

May 8, 2015

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4556 - 2016 Standard Offer Service Procurement Plan
2016 Renewable Energy Standard Procurement Plan
National Grid Rebuttal Testimony**

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed the Rebuttal Testimony of Margaret M. Janzen in response to the testimony of Mr. John Farley, on behalf of Rhode Island Lt. Governor Daniel McKee, and in response to certain recommendations Mr. Richard Hahn filed, on behalf of the Rhode Island Division of Public Utilities and Carriers, regarding the Company's proposed Standard Offer Service Procurement Plan and Renewable Energy Standard Procurement Plan for 2016.

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

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Docket 4556 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

Paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

May 8, 2015

Date

**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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**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4556
2016 STANDARD OFFER SERVICE PROCUREMENT PLAN
2016 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN
REBUTTAL TESTIMONY OF MARGARET M. JANZEN**

REBUTTAL TESTIMONY

OF

MARGARET M. JANZEN

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4556
2016 STANDARD OFFER SERVICE PROCUREMENT PLAN
2016 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN
REBUTTAL TESTIMONY OF MARGARET M. JANZEN**

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Margaret M. Janzen, and my business address is 100 East Old Country Road,
4 Hicksville, NY 11801.

5 **Q. Have you previously filed testimony in this proceeding?**

6 A. Yes.

7 **II. Purpose of Rebuttal Testimony**

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. The first purpose of this rebuttal testimony is for The Narragansett Electric Company
10 d/b/a National Grid (Narragansett or the Company) to address the Standard Offer Service
11 (SOS) Billing Adjustment, as discussed in the testimonies of both Mr. Richard Hahn, on
12 behalf of the Rhode Island Division of Public Utilities and Carriers (Division), and Mr.
13 John Farley, on behalf of Rhode Island Lt. Governor Daniel McKee. The second purpose
14 of this rebuttal testimony is to respond to certain recommendations made by the Division
15 regarding the Company's proposed SOS Procurement Plan and Renewable Energy
16 Standard (RES) Procurement Plan for 2016.

17 **III. SOS Billing Adjustment**

18 **Q. What is the Company's current position regarding elimination of the SOS Billing
19 Adjustment?**

1 A. As the PUC is aware, the Company proposed in its Direct Testimony to procure SOS
2 supply at flat prices in the 2016 SOS Plan in order to gradually eliminate the one-time
3 SOS Billing Adjustment for Residential and Commercial customers that switch from
4 SOS to a Non-regulated Power Producer (NPP), and simplify retail choice for customers
5 (Direct Testimony at 17, Lines 11-13). Pursuant to that proposal, SOS Billing
6 Adjustments for these customers would be eliminated in the future, once the Company
7 commenced implementing SOS prices based on flat bids. The Company made that
8 recommendation after weighing the pros and cons of the billing adjustment policy, which
9 has been approved in both Massachusetts and Rhode Island, and implemented
10 successfully for many years as a means of applying cost causation principles to the
11 recovery of SOS costs. However, the Company is keenly aware that, even though the
12 policy is designed to recover SOS costs equitably from customers that have not chosen an
13 NPP, many customers that ultimately choose an NPP, particularly during this past winter,
14 have been confused by their adjusted bills and are dissatisfied with both the Company
15 and competitive market participants. Accordingly, the Company has determined that a
16 more expeditious course of action than the procurement of SOS supply at flat prices is
17 warranted. Therefore, the Company agrees with the Division's recommendation to
18 eliminate the SOS Billing Adjustment immediately, and the Company withdraws its
19 initial proposal for gradual elimination. As noted below, the Company also requests
20 approval at this time to reconcile any under- or over-recovery of SOS costs associated

1 with the elimination of the SOS Billing Adjustment from all distribution customers
2 through its Standard Offer Service Cost Adjustment Provision.

3 **Q. What was the original purpose of the SOS Billing Adjustment?**

4 A. The SOS Billing Adjustment was designed to ensure that customers pay the actual cost of
5 the service they receive and to mitigate the potential for under- or over-recovering SOS
6 costs as customers migrate from SOS to receive commodity service from NPPs.
7 Residential and most small Commercial customers receive SOS under a fixed price
8 option. The SOS rate for each pricing period is calculated as the weighted average of the
9 underlying monthly contract prices of the contracts procured to provide SOS to each
10 customer group. Customers who leave SOS mid-period, after having paid an average
11 period rate that was less than the actual monthly rates for the months that the customer
12 was receiving SOS, will leave behind an under-recovery for the other SOS customers to
13 pay. Conversely, customers who paid an average rate that was higher than the monthly
14 rates will have paid more than the actual cost of the service and will leave an over-
15 recovery for the benefit of other SOS customers. Applying the SOS Billing Adjustment
16 has ensured that customers pay for the actual cost of the service that they have received.

