

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC :
COMPANY, d/b/a NATIONAL GRID :
RENEWABLE ENERGY STANDARD :

DOCKET NO. 3901

REPORT AND ORDER

I. Introduction

On June 29, 2004, the General Assembly, with the Governor's signature, enacted a Renewable Energy Standard (RES) for the State of Rhode Island. The legislation, codified as R.I. Gen. Laws § 39-26-1 et seq., sets forth the parameters of such a standard designed to diversify energy sources, reduce carbon dioxide, and encourage the development of renewable energy resources. Under the RES legislation, beginning in compliance year 2007, Obligated Entities, defined as those persons or entities selling electrical energy to end-users in Rhode Island, shall obtain escalating percentages "of the electricity they sell at retail to Rhode Island end-use customers, adjusted for electric line losses, from eligible renewable energy resources."

R.I. Gen. Laws § 39-26-6(a) required the Public Utilities Commission ("Commission") to "[d]evelop and adopt regulations on or before December 31, 2005 for implementing a renewable energy standard..." within certain parameters. This was completed on December 8, 2005. In accordance with Section 8.2 of the Commission's Rules and Regulations Governing the Implementation of a Renewable Energy Standard and Order No. 19801, on November 15, 2007, Narragansett Electric Company, d/b/a National Grid (NGrid) filed with the Commission its RES Procurement Plan for the period commencing January 1, 2008.

In addition to procuring renewable energy supply, R.I. Gen Laws § 39-26-6(b) requires the Commission to “authorize rate recovery by electric utility distribution companies of all prudent incremental costs arising from the implementation of...” the RES. Accordingly, on November 15, 2007, NGrid also filed its proposed RES Charge for usage on and after January 1, 2008.

II. Travel

A. National Grid’s Proposed Plan and RES Charge

NGrid filed the direct testimony of Michael J. Hager, Vice President, Energy Supply. In his testimony, Mr. Hager outlined the proposed RES Procurement Plan, explaining the results of NGrid’s RES procurements during 2007, the proposed RES charge for 2008, the status of the RES Procurement Working Group, NGrid’s estimated RES obligation for 2008 and 2009, its Proposed Procurement Schedule in 2008, Evaluation Criteria, Risks and Mitigation, and Resource Monitoring, Performance and Review of Procurement Process.¹ Mr. Hager noted that in 2007, the Commission approved NGrid’s first Renewable Energy Procurement Plan which “provided for the procurement of a portion of NGrid’s 2007, 2008 and 2009 RES obligations through a series of competitive procurements...”² Mr. Hager noted that NGrid is not proposing to procure any RES obligations for the period beyond 2009 in this filing.³

Mr. Hager indicated that NGrid requested Last Resort Service (“LRS”) bidders to provide a price which included RES obligations in its two LRS solicitations. However, because the price provided by the winning suppliers was higher than NGrid’s estimate of the market price for RECs, NGrid did not purchase RES obligations with its LRS supply.

¹ National Grid Exhibit 1 (Prefiled Testimony of Michael J. Hager), p.3

² *Id.* at 4.

³ *Id.* at 10.

Therefore, the two stand-alone solicitations for RECs which occurred on April 11, 2007 and October 15, 2007 included RES obligations for both SOS and LRS. As a result of the two stand-alone solicitations, Mr. Hager testified that NGrid purchased 422,700 RECs at an expected aggregate cost of \$8.5 million.⁴ Of the 422,700 RECs purchased, 262,200 were from existing energy resources and 160,500 were from new energy resources.⁵

Mr. Hager noted that NGrid did not receive bids for the entire quantity of RECs in the October 15, 2007 solicitation. This will require NGrid to include requests for 2007 RECs in the 2008 procurements. Additionally, the RES obligation was determined partly on projections which will need to be trued up. Therefore, if NGrid does not receive sufficient 2007 RECs through solicitations, it will need to make alternative compliance payments (“ACP”). However, if NGrid receives more than its RES obligation for 2007, it can bank the excess to be applied to the 2008 obligation.⁶

