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MEMORANDUM

May 29, 2015

TO: RHODE ISLAND PUBLIC UTILITIES COMMISSION

FROM: RICHARD HAHN, LA CAPRA ASSOCIATES INC., ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

SUBJECT: NATIONAL GRID 2016 STANDARD OFFER SUPPLY AND RENEWABLE ENERGY STANDARD PROCUREMENT PLANS, DOCKET NO. 4556

On April 17, 2015, I submitted a memorandum to the Commission providing comments on behalf of the Division on NGrid's March 2, 2015 filing. On May 8, 2015, NGrid filed the rebuttal testimony of Margaret Janzen. The purpose of this memorandum is to provide surrebuttal comments to the NGrid rebuttal testimony.

The Company's rebuttal testimony agrees with many of my recommendations, such as the immediate elimination of the billing adjustment and the implementation of a mechanism to track impact of the billing adjustment. However, the Company now withdraws its previous proposal to seek flat prices from SOS providers and proposes to continue its past practice of soliciting and paying monthly prices to SOS suppliers. I disagree with the Company's proposal to no longer seek flat prices from SOS suppliers. It is true that immediate elimination of the billing adjustment will resolve some issues, such as customers that switch from SOS to a competitive supplier being "surprised" by an additional cost to switch. But the elimination of the billing adjustment does not alter the underlying cause – namely that NGrid collects on an average rate and pays a monthly rate. The elimination of the billing adjustment simply changes who absorbs the differential. With the billing adjustment, switching customers individually absorb this differential. Without the billing adjustment, the Company absorbs this differential, and is made whole through the reconciliation process or some other rate process. The solicitation of flat bids will cause the differential to be absorbed by suppliers and internalized in their bids.[1] The liability for the differential to NGrid and its customers will be phased out over time as future solicitations for flat pricing will be combined with solicitations with monthly prices that have already been completed. The combination of the billing adjustment immediate elimination and the transition to flat pricing will limit how large a burden the differential can become. Therefore, I recommend that the Company adhere to its original proposal to seek flat pricing from SOS providers. This complements, and is not an alternative to, the immediate elimination of the billing adjustment.

The Company is critical of the mark-to-market analysis of its 2015 procurements for residential

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[1] Starting the SOS price year in June instead of January may minimize any incremental risk premiums in flat bids.

customers, particularly as it pertains to estimates of capacity costs. Fortunately, it is not necessary to resolve this issue. The purpose of these analyses in my April 17th memorandum was not to show that one procurement approach is better than another based upon the estimated risk premiums. Rather, it was to illustrate using simplified examples that the procurement methods of both NGrid and Pascoag contain some premium above market prices. The NGRID analysis is for a one-year period while the Pascoag analysis is for a three-year period. Thus, a comparison of the risk premiums for these two examples is not "apples to apples" and therefore not dispositive of which method is superior. While I have stated a preference for a managed portfolio approach, similar to what Pascoag used, that preference is based upon many years of experience and not the simplified risk premium analysis that the Company is critical of.

During discovery, the issue of combining the RES factor with the SOS factor arose. One way to address this issue is to place a "Price-To-Compare" (PTC) on the NGrid electric bills to all residential and small commercial customers, those supplied by both NGrid as well as competitive suppliers. This cent per KWH rate would be the price that ratepayers on utility-supplied Standard Offer service pay. This Price-To-Compare should include the combined SOS and the RES factors, as competitive supply prices include the RES obligation. The Standard Offer rate and RES factor could still be itemized separately in the billing detail of Standard Offer customers' bills. With the Price-To-Compare prominently displayed on the bill, customers would be in a better position to evaluate offers from competitive retail suppliers compared to utility-supplied energy.

In my April 17th memorandum, I offered some suggested changes to NGrid's 2016 SOS plan if the Commission wishes to retain the current fixed program approach. Nothing in the rebuttal testimony of NGrid has caused me to revise any of those suggestions, and I repeat them here.

1. Revise the procurement schedule to move the November procurements for delivery starting in January to take place, earlier, such as in October. This will give 75 days' notice of any rate change.
2. Revise the SOS price year to be congruent with ISO-NE power year (i.e., June 1st thru May 31st). This approach would change the current January through June six-month price period to June through November, and the current July through December six month price period to December through May. The advantage of this change is that it aligns the Rhode Island SOS year with the ISO-NE planning year, and the first month of the price year would be June, which typically has a monthly price that is below the annual average. Under the current approach, the first month of the SOS price year is January, which has a monthly price that is well above the annual average. If this change is made, it will be necessary to adjust future procurement schedules to transition to this price year.
3. Evaluate flat prices from SOS providers for the procurement period and compare to the monthly pricing for residential and small commercial class, as described above.
4. Transition small commercial customers to the residential procurement model, as NGrid has proposed.
5. Require NGRID to estimate the risk premium in each winning bid (as they used to do), and to decide to accept or reject bids based upon the results.
6. Mitigate the price cliff at the end of the six-month SOS procurement period by deploying

more layering and laddering.

7. Simultaneously solicit bids for fixed price, full requirements contracts and for block and spot or block and indexed products. The results of these bids can be used to decide which one to accept. This can be done in conjunction with the staggered contracts mentioned above.

Regarding the second point in the above list, I note that it would be possible to select another month besides June to commence the SOS price year. For example, starting the SOS price year in April would have a similar benefit of having the first few months of the price year have monthly costs below the annual average.