17 **Q. When was the SOS Billing Adjustment implemented?**

18 A. The SOS Billing Adjustment was implemented January 1, 2010 in RIPUC Docket No.
19 4041, the 2010 Standard Offer Supply Procurement Plan (2010 SOS Plan). The SOS
20 Billing Adjustment implemented on January 1, 2010 was modeled after a similar billing

1 adjustment that was in place at the time for electric commodity (Basic Service) customers
2 of Massachusetts electric distribution companies, including the Company's affiliate,
3 Massachusetts Electric Company. The Massachusetts Department of Public Utilities
4 (Massachusetts Department) established the pricing framework for Basic Service in
5 Pricing and Procurement of Default Service, D.T.E. 99-60-A (2000) and D.T.E. 99-60-B
6 (2000). The Massachusetts Department had established two pricing options that would
7 be available to all Basic Service customers: (1) a fixed pricing option in which prices
8 would remain constant for six-month periods; and (2) a variable price option in which
9 prices would change monthly.¹ The Massachusetts Department further established that
10 customers taking Basic Service under the fixed-price option, who leave Basic Service
11 during a pricing term, would be subject to a billing adjustment based upon the difference
12 between the fixed and variable prices applicable to each class during the month that the
13 customer received Basic Service. The Massachusetts Department stated that
14 recalculating bills in this manner would ensure that Basic Service customers pay the full
15 costs of providing the service for the period that the customers receive the service. The
16 Massachusetts Department implemented this provision to also address the concern that
17 competitive suppliers may seek to game the system by shifting their customers to Basic
18

¹ Pricing for Rhode Island SOS is similar, however, residential customers only have a fixed price option available and Industrial customers only have a variable price option available. The Commercial Group has both a fixed and variable price option.

1 Service during months when the fixed Basic Service rate is lower than prices available in
2 the wholesale energy market.²

3 **Q. If the Company believes that application of the SOS Billing Adjustment ensures**
4 **equitable cost recovery, why does the Company believe it is appropriate to**
5 **terminate the SOS Billing Adjustment at this time?**

6 A. As indicated above, the Company is concerned by the confusion experienced by our
7 customers that has been caused by application of the SOS Billing Adjustment following
8 the migration of customers to the competitive market during the first quarter of 2015, and
9 in the first quarter of 2014 as well. Prior to 2014, the differential between the fixed SOS
10 price and the underlying monthly contract prices was much less significant than it was
11 during the winter months of 2014 and 2015. Therefore, the SOS Billing Adjustment
12 applied to a customer's bill prior to 2014 was generally relatively small, and in many
13 cases, was a credit. However, due to the relatively high contract prices for the period
14 January through March in both 2014 and 2015, the SOS Billing Adjustments that have
15 been applicable to customers leaving SOS during these months have been more
16 significant. The implementation of a 12-month fixed SOS rate for residential customers
17 has contributed to a larger difference between the fixed SOS rate and these high contract
18 prices at the beginning of 2015. This trend of higher winter contract costs is expected to
19 occur over the coming years.

² See D.T.E. 99-60A at 8.

1 **Q. What is the amount of the SOS Billing Adjustment that the Company has assessed**
2 **to customers so far in 2015?**

3 A. The total amount of the SOS Billing Adjustment assessed to customers during the months
4 of January 2015 through April 2015 was approximately \$1.3 million. If the SOS Billing
5 Adjustment did not exist, this amount represents the cost that must be recovered from
6 other customers.

7 **Q. How will the costs associated with the lost revenue resulting from the elimination of**
8 **the SOS Billing Adjustment be recovered?**

9 A. The Company recommends that the total of the amounts that would have been reflected
10 on customer bills as SOS Billing Adjustments be recovered in its annual retail rate filing
11 through the Company's Standard Offer Service Cost Adjustment Provision. This
12 provision allows the PUC to approve recovery of SOS expenses from SOS customers or
13 from all customers, as appropriate. Since SOS Billing Adjustment charges are associated
14 with customers leaving SOS for the competitive market, the Company believes that it is
15 appropriate to recover these costs from all customers, rather than just SOS customers.
16 Depending on the size of the annual amount of the SOS Billing Adjustment in the
17 applicable 12-month reconciliation period, the Company may propose in future
18 proceedings to reconcile such costs in an alternate manner. The Company will report in
19 its February 2016 filing on the amount of the SOS Billing Adjustment incurred during
20

1 2015 following termination of the SOS Billing Adjustment and may make a
2 recommendation regarding modifications to this cost recovery proposal at that time.

