



HEARTWOOD GROUP, INC.

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Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket 4822 - Solicitations of Long-Term Contracts for Renewable Energy and Renewable Energy Certificates.

Dear Commissioners:

In response to the submission to National Grid's draft Request for Proposals ("RFP"), I want to respectfully offer the following thoughts.

Having spent the last couple years engaged in Docket 4600 and the Power Sector Transformation initiative, and then participating in the recent rate case, it seems to me that your proceedings generally need to adhere far more clearly and directly to the principles and findings of Docket 4600. This proceeding seems to be a good opportunity for the Commission to more fully embrace the good work of Docket 4600.

I applaud the governor's initiative to make the kind of large scale renewable energy procurements proposed, but I find some aspects of National Grid's proposed RFP contrary to the goals and findings of Docket 4600.

Specifically, it seems to me contrary to the findings of Docket 4600 to dictate in the RFP that "pricing under such contract(s) must be below the forecasted market price of energy and RECs over the term of the proposed contract."

Basing proposal evaluation on forecasting of future energy and REC pricing very quickly becomes dependent on whose expert is doing the forecasting. Judging from the volatility in REC markets and the wild swings in natural gas and electricity pricing over the last couple decades, along with the inability of experts from organizations like ISO New England to forecast pricing with anything resembling accuracy, the whole price forecasting exercise seems like a fool's errand.

Docket 4600 was focused on identifying and maximizing overall net value, not just low price. By better applying the principles of Docket 4600, many values provided by the proposed projects can be examined, including the very clear hedge value of making pricing to ratepayers more predictable over the long term, no matter how that pricing relates to the wild guesses provided by energy and REC price forecasting experts.

Clearly related to the issue of providing a long term hedge for rate payers is the need to provide long term contracts for long term projects. The proposed 10 to 15 year contracts would not match the expected life expectancy of large scale renewable energy projects. Without long term off-takers for the project, the proposed short term contracts would by necessity force project proponents to recover all their costs within the short time frame of their contracts and thus drive up the costs of those contracts to ratepayers. In order to maximize value, these contracts should be for at least 25 years.

Also, some of the criteria and time frames for qualify a project seem potentially unrealistic in regards to the unfortunately long time involved in fully permitting a large complex projects. To maximize participation in the process and benefit to ratepayers, the proposed hurdles to participation should be closely examined.

Another important part of the RFP process is reducing risk to bidders by reducing uncertainty and risk associated with the contracts themselves. Terms and conditions of the anticipated contracts should be provided with the RFP. Having participated in the process of reviewing and negotiating the standard contracts used in the predecessor contract program to the current REG program, I know that National Grid has its preferred boiler plate language available. As part of the current docket, it would be important to engage the intervenors in reviewing and improving any proposed contract language in advance of releasing the RFP.

Until the utility business model is reformed to align with the goals of RI energy policy, the PUC must closely oversee the distribution utility's administration of any procurement process for energy. That oversight is especially important in a large scale procurement initiative like this.

Stepping back a bit to look at the goals of the Power Sector Transformation process, I am hopeful that as commissioners, you can look beyond the immediate priorities of this docket to use the resulting process to help shape the long term power sector transformation that we have all worked hard on. In a more sensible platform model for the utility system, the distribution company would not be involved at all in the procurement of energy and RECs, only in the delivery. While I had hoped it would happen much more expeditiously, I remain optimistic that Rhode Island may eventually develop a utility system that is far more suitable and appropriate for the 21st century. I thank you again for your efforts to begin to make that happen.

Sincerely

A handwritten signature in blue ink, appearing to read 'Fred Unger', is written over a light blue grid background.

Fred Unger
President