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May 29, 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 the supplemental testimony of John Farley in this matter, submitted on behalf of Lieutenant Governor Daniel McKee.

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

Very truly yours,

Mike

Michael R. McElroy

MRMc:tmg
cc: Service List

McKee/Docket 4556/Massaro4

Docket No. 4556 - National Grid – 2016 Standard Offer Service (SOS) and Renewable Energy Standard (RES) Procurement Plans
Service List updated 4/29/15

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BEFORE THE

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

In Re: NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID RHODE ISLAND ELECTRICITY	**Docket No. 4556 2016 Standard Offer Service Procurement Plan and 2016 Renewable Energy Standard Procurement Plan**

SURREBUTTAL TESTIMONY

of

JOHN FARLEY

Submitted on Behalf of Daniel J. McKee, the Lieutenant Governor of the State of Rhode Island

May 29, 2015

Surrebuttal Testimony of John Farley
Submitted on Behalf of Daniel J. McKee, the Lieutenant Governor of the State of Rhode Island
Docket No. 4556

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Surrebuttal Testimony of John Farley
Submitted on Behalf of Daniel J. McKee, the Lieutenant Governor of the State of Rhode Island
Docket No. 4556

INTRODUCTION

Q. Are you the same John Farley who previously filed Direct Testimony in this proceeding?

A. Yes I am. I provided Direct Testimony dated April 17, 2015 on behalf of Lieutenant Governor Daniel J. McKee.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of my surrebuttal testimony is first, to reinforce how our proposed remedies in this case are justified in light of the positions taken by the Company (in the rebuttal testimony of Margaret Janzen) and the Division (in the memorandum filed by Richard Hahn), and second to provide evidence to the Commission that the potential impacts of doing so can be mitigated.

Q. Please reiterate the remedies you are requesting from the Commission.

A. We are requesting two remedies with regard to the billing adjustment:

(1) We are asking the Commission to **eliminate** the standard offer billing adjustment for customers who switch to a competitive supplier, at the earliest possible date, and in any event by July 1, 2015.

Any under or over collection that results from this change will be accounted for in the Company's next Standard Offer Service reconciliation filing.

In conjunction with this, we are in favor of the Commission implementing a tracking mechanism to evaluate the impact of eliminating the billing adjustment. The tracking mechanism can provide data on the amount of money that National Grid must collect or credit through its standard offer service reconciliation factor due to the elimination of the billing adjustment, and the extent to which individual competitive suppliers may be gaming the system by switching customers on a seasonal basis.

(2) In line with (1), we are asking the Commission to order National Grid to credit the accounts of customers who received billing adjustment charges in 2015. The costs of these credits can be recovered in the Company's next Standard Offer Service reconciliation filing.

I. JUSTIFICATION FOR ELIMINATING THE BILLING ADJUSTMENT IMMEDIATELY

Q. Please explain why the most recent submissions by the Company and the Division buttress your request to eliminate the billing adjustment immediately.

A. Every party that has taken a position on the billing adjustment is in favor of eliminating it immediately. The three parties that have taken a position on the billing adjustment include the Company, the Division, and the Lieutenant Governor.

The Company states its position beginning on page 2, line 17 of Margaret Janzen's rebuttal testimony dated May 8, 2015, as follows:

"Therefore, the Company agrees with the Division's recommendation to eliminate the SOS Billing Adjustment immediately, and the Company withdraws its initial proposal for gradual elimination. As noted below, the Company also requests approval at this time to reconcile any under- or over-recovery of SOS costs associated with the elimination of the SOS Billing Adjustment from all distribution customers through its Standard Offer Service Cost Adjustment Provision."

The Division states its position on Page 13 of Richard Hahn's Memorandum on behalf of the Division dated April 17, 2015:

"In Rhode Island, I believe that a combination of these approaches makes sense, namely immediately eliminate the billing adjustment, track its impact, and seek both flat and monthly bids from suppliers in upcoming solicitations".

This position is reiterated in the Division's response to Commission data request COMM 2-1 dated May 22, 2015.

And as stated both in John Farley's Direct Testimony and again in this Surrebuttal Testimony, the position of the Lieutenant Governor is to eliminate the standard offer billing adjustment at the earliest possible date.

II. MITIGATING POTENTIAL IMPACTS OF ELIMINATING THE BILLING ADJUSTMENT

Q. You are providing additional analysis to aid the Commission in its line of inquiry expressed in its data request COMM 4-12. Why are you providing this analysis at this time?

