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May 21, 2015

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

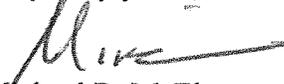
In Re: 2014 Standard Offer Service Procurement Plan and 2014 Renewable Energy
Standard Procurement Plan – Docket No. 4556

Dear Luly:

Enclosed for filing are an original and 10 copies of Lt. Governor Daniel J. McKee's
Responses to the Commission's 1st Set of Data Requests.

If you have any questions, please feel free to call.

Very truly yours,


Michael R. McElroy

MRMc:tmg
cc: Service List

McKee/Docket 4556/Massaro3

The Lieutenant Governor of Rhode Island
Witness: John Farley
RIPUC Docket No. 4556
The Narragansett Electric Company
d/b/a National Grid
2016 Standard Offer Service Procurement Plan
2016 Renewable Energy Standard Procurement Plan
Responses to the Commission's First Set of Data Requests
Issued on May 12, 2015

COMM 1-1

Request:

On page 17 of John Farley's pre-filed testimony, the witness states, "The bill impact resulting from the removal of the billing adjustment is modest and outweighed by the benefits".

Has the witness quantified the benefits of eliminating the billing adjustment? If so, please provide the data, assumptions, and analysis upon which that quantification is based, as well as the result of the cost-benefit analysis.

Response:

The witness, John Farley, did not quantify the benefits of eliminating the billing adjustment, although the wording here could be interpreted that way. The witness identified the benefits in his testimony as primarily two-fold:

- (1) Ending a problematic business practice
- (2) Fostering a competitive market for electricity

The nature of these benefits dictates that the weighing be comparative but not quantitative.

The benefits of bringing about a robust competitive retail market for electricity are substantial. Competition will result in pricing for the commodity that is tailored to different customer needs. Competition will also drive innovation, in the form of more products and services and better ways to deliver those services. The ABACCUS report (see our response to DIV 1-1) describes these benefits in more detail.

The benefits of having a robust competitive retail market for electricity are tangible and ultimately quantifiable, although removing the billing adjustment is only one of a group of factors that would produce this outcome.

Having the billing adjustment in place caused problems and difficulties for customers, the utility, competitive suppliers, and regulatory staff this past winter. Having those problems go away is clearly worthwhile, although it is hard to quantify the level of pain!

And how do you quantify the offsetting positive impact of a customer not receiving a large billing adjustment against the negative impact of the other customers receiving a slightly higher bill? It is a judgment call, because the overall quantitative impact is zero.

Mr. Farley was also persuaded by the findings of the Massachusetts DPU in its investigation of initiatives to improve the retail electric competitive supply market (docket D.P.U. 14-140). In its April 15, 2015 order eliminating the bill recalculation, the DPU stated that it saw minimal, if any, benefits in continuing to apply the basic service bill recalculation provision to residential and small C&I customers. In contrast, the DPU identified a large benefit in eliminating this provision for these customers – eliminating customer confusion and dissatisfaction that the provision creates because customers likely perceive the resulting recalculation as a penalty for leaving basic service and switching to a competitive supplier.

The DPU stated that this dynamic serves as a barrier to these customers' participation in the competitive supply market, and that, on balance, the DPU expects that the benefits associated with eliminating the bill recalculation provision for residential and small C&I customers outweigh any benefits associated with continuing this provision. After considering the record, the DPU found that, on balance, the advantages of eliminating the basic service bill recalculation for residential and small C&I customers outweigh the disadvantages.¹

One other way the witness sought to weigh this action in a quantitative way was to compare it to other related ratemaking choices. One was to compare the size of the billing adjustments to the swings in overall SOS supply cost as a result of wholesale pricing that is driven by the futures market. The other was to compare this rate adjustment to other charges in place on the bill today that also meet a policy objective of the State of Rhode Island. The impact of the billing adjustment removal is small in comparison to either of these other ratemaking elements.

Prepared by or under the supervision of: John Farley

¹ Massachusetts D.P.U. 14-140-A, Order on Eliminating the Basic Service Bill Recalculation Provision, page 11,14.

