

July 9, 2015

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4568 – The Narragansett Electric d/b/a National Grid
Review of Electric Distribution Rate Design Pursuant to R.I. Gen. Laws § 39-26.6-24
Executive Summary**

Dear Ms. Massaro:

On behalf of National Grid¹, I enclose the Company's Executive Summary of the rate design proposal that the Company intends to file with the Rhode Island Public Utilities Commission (PUC) pursuant to Rhode Island General Laws § 39-26.6-24 (the Act) in the above-referenced docket on or before July 31, 2015.

As required by the Act, on July 1, 2015, the PUC opened this docket to consider rate design and distribution cost allocation among rate classes in light of net metering and the changing distribution system that is expected to include more distributed energy resources, including, but not limited to, distributed generation. In this docket, the PUC will determine the appropriate cost responsibility and contributions to the operation, maintenance, and investment in the distribution system that is relied upon by all customers, including non-net metering and net-metering customers. The Company's Executive Summary describes the framework for its rate design proposals that the Company anticipates presenting in its full filing, which are intended to ensure the costs to run a safe, reliable electric distribution system are recovered from all benefitting customers in a fair and equitable manner.

Thank you for your attention to this transmittal. If you have any questions concerning this filing, please contact me at 781-907-2153.

Very truly yours,



Celia B. O'Brien

Enclosures

cc: Docket 4545 Service List
Steve Scialabba, Division
Leo Wold, Esq.

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

***Review of The Narragansett Electric Company d/b/a National Grid
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Executive Summary

RIPUC Docket No. 4568

July 9, 2015

Introduction

In the changing electric industry landscape, National Grid¹ is in a unique position to link customer needs and policy goals, such as those of the Renewable Energy (RE) Growth Program,² with technology and market solutions through:

- Building a resilient backbone for our energy system and integrating clean energy to provide high quality, safe, and reliable electric service to all customers;
- Informing customers about the changing energy landscape and enabling them to understand the energy choices available to them to meet their energy needs and educate them on how to manage their use in the most cost-effective way; and
- Offering customized solutions to customers who want different levels of services.

The Company's upcoming revenue neutral rate design filing is another step in the ongoing evolution of the industry towards a sustainable future. The rate design proposals that the Company anticipates presenting in this filing are expected to ensure the costs to run a safe, reliable electric distribution system are recovered from all customers in a fair and equitable manner.

Background

The RE Growth Program is intended to facilitate and promote installation of 160 megawatts (MW) of grid-connected generation of renewable energy over the next five years. The Company's tariff-based program³ is designed to make it easy and attractive for National Grid's customers and renewable energy developers to install new sources of distributed generation (DG) with predictable and competitive pricing.

The expected increase in DG from this program will necessitate a change in the nature and use of the distribution system to allow greater amounts of generation feeding into the system while preserving the safe, reliable delivery of electricity used by customers and generated by DG. Under the RE Growth Statute, the PUC is required to open a docket to consider rate design and distribution cost allocation among rate classes, and determine the appropriate cost responsibility and contribution to the operation, maintenance, and investment in the distribution system that is relied upon by all customers, including net metered and non-net metered customers.⁴

The Company's distribution system is designed and constructed to serve the expected maximum needs of all of its customers (i.e., customers' peak demand) as a group and individually as part of its obligation to maintain the distribution system to serve all of its customers, including net

¹The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

² Chapter 26.6 of R.I. Gen. Laws Title 39, part of "An Act Relating to Public Utilities and Carriers – the Clean Energy Jobs Program" (RE Growth Statute).

³ Approved by the Public Utilities Commission (PUC) on March 31, 2015 in Docket No. 4536-A.

⁴ R.I. Gen. Laws Section 39-26.6-24(a).

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Executive Summary

RIPUC Docket No. 4568

July 9, 2015

metering customers with DG. The cost of the distribution system is fixed and does not vary with customers' energy use or the amount of generation flowing into the system. The Company incurs costs to operate and maintain an electric distribution system of sufficient capacity and capability to provide service to DG customers without harming service to other customers. DG customers typically stay connected to the distribution system because they rely upon it to meet their electricity needs when their DG system is not operating. In addition, by staying connected to the distribution system, DG customers have access to services provided by the Company, such as instantaneous power in excess of generation capacity, access to markets for excess generation, reliability, power quality, etc., that would be too costly for the DG customer to provide itself⁵.

