STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY :
d/b/a NATIONAL GRID'S 2019 STANDARD OFFER :
SERVICE PROCUREMENT PLAN AND 2019 RENEWABLE: DOCKET NO. 4809
ENERGY STANDARD PROCUREMENT PLAN :

REPORT AND ORDER

I. Overview

Electric distribution companies are required to file annual plans to guide the purchase of energy supply, billed as Standard Offer Service (SOS), for customers who are not purchasing energy from a nonregulated power producer (competitive supplier). On March 1, 2018, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed its 2019 SOS Procurement Plan with the Public Utilities Commission (PUC). In the 2019 SOS Procurement Plan, the Company proposed to continue procuring energy through full requirements service contracts for the Residential, Commercial, and Industrial Groups of Standard Offer Service customers.

The procurements for the first two groups would continue to be laddered procurements of smaller portions over time with 10% spot market purchases. The Industrial Group procurements would continue to be three-month procurements, solicited quarterly, for 100% of the load. The Company proposed two modifications to its previously approved plan: (1) the option to change the end dates of the bid blocks that end in March 2021 to December 2020 and (2) to remove capacity costs from the full requirements service contracts.[1]

Also on March 1, 2018, National Grid filed its proposed 2018 Renewable Energy Standard (RES) Procurement Plan. The RES Procurement Plan guides the Company in its procurement of

[1] Letter from Raquel Webster to Luly E. Massaro, 2018 Standard Offer Service Procurement Plan (Mar. 1, 2017); http://www.ripuc.org/eventsactions/docket/4692-NGrid-2018-SOS-ProcurementPlan(3-1-17).pdf.

renewable energy certificates to meet the State of Rhode Island's RES. National Grid proposed one modification to the previously approved RES Procurement Plan. The Company proposed to modify the methodology for valuing RECs that are procured through various state renewable energy programs and used to meet the RES obligations tied to SOS.

Following the exchange of discovery, review of recommendations of the Division of Public Utilities and Carriers (Division), and an evidentiary hearing, on September 6, 2018, the PUC approved National Grid's 2019 SOS Procurement Plan with the single modification to remove capacity costs from the full requirements service contracts. At the same Open Meeting, the PUC approved the 2019 RES Procurement Plan with an additional modification recommended by the Division.

II. SOS Procurement Plan

In support of its 2019 SOS Procurement Plan, National Grid submitted the testimony of Stephen A. McCauley, Director of Wholesale Electric Supply and Commodity Hedging. Mr. McCauley reviewed the current procurement plan, noting that the design of the plan, which allows for dollar cost averaging of contract prices is effective in mitigating price volatility in all market environments.[2] He also discussed the two proposed modifications.

Addressing the first modification to the procurement schedule, Mr. McCauley noted that the proposed procurement schedule in the 2019 SOS Procurement Plan continues a repeating schedule of competitive solicitations. He explained that the 2019 schedule would result in the Company contracting for at least a portion of the Residential and Commercial Group supply obligations through the first quarter of 2021. He noted that the Company would not have a standard offer supply obligation after Calendar Year 2020 if the current standard offer procurement statute

[2] McCauley Test. at 8.

is not amended.[3] Therefore, in the event the law is not changed, the Company proposed to change the end dates of the final bid blocks to December 2020.[4]

In its comments submitted on July 3, 2018, the Division supported the latter proposal with its consultant stating, "[t]his proposal appears a reasonable path in the context of a future proceeding to determine the successor regime to existing standard offer service."[5] At the evidentiary hearing, both Company witness James Ruebenacker, Manager of Wholesale Electric Supply, and Division witness Christina Bennett, of Daymark Energy Advisors, Inc., testified that if National Grid were to continue to have a role in energy procurement for Rhode Island customers, it would be reasonable to continue the procurement schedule into the first quarter of 2021 to allow for some portion of the dollar cost averaging to continue to take place while transitioning into the successor product.[6]

