Massaro, Luly (PUC)

From: Leo Wold <LWold@riag.ri.gov>
Sent: Wednesday, March 16, 2016 9:23 AM
To: Massaro, Luly (PUC)
Cc: Celia.obrien@nationalgrid.com; Joanne.scanlon@nationalgrid.com; Raquel.webster@nationalgrid.com; Mancini, Al (DPUC); Joel munoz; Nault, Alan (PUC); Bianco, Todd (PUC); Jennifer.hutchinson@nationalgrid.com; Adam.crary@nationalgrid.com; Tiffany.forsyth@nationalgrid.com; Scialabba, Steve (DPUC); Donna MacRae; rhahn@daymarkea.com; mneal@daymarkea.com; Massaro, Luly (PUC); DAlessandro, Amy (PUC); Ucci, Nicholas (DOA); Kearns, Christopher (DOA)
Subject: FW: Dockets 4566 and 4599
Attachments: RI Dkt 4556-4599 Memo.pdf

Dear Ms. Massaro,

Enclosed for filing with the Commission in the above matters, please find a Memorandum of the Division of Public Utilities and Carriers.

Very truly yours,

Leo J. Wold
Assistant Attorney General

To: RHODE ISLAND PUBLIC UTILITIES COMMISSION

From: DICK HAHN AND MARY NEAL, DAYMARK ENERGY ADVISORS

Date: March 16, 2016

Subject: 2016 Retail Rates Filing – Docket No. 4599, and 2016 Renewable Energy Standard (RES) Charge and Reconciliation Filing – Docket No. 4556

INTRODUCTION

On February 15, 2016, National Grid ("NGRID" or the "Company") filed its 2016 Retail Rate Filing. This filing consists of rate adjustments arising out of the reconciliation of the Company's Standard Offer Service (SOS), SOS administrative costs, the non-bypassable transition charge, transmission service charge, the transmission-related uncollectible expense charge, the net metering charge, and the Long-Term Contracting for Renewable Energy Recovery Factor (LTC Recovery Factor). The reconciliation period for the various costs in this filing is January 2015 through December 2015. The proposed rate adjustments are effective for usage on and after April 1, 2016. This filing was designated as Docket No. 4599.

On February 24, 2016, the Company filed its proposed 2016 RES Charge and RES reconciliation. This filing consists of three attachments, which provide the calculation of the proposed RES Charge for 2016, the RES reconciliation for the period January 1, 2015 through December 31, 2015, and an analysis of the typical bill impacts of the proposed RES Charge. This filing was designated as Docket No. 4556.

The Rhode Island Division of Public Utilities and Carriers (the "Division") has retained Daymark Energy Advisors to assist in its review of these filings to ensure the various reconciliations are accurately calculated and are in accordance with the relevant tariffs. This memorandum presents the results of our review.

STANDARD OFFER SERVICE ADJUSTMENT FACTORS

The Company is proposing to adjust two standard offer service ("SOS")-related rate charges: (1) an adjustment factor to collect (or refund) net under (or over) recovery of SOS expense and (2) the standard offer service administrative cost adjustment factor, which is the sum of an administrative cost factor designed to collect various projected administrative expenses related to the provision of SOS and an SOS administrative cost reconciliation adjustment factor, which accounts for any under- or over-recovery of prior period SOS administrative costs.

For the first charge, the SOS reconciliation adjustment, the filing at Schedule ASC-2, p. 1, shows a net over-recovery (with interest) of $10.0 million, compared to the under recovery of $5.7 million in 2014. This 2015 total is a sum of the separately-calculated totals for each of the three SOS customer groups: residential, commercial, and industrial. These totals are then adjusted for additional interest during the recovery period and divided by forecasted customer group SOS kWh sales for April 2016-March 2017 to calculate three different adjustment factors, one for each procurement group. The residential and industrial groups had over-recoveries of $8.9 million and $4.8 million respectively, whereas the commercial group had net under recovery of $3.7 million.

On a per kWh basis, the charge with the largest magnitude SOS adjustment is the 1.427 cents/kWh (credit) for the industrial class. This is surprising as industrial SOS is procured on a quarterly basis and uses monthly variable rates reflective of actual supplier bid prices. One might expect a lower relative reconciliation balance. However, the high refund rate is likely related to the substantial customer migration to alternative suppliers in the past year, as shown in the figure below. Projected SOS sales for this class are less than half of last year's projection. The migration was likely prompted by the high rates experienced in the winter of 2014-2015. NGrid should provide further explanation for the refund amount driving this high credit in this Docket, or at least confirm it is driven by customer migration.