3 **Q. The Division has also recommended that, following the termination of the SOS**
4 **Billing Adjustment, the Company track the amount of the SOS Billing Adjustment**
5 **that would have been assessed or credited to customers and report the amounts to**
6 **the PUC on an annual basis. What is the Company's response to this**
7 **recommendation?**

8 A. The Company agrees to track and report annually the amounts that would have been
9 charged or credited to customers through the SOS Billing Adjustment. The Company
10 will include this report along with annual SOS reconciliation filed as part of its annual
11 retail rate filing submitted each February.

12 **Q. In your previously-filed testimony submitted on March 2, 2015, you proposed flat**
13 **bid prices to eliminate the SOS Billing Adjustment. Please explain why the**
14 **Company is choosing to withdraw this proposal from the PUC's consideration?**

15 A. The flat bid price proposal was the Company's initial proposal to gradually eliminate the
16 SOS Billing Adjustment to help make the migration process easier for customers who
17 select a NPP. Utilizing a flat bid price format to procure SOS would eventually eliminate
18 this one-time SOS Billing Adjustment for Residential and Commercial customers by
19 December 2016. However, as pointed out in that testimony, it is possible that a flat bid
20 price might result in higher SOS bid prices.

1 Since the time of the Company's initial proposal, the need to eliminate the SOS Billing
2 Adjustment has become more urgent throughout the region. It is noted that the
3 Massachusetts Department has recently ordered the elimination of the Basic Service
4 billing adjustment. As a result, Basic Service costs, which are no longer offset by the
5 assessment of the Basic Service billing adjustment, will continue to be included as part of
6 the Basic Service reconciliation and recovered as part of the reconciliation balance from
7 all delivery service customers. The Company thinks that, on balance, this is best for
8 customers, and supports such an approach for Rhode Island. Because of the urgency
9 surrounding the elimination of the SOS Billing Adjustment, and the possibility that a flat
10 bid price may result in increased risk premiums, the Company withdraws its initial
11 proposal of flat bid pricing with a gradual elimination of the SOS Billing Adjustment.
12 The Company recommends that the PUC approve the immediate elimination of the SOS
13 Billing Adjustment and order the recovery of the lost revenue from the elimination of the
14 SOS Billing Adjustment, which represents the difference between SOS costs for
15 customers who have switched to a NPP, and the amount they were billed under the fixed
16 SOS rate, from all delivery service customers.

17 **Q. Mr. Farley also proposes to eliminate the SOS Billing Adjustment, among other**
18 **recommendations and observations. How do you respond to Mr. Farley's**
19 **testimony?**

20 **A.** Given that the Company is agreeing that the SOS Billing Adjustment should be
21 eliminated, the Company will not respond to each of Mr. Farley's specific arguments

1 supporting his recommendation, even though the Company disagrees with his rationale in
2 certain instances. However, the Company wishes to address certain instances in Mr.
3 Farley's testimony in which he unfairly accuses National Grid, either directly or
4 implicitly, of mistreating customers by implementing the SOS Billing Adjustment.

5 First, on page 15 of Mr. Farley's testimony on lines 18-19, Mr. Farley alleges that
6 National Grid bills customers "an additional amount for the same service they had
7 already paid for in full". In fact, as the PUC is aware, any additional amount billed by
8 the Company for SOS supply through the SOS Billing Adjustment upon the customer
9 choosing an NPP is for SOS supply costs that were incurred to specifically serve that
10 customer, but which had not been paid by the customer at that point because the customer
11 was being billed a fixed rate for SOS supply during the preceding months. Accordingly,
12 Mr. Farley's statement on this point is incorrect and misleading.

13 Second, Mr. Farley alleges on page 16, lines 18 and 19 that [t]he customer did not sign a
14 contract that stipulated [the SOS Billing Adjustment] would occur." However, the SOS
15 Billing Adjustment is included in the Company's PUC-approved SOS tariff, which by
16 law is an agreement between the Company and its customers for service by the Company.
17 The PUC is the arbiter of whether the Company is serving its customers through just and
18 reasonable rates and pricing terms, and the PUC has determined to date that the Company
19 is doing so through its approval of the Company's SOS tariff, which includes the SOS
20 Billing Adjustment.