Addressing the second proposed modification, to remove capacity charges from the energy supplier's responsibility, Mr. McCauley explained that because of the timing and manner in which the capacity charges are set, suppliers cannot as effectively hedge these costs the same way they can hedge energy supply costs. Therefore, he indicated, the suppliers tend to include a "risk premium" embedded in their all-inclusive bid prices. He contended that unlike energy risk premiums that protect both suppliers and customers from market price volatility, capacity risk premiums, while protecting suppliers from a financial risk, do not provide customers protection from any market price risk. There are several factors that contribute to the embedded risk premiums surrounding capacity costs. Mr. McCauly explained that the Residential and Commercial Groups face higher risk premiums partially because the initial solicitations for their

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[3] *Id*. at 15.
[4] *Id*.
[5] Daymark Mem. at 5.
[6] H'rg. Tr. at 37-38, 121-22.

supply occur prior to the setting of final capacity costs. The Industrial Group, conversely, faces lower risk premium costs because the solicitations for that group's energy supply occur one quarter prior to delivery. Another factor driving risk premiums relates to the level of load volatility of each group, with the premium increasing with the level of volatility.[7] Mr. McCauley estimated that the capacity risk premium included in the Company's January 2018 procurement was more than $2.00 per MWh on an estimated load-weighted basis.[8]

According to Mr. McCauley, while removal of the capacity obligation from the suppliers would remove their risk completely, it would not shift the entire risk onto the customers. He explained that the Company will estimate capacity payments when it files its SOS rates for the upcoming period delivery period using the most recent pricing estimates.[9] This method, according to Mr. McCauley, should improve the accuracy of the estimated capacity prices that are included in the SOS rates, an improvement over the current process which relies on estimates developed months or years in advance.[10] The suppliers will continue to pay the capacity payments and then pass the cost on to the Company with no markup. The difference in the Company's projection and the actual cost will be addressed through the normal reconciliation process.[11]

In its comments, the Division, through its consultant, having reviewed the risk premium analysis submitted under seal to the Division, concluded that the proposal was reasonable. The Division, however, recommended that the Company submit an analysis of the bids and the reconciliation of capacity to demonstrate whether or not a lower risk factor and overall lower price to customers were achieved as expected.[12] In rebuttal testimony, the Company, while cautioning

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[7] McCauley Test. at 17-25.
[8] *Id*. at 27.
[9] *Id*. at 26.
[10] *Id*. at 26-27.
[11] *Id*. at 27-29.
[12] Daymark Mem. at 5.

that the proposal may not necessarily result in the lowest costs for each particular transaction, agreed to provide an analysis of the results of the modification.[13]

Finally, the Division indicated that it wished to "explore whether using a technology supported auction-based approach to procure electricity supply might achieve a lower cost supply outcome for Rhode Island ratepayers."[14] After reviewing the experience of other jurisdictions, the Division opined that this approach might be valuable in identifying the lowest cost suppliers.[15] The Division originally requested that the PUC either open a stakeholder docket on this issue or ask the Company, with the Division, to conduct a study and/or propose a pilot auction.[16]

In rebuttal testimony, Mr. McCauley explained that the Company, having conducted a study to examine reverse auctions, did not favor a change to a reverse auction platform. In support of the Company's position, Mr. McCauley attached a report of the study to his testimony. Some of the disadvantages of a reverse auction included potentially higher administrative costs than the current approach, incompatibility with the monthly pricing structure of bids, and no proof that the reverse auction would result in lower prices than the current single-round, sealed bid approach.[17] At the hearing, the Division, through its witness and through counsel, suggested that prior to a Commission decision, the Company be directed to meet with the Division to further discuss the matter of reverse auctions. The Company indicated, through counsel, that it could work with the Division absent a formal Commission order.[18]

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[13] McCauley Rebuttal Test. at 5-6. Mr. McCauley stated that the proposal will remove the risk premium from supplier bids and, therefore, may result in increased and more competitive participation in the Company's solicitations. However, the Company's proposal may not result in the lowest cost for each transaction. *Id*. at 7.
[14] Daymark Mem. at 5.
[15] *Id.* at 6.
[16] *Id*. at 7.
[17] McCauley Test., Attach. 1 at 7.
[18] Hr'g. Test. at 112-21.