A. We of course wish to convince the Commission that eliminating the billing adjustment makes sense. At the same time, we recognize that the Commission and its staff wish to be prudent by examining the potential future outcomes of doing so, and knowing now what it can do to mitigate potential future risks.

In fact, the Commission issued several data requests that sought to inform their examination. We refer in particular to COMM 1-4 that was issued to the Lieutenant Governor, COMM 2-1 issued to the Division, and COMM 4-12 issued to the Company.

Commission data request COMM 1-4 to the Lieutenant Governor asked about the types of action the Commission should take if the tracking mechanism (evaluating the impact of eliminating the billing adjustment) should reveal significant negative impacts.

In our response to this data request, we suggested that the Commission could change the SOS fixed price periods so that the highest price months fall at or near the end of the period.

Today, the SOS has two price periods for the year. The first one begins in January and runs through June. The second price period begins in July and ends in December. This was labeled "Jan/Jul" in Commission data request COMM 4-11.

The two highest priced months for electricity in New England these days are January and February. With the "Jan/Jul" price periods, these highest priced months fall at the <u>beginning</u> of the first price period.

However, if the price periods are changed so that the winter price period begins with October, the highest priced months of January and February fall <u>near the end</u> of the price period. This structure was labeled "Apr/Oct" in the data request.

Commission data request COMM 4-12 to the Company asked the Company to calculate what the amount billed under the standard offer billing adjustment since January 1, 2015 would have been with a six month rate that began in October of 2014 (for A-16 and C-06 ratepayers).

Since this matches the suggestion we made to the Commission as a way to mitigate the impact of eliminating the billing adjustment, it would be valuable to have some idea what difference this change would make.

The question to the Company specified that they use their billing system to make the calculation. While clearly that would have produced the most accurate result, it turns out that the billing system is not set up to perform this calculation.

So as a second best, we have run the data provided by the Company in its response to COMM 4-11 through our simplified spreadsheet model of billing adjustments instead. We have done this so that there could be some means of assessing the benefit of changing the SOS pricing periods to an October-March, April-September structure (with respect to mitigating negative rate impacts resulting from eliminating the SOS billing adjustments).

We used the actual customer switching counts for January through April 2015 from Attachment COMM 1-1 to the Commission's first set of data requests to the Company. We combined this with the monthly differences in $/kWh for the April/October pricing shown in Attachment COMM 4-11.

Since our analysis includes the simplifying assumption that all customers switch on the last day of the month, we also ran our model with the as-is 2015 pricing to have a valid comparison.

The results are striking. Under as is 2015 pricing (using the January start month), the actual billing adjustments for rate classes A-16 and C-06 combined for the period January through April were $1,113,266.21 (see Company response to COMM 1-1). Our simplified model estimated the number to be $970,265.

When the October/April SOS price periods are used instead, the total billing adjustments drop to - $2,313. That is not a misprint. The net total billing adjustment would have been negative, meaning that the total of billing adjustment credits would be slightly more than billing adjustment charges.

This is a very significant finding. It means that we can remove most if not all the impact of eliminating the billing adjustment by switching to October/April SOS price periods.

Why are the billing adjustments so dramatically lower with the October start month?

It's actually easy to see by examining the Company's data in Attachment COMM 4-11 and keeping in mind that the billing adjustment calculation starts in the first month of the current pricing period and works forward to the switch date.

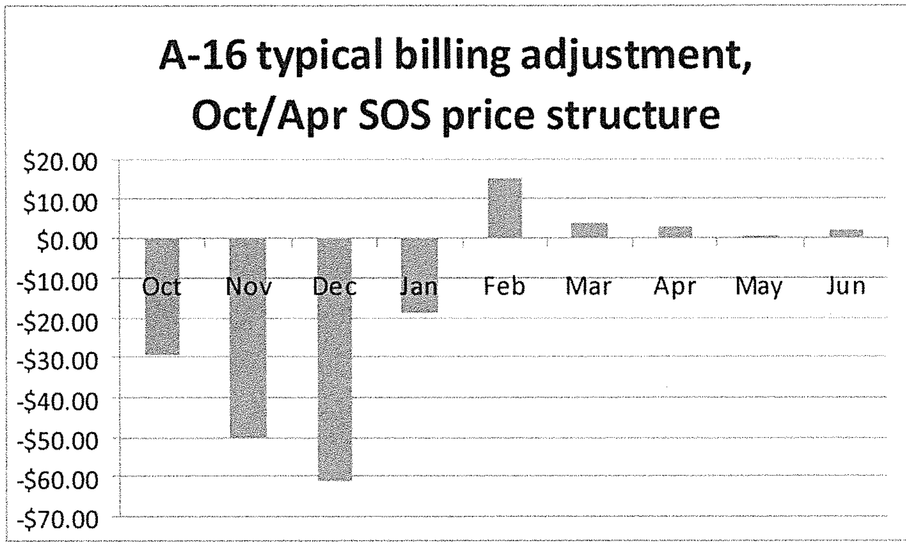
The data in the Company's response to COMM 4-11 provides price **differences.** The price difference is the difference between the monthly commodity price and the fixed price. So, positive values contribute to positive billing adjustments. And the key thing to keep in mind that the month by month impacts accumulate as we move through the period, such that a customer who switches in the fourth month will be assessed a billing adjustment based on the total costs versus revenues dating back to the first month.

