



fact, there are more effective market-based measures, such as implementing a Clean Energy Standard, that are compatible with the purposes of the Act that the PUC should consider pursuing in coordination with the other New England states.

## **II. THE PUC SHOULD CATEGORICALLY REJECT THE PROPOSAL TO SOLICIT BIDS FOR A “QUALIFIED CLEAN ENERGY DELIVERY COMMITMENT”**

The PUC should reject the proposal under Section 1.2.2.3 of the RFP to solicit bids for a Qualified Clean Energy Delivery Commitment, because it is an unreasonable method of soliciting proposals from renewable energy developers.<sup>2</sup> Under this model, National Grid would enter into contracts under which it would be obligated to pay support payments either to a “Transmission Developer” or a “Clean Energy Supplier.” These contracts do not procure any energy in exchange for those payments; rather, they result in the Clean Energy Supplier bidding energy into the wholesale markets administered by ISO New England. Rhode Island customers would then be charged for the cost of the support payments through a non-bypassable retail tariff, but would receive nothing in return for these payments. National Grid would still have to procure energy through power marketers serving load by issuing a basic service RFP. National Grid also still must procure RECs. If National Grid were to accept bids under this model, Rhode Island customers would pay a market rate for their basic service procurements *plus* the cost of National Grid’s support payments for the fulfilment of the delivery commitment, whereas their alternative would be simply to pay the market rate. This arrangement would fail the “commercially reasonable” test, because an experienced market analyst,<sup>3</sup> let alone a prudent utility manager, would expect to see National Grid and its customers receive something in return under that contract, if it is an economically rational transaction.

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<sup>2</sup> R.I. G.L. § 39-31-6(a)(1)(i).

<sup>3</sup> R.I. G.L. § 39-31-3.

Paying a market price for renewable energy *plus* Delivery Commitment support payments in a separate transaction will always cost more than simply paying the market price for renewable energy, as a purely mathematical proposition, unless intentional price suppression is the implicit missing component of this equation. If that is the case, National Grid would have to demonstrate at a minimum that the resulting economic benefits that it expects to receive in its ISO New England wholesale electric market transactions and in its transactions to procure RECs exceed the purely negative position that it will incur in the Delivery Commitment transactions, in which it is paying either a “Clean Energy Supplier” or a “Transmission Developer” to schedule power flows, but receiving no rights or products in return.

Even if it were demonstrated that National Grid could use this type of arrangement to suppress wholesale market prices at a sufficient level to offset the costs to Rhode Island, the PUC would not have jurisdiction to “approve” such transactions, because they are designed to affect economic positions of market participants in the wholesale markets, not the retail markets, in violation of the Federal Energy Regulatory Commission’s (“FERC”) exclusive jurisdiction over sales of electric energy at wholesale. Moreover, the form of the obligation to be accepted by a Clean Energy Supplier in this case would likely be found to be preempted when challenged in federal court, because the design of this bid would provide a revenue stream in exchange for functionally the same obligation imposed by the Forward Capacity Market, which obligates resources with a Capacity Supply Obligation to bid into the energy markets. The Delivery Commitments to be solicited to schedule power flows pertain to the interstate transmission of electricity, which is also subject to FERC’s exclusive jurisdiction.<sup>4</sup> Thus, the PUC’s only

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<sup>4</sup> Although ENPM maintains that the transactions described under the Delivery Commitment Model are subject to exclusive FERC jurisdiction, ENPM does not suggest that FERC would find these transactions to be lawful.

statutory authorization to act on such proposals would be “to support” the filing of associated tariffs in a FERC proceeding.<sup>5</sup>

**III. THE PUC SHOULD REQUIRE NATIONAL GRID TO DEMONSTRATE THAT THE DETRIMENTAL EFFECTS OF INTENTIONAL PRICE SUPPRESSION ON RHODE ISLAND HAVE BEEN MITIGATED**

**A. Premature Retirement of Local Generation Is a Reasonably Foreseeable Result of Price Suppression**

The relative magnitude of the amount of electricity that will be offered into wholesale markets under the proposed RFP is significant and, therefore, presents great risks to customers. If large amounts of hydro power are bid into the markets as price takers and, in turn, energy market prices are substantially suppressed, marginal generation units are not the only resources that may exit the market. Many infra-marginal base load generation resources, as well as variable energy resources, rely predominately on energy market revenues, as opposed to capacity market or ancillary service revenues. These generation resources may also exit the market.

In the case of the Delivery Commitment Model, significant energy savings would have to offset National Grid’s support payments for the significant amounts of hydro power imports contemplated. Such energy savings, in the form of suppressed market prices, will put many existing in-state and regional resources at a high risk of premature retirement.