III. RES Procurement Plan

In its proposed RES Procurement Plan, National Grid proposed to use renewable energy certificates obtained from its Long-Term Renewable Energy Contracts (including Distributed Generation Standard Contracts) and the Renewable Energy Growth Program. Once the new Renewable Energy Certificates obtained from these sources exceed the RES obligation and banking allowance the Company will sell the excess renewable energy certificates into the market to monetize the value for customers.[19]

The RES procurement plan for 2019 is very similar to previously approved RES procurement plans through which the Company meets its obligation either through standalone competitive procurement processes or through statutorily mandated renewable energy programs in which the Company participates. The Company expects to be able to meet its RES obligation through existing renewable energy programs in 2019. It estimates that it will have an excess of RECs which it will sell into the market. The main difference proposed by the Company in this procurement plan is the valuation of RECs between recovery mechanisms. In other words, when RECs are procured through renewable energy programs, the cost needs to be recovered from SOS customers and credited to all delivery service customers.[20]

The Company explained its proposal as follows:

> The Company proposes to modify the valuation of New RECs from the Long-Term Renewable Contracts and the RE Growth Program that are used to satisfy the Company's RES obligations….The Company proposes to use the average sales price of excess New RECs transacted in the market during a quarter as the transfer price for New RECs. If there are no sales of excess New RECs in a quarter the Company will determine the actual value of these RECs for the purpose of reconciling the LTC Recovery Factor and the RE Growth Factor by using the same procedure established and approved in Docket No. 4338.[21]

[19] McCauley Test. at 38-42.
[20] McCauley Test. at 41-42.
[21] McCauley Test. at 42-43.

In its comments, submitted on July 3, 2018, the Division found most of the proposed RES procurement plan to be reasonable, but recommended the PUC require National Grid to modify the transfer price for New RECS. Specifically, the Division suggested that if the average sale price of excess New RECs in a quarter ("Quarterly Sale Price") differs more than 20% from the transfer price under the approved method in the 2018 RES plan, then the Company should calculate a transfer price based on the sum of 50% of the Quarterly Sale Price and 50% of the transfer price under the method approved in the 2018 plan.[22] In rebuttal testimony, Mr. McCauley accepted the Division's recommendation.[23]

At an Open Meeting held on September 6, 2018, the PUC reviewed the record and approved National Grid's 2019 RES Procurement Plan with the Division's proposed modification to the valuation of renewable energy certificates, finding the proposals of the Company and Division to be reasonable. The PUC also approved the 2019 SOS Procurement Plan except for the proposal to change the end dates of the bid blocks that end in March 2021 to December 2020.

The Commission found that the evidence supports the continuation of a dollar cost averaging approach to procuring energy for the Residential and Commercial Groups, whose customers have less supplier choice than the Industrial Group. While this approach may not produce the lowest cost supply, the dollar cost averaging approach protects customers from extremes in short-term price volatility. The evidence further supports continuation of the full requirements services contracts but with removal of the capacity costs from the supplier's obligation. The need to estimate capacity costs up to two years in advance of the delivery period creates a level of risk to suppliers that results in the inclusion of a not insignificant risk premium to customers. The uncontroverted testimony was that this risk can be mitigated through the

[22] Daymark Mem. at 8-9.
[23] McCauley Rebuttal Test. at 9.

removal of that capacity obligation from suppliers. Like the Division, however, the PUC was concerned that the results of this decision are uncertain. For that reason, the PUC accepted the Company's proposal to include information in the Standard Offer Reconciliation Report that uses the Concentric model for each solicitation to calculate the risk premium and estimated capacity costs and also tracks the estimated capacity costs included in the SOS rates and the reconciled capacity costs.[24]

The PUC did not approve National Grid's proposal to end its procurements on December 31, 2020. It would be more prudent, based on the testimony from Mr. Ruebenaker and Ms. Bennett, to continue with a small amount of purchases from full requirements services contracts for the Residential and Commercial Groups as a bridge to the transition to a successor utility-provided energy procurement. While National Grid is correct that its obligation to arrange for a standard offer power supply for customers not in the competitive energy market ends on December 31, 2020, that does not mean the Company will have no energy procurement obligation. In recognition that electricity is an essential service, R.I. Gen. Laws § 39-1-27.3(c) requires each electric distribution company, including National Grid, to "arrange for a last-resort power supply for customers who have left the standard offer for any reason and are not otherwise receiving electric service from nonregulated power producers."[25] There is no time limitation on this obligation.