1 The most egregious allegation in Mr. Farley’s testimony is his statement that the benefits
2 of removing the SOS Billing Adjustment include “ending an unfair and deceptive
3 business practice” (Farley Testimony at 17, lines 12-13). The Company objects to this
4 provocative and improper characterization of the SOS Billing Adjustment. As noted
5 previously, one of the main benefits of the policy is the equitable allocation of SOS costs
6 to those customers that take SOS supply, as demonstrated by approval of the policy in
7 both Massachusetts and Rhode Island. Implicitly, the approval of the policy in these
8 states is tied to the principle of cost causation that has been the basis of utility rate design
9 for decades. As such, Mr. Farley’s claims of “unfairness” are particularly inapt. Even
10 more problematic is his allegation that the SOS Billing Adjustment represents a
11 “deceptive business practice.” On the contrary, it is incorrect to conclude that customers
12 have been “deceived” by a policy that has been the subject of two public regulatory
13 proceedings in multiple states, each of which was subject to significant stakeholder input,
14 regulatory review and approval, and has been included in publicly available tariffs for
15 many years. The Company acknowledges the confusion that some customers have
16 experienced regarding the SOS Billing Adjustment, and, on balance, supports eliminating
17 it going forward for the reasons noted herein.

18 **Q. Mr. Farley proposes refunding customers subject to the SOS Billing Adjustment in**
19 **2015. What is your response?**

20 **A.** While the Company agrees with the proposal to eliminate the SOS Billing Adjustment for
21 future periods, it opposes the retroactive refunding of the SOS Billing Adjustment to

1 customers that have switched to date and incurred a charge (as opposed to a credit). It is
2 not appropriate to provide customers with refunds for charges that the Company assessed
3 in accordance with its approved tariffs. The Company has implemented those tariffs
4 properly and, thus, there is no justification for refunding costs that have been properly
5 charged to customers. In addition, approval of refunds associated with recently paid SOS
6 Billing Adjustments may lead to petitions for refunds from customers that paid the SOS
7 Billing Adjustment in prior years, which would similarly be inappropriate given the
8 Company's history of implementing its SOS tariffs in a manner consistent with their
9 terms.

10 **Q. Please summarize your position.**

11 A. The Company agrees with the Division's recommendation to eliminate the SOS Billing
12 Adjustment immediately. Accordingly, the Company believes that socializing the cost
13 of the SOS Billing Adjustment over all customers is necessary and fair, and proposes that
14 this cost be recovered from all delivery service customers through a separate adjustment
15 factor. Additionally, the Company agrees with the Division's proposal of a tracking
16 mechanism if the SOS Billing Adjustment is eliminated.

17 **IV. Response to the Division Regarding Procurement Plans**

18 **Q. In his Memorandum, Mr. Hahn advocates a managed portfolio approach like that**
19 **of Pascoag Utility District (Pascoag) as a preferred method of procurement. What is**
20 **your response?**

1 A. Pascoag's procurement strategy is what the Company refers to as a managed portfolio
2 approach. In the 2011 Standard Offer Service Procurement Plan (the 2011 SOS Plan)
3 (Docket No. 4149), the Company, the Division (including Mr. Hahn), and the PUC
4 evaluated several different procurement approaches in order to decide which would work
5 best for customers receiving SOS. Most testimony, pleadings, and data requests in this
6 docket pertained to the extensive, and in-depth comparison of procurement approaches.
7 After careful analysis, the PUC decided that the Company's proposal of a laddered and
8 layered portfolio of Full Requirement Service (FRS) contracts would best serve SOS
9 customers, protecting them against market price volatility and migration risk. The
10 Company continues to advocate the FRS portfolio as the best option for SOS customers.

11 In contrast, with its entitlements to inexpensive power from the Seabrook nuclear facility
12 and hydroelectric units in New York (from the New York Power Authority (NYPA)), in
13 addition to the lack of migration from SOS, Pascoag's customers are best served by a
14 managed portfolio approach.

15 **Q. What are some of the differences in the approaches?**

16 A. As described in the 2011 SOS Plan, a managed portfolio may result in lower costs but has
17 higher volatility and larger reconciliations. Because the Company's supply portfolio is
18 over 100 times larger than Pascoag's, proportionally similar levels of volatility and
19 reconciliations as Pascoag's could equate to tens of millions of dollars for the Company.
20 There are several examples of this in Pascoag's portfolio. First, Pascoag had a large SOS

1 refund in 2013 on the order of 1.96 cents per kWh. A similar over-recovery is very
2 unlikely to occur with a FRS portfolio because FRS best matches the underlying contract
3 costs with the rates, thereby minimizing over- or under-recovery of commodity costs and
4 mitigating rate impacts of large reconciliations. An over-recovery of 1.96 cents per kWh
5 for a calendar year for the Company would approximate \$104 million³. To put this figure
6 into perspective, the Company's SOS Expense in 2014 was \$411 million⁴.

7 Another example of volatility within a managed portfolio occurred during the winter of
8 2013-14. As described in my direct testimony, Pascoag experienced significant volatility
9 due to spot market exposure, which necessitated Pascoag's request to the PUC for rate
10 relief. To mitigate its future volatility, Pascoag entered a load-following transaction that
11 is very similar to the transactions that the Company utilizes for its SOS portfolio.