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COMM 1-2

Request:

Referring to page 21 of John Farley's Direct Testimony, how will the cost of the billing adjustment in Massachusetts be paid for after the Department of Public Utilities April 13, 2015 order eliminating the billing adjustment charge to individual customers?

Response:

The impact of eliminating the bill recalculation provision for residential and small C&I customers in Massachusetts will be collected or credited through each distribution utility's basic service reconciliation factor.

This is documented on page 16 of the April 13, 2015, Massachusetts Department of Public Utilities, order in docket D.P.U. 14-140- A titled "Order on Eliminating the Basic Service Bill Recalculation Provision". In that order, the Department stated it will implement a tracking mechanism to evaluate the impact of its decision to eliminate the bill recalculation provision. The first factor identifies that the impacts will be accounted for in the basic service reconciliation factor.

Prepared by or under the supervision of: John Farley

The Lieutenant Governor of Rhode Island
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COMM 1-3

Request:

Page 22 of John Farley's Direct Testimony states,

"In New Hampshire, Unitil, a regulated electric utility serving the Seacoast and Capital areas of the state, agreed on April 9, 2015 to credit the account of customers who were hit with back charges after they switched to a competitive supplier. Unitil reach a settlement agreement with the PUC regarding bill recalculations for customers switching to third party suppliers."

Please provide a copy of the settlement agreement to which the witness refers. Who bore the cost of crediting the accounts of customers that paid a billing adjustment to Unitil? How will the cost of the billing adjustment be paid for in Unitil's service territory going forward?

Response:

The settlement agreement in question is hereby provided as Attachment COMM 1-3 to this response.

On page 4 of 6, item 2.4 states that "the difference between the fixed and variable rate for customers that moved from Default Service to a competitive supplier or self-supply shall be flowed through to the Default Service account". This statement comes after sections 2.2 and 2.3, which dealt with suspending the practice going forward (2.2) and providing bill credits to customers who received an additional charge as a result of the recalculation (2.3). Thus, all Unitil default energy service customers are bearing the cost of credits as well as the cost of eliminating the billing adjustment going forward.

**THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

Unitil Energy Systems, Inc.

Docket No. DE 15-079

**SETTLEMENT AGREEMENT REGARDING IMPLEMENTATION OF THE
VARIABLE DEFAULT SERVICE RATE**

This Settlement Agreement (“Settlement Agreement”) is entered into this 7th day of April, 2015, by and among Unitil Energy Systems, Inc. (“Unitil,” or “the Company”), the Office of the Consumer Advocate (“OCA”), and the Staff of the New Hampshire Public Utilities Commission (“Staff”) (collectively, the “Settling Parties”), and is intended to resolve the specific issues regarding the implementation of the variable default service rate by the Company in the above-captioned docket from the period beginning December 1, 2014 and thereafter, until such time as it may be subsequently changed by Commission Order.

1. BACKGROUND

- 1.1. Default Service energy supply service is available to all of the Company’s customers who are not served by a competitive supplier or who do not self-supply. Default Service pricing is available in two forms: fixed and variable. Fixed pricing remains the same for six months at a time (effective June 1 and December 1) and is based on the weighted average monthly wholesale price over the six-month period that the Company pays to its Default Service provider(s). Variable pricing changes from month to month reflecting the monthly wholesale price that the Company pays to its Default Service provider(s). Unitil’s Non-G1 customers receiving Default

Service are placed on the fixed Default Service pricing unless they request otherwise.

1.2. Pursuant to Unitil's approved Default Service tariff (Schedule DS at First Revised Page 71) Unitil customers *returning* to Default Service from a competitive energy supplier or self-supply during a six-month service period are billed for energy service for the remaining months of the period at Unitil's variable rate default service. For customers *switching* from default service to a competitive supplier, a re-billing at the variable rate is calculated retroactively for the portion of the six month period during which the customer received service in order to reflect the actual cost of the service. As a result, those customers who move to competitive suppliers are either provided a credit or are billed an additional amount for the default service received during the six month default service period, depending upon whether the fixed rate under which they were receiving service was above or below the variable rate.

