

# Memorandum

**To: Luly Massaro**

**Commission Clerk**

**From: Alberico Mancini**

**Division of Public Utilities & Carriers**

**Date: 6/17/2016**

**Re: Narragansett Electric – Long Term Contracting for Renewable Energy Recovery Factor, Docket 4587**

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On May 16, 2016 Narragansett Electric Company d/b/a National Grid (“National Grid” or “Company”) filed with the Commission its Long-Term Contracting for Renewable Energy Recovery (“LTCRER”) factor filing for the period July 1 through December 31, 2016 (“Pricing period”).

The LTCRER provision, R.I.P.U.C. No. 2127, was approved by the Commission in Docket 4338, and allows for the recovery of payments made to projects under long-term contracts and distributed generation (“DG”) standard contracts executed pursuant to R.I.G.L. 39-26-1 and R.I.G.L. 39-26-2, respectively.

The Company’s calculation for July–December 2016, intended to recover estimated renewable contract costs associated with National Grid’s power purchase agreements (“PPA”) less the proceeds from the sale of energy, capacity, Renewable Energy Certificates, or other attributes, results in a recovery factor of \$0.00221 per kWh. The current effective LTCRER Reconciliation Factor is a charge of \$0.00116.<sup>1</sup> Combining the proposed forward-looking LTCRER factor and the currently approved Reconciliation Factor results in a proposed combined recovery factor of \$0.00337. The proposed recovery factor is a rate increase of \$0.00103 compared with the current billed charge of \$0.00234. The effect on a typical 500 kWh monthly residential bill is an increase of \$0.54 per month.<sup>2</sup>

The Company’s estimate of payments to operating Renewable and DG units over the six month period is \$20,152,815. Estimated revenues from sale of REC’s, energy, and capacity is \$11,424,338, leaving a net above-market cost of \$8,728,478. The Division would note that the above market cost of \$8.7 million for the July–December 2016 period is an increase of 103% over the above market cost projected for the January–June 2016 period of \$4.3 million, resulting in a noticeable increase in the long-term renewable cost factor and in monthly bills. The reason for the increase in above-market costs is the decline in the forecast revenues from the sale of energy and RECs that National Grid sells from the renewable energy projects, thus reducing the utility revenue stream available to offset high cost renewables. As noted further below, forecast energy for July–December is about \$38.91/MWh compared to the January–June forecast of \$55/MWh. Likewise, the forecast for RECs is \$35.95/MWh compared to the prior period \$48.53. Thus the revenue decline.

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<sup>1</sup> The current effective Reconciliation Factor increased from \$0.00113 to \$0.00116 on April 1, 2016 as a result of National Grid’s 2016 Retail Rate Filing Docket No. 4599. The LTC Reconciliation factor of \$0.00116 is recovering shortfalls from the 2015 calendar year.

<sup>2</sup> The proposed increase of \$0.00103 is subject to the Company’s Gross Receipts Tax rate of 4.17% per kWh. Therefore, for a 500 kWh customer, the total increase is calculated as  $(\$0.00103 \times 500\text{kwh}) = \$0.515 \times 1.0417 = \$0.54$ .

The Division reviewed the LTCRER factor filing and also had asked Daymark Energy Advisors to opine on the REC proxy value and market energy proxy included in the filing. In Daymark's opinion the REC value estimate of \$35.95 used in the calculation is reasonable and in line with their estimates. Further, National Grid's Market Energy proxy varies between \$36.05 and \$38.91, which were based on the NYMEX futures prices as of 5/4/16 for the forecast period and renewable resource load shapes (usage in on peak hours and off peak hours).

The Division did request additional information regarding National Grid's estimated \$582,504 for capacity revenues for the RI LFG Genco Project. National Grid explained<sup>3</sup> that RI LFG Genco's five-year capacity commitment period ended May 2016 and the capacity price beginning June 2016 for RI LFG Genco should be the Rest of Pool Payment Rate. Using this rate, the expected capacity revenue is \$428,064, which is lower than the \$582,504 estimate that was originally filed. Updating the LTC Recovery Factor Estimated Market Value with the revised capacity revenue would increase the Total Proposed LTC Recovery Factor from \$0.00337 per kWh to \$0.00341 per kWh, a minor difference.

Since the factor is fully reconciling, the Division sees no compelling reason to modify the proposed factor as there are many other estimates in the factor calculation and it will be trued up at the end of the period. The Division believes the filing is in accordance with the Commission's order in docket 4338, the docket in which the Commission approved the LTCRER Provision.

The Division therefore recommends approval of the proposed total LTCRER recovery factor of \$0.00337 per kWh, effective July 1, 2016.

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<sup>3</sup> See response to Div 1-1.