To project its SOS RES obligation for 2008 and 2009, the company developed three cases based on various assumptions to come up with a range of RES obligations for the period. The base case assumes that the SOS requirement increases at the historical rate for 2000-2007 of 0.25% per year for the period 2008-2009. Case 1 assumes a 2.4% annual increase and Case 2 assumes a 5.8% annual decrease. NGrid proposed to use the base case for projecting its RES obligation. Mr. Hager pointed out that using historical data to project future SOS load is not without some risk as SOS load could change significantly as a result of energy market changes, changes in weather, and competitive supply opportunities as the SOS contracts approach expiration in 2009. He also pointed out, however, that any variance from the base case can be accounted for in future

⁴ NGrid Exhibit 1 (Pre-filed Testimony of Michael J. Hager), pp. 5-6.

⁵ NGrid Exhibit 2 (Amended Testimony of Michael J. Hager), p. 6.

⁶ NGrid Exhibit 1, p. 6

procurements.⁷ With regard to LRS, he stated that since 2000, the company's LRS load has been very volatile. As such, NGrid proposed to link its purchase of RECs with its purchase of Last Resort load rather than purchasing a specified quantity of RECs.⁸

As far as the schedule of procurements, NGrid proposed stand-alone solicitations twice per year to satisfy its Standard Offer RES obligation. To satisfy the LRS RES obligation, the RECs will be procured through the LRS procurement process. The company proposed to conduct the first stand-alone solicitation in April 2008 and the second in October 2008.⁹ He testified that the process to be used in each solicitation would be the same as approved in the 2007 RES Order.¹⁰

Mr. Hager provided a list of criteria that it will use in the evaluation of proposals. Those criteria are the: (1) the lowest evaluated bid price; (2) quantity of NEPOOL-GIS Certificates offered; (3) ability of supplier to meet its obligation to deliver NEPOOL-GIS Certificates; (4) firmness of delivery; (5) supplier's past experience in providing similar services to National Grid; (6) supplier's past experience in providing similar services to other companies in New England; (7) supplier's past experience in providing similar services to other companies in other regions; (8) supplier's demonstrated understanding of its obligation under the proposed Certificate Purchase Agreement (9) whether there have been any past or any present events that are known that may adversely affect the supplier's ability to provide NEPOOL-GIS Certificates; and (10) location of the renewable resource(s) and how the renewable resource satisfies the goals of stabilizing long-term energy prices, enhancing environmental quality, and creating renewable

⁷ *Id.* pp. 10-11.

⁸ *Id.* at 12.

⁹ *Id.* at 13.

¹⁰ *Id.*

section jobs in Rhode Island.¹¹ He stated that a supplier bidding a unit contingent offer would also be required to demonstrate the likelihood that NEPOOL-GIS Certificates will be created by a resource. Furthermore, if a unit is under construction, NGrid will require the supplier to demonstrate the likelihood that the resource will create NEPOOL-GIS Certificates during the contract period.¹²

The various risks identified by Mr. Hager in regard to NGrid meeting its RES obligation are that: (1) load either increases or decreases significantly from the expected; (2) the supplier fails to deliver the quantity of RECs contracted for; (3) the resource does not perform as expected thus providing fewer RECs than expected; and (4) insufficient offers are made to meet RES obligation.¹³

If NGrid's load is less than what it projected when acquiring RECs and NGrid acquires more RECs than necessary, the Company can use the REC banking option as it is outlined in the RES rules. Any excess RECs could be used to satisfy obligations in future years. If NGrid's load is larger than what it projected when acquiring RECs, NGrid can revise the number of RECs to be acquired in future procurements, conduct additional solicitations or make ACPs. The Company will use all available contractual rights it has to compel the supplier to provide the contracted for RECs, and the Company will rely on contract security to offset any costs associated with a supplier's failure to perform. Furthermore, Mr. Hager explained that suppliers are not paid until NGrid receives the certificates.¹⁴

¹¹ Id. at 14.

¹² Id.