1.3. Prior to December 1, 2014, Unitil did not perform the above-described recalculations, due to the low number of customers moving from Default Service to competitive supply and the relative small difference between the variable rate and fixed rate. However, as the number of options for obtaining competitive supply in Unitil's service area grew and more customers began to move to competitive suppliers, and the difference between the variable and fixed Default Service rate increased, Unitil began to recalculate the bills of customers leaving Default Service as of December 1, 2014.

2. RECOMMENDED TARIFF CHANGES AND BILL CREDIT

- 2.1. The Settling Parties have reviewed Unitil's tariff provisions requiring a recalculation of a customer's bill upon moving from the Company's fixed Default Service Rate to a competitive supplier, and the number of customers who have had their bills recalculated and the dollar amount of such recalculations since December 1, 2014, and have determined that the recalculation requirement appears to be a source of customer confusion and may serve as an impediment to customer choice. Accordingly, the Settling Parties recommend that the Commission approve the following:
- 2.2. The provision of the Company's tariff Schedule DS that requires a recalculation of previous bills when a customer moves to a competitive supplier should be suspended immediately. The Company is to file a tariff revision deleting this provision, effective with the change in Default Service rates on June 1, 2015. The requirement that a customer *returning* to Default Service from a competitive supplier be placed on the variable monthly rate will remain in place.
- 2.3. Each of the Company's Non-G1 customers who moved from Default Service to a competitive supplier or self-supply since December 1, 2014 and received an additional charge as a result of a recalculation of their bills based on the variable rate shall have that charge reversed, in the form of a bill credit. The Company shall notify the Commission and the OCA upon the completion of the bill crediting.

2.4. The difference between the fixed and variable rate for customers that moved from Default Service to a competitive supplier or self-supply shall be flowed through to the Default Service account.

3. GENERAL PROVISIONS

3.1. This Settlement Agreement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept this Settlement Agreement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Settlement Agreement, and any of the Settling Parties is unable to agree with the changes, conditions or findings, this Settlement Agreement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.

3.2. Under this Settlement Agreement, the Settling Parties agree to this joint submission to the Commission, which represents a compromise and liquidation of all issues in this proceeding.

3.3. The Settling Parties agree that the Commission's acceptance of this Settlement Agreement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding. Acceptance of this Settlement Agreement by the Commission shall not be deemed to constrain the Commission's exercise of its authority to promulgate future orders, regulations or rules that resolve similar matters affecting other parties in a different fashion.

3.4. This Settlement Agreement shall not be deemed an admission by any of the Settling Parties that any allegation or contention in this proceeding by any other party, other than those specifically agreed to herein, is true and valid. This Settlement Agreement shall not be construed to represent any concession by any Settling Party hereto regarding positions taken with respect to this docket, nor shall this Settlement Agreement be deemed to foreclose any Settling Party in the future from taking any position in any subsequent proceedings.

3.5. The rights conferred and the obligations imposed on the Settling Parties by this Settlement Agreement shall be binding on or inure to the benefit of any successors in interest or assignees as if such successor or assignee was itself a signatory party. The Settling Parties agree to cooperate in advocating that this Settlement Agreement be approved by the Commission in its entirety and without modification.

3.6. This Settlement Agreement is the product of confidential settlement negotiations. The content of these negotiations, including any documents prepared during such negotiations for the purpose of reaching a settlement, shall be privileged and all offers of settlement shall be without prejudice to the position of any party presenting such offer.

3.7. This Settlement Agreement may be executed in multiple counterparts, which together shall constitute one agreement.

4. CONCLUSION

4.1. The Parties affirm that the proposed Settlement Agreement will result in just and reasonable rates and should be approved.

