

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC  
COMPANY d/b/a NATIONAL GRID'S  
2016 STANDARD OFFER SERVICE  
PROCUREMENT PLAN AND 2016  
RENEWABLE ENERGY STANDARD  
PROCUREMENT PLAN

DOCKET NO. 4556

THE DIVISION'S RESPONSES TO  
COMMISSION'S SECOND SET OF DATA REQUESTS  
(May 22, 2015)

**COMM 2-1.** On page 13 of Richard Hahn's April 17, 2015 memorandum on behalf of the Division, Hahn presents that the Commission track the impact of eliminating the billing adjustment. Does the Division have a recommendation as to what thresholds should warrant concern, and what thresholds should warrant action? Does the party have a recommendation as to the types of action the Commission should take if the tracking mechanism should reveal significant negative impacts?

**Response:** Mr. Hahn's recommendation was to immediately eliminate the billing adjustment and attempt to secure flat prices from SOS suppliers. Flat prices from SOS suppliers would eventually internalize the impact of billing adjustments in SOS rates, and thereby eventually eliminate the need for billing adjustments. During this transition, the cumulative size of the billing adjustments should be tracked. The proposed tracking system will provide the Commission with the size of any impact over time, and specific actions can be developed based upon the situation as it will exist in the future. If the cumulative impact of billing adjustments is relatively small compared to overall SOS revenues, this impact can be addressed through the current SOS reconciliation process. If the number becomes so large so to create a significant impact on SOS rates, the Commission can deploy other commonly used rate mechanisms, such as amortizing the balance over a longer period of time, to address this balance. Mr. Hahn does not have a specific recommendation regarding the establishment of thresholds or the types of action that the Commission should take. As this situation unfolds in the future, the Commission can apply the most appropriate remedy, based upon the facts at that time.

Prepared by: Richard S. Hahn, after consultation with Division Staff.

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**COMM 2-2.** Page 2 of Richard Hahn's memorandum states,

“Recently [ISO-NE] wholesale market prices have become extremely volatile, especially in winter months.”

Is it the Division's analysis that wholesale market price volatility is variable throughout the calendar year?

**Response:** Yes. As shown in figure 1 on page 3 of Mr. Hahn's memorandum, the price spikes have occurred mainly during the winter months.

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**COMM 2-3.** If wholesale market price volatility changes on a monthly or seasonal basis, is there a benefit or cost to maintaining a constant, 10-percent exposure of Residential and Commercial SOS load to the market?

**Response:** It is common to have a constant percentage of a power supply portfolio supplied from spot market products. The benefit of this approach is that it allows that percentage of supply costs to be tied to spot market prices and it can be easily implemented throughout the year. If the question seeks to determine if one percentage should be used during high volatility months and a different percentage should be used during low volatility months, Mr. Hahn does not advocate such an approach.

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**COMM 2-4.** Page 12 of Richard Hahn's memorandum states,

"Charging monthly rates for SOS to match monthly rates paid to suppliers will result in very high rate volatility, so this approach doesn't seem desirable."

Does the Division have a position as to whether or not some fraction of the monthly variability in SOS payments to suppliers caused by "extreme" volatility in winter months should be included in SOS rates charged to customers?

**Response:** Because NGrid currently sets a flat cent per KWH rate for SOS supply which is based upon a load weighted average of monthly supplier bids, the impact of price spikes in the winter months is already reflected in SOS rates. It is reflected in proportion to the monthly prices and loads. The following table provides an example of load weighted prices. In this example, 44% of the annual SOS rate is due to prices and loads in the high volatility winter months.

EXAMPLE OF LOAD WEIGHTED PRICES														
	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	sum	average
monthly prices \$/MWH	\$170.31	\$168.71	\$100.59	\$72.83	\$62.41	\$70.38	\$69.01	\$65.27	\$58.51	\$59.90	\$76.28	\$115.51	n/a	\$90.81
load, MWH <sup>[2]</sup>	293,847	250,920	253,497	206,860	213,052	256,735	344,971	317,492	247,429	220,270	235,603	284,654	3,125,330	260,444
load times price (\$000)	\$50,045	\$42,333	\$25,498	\$15,066	\$13,297	\$18,069	\$23,808	\$20,721	\$14,477	\$13,194	\$17,972	\$32,880	\$287,360	\$23,947
													load weighted price	\$91.95
44% of the load weighted price is due to winter months of December, January, and February														
[1] residential SOS prices per Figure 9 of the Division's April 17, 2015 memorandum														
[2] monthly residential SOS loads per schedule 3B attached to Ms. Janzen's March 2, 2015 testimony														