¹³ Id. at MJH-10.

¹⁴ Id.

As part of the LRS procurement, NGrid will request that bidders provide two price components with its bid. The first component will be LRS excluding the cost of the RES obligation. The second will be for the cost of the RES obligation. This process is used by NGrid in Massachusetts for procurement of Default Service. For each bidder, the price of the two components will be added together and the bid with the lowest overall cost will be selected. Any difference between revenue received from customers and actual RES costs would be fully reconcilable as part of the LRS reconciliation.¹⁵

NGrid would seek to meet its SOS RES obligations and any remaining LRS RES obligations through stand alone solicitations twice per year. The Company would purchase both firm and unit contingent RECs. Because the Company already contracted for 2008 RECs, it will not need to seek 100% of its 2008 obligation through the 2008 solicitations, but will only need to request approximately half of the estimated obligation. In the first 2008 solicitation, NGrid will request up to 75% of the estimated 2008 SOS RES obligation less amounts already under contract and in the second, up to 100% of the remainder. Likewise, it has contracted for a portion of its 2009 RES obligation and therefore, in the first 2008 solicitation will seek up to 50% of the estimated 2009 obligation less amounts already under contract. In the second 2008 solicitation, it will seek up to 66% of the estimated 2009 obligation less amounts already under contract.¹⁶ The procurements would also include requests for any remaining LRS RES obligation not fulfilled through the LRS solicitations.¹⁷

After compiling the bid stack, NGrid will share the information with the Division and identify bids the company intends to accept. This will allow the Division an

¹⁵ *Id.* at MJH-9.

¹⁶ *Id.* at MJH-7.

¹⁷ *Id.*

opportunity to review the anticipated winning bids. Once Division review is completed, the contracts will be executed subject to the company filing the results with the Commission and a five day waiting period from the date of the filing. This will provide the Commission an opportunity to review the contracts before they become effective.¹⁸

The company will require all suppliers of both firm and unit contingent purchases to provide monthly production reports of actual performance. All suppliers will also be required to provide some form of security. Acceptable security could be: (1) an unsecured line of credit from a rated counterparty; (2) Parental Guaranty; (3) Letter of Credit; (4) a cash deposit provided to NGrid; and (5) any other form of security that is agreed to by NGrid and the supplier.¹⁹

Addressing the proposed RES Charge, Mr. Hager explained that in 2008, the RES obligation increases from 3.0% of NGrid's load to 3.5% of its load. Therefore, the RES Charge needs to reflect the increased obligation. Additionally, he noted that the 2007 RES Charge was based on an estimate of market prices for 2007 RECs while the proposed 2008 RES Charge is based on the average cost of 2008 RECs procured to date. Mr. Hager proposed an RES charge of 0.084 cents per kWh, an increase of 0.022 cents per kWh over the 2007 charge. He stated that in 2007, NGrid procured 50 percent of its estimated 2008 RES obligation and used the weighted average cost of the new and existing vintage 2008 RECs procured in the two 2007 RES solicitations.²⁰ According to

¹⁸ Id. at MJH-8.

¹⁹ Id. at MJH-11. Firm purchases are those where the bidder commits to provide a specified amount of RECs without relying on the performance of any specific source. Unit contingent purchases are those where the bidder commits to providing a specified amount of RECs only if a specific generating unit(s) operates and produces such RECs.

²⁰ NGrid Exhibit 1, p. 7.

Mr. Hager, all costs associated with the procurement of RECs will be reconciled in NGrid's Annual reconciliations.²¹

Mr. Hager also provided a status report of a working group formed to develop an approach for the long-term procurement of RECs for the period commencing after the end of the current SOS period. He indicated that the group had met five times between May 24, 2007 and November 2, 2007. He noted that the next meeting of the working group was scheduled for January 22, 2008.²² Mr. Hager represented that "the group was unable to reach consensus on an approach consistent with existing regulations. It was recognized that, at a minimum, National Grid would need to include long-term contracting in its procurement plan filed in early 2009 for the period beginning in 2010."²³