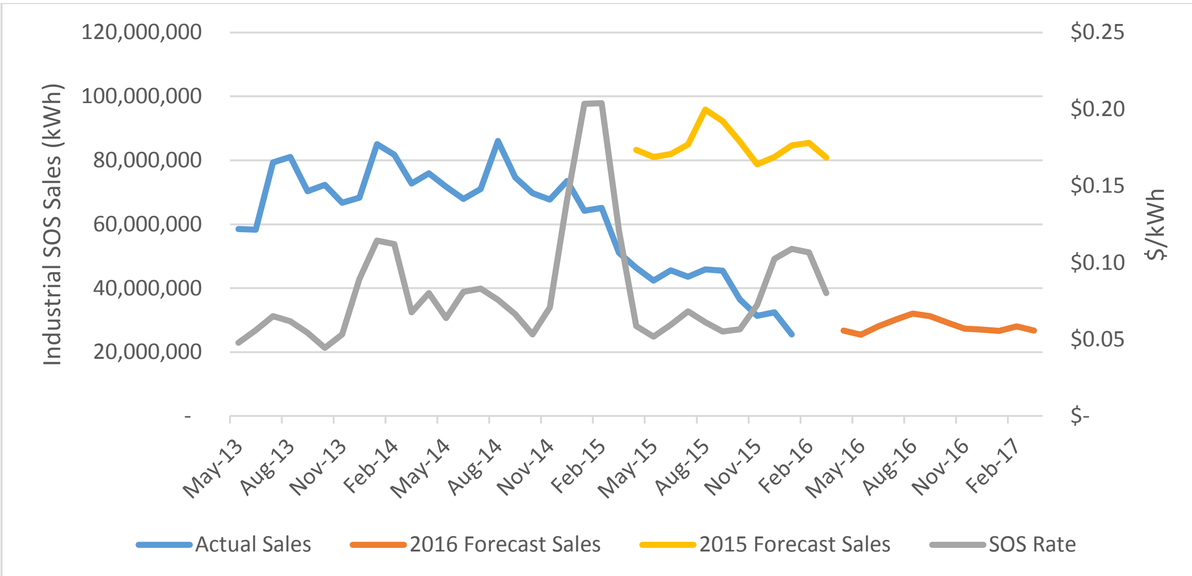

Figure 1. Actual and project SOS sales for the industrial class compared to industrial SOS rates.

Other than our comment on the relative magnitude of the industrial class credit adjustment, our review indicates the SOS reconciliation adjustment factors are consistent with the underlying data and tariff R.I.P.U.C. No. 2113 and are reasonable.

The administrative cost factor includes an allowance for SOS uncollectible expense and a number of administrative cost elements (chief of which is cash working capital). The 2016 filing shows total administrative expense of approximately $8.7 million compared to approximately $8.2 million in the 2015 filing. Uncollectible expense is much lower than last year due to lower projected SOS rates. The cash working capital requirement is substantially higher due to an $80.7 million adjustment to the Customer Accounts Receivable balance in December 2014 labeled in NGrid's workpapers as due to reclassifying gas to electric.

As with the SOS adjustment factor, separate cost factors are calculated for the three customer groups. Reconciliation of these costs is added to these totals for each customer group. For the 2016 filing, the Company reports an under-collection of 2015 administrative costs of approximately $3.9 million. This under-collection is largely due the aforementioned adjustment to the cash working capital requirement.

Both the estimated administrative costs and under-collection of 2015 administrative costs are divided by the forecast SOS kWh sales by customer group to arrive at three different factors. NGrid should explain the $80.7 million adjustment to cash working capital noted in its workpapers before the Commission approves these rates.

TRANSITION CHARGE

NGrid is requesting changes to both the transition charge and transition adjustment charge, which is used to account for prior under- or over-collection of these costs. For 2016, the adjustment charge is a credit due to over-collection of charges in calendar year 2015. The transition adjustment charge is calculated by dividing the over recovery balance from 2015 by the forecasted GWh deliveries during the recovery period, April 2015 through March 2016. This adjustment incorporates the final balance of under-recovery incurred in 2013.

The transition charge itself is a function of the contract termination charges (“CTC”) billed to NGrid by NEP and Montaup. The CTC charge is calculated by aggregating the individual CTC charges and dividing them by the total GWh deliveries, resulting in a weighted average base Transition Charge. The current transition “charge” is a credit primarily because NEP and Montaup received net credits for actual nuclear decommissioning and other post shut-down costs, which were estimated to be zero starting in 2011. Connecticut Yankee, Maine Yankee, and Yankee Atomic filed suit against the DOE for the DOE’s failure to remove the Yankees’ respective spent nuclear fuel stores as required by law. Money was awarded in two Phases, covering different time periods. NEP and Montaup continue to receive credits for Phase I, but did not receive any for Phase II in 2015, as they did in 2014. Therefore, the total proposed transition charge for the upcoming year is 0.011 cents/kWh. When combined with the transition adjustment credit, the net transition “charge” is still a bill credit of 0.058 cents/kWh.