12 In addition, Pascoag's NYPA transactions have higher transmission costs during winter
13 months, another example of the volatility in a managed portfolio. In her testimony, in
14 Docket No. 4529⁵, Judith R. Allaire indicated that there were large increases in
15 transmission costs in the winter of 2014 due to Pascoag's NYPA power contracts. High
16 transmission costs for the NYPA contracts in the first quarter of 2014 resulted in an
17 average cost of over 8 cents per kWh compared to less than 2 cents per kWh in
18 September. If this was the Company's portfolio and it relied upon NYPA for 24% of its

³ 2014 SOS load for all groups was 5,300,000,000 kWh. 1.96 cents per kWh = \$103,880,000.

⁴ Docket No. 4554. 2015 Electric Retail Rate Filing. Schedule JAL-2.

⁵ 2015 Annual Reconciliation Filing of the Standard Offer Service Rate, Transmission Charge, and Transition Charge.

1 supply like Pascoag, this volatility would result in a \$20 million⁶ increase to customers in
2 one quarter. To put this figure into perspective, the Company's 2014 SOS reconciliation
3 was an under-recovery of approximately \$5.7 million for all customer groups for the
4 entire year.

5 The NYPA transactions result in further volatility because often the interruptible power
6 supply is inconsistent. In the first quarter of 2014, Pascoag received only 612
7 interruptible MWh from its two NYPA entitlements. This is significantly less than the
8 1,673 interruptible MWh delivered in the second quarter and the 2,051 MWh delivered in
9 the third quarter. There was a shortage of interruptible MWh in 2013 as well. Pascoag
10 received only 1,433 interruptible MWh year-to-date, as compared to 5,692 interruptible
11 MWh for the same period the previous year. If the Company relied upon NYPA for its
12 supply, it would be necessary to procure this undelivered MWh in the spot market,
13 introducing additional volatility to the portfolio.

14 Pascoag also utilizes a virtual gas-fired unit transaction (Virtual RISE), which is
15 essentially a daily heat rate option, for 10% of its SOS requirement. A heat rate option
16 converts a gas price into an equivalent power price. Simply stated, this heat rate option
17 ties the SOS supply to volatile natural gas prices. This type of transaction can result in
18 high electric prices when natural gas prices are high, such as during the winter when gas
19 pipeline constraints increase natural gas prices. A heat rate contract will convert the gas

⁶ The 1st quarter 2014 SOS load for all groups was 1,400,000,000 kWh. 24% from NYPA equates to 336,000,000 kWh. \$0.06 / kWh transmission cost increase equals \$20,160,000.

1 price into an equivalent power price that may be lower than spot market prices, but still
2 high compared to non-winter month prices. In Docket No. 4454⁷, Mr. Kirkland testified
3 that the Virtual RISE contract did not perform as expected because the call option rate
4 was higher than previously estimated. This is an additional example of volatility in
5 procurement costs during winter months.

6 Pascoag's underlying procurement portfolio is more volatile and susceptible to rate
7 shocks than the Company's procurement approach, but the Company's seasonal rate
8 structure may make it appear more volatile. Pascoag's SOS, transmission, and transition
9 rates are set for a calendar year and mask the seasonal nature of wholesale power prices.
10 Annual rates that are created by lowering winter rates via increasing summer rates may
11 significantly affect both the wholesale and retail markets. Customer migration may
12 increase as customers switch to SOS in the winter and then switch back to NPPs in the
13 summer. This increase in migration may have a detrimental impact on future SOS
14 solicitations because wholesale suppliers may avoid participating in SOS RFPs or may
15 add increased risk premiums to their contract prices. Thus, higher contract prices would
16 further increase future rates for SOS.

17 During Docket No. 4149 for the 2011 SOS Plan, it was determined, after an extensive
18 vetting process, that a managed portfolio approach, similar to Pascoag's, could incur

⁷ 2014 Annual Reconciliation Filing of the Standard Offer Service Rate, Transmission Charge, and Transition Charge.

1 lower costs but with higher volatility. The Company and the PUC agreed, after
2 evaluating all options, that the FRS portfolio structure best fit SOS customers' needs.
3 The PUC noted in Order 20125 that: "a managed portfolio approach... could lead to
4 mass migration and substantial costs borne by National Grid from unsubscribed "take or
5 pay" electricity, which costs would ultimately be recovered from a smaller class of
6 standard offer ratepayers. This outcome poses a real concern about equity and rate
7 impacts. Like the stranded costs that ratepayers were required to pay at the onset of retail
8 competition, a mass migration from standard offer service would also result in significant
9 incremental costs being passed on to ratepayers." The Company considers this
10 conclusion still valid and that the FRS procurement method is still best for SOS
11 customers.

