steve Scialabba, Division
Leo Wold, Esq.

¹ The Narragansett Electric Company d/b/a National Grid (herein referred to as "National Grid" or the "Company").

Record Request 3

Request:

- a) What portion of the under-recovery for standard offer service as reflected in Schedule JAL-2, page 2 of 5, is attributable to spot market prices?
- b) Does it make sense to continue spot market purchases at 10% in light of the current market conditions?

Response:

- a) The annual reconciliation of revenue and expense for each customer group for the reconciliation period of January 1, 2013 through December 31, 2013 is shown on Schedule JAL-2, page 2 of 5. Revenue billed during this period is based upon the estimated spot market prices built into the Standard Offer Service (“SOS”) Residential and Commercial group rates billed to customers during the period, while expense for the same period is based upon the actual spot market prices. The Company estimates that approximately \$4.7 million of the total \$5.3 million Residential class under-recovery and approximately \$1.6 million of the total \$4.5 million under-recovery of the Commercial class is due to the difference between the estimated and actual spot market prices occurring during the reconciliation period.
- b) The Company has procured a portion of SOS from the Independent System Operator-New England (“ISO-NE”) spot market since January 2010 for several reasons. Initially, the Company procured SOS through the spot market to comply with the PUC order issued in Docket No. 4041¹. The order states that procuring through the spot market would “provide the Commission with the ability to review the volatility of that market and the resulting price impact averaged over the period with minimum risk of exposure to ratepayers.” In Docket No. 4149², the PUC order required the Company to include a comparison of estimated SOS spot market purchases to actual spot market costs in its SOS Reconciliation Reports. The Company has included this comparison in each of its subsequent quarterly SOS Reconciliation Report filings.

¹ National Grid’s Proposed 2010 Standard Offer Supply Procurement Plan and 2010 Renewable Energy Supply Procurement Plan. Order 19839 effective on September 30, 2009 pursuant to an open meeting decision. Written order issued November 24, 2009.

² National Grid’s Proposed 2011 Standard Offer Supply Procurement Plan and 2011 Renewable Energy Supply Procurement Plan. Order 20125 effective on August 5, 2010 pursuant to an open meeting decision. Written order issued September 23, 2010.

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As described in Docket No. 4149, the Company proposed to continue to procure a portion of SOS in the spot market for two reasons:

First, spot market purchasing is effective in continuing to keep the Company engaged in the energy markets for the Rhode Island load zone within the ISO-NE. This is important for contingency reasons, as the Company would be better positioned to perform 100% load bidding in the event of a supplier default. Second, the inclusion of an appropriate amount of spot-based pricing will begin the process of allowing customers to respond to short-term market signals, when appropriate rate mechanisms are put in place. It should be noted that the level of spot market purchases can be adjusted in the future as wholesale and retail markets evolve and technologies that allow customers to respond to hourly market price signals become further developed.

The Company continues to view the inclusion of spot market purchases in its procurement plan as beneficial. The recently-filed Direct Testimony of Margaret M. Janzen in Docket No. 4490³ underscores the importance of spot market purchases for contingency reasons. The ability to procure SOS through the spot market is a key component of the Company's contingency plans to address an event that disrupts the competitiveness of a SOS Request For Proposal.

Regarding current market conditions, a combination of gas pipeline constraints and extremely cold weather this past winter drove electric prices to their highest levels in a decade, and consequently, spot market prices have been higher than previously executed Full Requirement Service ("FRS") contract prices. The Company minimizes volatility for the hedged portion of residential and commercial load by laddering and layering FRS contracts in the SOS portfolio⁴. In an increasing price environment like this past winter, this results in FRS prices that are lower than the spot market prices. In a decreasing price environment, this results in spot market prices that are lower than FRS prices.

³ National Grid's Proposed 2015 Standard Offer Supply Procurement Plan and 2015 Renewable Energy Supply Procurement Plan.

⁴ For the Residential Group, this consists of 6 month, 12 month, 18 month, and 24 month contracts for 15% to 20% of load. For the Commercial Group, this consists of 6 month and 12 month contracts for 30% of load.

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket Nos. 4485 & 4393
In Re: 2014 Retail Rate Filing and
2014 RES Charge and RES Reconciliation Filing
Responses to Record Requests Issued at the Evidentiary Hearing
On March 25, 2014

Record Request 3, page 3

Next winter is predicted to have similar gas pipeline constraints as this past winter. However, unlike this past winter, which had some FRS contracts executed prior to expectations of pipeline constraints, FRS suppliers will most likely include these expectations in their FRS prices for this coming winter. Therefore, the Company anticipates that spot market prices will not deviate as much from FRS prices as this recent winter.