It is important to ensure that all customers are contributing their fair share to the costs to operate, maintain, and invest in the distribution system that is relied upon by all customers, including those who choose to integrate clean energy into the electric distribution system. However, under the current rate design, DG customers contribute significantly less to support the distribution system as a result of their reduced kilowatt-hour (kWh) use, thereby shifting the recovery of fixed costs to all other customers. Consequently, non-DG customers pay more than their fair share of the cost of the distribution system than DG customers. Establishing the appropriate level of contribution toward these fixed costs by all customers – net metered and non-net metered – is essential to ensuring that the distribution system can be built, operated, and maintained in a manner that allows for DG interconnection in a safe and reliable manner to achieve the clean energy goals of the RE Growth Statute.

In its upcoming filing, the Company desires to maintain a balance between appropriately recovering the cost to operate, maintain, and invest in the system and encouraging customers to become more efficient in their total usage. The Company's proposal will take into account and balance many factors, including equitable ratemaking and cost allocation principles and the General Assembly's legislative purposes in creating the RE Growth Program with the goal of designing rates that do not discourage implementation of DG or provide a subsidy to DG customers and therefore understate the true cost to provide electric service.

Framework of the Company's Proposal

The Company's intended framework for its rate design proposals will generally reflect a shift from recovering distribution system costs through variable (per kWh) charges to charges that reflect customer size. Charges will be based upon the size of the customer as determined by metered kWh use for customers without demand meters and by actual measured demand for larger customers on a demand rate, and will be appropriate for all customers.

The Company will base its proposal on the class revenue requirements determined in the allocated cost of service study (ACOSS) approved in the Company's most recent general rate

⁵ See generally ELECTRIC POWER RESEARCH INSTITUTE, THE INTEGRATED GRID: REALIZING THE FULL VALUE OF CENTRAL AND DISTRIBUTED ENERGY RESOURCES (2014).

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Electric Distribution Rate Design Pursuant to R.I. Gen. Laws Section 39-26.6-24***

Executive Summary

RIPUC Docket No. 4568

July 9, 2015

case in RIPUC Docket No. 4323. For the residential (Rate A-16)⁶ and small commercial (Rate C-06) rate classes, the Company intends to introduce a four-tiered customer charge. Each tier would be defined by a kWh range intended to reflect customers' maximum use. The customer charge for each succeeding tier will be higher relative to the prior tier and is intended to approximate what customers would be charged through a combination of a customer charge and a demand (per kW) charge. The customer charges would be designed to recover most or all of the customer-related revenue requirement and a portion of the demand-related revenue requirement associated with the billing determinants of the applicably-sized customers in each tier. The remaining revenue requirement would be recovered through a uniform per kWh charge. The Company anticipates applying reasonable limits on impacts to customers and, therefore, will craft its proposal with this goal in mind. As a result, customers will be charged the fixed charge associated with the tier that is representative of their maximum monthly use over a 12-month period. This design is also intended to encourage customers to participate in energy efficiency programs to reduce overall electric use, and ultimately move to, or remain in, a tier with a lower customer charge.

For those commercial and industrial rate classes whose rate structure includes demand charges (i.e., Rates G-02, G-32, and G-62), the Company intends to propose customer charges that will recover the customer-related revenue requirement and to increase the demand charges to recover the demand-related revenue requirement for each class, subject to the impacts such changes will have on customers in these rate classes. In addition, the Company intends to propose to consolidate Rate G-32 and Rate G-62 because the cost to serve customers in these two rate classes, on a per unit basis, is substantially similar.

The result of the Company's contemplated proposals regarding its base rates is that the revenue requirement billed through fixed charges (i.e., customer and demand charges) will reflect a modest increase from the current level with an offsetting decrease in the variable (i.e., energy) charge. Given this modest shift from variable to fixed cost recovery, the Company will also discuss a long-term plan for rate changes and the process and time it would take to recover more costs through the customer and demand charges. The Company recognizes that any application of new metering systems may provide opportunities to implement new rate designs, such as residential demand charges and various forms of time varying rates. However, the metering necessary for these more complex rate designs is not available at this time.

⁶ The Company is proposing no changes to the current design for Low Income Rate A-60, but will address the appropriate design for this class in the Company's next general rate case.

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

July 9, 2015

Date

Docket No. 4545 - Review of Electric Rate Issues in Anticipation of 2015 Rate Design Review
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