[24] *See* McCauley Rebuttal Test. at 5.
[25] R.I. Gen. Laws § 39-1-27.3(c). This section states:

> In recognition that electricity is an essential service, each electric distribution company shall arrange for a last-resort power supply for customers who have left the standard offer for any reason and are not otherwise receiving electric service from nonregulated power producers. The electric distribution company shall procure last-resort service supply from wholesale power suppliers. Prior to acquiring last-resort supply, the electric distribution company will file with the commission a supply acquisition plan or plans that include the acquisition procedure, the pricing options being sought, and a proposed term of service for which last-resort service will be acquired. The term of service may be short- or long-term and acquisitions may occur from time to time and for more than one supplier for segments of last-resort service load over different terms, if appropriate. All the components of the acquisition plans, however, shall be subject to commission review and approval. Once an acquisition plan is approved by the commission, the electric distribution

Customers still taking SOS as of December 31, 2020, will necessarily leave SOS when it expires. They will then have to choose to buy energy from the competitive supply market or purchase from the last-resort power supply that will need to be arranged by the electric distribution company, in this case, National Grid. Notably, the requirements of last resort procurement are very similar to the standard offer. National Grid will need to file a procurement plan with the PUC for approval prior to contracting for the service. Just like SOS, the Company would then then entitled to cost recovery on a fully reconciling basis for any energy procured in accordance with the approved procurement plan.

This was National Grid's last required SOS procurement plan filing under R.I. Gen. Laws § 39-1-27.8. In 2019, to ensure continuity for customers, National Grid should file an acquisition plan to arrange for a last-resort power supply to commence the PUC's investigation into the design of the successor service. National Grid should also propose a name for the service which will appear on customers' bills. In the meantime, as agreed to by witnesses for National Grid and the Division, the PUC finds it reasonable to require continuation of the repeating schedule of

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company shall be authorized to acquire last-resort service supply consistent with the approved acquisition plan and recover its costs incurred from providing last-resort service pursuant to the approved acquisition plan. The commission may periodically review the acquisition plan to determine whether it should be prospectively modified due to changed market conditions. The commission shall have the authority and discretion to approve special tariff conditions and rates proposed by the electric distribution company that the commission finds are in the public interest, including without limitation: (1) Short- or long-term optional service at different rates; (2) Term commitments or notice provisions before individual customers leave last-resort service; (3) Last-resort service rates for residential or any other special class of customers that are different than the rates for other last-resort customers; and/or (4) Last-resort service rates that are designed to encourage any class of customers to return to the market. The electric distribution company's last-resort service revenues and its last-resort service costs shall be accounted for and reconciled with interest at least annually. Any over recoveries shall be refunded and any under recoveries shall be recovered by the electric distribution company through a uniform adjustment factor approved by the commission. The commission shall have the discretion to apply such adjustment factor in any given instance to all customers or to such specific class of customers that the commission deems equitable under the circumstances provided that the distribution company recovers any under recovery in its entirety. Nothing in this section shall be construed to prohibit an electric distribution company from terminating service provided hereunder in accordance with commission rules and regulations in the event of nonpayment of this service. The commission may promulgate regulations to implement this section including the terms and conditions upon which last-resort service is offered and provided to customers.

procurements as set forth in the 2019 SOS Procurement Plan. This ruling provides some predictability to the market and customers while the PUC and the parties contemplate the transition into a new service. While this service could be different, it could ultimately follow the same procurement strategy as the current standard offer, at least in the short term.

Accordingly, it is hereby

(23366) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid's 2019 SOS Procurement Plan is approved except for the proposal to change the end dates of the bid blocks that end in March 2021 to December 2020.
2. The Narragansett Electric Company d/b/a National Grid's 2019 RES Procurement Plan is approved as modified by the Division of Public Utilities and Carriers with respect to the valuation of renewable energy certificates.
3. In 2019, The Narragansett Electric Company d/b/a National Grid shall file for review by the Public Utilities Commission a proposed last resort service acquisition plan to commence service January 1, 2021.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON SEPTEMBER 6, 2018, PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED JANUARY 3, 2019.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Marion S. Gold, Commissioner

Abigail Anthony, Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.