**B. The Magnitude of Price Suppression Contemplated Will Impose Net Costs on Rhode Island and May Be Inconsistent with the Act**

The General Assembly has defined the “commercially reasonable” test to require a determination that “the total energy security, reliability, environmental and economic benefits to

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<sup>5</sup> R.I.G.L. § 39-31-7(d), (e).

the state of Rhode Island and its ratepayers exceed the costs of such projects.”<sup>6</sup> The reasonably foreseeable premature retirement of existing local generation resources (and the suppression of market signals for new investment) will have a detrimental effect on Rhode Island customers and cause net harm to the economy, because the corresponding reduction in supply will cause prices to rise and become more volatile. Such a result is contrary to the objectives of the Act.<sup>7</sup>

Intentional price suppression is contrary to the public interest, because such activity is inconsistent with Rhode Island participating “in the context of an integrated regional energy system.”<sup>8</sup>

The price suppression will also paradoxically impair the value of all current investments that have already been committed to the renewable energy resources that Rhode Island has been promoting. Such an outcome poses serious implications for a variety of issues, including, but not limited to, local reliability concerns, the region’s ability to manage seasonal peak loads, generation portfolio fuel diversity, and maintaining investor confidence in wholesale markets.

In addition, the potential loss of existing zero-carbon power resources in New England’s generation portfolio could jeopardize the state of Rhode Island’s and the region’s ability to meet their clean energy objectives. Retention of zero carbon-emitting power generation resources currently operating is as important as introducing new zero carbon-emitting power generation resources in the future. Conversely, the potential loss of zero carbon-emitting power generation resources means that the addition of new zero carbon-emitting supply simply serves only to

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<sup>6</sup> R.I. G.L. § 39-31-3; *see also* R.I. G.L. § 39-31-2 (establishing purpose of the Act to utilize coordinated competitive processes, “provided that the total energy security, reliability, environmental, and economic benefits to the state of Rhode Island and its ratepayers exceed the costs of such projects”).

<sup>7</sup> *See, e.g.*, R.I. G.L. § 39-31-1(1), (2) (legislative finding that “planned retirements of fossil-fuel, nuclear, and other electric generators” may exacerbate “short and long-term energy system challenges that may undermine the reliable operation of the bulk electric system and spur unsustainable levels of price volatility”).

<sup>8</sup> R.I. G.L. § 39-31-7(c)(5)(iii). As NEPGA argues in its comments in this docket, this interference with the operation of a well-functioning market will lead to more reliance on out-of-market Reliability Must Run contracts, and ultimately harm ratepayers and the economy because less efficient investment choices will result.

offset or replace the lost zero carbon-emitting generation rather than achieving incremental gains towards lowering the overall emissions profile of its power supply.

**C. As a Requirement of the Solicitation, the PUC Should Require National Grid to Submit Economic Modeling of Certain Contingencies**

If a solicitation proceeds under the RFP, the PUC should require National Grid to demonstrate that the proposals will still result in net benefits to Rhode Island taking into account the high risk of premature retirements of existing generation discussed above. It would be unwise to assume that the existing generation fleet will not respond to market conditions, especially given the recent retirement of Vermont Yankee Nuclear Power Plant, and the coming retirement of Brayton Point Power Station. If National Grid files Delivery Commitment arrangements or large hydro power procurements for review, the PUC should direct the Company to support its filing by modeling the market impact of the procurement with separate case sensitivities that assume Pilgrim<sup>9</sup> and other local generation exit the market.<sup>10</sup> Those sensitivities should assume retirements within three years of the filing of the contracts (or the first year that the hydro power delivery is committed or procured, whichever is later), based on generators' Capacity Supply Obligations (and corresponding obligations to bid into the energy markets) under the ISO New England Forward Capacity Market which are accepted only three years in advance. Existing generators have no obligations thereafter. National Grid should model the countervailing increase in wholesale Locational Marginal Prices ("LMPs") and calculate the total annual and Net Present Value of customer payments for wholesale electricity supply in scenarios with and without the units. This analysis will likely show that the loss of

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<sup>9</sup> ISO New England is modeling Southeastern Massachusetts and Rhode Island as a single zone as of Forward Capacity Auction 9. Thus, Rhode Island's ratepayers' costs are even more tightly linked to the generators in Southeastern Massachusetts.

<sup>10</sup> The exit of each of those generators should be modeled as a separate case sensitivity due to the nodal model contemplated in the RFP.

existing generation, especially infra-marginal generators, would offset some large part of the price suppression caused by the hydro power imports. Additionally, modeling of the market impacts should take into account losses of large generating stations with infra-marginal baseload supply and the impact on prices in the markets for carbon dioxide allowances administered under the Regional Greenhouse Gas Initiative associated with the loss of so much zero-carbon electricity supply.