Overall, we find the transition charge to be consistent with the NEP charges reported in the NEP and Montaup CTC Reconciliation Reports. We also find that the adjustment charge to be consistent with the underlying data presented and the Company’s tariff. Both charges should be approved.

TRANSMISSION SERVICE CHARGE

The Company has estimated its 2016 costs for transmission service to be $178.2 million, as described by the testimony of Ms. Forsyth. Table 1 below provides a summary of this estimate, and compares it to previous estimates used to establish transmission service charges in the two previous years. After two years in 2014 and 2015 of approximately equal transmission costs, the 2016 projected value increases by $21.7 million.

NARRAGANSETT ELECTRIC COMPANY
SUMMARY OF TRANSMISSION COSTS

Ln #	Item	Feb 2014	Feb 2015	Incr/(Decr)	Mar 2016	Incr/(Decr)	% Change
	NEP Charges						
1	Non-PTF	$ 22,210,608	$ 33,236,569	$ 11,025,961	$ 34,823,146	$ 1,586,577	5%
2	Other NEP Charges	$ 378,240	$ (131,003)	$ (509,243)	$ 451,891	$ 582,894	-445%
3	Refund Charges	$ -	$ (1,016,281)	$ (1,016,281)	$ -	$ 1,016,281	-100%
4	Subtotal	$ 22,588,848	$ 32,089,285	$ 9,500,437	$ 35,275,038	$ 3,185,753	10%
	ISO Charges						
5	PTF	$ 126,856,224	$ 120,411,979	$ (6,444,245)	$ 135,274,142	$ 14,862,163	12%
6	Scheduling & Dispatch	$ 2,348,685	$ 2,108,615	$ (240,070)	$ 2,091,045	$ (17,570)	-1%
7	Black Start	$ 1,153,148	$ 883,699	$ (269,449)	$ 923,415	$ 39,716	4%
8	Reactive Power	$ 1,655,982	$ 1,378,968	$ (277,014)	$ 1,457,844	$ 78,876	6%
9	Resettlement Charges	$ -	$ (3,017,660)	$ (3,017,660)	$ -	$ 3,017,660	-100%
10	Subtotal	$ 132,014,039	$ 121,765,601	$ (10,248,438)	$ 139,746,446	$ 17,980,845	15%
	ISO Administrative						
11	Sched 1 Schedul/Disp	$ 2,536,767	$ 2,637,859	$ 101,092	$ 2,895,142	$ 257,283	10%
	Sched 3 Rel Admin Ser	$ -	$ -	$ -	$ 188,658	$ 188,658	
12	Sched 5 NESCOE	$ 92,221	$ -	$ (92,221)	$ 46,152	$ 46,152	
13	Subtotal	$ 2,628,988	$ 2,637,859	$ 8,871	$ 3,129,952	$ 492,093	19%
14	Total Expenses	$ 157,231,875	$ 156,492,745	$ (739,130)	$ 178,151,436	$ 21,658,691	14%

Table 1. Summary of 2016 Transmission Costs

Table 2 below provides a recapitulation of the proposed increased by major cost drivers. Of the $21.7 million increase, $4.0 million is due to one-time credits in 2015 that won't apply to 2016. Of the remaining $17.7 million, the vast majority is due to increases in costs for the use of PTF and Non-PTF transmission system.

RECAP OF DIFFERENCES

Item		Incr/(Decr)
PTF	$	14,862,163
Non-PTF	$	1,586,577
Other NEP Charges	$	582,894
ISO Charges	$	593,115
	$	17,624,750
Resettlement Charges	$	3,017,660
Refund Charges	$	1,016,281
	$	4,033,941
	$	21,658,691

Table 2. Reasons for the 2016 Increase in Transmission Costs

The Company developed its projection of PTF costs from a presentation by the Pool Transmission Owners Administrative Committee ("PTO AC") Rates Working Group's presentation to the NEPOOL Reliability Committee/Transmission Committee at the summer meeting on July 14-15, 2015. We have reviewed this presentation and find it to be a reasonable source for a 2016 rate for Regional Network ("RNS").

The estimate of Non-PTF costs incorporates NGrid's estimates of Non-PTF plant additions. We have reviewed these estimates and find them to be reasonable.

The Company proposes to recover the estimated 2016 costs via demand and energy charges, as appropriate for each rate class. Schedule ASC-11 provides the details of this allocation. The allocators used to assign estimated transmission costs to each rate class are a weighted average of energy use for 12 months ending 12/31/2008 and 12 months ending 11/30/2011 as these are years with relatively normal weather. Using a representative sample analysis, we find the calculations in Schedule ASC-11 to be accurate.