This question could also be interpreted to ask whether prices in the winter months – December, January, and February – should be higher than the other nine months, but still less than the full monthly costs in those months. Mr. Hahn notes that it would be possible to develop such "shaped" monthly prices. For example, one could develop rates for the winter months that are

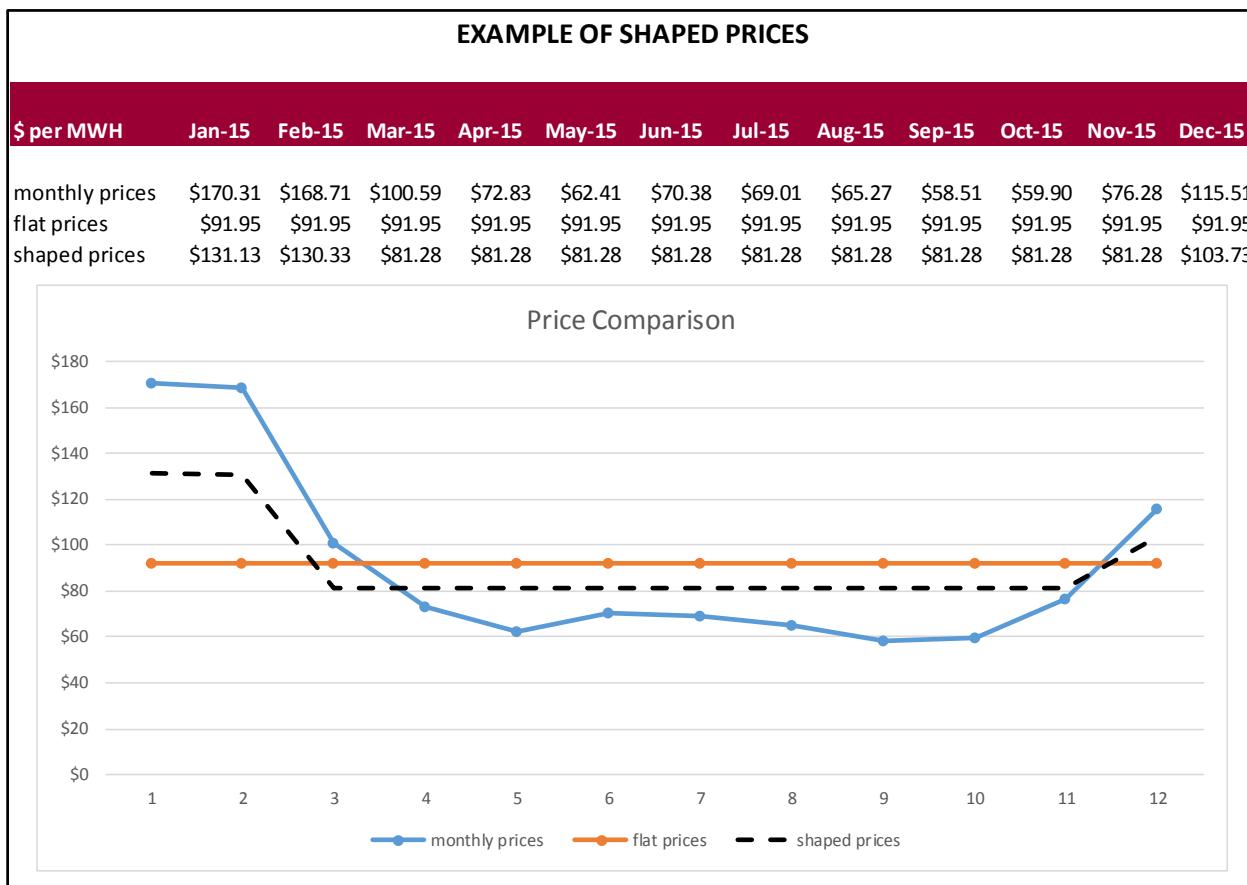
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halfway or 50% between monthly prices for those months and the flat price for the entire period, as shown in the following table and graph. Under this scenario, the total amount paid by a SOS customer for the rate period would be the same for monthly, flat, and shaped prices. However, the choice of the in between point - in this case 50% - would be arbitrary, and the customer still might experience a significant rate change. Mr. Hahn does not recommend the use of such shaped prices.



Prepared by: Richard S. Hahn