B. Ridgewood Direct

On December 6, 2007, Ridgewood Power Management, LLC. submitted its "comments and concerns over National Grid's Renewable Energy Certificate Procurement Plan as it relates to the procurement of Renewable Energy Certificates from new renewable energy sources..."²⁴ Mr. Short stated that NGrid's Procurement Plan does not support the stated purposes of the Rhode Island RES law. He supported increased transparency in the bidding process, noting that the Maine Public Utilities Commission posts information following its Standard Offer solicitation including the winning bidders, the average winning price and the names of all winning bidders. Mr. Short also advocated for disclosure of prices and quantities bid by the winning and losing

²¹ *Id.* at 7-8.

²² NGrid Exhibit 2, p. 9.

²³ *Id.* at 9.

²⁴ Ridgewood Exhibit 1 (Comments of William P. Short, III), p. 1.

bidders in the Rhode Island RES bidding process. Mr. Short expressed concern that without this information, financiers cannot evaluate the success of the Rhode Island RES.²⁵

Mr. Short also expressed opposition to the current proposal to continue the practice of granting preference to Rhode Island resources where there is a tie between two bids. He stated that the Procurement Plan “should be modified to provide Rhode Island resources with price adjustments to their bids for local expenditures and energy price suppression.”²⁶ He listed examples of money spent by Ridgewood in Rhode Island and indicated that those funds should be used to offset the price of bids made by Rhode Island resources.²⁷

C. Division of Public Utilities and Carriers

On December 11, 2007, the Division of Public Utilities and Carriers (“Division”) filed comments in response to Ridgewood. Dr. John Stutz of the Tellus Institute, a Division consultant addressed the “likely valuation of [RECs] by potential developers of renewable energy projects” and the “impacts of renewable energy projects on the State’s economy.”²⁸ Dr. Stutz did not believe that not publishing winning and losing bids would cause project financiers to value RECs at zero. He pointed out that Mr. Hager’s testimony shows that RECs are being purchased at a price greater than zero and are being paid for by Rhode Island ratepayers through an RES charge that NGrid proposes to increase.²⁹ However, he did believe that because the public is legally required to pay for

²⁵ Id. at 1-2.

²⁶ Id. at 3.

²⁷ Id.

²⁸ Division Exhibit 1 (Memorandum of John Stutz), p. 1.

²⁹ Id.

the RECs, “the procedures and winning bids should be made public unless their disclosure is likely to have an adverse effect on ratepayers.”³⁰

Dr. Stutz expressed concern that obtaining RECs from RI may not assist the local economy if the increased price of the RECs results in increased costs to retail customers, resulting in those customers spending fewer dollars on other commodities. Additionally, he maintained that “without careful study it is quite difficult to tell what, if any, price premium for RECs from local projects can be justified without producing harm.” Finally, he noted that until 2010, with the bulk of Rhode Island residential customers taking service under SOS contracts, price suppression has limited relevance at this time.³¹

D. Bluewater Wind Direct

On December 12, 2007, Erich Stephens submitted direct testimony on behalf of Bluewater Wind, LLC. In the testimony, he stated that an important factor in financing renewable projects is long term contracts. For off-shore projects, he stated that contracts in the range of 15 or 20 years are necessary. Regarding the benefits of long term renewables contracts, he stated that contract with a wind producer for example could protect customers from rising fuel costs. He also opined that investments in long term renewables would tend to reduce the need for future construction in the region of gas and oil fired power plants.³²

Mr. Stephens stated that Bluewater Wind does not have major concerns with the proposed plan as a one year plan, but advocated for continued meetings of the Working Group established in Docket No. 3765. He believed the Commission should order the

³⁰ *Id.*

³¹ *Id.* at 2.

³² Bluewater Wind Exhibit 1 (Pre-Filed Testimony of Erich Stephens), pp. 3-4.