Based upon the above discussion, we find the company's forecast of 2016 transmission cost and the rates designed to recover that amount to be reasonable and recommend that they be approved.

TRANSMISSION SERVICE RECONCILIATION

The previous year's forecast of transmission service charges in reconciled against 2015 actual transmission service revenues and expenses. Schedules ASC-12 and ASC-13 provide the basis for this reconciliation. As of the beginning of 2016, the cumulative variance between revenues and expenses including interest is an under-collection of $5,952,649, as calculated in ASC-12. The Company will recover this under-collection over the period of April 1, 2016 through March 31, 2017. Additional interest during this period is estimated by the Company to be $100,394, bringing the total to be recovered to $6,053,043. Schedule ASC-13 determines the cent per KWH rate for each customer class that will recover each class share of the under-collection. Using a representative sample analysis, we find the calculations in Schedule ASC-11 to be accurate.

We find the company's 2016 transmission reconciliation under-recovery and the rates designed to recover that amount to be reasonable and recommend that they be approved.

TRANSMISSION-RELATED UNCOLLECTIBLE EXPENSE

The Company's Transmission Service Cost Adjustment Provision (TSCAP) allows it to collect from customers an estimate of transmission-related uncollectible accounts receivable, currently equal to 1.25% of the estimated amount of transmission costs to be incurred during 2016. Schedule ASC-14 provides the calculation of this amount. The TSCAP also requires the Company to reconcile its forecast of the transmission-related uncollectible accounts receivable for 2015. This reconciliation occurs only for actual 2015 revenue. Schedule ASC-15 provides these reconciliations calculations. Using a representative sample analysis, we find the calculations in Schedule ASC-14 and ASC_15 to be accurate, and recommend that the rates contained therein be approved.

NET METERING CHARGE

The net metering charge recovers the costs of renewable net metering credits and payments to qualifying facilities in excess of payments the Company receives from ISO-NE for the sale of this energy in the market. The company is proposing a Net Metering charge change to 0.007 cents/kWh from 0.002 cents/kWh. NGrid's calculation of this charge appears to be supported by the data and should be approved.

LONG-TERM CONTRACTING FOR RENEWABLE ENERGY RECOVERY RECONCILIATION FACTOR

The current LTC Recovery Factor is a 0.118 cent/kWh charge. NGrid proposes to add to this a 0.116 cent/kWh charge as an LTCRER reconciliation factor in accord with tariff R.I.P.U.C. No. 2127. The LTCRER reconciliation factor is used to collect (or refund) any under- (or over-) recovery of LTCRER expenses. For 2015, NGrid reports an under-recovery of approximately $8.8 million compared to $8.7 million in 2014. The under-recovery amount is net of REC proceeds from RECs purchased through long-term contracts for renewable energy. In order to estimate the REC proceeds, NGrid must calculate a transfer price. NGrid provided the transfer price in its workpapers, and it appears to be reasonable. NGrid's calculation of the LTCRER reconciliation factor appears to be supported by the data provided and is in accordance with R.I.P.U.C. No. 2127. The proposed rate should be approved.

RENEWABLE ENERGY STANDARD CHARGE AND RECONCILIATION

In its February 24, 2016 filing in Docket 4556, the Company seeks approval for a proposed 2016 Renewable Energy Standard (RES) Charge of $0.00288 per KWH. This consists of two components. The first component is the estimated cost of complying with the RES for 2016, estimated by NGRID to be $0.00405 per KWH. The second component is the adjustment charge to reconcile previous estimates of the cost of complying with prior years' RES with actual costs.

The first component - $0.00405 per KWH – is based upon estimated REC prices of $47.50 for new RECs and $1.00 for existing RECs. These prices are consistent with recent actual purchases made by the Company and our outlook of the current REC market, and we find them to be reasonable. The proposed charge is based upon the 2016 RES values that new RECs are required to be 8% of supply obligation and existing RECs are required to be 2%. Using the above assumptions, we concur with the Company's calculation of the $0.00405 per KWH figure.

The proposed adjustment charge is ($0.00117) per KWH, which means that the adjustment charge is a credit. The cumulative over-collection as of December 31, 2015 is $11,755,820. The Company estimates that it will spend an additional amount of $6,959,033 in the first half of 2016 to complete the acquisition of the remainder of the RECs needed for the 2015 RES obligation. We examined in detail the calculation of the cumulative over-collection and the estimate of the remaining 2016 costs for 2015 compliance. The Company provided confidential data on its REC revenue and purchases. Due to the confidentiality of this data, we will not summarize it here. We have performed a sufficiently robust investigation to verify the reasonableness of this information.

Based upon the above discussion, we find the proposed 2016 Renewable Energy Standard (RES) Charge of $0.00288 per KWH to be reasonable, and recommend that it be approved.