TO: THE RHODE ISLAND PUBLIC UTILITIES COMMISSION

FROM: RICHARD HAHN, DAYMARK ENERGY ADVISORS, INC., ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

DATE: April 14, 2016

SUBJECT: NATIONAL GRID 2017 STANDARD OFFER SUPPLY AND RENEWABLE ENERGY STANDARD PROCUREMENT PLANS, DOCKET NO. 4605

The Rhode Island Division of Public Utilities and Carriers ("Division") requested that Daymark Energy Advisors, Inc. ("Daymark") review Narragansett Electric Company's ("NECO" or "the Company") 2017 Standard Offer Supply ("SOS") and Renewable Energy Standard ("RES") Procurement Plans that were filed on March 1, 2016. This memorandum provides the results of my review of the Company's SOS and RES plans.

OVERVIEW

The Company's 2017 SOS and RES plan is similar to what NECO utilized in 2016, with some new features. Most notably, the Company proposes to eliminate spot products that represented 10% of the supply portfolio for residential and commercial customers. A brief summary of the proposed 2017 plan is provided in the following list.

- Continue separate procurements for each customer class
- Eliminate spot purchases from the SOS supply mix for residential and commercial customers effective 4/1/2017
- Utilize 12-month and 18-month contracts for residential and commercial customers
- 18-month contracts have two bid blocks: a 12-month block with flat pricing and a 6-month block with shaped pricing
- 12 month contracts have flat pricing[1]
- Continue industrial procurements for three month contracts with monthly pricing.
- Use RECs procured under the long-term renewable energy contracts for RES compliance, and purchase (or sell) RECs as needed in separate procurements
- Add 7 days to 75 day notice if schedule impacted by a holiday

[1] Page 16 lines 19-20 of Ms. Janzen's testimony states that 12-month contracts consist of two 6-month shaped bid blocks. However, in Schedule 2c, 12-month contracts are highlighted in dark green and are labeled as flat priced. It is my understanding from discussions with Company personnel that 12-month contracts will have flat pricing.

- No significant changes to MPA, CPA, or RES documents
- Same contingency plan as 2016

ANALYSIS

It is my understanding that NECO has included spot products in its supply mix since January 2010. Since that time, New England energy markets have experienced seven winter periods. Three of these seasons – 2012/2013, 2013/2014, and 2014/2015 – had very high and volatile natural gas and wholesale electricity prices. The other seasons, including the most recent winter of 2015/2016, had relatively low stable prices. Figure 1 below provides a graph of market prices since January 2000.