Working Group to make its best efforts to meet monthly.³³ In addition, he believed NGrid should be required to file quarterly progress reports with the Commission followed by a comment period by the other members of the Working Group if a party feels the Commission should intervene in the Working Group.³⁴

E. Statement of the Conservation Law Foundation

On December 12, 2007, the Conservation Law Foundation (“CLF”) filed a statement “not oppos[ing]” NGrid’s proposed Procurement Plan because, although it does not include long-term contracts for 2008, in CLF’s opinion, NGrid “is moving ahead in genuine good faith to reach a mutually acceptable means by which Grid will be able, in the future, to enter into significant long-term contracts for renewable energy resources.”³⁵ CLF expressed support for the continuation of the Working Group.³⁶

F. Energy Management, Inc. Direct

On December 12, 2007, on behalf of Energy Management, Inc. (“EMI”), Mr. Dennis Duffy submitted a response to Ridgewood’s comments. EMI agreed with Ridgewood that greater market transparency in the bidding process would be appropriate because it would “afford potential developers and the financial community far better indication as to whether Rhode Island would be an attractive market for renewable investment and development...”³⁷ Specifically, EMI supported the “post-selection release of the winning bids.”³⁸

³³ *Id.* at 5.

³⁴ *Id.* at 5-6

³⁵ Conservation Law Foundation Exhibit 1 (Statement of Conservation Law Foundation), p. 3.

³⁶ *Id.* at 4.

³⁷ Energy Management, Inc. Exhibit 1 (Response to Ridgewood Power Commnets), p. 1.

³⁸ *Id.* at 2.

EMI also expressed concern that bid evaluations in 2007 did not appear to consider non-price benefits such as local benefits from in-state generating units. Noting that NGrid had discussed one bidder who did include such benefits in its bid, but that NGrid did not consider them verifiable, EMI stated, “the Commission should assure that the disregard of local benefits clearly relevant to the statutory purpose should be reasonable, transparent and reviewable.”³⁹

IV. Hearing

Following public notice, a public hearing was held at the Commission’s offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 14, 2007 for the purposes of hearing evidence regarding a review of the proposed renewable energy standard charge and the proposed RES procurement plan. The following appearances were entered:

FOR NATIONAL GRID:	Laura S. Olton, Esq.
FOR BLUE WATER WIND:	Michael McElroy, Esq.
FOR CONSERVATION LAW FOUNDATION:	Jerry Elmer, Esq.
FOR ENERGY MANAGEMENT, INC, CAPE WIND:	Dennis Duffy, Esq.
FOR RIDGEWOOD POWER:	Robert K. Taylor, Esq.
FOR THE DIVISION:	William Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

National Grid presented Michael J. Hager in support of its filing. Mr. Hager confirmed that the 3.5 percent requirement is based on NGrid’s sales as measured at the

³⁹ Id.

wholesale delivery point, not the retail delivery point and therefore, includes line losses.⁴⁰ He explained that in order to develop the retail RES charge, NGrid started with the average price paid for the 2008 RECs procured in 2007 and then adjusted the wholesale per MWh charge to the retail kWh charge and then increased that amount by the losses that would occur in the system, or 6.8 percent.⁴¹ Addressing the reason for the high percentage increase in the retail RES charge from 0.062 cents per kWh to 0.084 cents per kWh, Mr. Hager noted that the obligation for RES compliance increases each year and that that increase is related to the more expensive new resources. Additionally, he stated that for 2008, NGrid is using actual costs for 2008 RECs under contract as opposed to estimates as the basis of the development of its rate.⁴²

Noting that like the 2007 Procurement Plan, the 2008 proposed Procurement Plan relies on dollar cost averaging by procuring RECs at various intervals over time, Mr. Hager agreed that through the 2007 procurement process, NGrid had procured approximately 50 percent of the estimated 2008 requirement. He noted that while he would prefer more bidders at lower prices, through the bidding process, with the exception of a few additional 2007 RECs needed, NGrid had been successful in procuring the number of RECs for 2007, 2008 and 2009 that it set out to procure.⁴³

Discussing the interest in more transparency in the bidding process, Mr. Hager expressed concern that through contact with prior bidders, they do not want too much of what they consider to be competitively sensitive information released through the process. However, Mr. Hager recognized that there should be a balance between the

⁴⁰ Tr. 12/14/07, p. 46.