12 **Q. In his testimony, Mr. Hahn calculates the differential of \$18.51 per MWh over then-**
13 **current market prices to winning bid prices for 2015. Do you agree with this**
14 **number?**

15 A. No I do not. In his Memorandum, Mr. Hahn calculates a differential between the contract
16 prices and underlying market prices. This differential can be explained as a cost of
17 hedging that encapsulates risk, margins, market uncertainties, etc. It also can be used as a
18 measure of pricing efficiencies in solicitations. In his analysis of the Company's 2015
19 contract prices, Mr. Hahn overestimates the differential between market prices and the
20 winning bid prices by underestimating capacity charges. The table included in Mr.
21 Hahn's Figure 9 is reproduced below.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4556
2016 STANDARD OFFER SERVICE PROCUREMENT PLAN
2016 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN
REBUTTAL TESTIMONY OF MARGARET M. JANZEN
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	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	average
wtd avg of awards	170.31	168.71	100.59	72.83	62.41	70.38	69.01	65.27	58.51	59.90	76.28	115.51	90.81
energy	134.54	131.55	74.68	45.74	36.21	43.66	45.88	42.48	34.81	42.66	52.72	77.66	63.55
capacity	4.23	4.67	4.21	4.33	4.19	4.63	4.46	4.38	4.53	4.36	4.49	4.35	4.40
other	20.03	3.31	4.62	1.78	1.40	2.89	2.28	2.55	3.29	1.92	2.21	5.95	4.35
total	158.80	139.52	83.51	51.85	41.80	51.18	52.62	49.41	42.62	48.94	59.42	87.97	72.30
													18.51

1
2 Mr. Hahn’s \$4.40 per MWh average for capacity is approximately \$9 per MWh too low,
3 based on the actual costs of capacity procured by the Company in recent months. Based
4 on the Company’s data, a more reasonable estimate of capacity would lower the
5 differential by approximately \$9 per MWh to \$9.46 per MWh. The table below includes
6 the actual capacity charges for the 10% spot market procured for the Company’s
7 Residential Group divided by actual usage to derive a \$ per MWh value. For this simple
8 analysis the Company used the March capacity charge for April through December and
9 divided by its estimated load to derive a \$ per MWh value⁸.

	Capacity		
	Costs	MWH	\$ / MWH
Jan-15	350,333	29,758	11.77
Feb-15	347,978	27,799	12.52
Mar-15	345,207	25,865	13.35
Apr-15	345,207	20,666	16.70
May-15	345,207	21,281	16.22
Jun-15	345,207	25,638	13.46
Jul-15	345,207	34,440	10.02
Aug-15	345,207	31,702	10.89
Sep-15	345,207	24,709	13.97
Oct-15	345,207	21,987	15.70
Nov-15	345,207	23,525	14.67
Dec-15	345,207	28,431	12.14

⁸ This is a simplified estimate of the capacity charge. It is noted that the capacity price will increase June 1 and the installed capacity tags used in the analysis will also change.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4556
2016 STANDARD OFFER SERVICE PROCUREMENT PLAN
2016 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN
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1 Replacing the capacity amounts in Mr. Hahn’s analysis with the Company’s more
 2 realistic and recently experienced estimates, while keeping all other components the
 3 same, creates a more accurate differential of \$9.46 / MWh.

	Jan-15	Feb-15	Mar-15	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	average
wtd avg of awards	170.31	168.71	100.59	72.83	62.41	70.38	69.01	65.27	58.51	59.90	76.28	115.51	90.81
energy	134.54	131.55	74.68	45.74	36.21	43.66	45.88	42.48	34.81	42.66	52.72	77.66	63.55
capacity	11.77	12.52	13.35	16.70	16.22	13.46	10.02	10.89	13.97	15.70	14.67	12.14	13.45
other	20.03	3.31	4.62	1.78	1.40	2.89	2.28	2.55	3.29	1.92	2.21	5.95	4.35
total	166.34	147.38	92.65	64.22	53.83	60.01	58.18	55.92	52.07	60.28	69.60	95.75	81.35

4 9.46

5 This differential between market prices and the winning bid prices of \$9.46 per MWh is
 6 lower than Pascoag’s differential of \$12 per MWh that Mr. Hahn had calculated. Thus, it
 7 would appear that the cost of hedging for the Company’s portfolio is lower than
 8 Pascoag’s load following transaction.