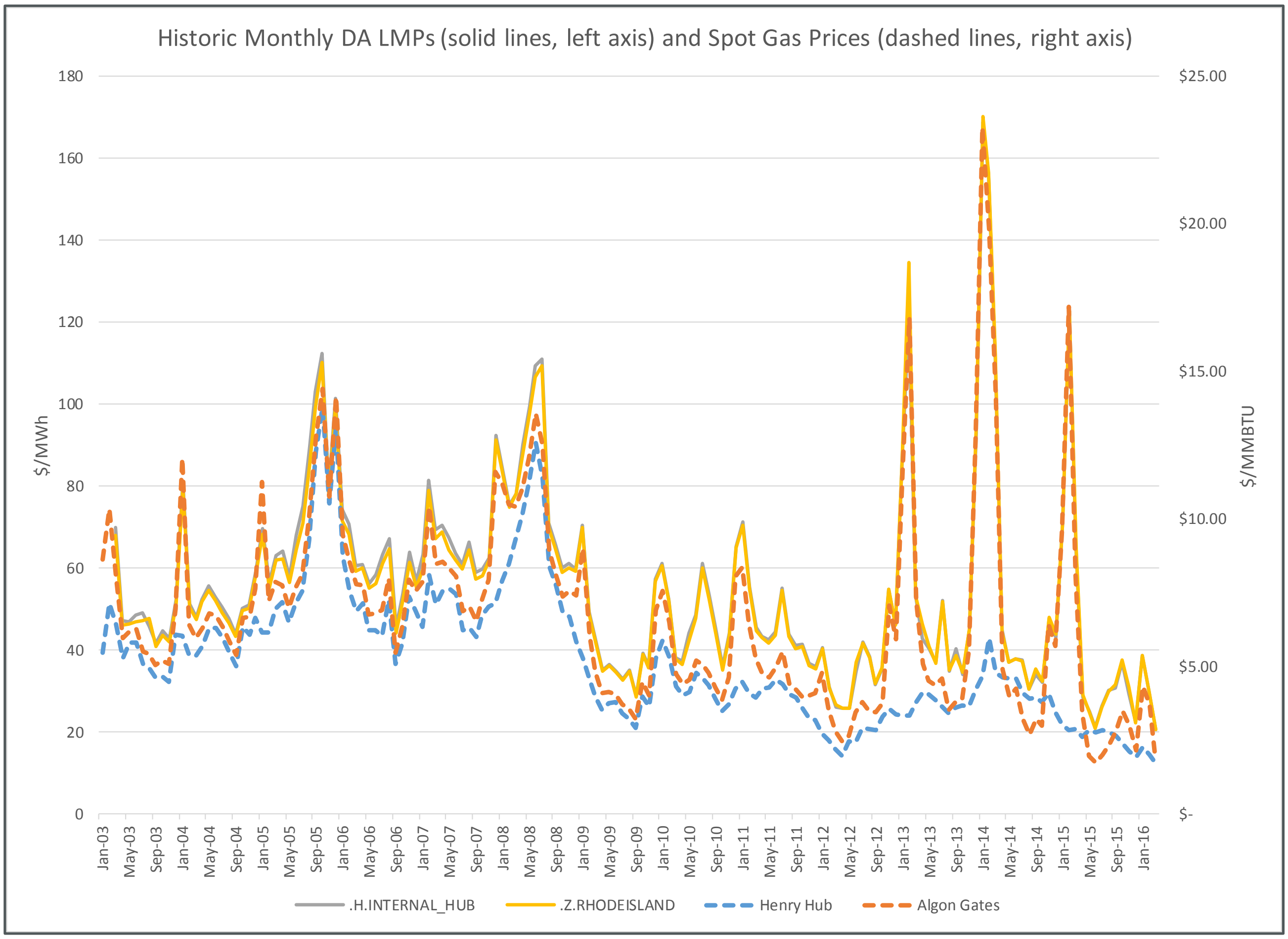

Figure 1

It is interesting to evaluate the performance of the Company's SOS procurement plans since January 2010. To make this assessment, I compared the Company's SOS rates in RI to the basic service rates of Massachusetts Electric Company in Massachusetts, which do not include any spot products. Figure 2 and

Figure 3 below provide that comparison. This analysis indicates that the Company's procurement plan in Rhode Island has produced good results, and the inclusion of spot products has not been problematic. RI rates are lower and more stable than similar rates in Massachusetts.