The chart on the next page compares these monthly price differences for the two pricing structures, Jan/Jul versus Apr/Oct. We are concerned with the winter price period, the period that includes the 2 highest priced months of January and February. So for the Jan/Jul structure the first month is January, while for the Apr/Oct the first month of the winter price period is October. This comparison is for the C-06 class.

Month	Price differences with January start month (cents per kWh)	Price differences with October start month (cents per kWh)
First	7.452	-6.765
Second	6.914	-4.521
Third	-0.473	-0.716
Fourth	-4.832	6.497
Fifth	-6.132	5.959
Sixth	-4.733	-1.428

Again, positive price differences mean that the Company is paying more for supply in that month than the customer is paying under the fixed price. With the January start month, typical billing adjustments will be positive (equals a charge to the switching customer) through at least the end of April. But with the October start month, the typical billing adjustment will be negative through at least the end of January.

Here is a graphical look at the typical billing adjustments by month under the Apr/Oct structure:



Q. How does the impact of eliminating the billing adjustment compare to other risk factors that impact the SOS rates ?

A. One factor that impacts SOS rates is the spot market price for electricity. It turns out that the impact of spot market price uncertainty can be much greater than the impact of the billing adjustment.

The Company purchases 10% of its SOS supply for residential and commercial customers on the spot market. So when they prepare the SOS prices for the next period, they estimate what the spot market price will be, presumably using the futures markets. As a result, there can be differences between the revenue the Company collects from ratepayers for that 10% of supply and the costs they actually incur to purchase that supply in the spot market.

In periods of high price volatility such as we have been experiencing lately in the winter, the difference can be substantial. This is a mismatch between revenues and costs, just like the mismatch that is behind the billing adjustment. And it turns out that the impact on rates stemming from the spot market price uncertainty can be larger than the impact from eliminating the billing adjustment.

In the Company's response to the Lieutenant Governor's data request 1-1, the Company reported that they used a spot market price of $186.48 per MWh for January 2015 when they put together the SOS rate for commercial customers. However, the actual spot market price for January 2015 turned out to be $86.71 per MWh for commercial customers. A similar discrepancy was noted for residential customers.

It turns out that this discrepancy of nearly $100/MWh (10 cents per kWh) means that National Grid will have over-collected almost $ 4 million from SOS customers.

We now know what the actual amount of billing adjustments were for the period January through April 2015. That figure is $1,281,659.77. This comes from the Company's response to Commission Data Request COMM 1-1.

So crediting customers who received billing adjustments from January through April 2015 will cost $1.3 million. But the Company is essentially over-collecting almost $4 million from SOS ratepayers attributable to the spot market price for January alone! And that is over 3 times as much as the billing adjustments.

One way to look at this is to say that SOS ratepayer overpayments on SOS resulting from the overestimate of spot market prices in January 2015 alone will more than pay for the billing adjustments for the entire year.

CONCLUSION

Rhode Island has struggled to develop a competitive retail electricity supply market for its residential and small business customers. The standard offer billing adjustment functions as a barrier to residential and small business participation in that competitive market. The possible costs of eliminating the billing adjustment are outweighed by the benefits of doing so. Regulators in Massachusetts and New Hampshire are taking action this year to end this practice. All parties who have taken a position are recommending the immediate elimination of the billing adjustment. There are ways to substantially mitigate any negative impacts. Thus, it is completely justifiable for this Commission to eliminate the SOS billing adjustment effective immediately.

Thank you for considering this request.

Q. Does this conclude your testimony?

A. Yes it does.