9 **Q. Please summarize your conclusion of the managed portfolio and FRS portfolio**
 10 **analysis.**

11 A. Pascoag and Narragansett customers have had similar commodity rates over the last three
 12 years, but Narragansett’s procurement process better protects its customers from
 13 volatility and risk. Narragansett’s load-following transactions shift more risk, such as
 14 migration and load, to its suppliers than does Pascoag’s load-following transaction. The
 15 Company’s FRS transactions include capacity and ancillary services, further insulating its
 16 customers from price shocks, whereas Pascoag customer are exposed to these market

1 components. Narragansett's FRS portfolio does not generate significant deferrals that
2 could impact customers through future reconciliations. Pascoag's managed portfolio
3 approach could result in significant reconciliations such as the recent large over-recovery.
4 Furthermore, Pascoag's procurement portfolio appears particularly sensitive to winter
5 months' pricing. The Virtual RISE contract price is determined by volatile gas prices,
6 which typically spike in winter months. Finally, Pascoag's transactions with NYPA
7 occasionally have had shortages of interruptible power in winter months, as well as
8 significantly increased transmission costs.

9 The comparison of the managed portfolio and FRS portfolio was extensively analyzed
10 and debated in the 2011 SOS Plan. The PUC, after reviewing substantial testimony and
11 data, ruled that the FRS portfolio is most appropriate for the Company's customers. The
12 Company's procurement plan results in lower volatility than Pascoag's, and
13 Narragansett's seasonal SOS rate structure reflects a market signal that encourages
14 customers to use energy efficiently, while preserving retail competition in Rhode Island.

15 **Q. Please address Mr. Hahn's recommendations to the Company's procurement plan.**

16 A. Mr. Hahn provides seven recommendations to the Company's proposed procurement
17 plan. I will address the first five of his recommendations below.

18 (1) The first recommendation is to provide an additional month's notice for the January SOS
19 rate change by revising the procurement schedule and moving the November RFP to
20 October. The Company agrees with Mr. Hahn's recommendation and suggests providing

1 an additional month's notice before the July SOS rate change by moving the May RFP to
2 April. The Company does not propose revising the schedule of the other two RFPs
3 because the SOS rate change resulting from these RFPs is for the Industrial Group only.

4 (2) Mr. Hahn's second recommendation is to revise the price year from calendar
5 procurements to the June 1 through May 31 period. The advantage or benefits of aligning
6 SOS procurement with the ISO-NE planning year are not clear.

7 The Company also disagrees with this recommendation to revise the procurement periods
8 because the current calendar year transaction provides the most efficient pricing. In the
9 past, the Company has found value in utilizing feedback from wholesale suppliers as one
10 of the inputs in developing efficient procurement plans. In the 2011 SOS Plan the
11 Company conducted a confidential survey of wholesale suppliers in efforts to seek
12 valuable market information on the most efficient method to structure FRS transactions
13 that deliver full value to SOS customers. In this survey the FRS suppliers had indicated
14 their preference for calendar year transactions due to liquidity in the marketplace.

15 Procuring in the most standardized form of a transaction will reduce liquidity premiums
16 embedded in the SOS bid prices.

17 (3) Mr. Hahn's third recommendation is to simultaneously solicit flat bid prices and monthly
18 bid prices for the Residential and Commercial Groups. As discussed above, the
19 Company is withdrawing its initial proposal of flat bid pricing in favor of the immediate
20 elimination of the SOS Billing Adjustment with cost recovery from all delivery service

1 customers. Therefore, this recommendation is unnecessary.

2 (4) Mr. Hahn's fourth recommendation is to transition the Commercial Group's procurement
3 schedule to the Residential Group's schedule, which is consistent with that which has
4 been proposed by the Company.

5 (5) Mr. Hahn's fifth recommendation is for the Company to estimate the risk premium in
6 each winning bid and to decide to accept or reject bids based upon the results. The
7 Company has included (and will continue to include) a Bid Premium Estimate analysis in
8 all RFP procurement summaries since November 2011. However, the Company
9 disagrees with Mr. Hahn's recommendation to use this analysis to accept or reject bids.

10 The Company creates expected bid prices based on historical data (very similar to Mr.
11 Hahn's Figure 9 analysis), but these expected bid prices are not appropriate for evaluating
12 the competitiveness of multiple bids. The Company's expected bid price calculation is
13 acceptable for its original purpose: to be used internally to provide an approximation of
14 prices for certain transaction authorizations and reporting. It also is provided as
15 informational to the PUC in the RFP Summary. Other than the published electric futures
16 prices from the New York Mercantile Exchange, Inc. (NYMEX) and the Forward
17 Capacity Market prices, the Company's calculation uses historical data to estimate all
18 expected loads and charges. Because the purpose is to establish an estimated bid price,
19 this approach is practical and acceptable. However, as a comparison tool to establish bid

1 accuracy, this is less acceptable because the calculation does not incorporate all future
2 market conditions.