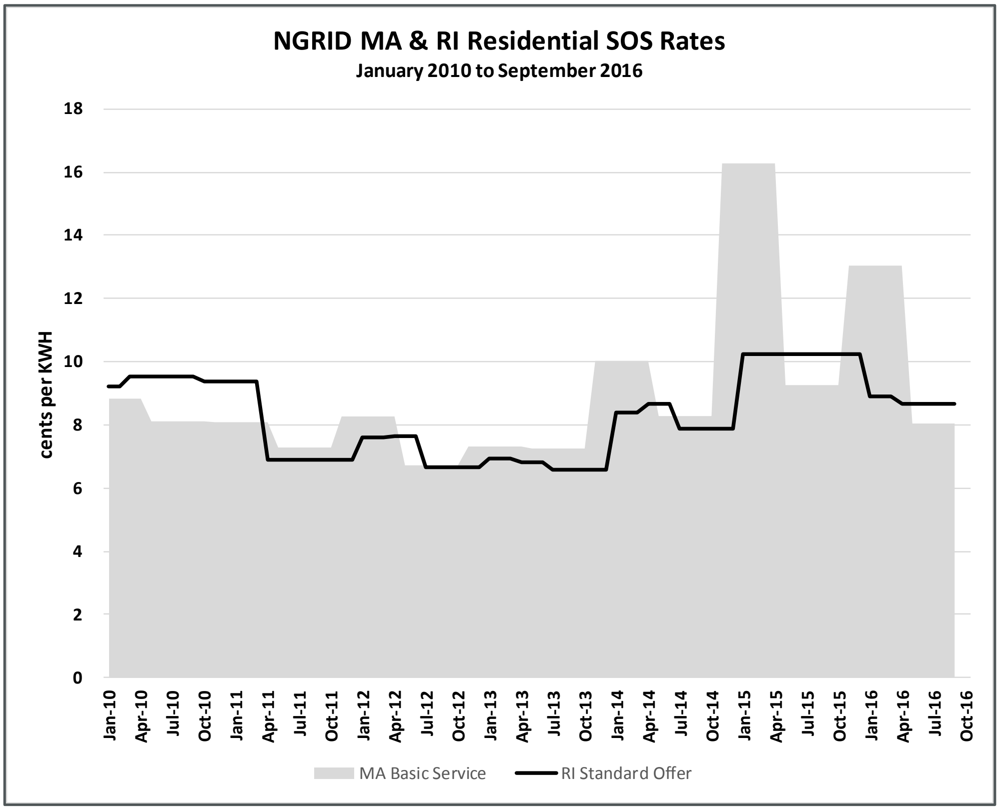

Figure 2

RESIDENTIAL SOS RATES

January 2010 thru September 2016

cents per KWH

Item	MA Basic Service	RI Standard Offer	% chg
MONTHLY AVERAGE	9.07	8.27	-9%
ST DEV	2.57	1.30	-49%
% of AVG	28%	16%	

Figure 3

Despite the favorable comparison described above, I do not at this time and under these circumstances oppose eliminating spot products from the SOS supply mix. While I believe that spot products are a desirable component of any power supply portfolio, I acknowledge that Electric Distribution Companies like NECO do not want to include them, and the Company's plan which sets SOS prices for six month periods eliminates any monthly price signals.

I see no reason why some SOS contracts should be shaped (i.e., monthly prices), while some are flat (same price each month for the term of the purchases. Having all contracts with flat pricing is a better approach. It will eliminate any issues with the billing adjustment. And flat pricing requirements do not cause suppliers to not bid, and robust competition should minimize any higher premiums in flat prices. The Company claims that by having 60% of its SOS portfolio in shaped bid blocks will provide a seasonal price signal.[2] I disagree. In the 2017 plan, SOS rates will change twice a year on April 1st and October 1st, with a flat, fixed SOS rate for each six-month period. The semi-annual price changes will provide a seasonal price signal. But whether the underlying six-month contracts are shaped or flat will not contribute to those price signals. For example, in Schedule 2C, NECO plans a procurement in the second quarter of 2017 for a six-month contract with deliveries commencing on October 1, 2017. This procurement will be reflected in the fixed SOS rates that will be effective from October 1, 2017 through March 31, 2018. If the Company seeks and receives shaped bids for this six-month contract, it will reflect those monthly prices in the SOS rate, which is one flat price for all six months. So shaped bids will not contribute to seasonal price signals. However, flat bids will minimize potential issues with the billing adjustment. Therefore, I recommend that flat pricing be solicited for all procurements.

I see no reason why NECO shouldn't include 24-month contracts. Its own consultant recommended it, and other default service providers have successfully included such products in their procurement plans. However, deploying 18-month contracts as the Company has proposed should provide sufficient price stability.

Regarding the RES plan, the Company proposes separate procurements for power supply and RECs as needed. The filing states that in 2017 the Company anticipates that new RECs obtained from the Long Term Renewable Energy Contracts will exceed the RES obligation. Under the RES plan, surplus RECs will be sold and rates will be credited. If for some reason, a short fall exists, NECO will issue an RFP seeking additional RECs. I find this plan to be reasonable.

I have reviewed the red-lined versions of the SOS and RES plan documents – Schedules 5 through 10 attached to Ms. Janzen's testimony. I find the changes to be appropriate.

In conclusion, I recommend that the Commission approve the proposed 2017 SOS and RES procurement plans, with the modification that pricing for all SOS contracts be flat and the no shaped priced bids be solicited.

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[2] See Ms. Janzen's testimony on page 18 lines 9 to 11.