Finally, the loss of zero-carbon emitting nuclear power in New England's generation portfolio may offset the environmental gains achieved by adding subsidized low-carbon (on a life-cycle basis) hydro power resources. The PUC should require National Grid to demonstrate how its proposals promote the diversity of energy supply and reduce reliance upon fossil-fuel generation<sup>11</sup> if nuclear power generation resources, such as Pilgrim, are no longer part of the region's generation portfolio. These filing requirements are necessary for the PUC to determine whether the proposals that result from the RFP are "consistent with the findings and purposes" of the Act.

#### **IV. THE PUC SHOULD COORDINATE A CLEAN ENERGY STANDARD WITH OTHER NEW ENGLAND STATES**

As discussed above, the Act authorizes, but does not mandate the RFP as a method of addressing the legislative findings and purposes of the Act. A coordinated, multi-state Clean Energy Standard that recognizes the value of existing low- or zero-emission resources, such as Pilgrim Nuclear Power Station, that is technology- and vintage-neutral would be a more efficient

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<sup>11</sup> R.I. G.L. § 39-31-1(4).

market-based solution that can reduce energy price volatility and energy-supply costs in the context of an integrated regional energy system consistent with purposes of the Act.<sup>12</sup>

**V. CONCLUSION**

For the foregoing reasons, the PUC should reject the proposal to issue the RFP with respect to the types of bids to be solicited under Section 1.2.2.3 as inconsistent with the Affordable Clean Energy Security Act and direct National Grid to demonstrate that it has fully mitigated the detrimental effects of premature generation retirements if it subsequently files clean energy proposals for the PUC's review.

Respectfully Submitted,

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**ENERGY NUCLEAR  
POWER MARKETING**



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Kenneth Dell Orto  
Director, Market Affairs  
Entergy Wholesale Commodities  
440 Hamilton Avenue  
White Plains, NY 10605  
kdellor@entergy.com  
(914) 272-3225

CERTIFICATE OF SERVICE

I, the undersigned, hereby certify that on August 20, 2015, pursuant to the PUC Rules 1.5 and 1.7, and the instructions of the PUC Clerk, that an original and nine (9) copies of this electronic filing were mailed to Luly E. Massaro, Commission Clerk, Public Utilities Commission, 89 Jefferson Boulevard, Warwick, RI 02888 and that electronic copies were transmitted via e-mail to all persons on the attached service list.



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Kenneth Dell Orto

<sup>12</sup> R.I. G.L. § 39-31-7(c)(5)(iii).

**Docket No. 4570 National Grid's Solicitation for Proposals for Clean Energy Projects  
Service List updated 8/18/15**

<b>Parties' Name/Address</b>	<b>E-mail</b>	<b>Phone</b>
Jennifer Brooks Hutchinson, Esq. The Narragansett Electric Co. 280 Melrose Street Providence, RI 02907	Jennifer.hutchinson@nationalgrid.com;	401-784-7288
	Joanne.scanlon@nationalgrid.com;	
	Brooke.Skulley@nationalgrid.com;	
Leo Wold, Esq. Karen Lyons, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov;	401-222-2424 Ext. 2218
	Klyons@riag.ri.gov;	
	Jmunoz@riag.ri.gov;	
	Dmacrae@riag.ri.gov;	
Jon Hagopian, Esq. Division of Public Utilities and Carriers	Jon.hagopian@dpuc.ri.gov;	
	Steve.scialabba@dpuc.ri.gov;	
	Al.contente@dpuc.ri.gov;	
Richard Hahn Lacapra Associates 1 Washington Mall, 9th floor Boston, MA 02108	rhahn@lacapra.com;	
	apereira@lacapra.com;	
Celia O'Brien, National Grid 40 Sylvan Rd. Waltham, MA 02451	Celia.obrien@nationalgrid.com;	781-907-2153
	Mary.coleman@nationalgrid.com;	
Jerry Elmer, Esq. Conservation Law Foundation 55 Dorrance Street Providence, RI 02903	jelmer@clf.org;	401-351-1102 Ext. 2012
Patricia M. French, Esq. Bernstein Shur 100 Middle Street Portland, ME 04101	pfrench@bernsteinshur.com;	207-228-7288
	jbroder@bernsteinshur.com;	
	bsanderson@anbaric.com;	
<b>File an original &amp; 9 copies w/:</b> Luly E. Massaro, Commission Clerk <b>Public Utilities Commission</b> 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov;	401-780-2107
	Cynthia.wilsonfrias@puc.ri.gov;	
	Alan.nault@puc.ri.gov;	
	Todd.bianco@puc.ri.gov;	
Daniel Venora, Esq. Timothy Cronin, Esq. Suzanne Black & Kathleen Shea Eversource	dvenora@keeganwerlin.com;	
	timothy.cronin@eversource.com;	
	suzanne.black@eversource.com;	
	kathleen.shea@eversource.com;	
Nicholas Ucci, OER	Nicholas.Ucci@energy.ri.gov;	
Daniel W. Majcher, Esq. Dept. of Administration	Daniel.majcher@doa.ri.gov;	