3 Multiple market experts, independently submitting bids, are the best indicator of the
4 competitiveness and robustness of the responses to an RFP. FRS suppliers typically have
5 entire teams committed to participating in these solicitations and managing the FRS
6 transactions. The FRS suppliers perform varied tasks to forecast the loads, prices, costs,
7 and risks that they will encounter in providing FRS during a future contract period. They
8 likely incorporate the latest market information and their cost of capital, as well as using
9 analytical techniques and systems to formulate their bid prices. These suppliers also have
10 significant experience providing FRS within New England and in other regions. A
11 solicitation with multiple market experts competing ensures that the winning bids will be
12 the best available in the market. It would be inappropriate to use the Company's
13 expected bid prices, based on historical data, to assess the accuracy of a competitive
14 robust solicitation for a future contract period. Furthermore, it would be inefficient for
15 the Company to establish the administrative resources necessary to fully replicate FRS
16 suppliers' bid processes.

17 **Q. Please respond to Mr. Hahn's sixth recommendation regarding an alternative**
18 **procurement schedule.**

19 A. Mr. Hahn recommends incorporating a different laddering and layering procurement
20 schedule to mitigate a "price cliff" at the end of the six-month SOS procurement period.

1 Mr. Hahn describes a price cliff as an increase or decrease between rate periods. Mr.
2 Hahn provides a possible procurement schedule of 25% transactions, for 12 months,
3 solicited quarterly. The Company does not agree that this type of procurement schedule
4 will mitigate a price cliff as Mr. Hahn describes because the price cliff is the result of the
5 rate period structure. While the New England region is gas pipeline-constrained in winter
6 periods, all seasonal SOS rates will continue to experience a price cliff regardless of the
7 procurement schedules. Regardless of the start date of the 12-month transactions in Mr.
8 Hahn's proposal, January and February will always be the highest cost months. Any
9 seasonal rate period that includes these months will be significantly higher than the
10 seasonal rate period that does not include these months, thus a price cliff cannot be
11 avoided with a seasonal rate structure.

12 **Q. Please respond to Mr. Hahn's seventh recommendation to solicit FRS and block and**
13 **spot products simultaneously.**

14 A. Mr. Hahn's recommends simultaneously soliciting FRS and block and spot products and
15 deciding which transactions to accept. The Company disagrees with this
16 recommendation. By block and spot, Mr. Hahn is proposing a transition to the managed
17 portfolio approach. As discussed earlier in my testimony, the Company opposes a
18 managed portfolio approach because of higher volatility and reconciliations that will
19 adversely impact SOS customers. Furthermore, the Company would require additional
20 administrative resources to build a team similar to the FRS suppliers' teams in order to be

1 able to properly evaluate the FRS and managed portfolio transactions.

2 **Q. Mr. Hahn suggests the Company can outsource a managed portfolio to a third party**
3 **manager, similar to Pascoag. What is your response?**

4 A. The Company does not support the managed portfolio for SOS simply because the
5 Company does not think the managed portfolio approach is in the best interests of its
6 SOS customers. That said, the Company is capable of administering a managed portfolio
7 in Rhode Island. It has the knowledge and experience gained through the administration
8 of its New York affiliate's portfolio.

9 Furthermore, the Company would be required to maintain similar staffing levels and
10 other resources as it does for its procurement plan because it would be required to
11 manage this third party and all subsequent transactions. In Mr. Hahn's Pascoag example,
12 Energy New England is not the party testifying in the request to the PUC for rate relief;
13 Pascoag is. Ultimately, it is Pascoag that is responsible for all activities and the
14 performance of the supply portfolio. Also, there is an incremental expense for this third
15 party management. It appears that Pascoag paid Energy New England \$81,420 in 2014 to
16 manage 57,957 MWh,⁹ or approximately \$1.40 per MWh. Because the Company's
17 supply portfolio is over 100 times larger than Pascoag's, it is possible that this third party
18 fee would be significant.

⁹ Docket No. 4529: 2015 Annual Reconciliation Filing of the Standard Offer Service Rate, Transmission Charge, and Transition Charge. Schedule A.

1 **Q. In addition to Pascoag, Mr. Hahn provides other examples of third parties that**
2 **manage electric procurement. Do you have any comments?**

3 A. Mr. Hahn provides two additional examples of third party managers. One is in Maine
4 and the other is in New Jersey. The Company would like to clarify that these two
5 examples are managers of FRS portfolios, not managed portfolios such as Pascoag.
6 These third party managers are performing the same responsibilities that the Company
7 performs on behalf of its SOS customers.

8 **V. Conclusion**

9 **Q. Does this conclude your rebuttal testimony?**

10 A. Yes.