**STAFF OF THE NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

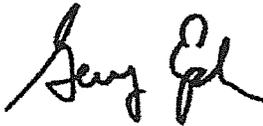


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Susan Chamberlin, Consumer Advocate

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By: _____
Gary Epler, Chief Regulatory Counsel,
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Prepared by or under the supervision of: John Farley

The Lieutenant Governor of Rhode Island

Witness: John Farley

RIPUC Docket No. 4556

The Narragansett Electric Company

d/b/a National Grid

2016 Standard Offer Service Procurement Plan

2016 Renewable Energy Standard Procurement Plan

Responses to the Commission's First Set of Data Requests

Issued on May 12, 2015

COMM 1-4

Request:

Page 23 of John Farley's Direct Testimony indicates that Lieutenant Governor Daniel McKee is in favor of the Commission implementing a tracking mechanism to evaluate the impact of eliminating the billing adjustment. Does the Lt. Governor have a recommendation as to what thresholds should warrant concern, and what thresholds should warrant action? Is there a recommendation as to the types of action the Commission should take if the tracking mechanism should reveal significant negative impacts?

Response:

We have recommendations as to the kinds of thresholds that should warrant concern, some guidance about how to think through setting thresholds, and suggestions as to the types of action the Commission could take if the tracking mechanism reveals significant negative impacts.

The tracking mechanism would be set up to monitor two things:

1. The extent to which competitive suppliers are **gaming the system** to take advantage of the differences between fixed SOS prices and variable market prices. Gaming occurs when a supplier enrolls customers for time periods when the variable market price is lower than the fixed standard offer price, and releases them back to standard offer service for months when the market price is higher than the standard offer price.
2. The **total net amount** (excess costs less excess revenue) of money that would be **charged to all ratepayers** over the course of the year to cover the imbalances

between supply costs and revenues for ratepayers who switch from standard offer service to a competitive supplier

*With respect to the above, what are **thresholds** that warrant concern and/or action?*

1. Evidence that one or more suppliers engaged in a clear pattern of gaming, detected by a large increase in switching activity to SOS during high price months (such as January and February) followed by a commensurate increase in switching activity to the supplier when the market price falls below the fixed SOS price.
2. Rate impacts on ratepayers that are excessive in comparison to the perceived value of removing this barrier to a competitive market.

*How can we determine what an **excessive level of subsidy** would be?*

One way to do it is to look at other public policy goals that are supported by ratepayer expenditures. Consider the value to the ratepayers as a whole. How does facilitating a competitive retail electricity market for residential and small commercial customers rate as a priority in comparison with these other goals?

The following table shows what we are paying today for several other public policy objectives. This table can serve as a guide when deciding how much we are willing to have all ratepayers pay to contribute to removing this barrier to the competitive retail market.

Public policy goal	Annual cost to ratepayers	Notes
Energy Efficiency	\$73.3 million	Source: National Grid presentation "Overview of Electric Rates" in docket 4545
Renewable Energy Standard	\$25.9 million	National Grid presentation "Overview of Electric Rates" in docket 4545
Support the Deepwater Wind Phase I project	\$20 - \$30 million	Above market power purchases plus cable costs
Low Income base rate subsidy	\$6.4 million	Docket 4323
LIHEAP Enhancement	\$4.5 million	National Grid presentation "Overview of Electric Rates" in docket 4545
Renewable Fund	\$2.3 million	National Grid presentation "Overview of Electric

		Rates” in docket 4545
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*What **actions** can the Commission take if the tracking mechanism reveals significant negative impacts?*

With regard to **supplier gaming**:

- Require a customer returning to SOS to sign up for 6-12 months (with penalties for breaking the agreement).
- Put a returning customer on variable pricing for the remaining months of the pricing period.

With regard to **excessive rate impacts**:

- Change the SOS fixed price periods so that the highest priced months fall at or near the end of the period.

Prepared by or under the supervision of: John Farley

**Docket No. 4556 - National Grid – 2016 Standard Offer Service (SOS) and Renewable Energy Standard (RES) Procurement Plans
Service List updated 4/7/15**

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