⁴¹ Id. at 46-47.

⁴² Id. at 56-57.

⁴³ Id. at 52-53.

desires of the bidders and those of the public. He suggested that in such an immature market, there should be caution so as not to further reduce the number of likely bidders who would simply avoid Rhode Island and bid into other markets where the states do not require such disclosures.⁴⁴ Discussing three levels of disclosure, Mr. Hager indicated that he would be the most comfortable releasing the number of certificates, both new and existing, and the average cost of each. He stated that this gives an indication of where the market is trading, but avoids a situation where bidders could determine what the high price was and would not be able to use such information to manipulate the bidding higher during the next procurement.⁴⁵ Mr. Hager suggested that the policy goal of the Commission should be to “maximize[e] the number of bidders and achiev[e] the policy goals [of the RES] at the lowest cost to customers.”⁴⁶

Addressing the suggestion that there should be a premium paid for Rhode Island resources, Mr. Hager stated that he has a difficult time coming up with an economic model to determine the appropriate level of any premiums but would take any direction from policy makers.⁴⁷ He noted that NGrid has not been in the “situation to decide whether a penny is an appropriate premium to pay on a qualitative basis or not.” With regard to a \$4.00 or \$5.00 premium, he stated that “at this point I don’t have a basis for justifying” such a premium.⁴⁸

With regard to the comments about the continuation of the working group, Mr. Hager had no objection to Bluewater Wind’s suggestion that the group make best efforts to meet monthly, but suggested that rather than a rigid requirement, it should be up to the

⁴⁴ *Id.* at 9-10, 15-16, 23-24, 40.

⁴⁵ *Id.* at 18.

⁴⁶ *Id.*

⁴⁷ *Id.* at 20, 29-30

⁴⁸ *Id.* at 29-30.

group to determine when meetings are necessary. Additionally, Mr. Hager believed that unless the Commission provided a different charge, it should be up to the working group to determine the best way to proceed toward long term contract provisions relative to renewable energy resources.⁴⁹

The Division presented Dr. Stutz in support of its comments. Dr. Stutz stated that in determining what level of transparency should be associated with the bidding process for RECs, one would “have to weigh that benefit [of providing pricing signals to financiers] and the benefit to the public knowing what they’re paying for against the possibility that you’ll raise the price of the resource.”⁵⁰ He stated that because he agreed with Mr. Hager regarding the existence of a limited number of bidders in prior procurements, he would err on the side of keeping bidders comfortable while making some information public, and therefore, would support Mr. Hager’s proposal to release the number of RECs procured and the average price paid following a procurement.⁵¹

Addressing the appropriate evaluation of bids from Rhode Island renewable resources, Dr. Stutz explained that in his comments, he was not questioning the purposes of the law, but rather, pointing out that a majority of customers would not realize the effects of any local price suppression before 2010 due to the fact that most customers are taking electric service under standard offer contracts, not under LRS nor from competitive suppliers.⁵² Additionally, Dr. Stutz explained that while Mr. Short provided useful information regarding what Ridgewood Power does with its Rhode Island facilities, and that this would be a good starting point, “what’s missing is any suggestion

⁴⁹ Id. at 34-39.

⁵⁰ Id. at 65.

⁵¹ Id. at 69-70.

⁵² Id. at 62, 66

about what the net impact is because we haven't considered anything outside of his facilities. But I think this is the kind of data you need as a starting point for the type of analysis..." to determine what premium, if any, should be allowed in the evaluation of Rhode Island renewable resources.⁵³ Dr. Stutz reiterated that the economic analysis that needs to be performed is one which would show the net impact on the state economy of that premium, noting that the result could be positive or negative.⁵⁴

Bluewater Wind presented Mr. Stephens in support of its comments, particularly with regard to the working group dynamics. Mr. Stephens explained that he believed regular status reports provided direction and focus to a working group. He agreed that if it were the working group as opposed to NGrid filing periodic status reports with the Commission, it would alleviate the need for comments by other participants regarding the adequacy of the report.⁵⁵

Ridgewood presented Mr. Short in support of its comments. On cross-examination, Mr. Short conceded that while he believed the intent of the RES statute would be to allow a premium to be paid for Rhode Island renewable energy resources, the statute itself does not state that a premium should be paid for Rhode Island resources over other resources and does not say that Rhode Island should pay more for RECs produced by Rhode Island resources.⁵⁶ Mr. Short also participated in an exercise which resulted in the determination that a \$55 per REC bid would be evaluated as a negative bid for purposes of determining who the lowest cost bidder was when compared to a \$50 per

⁵³ *Id.* at 76.

⁵⁴ *Id.* at 74-75.

⁵⁵ *Id.* at 78-81.

⁵⁶ *Id.* at 88.

REC bid. He conceded that the result would be for SOS customers to realize higher RES costs without realizing any benefits of price suppression.⁵⁷

V. Commission Findings

On December 20, 2007, after public notice, the Commission convened an open meeting to render a decision on NGrid's proposed RES Procurement Plan and RES charge for calendar year 2008. The Commission approved the proposed RES charge of 0.084 cents per kWh effective on usage on and after January 1, 2008. The Commission finds that the calculation of the rate for 2008 is reasonable in that it is based on actual costs incurred for 50 percent of the anticipated 2008 REC requirement. The Commission directs NGrid to file its proposed 2009 RES Procurement Plan and RES charge simultaneously on or before November 14, 2008.

The Commission approves NGrid's proposed RES Procurement Plan as filed. The Procurement Plan addresses procurement of the remaining RECs for 2007 through short term contracts. NGrid will also procure in 2008 the remaining portion of its REC requirement for 2008 and additional RECs to satisfy its 2009 obligation through short and intermediate term contracts. The Commission approves of this strategy as it will allow ratepayers the benefit of dollar cost averaging over time, insulating them somewhat from any spikes that may occur in the REC market through 2009 as renewable energy supply requirements in the New England states increase each year. It will also allow this new market to further develop.

The Commission agrees that while there should be caution when setting requirements that might affect a developing market, there should be more transparency in the bidding process. Therefore, the Commission requires NGrid to file as part of its

⁵⁷ *Id.* at 93-98.

compliance filing a public notification of the number of RECs procured for each period, the type (existing or new) and the average cost of the RECs for each period. This will allow bidders and financiers to review the procurements and should provide a level of comfort that the value of RECs is higher than \$0.00 while also protecting against artificially inflated bids in future procurements and bidder concern regarding any release of potentially competitively sensitive information.

At this time, the Commission will not require NGrid to change the weight given to bids submitted by Rhode Island based renewable energy resources because the record was not sufficient to support any specific criteria upon which to make the analysis regarding the net benefit or loss to the State of Rhode Island as a result of any premium that might be required to accept a bid by a Rhode Island based renewable energy resource. The Commission recognizes that ratepayers could benefit from price suppression that may occur as a result of any price adjustments that could be made to bids. However, even the main proponent of the concept conceded that there would be no direct benefit at this time to SOS customers who are taking service under existing bilateral contracts. Therefore, the percentage of customers who would benefit from such possible price suppression is limited until the end of 2009 and the detriment of higher rates would affect a majority of NGrid customers until then. In this docket, the Commission is reviewing NGrid's Procurement Plan for SOS and LRS, if needed.

The Commission's role in this docket is to approve a Procurement Plan and related retail rate which is just and reasonable and in the best interest of SOS ratepayers. Based on the evidence before it, the Commission at this time cannot justify a requirement that would allow a Rhode Island Renewable Resource to bid up to \$72 per REC and still

be evaluated as a \$0.00 or lower bid, where the average bid for 2008 RECs was \$51.00. The only effect of such a requirement would be to raise retail rates for the majority of NGrid's customers.

As in its 2007 Order, the Commission notes that commencing no later than March 1, 2009, each electric distribution company will be required to submit proposed supply procurement plans each year which shall be consistent with the requirements set forth in R.I.G.L. § 39-1-27.7, entitled System reliability and least-cost procurement. These standards need to be developed by this Commission by June 1, 2008, after it reviews the report of the of the OER and the Energy Efficiency and Resources Management Council, which is required by statute to be filed on or before March 1, 2008.

The Commission still believes that long term contracts will be necessary for the success of the renewable energy supply. However, in light of subsequent changes to the law following the issuance of the above-referenced report, and the future decisions that will need to be made by this Commission, the Commission declines from indicating a fixed percentage of the RES procurement which must come from long term contracts and declines to define what constitutes a long term contract. Furthermore, all parties must keep in mind that the charge of the Commission is to ultimately set rates which are just and reasonable. In order to do this, the Commission will have to assess the risk associated with asking the ratepayers to act as "financiers" of a project which, by the very testimony in this and other matters, is considered risky to investors. The Commission will also have to evaluate how this type of investment will affect the "least cost procurement" goal of the legislature. These are not decisions for today, but rather, are

decisions which will be made as the standards are developed and the procurement plans for standard offer and RES are evaluated, to some extent interdependently, in the future.

Therefore, the Commission directs the parties to continue participation in the working group formed in 2007 to develop a proposed approach for acquiring RECs for the period commencing after the end of the current SOS period, or commencing January 1, 2010. This timing will coincide with the new standard offer period as set forth in R.I.G.L. § 39-1-27.3(b) and will perhaps allow for the better evaluation of the benefits of bundling the REC requirements with the power procurement, particularly in light of the new standards which will be in place after June 1, 2008. The working group shall continue meeting at regular intervals as determined by the participants and shall file with the Commission two status reports, one in April and the other in October 2008.

Accordingly, it is hereby

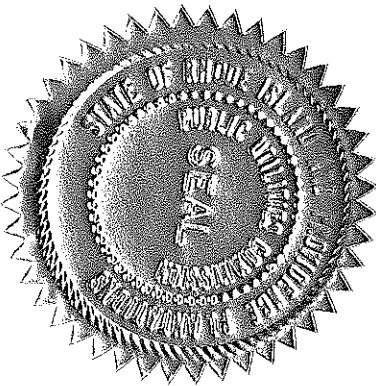
(19239) ORDERED:


1. National Grid's Renewable Energy Standard Procurement Plan filed on November 15, 2007, is hereby approved.
2. National Grid's proposed Renewable Energy Standard rate of 0.084 cents per kWh is approved to become effective for usage on and after January 1, 2008.
3. National Grid shall show the Renewable Energy Standard Charge as a separate line item on customer bills and explain by footnote on the bill that the RES charge is mandated by State law.

4. National Grid shall calculate the Renewable Energy Standard reconciliation separately in the Standard Offer Service and Last Resort Service reconciliations.
5. National Grid shall file no later than November 14, 2008 its proposed 2009 Renewable Energy Procurement Plan and associated Renewable Energy Standard Rate.
6. The Working Group shall continue meeting regularly and shall file a status report with the Commission in April 2008 and October 2008.
7. The Parties shall act in accordance with all other findings and instructions contained in this Report and Order.

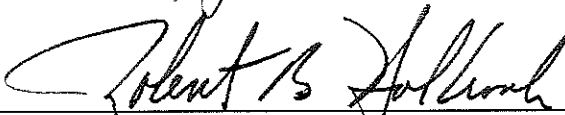
EFFECTIVE AT WARWICK, RHODE ISLAND, PURSUANT TO AN OPEN MEETING DECISIONS ON DECEMBER 20, 2007. WRITTEN ORDER ISSUED MARCH 7, 2008.

PUBLIC UTILITIES COMMISSION





Elia Germani, Chairman



Robert B. Holbrook, Commissioner



Mary E. Bray, Commissioner