



To: Rhode Island Public Utilities Commission

From: Richard Hahn, La Capra Associates, on behalf of the Division of Public Utilities and Carriers

Re: National Grid 2013 Standard Offer Supply and Renewable Energy Standard (“RES”) Procurement Plans, Docket 4315

Date: May 2, 2012

The Rhode Island Division of Public Utilities and Carriers (“Division”) requested that La Capra Associates, Inc. review National Grid’s 2013 Standard Offer Supply and Renewable Energy Standard Procurement Plans. This memorandum provides the results of my review of the Company’s filing. I first discuss the SOS plan followed by the RES plan. I conclude with some summary observations and recommendations.

Standard Offer Supply Procurement Plan

The 2013 SOS Plan maintains similar elements to the 2012 Plan: distinct service to three customer groups (industrial, commercial, and residential), use of 100% load following, full requirements service (“FRS”) procured quarterly for the industrial group, and use of a mix of FRS and spot-market purchases for the commercial and residential groups based on schedules approved in prior dockets (4149 and 4227). Given past Commission orders and precedent, I see no strong reason to deviate from the procurement schedules used in the current (2012) procurement plan.

In addition to procurement of FRS and spot market products, the Company also purchases energy and capacity from various renewable resources due to compliance with (a) the long-term contracting standard, (b) net metering, and (c) its qualifying facilities tariff. The Company has proposed to not include the purchases of energy and capacity from these three sources in its SOS procurement. Instead, the Company will continue to settle spot market transactions related to commercial and residential SOS separate from generation-related transactions, which will allow

the Company to credit capacity¹ and energy revenues from generation to all customers (rather than just SOS customers). I believe that this approach is consistent with the Rhode Island statute and is therefore appropriate.

Finally, I have reviewed the Company's Master Power Agreement ("MPA"), procurement documents, and the proposed procurement process. The proposed documents feature minor changes to update the text for the current procurement plans and should be approved.

Renewable Energy Procurement Plan

Unlike the SOS Plan, the Company is seeking to modify the procurement approach used to meet compliance with renewable portfolio standards ("existing" and "new"). The 2012 RES Plan included purchases of renewable energy certificates ("RECs") through FRS contracts, REC RFPs, and broker transactions. The Company proposes to continue to pursue these options but to also include the RECs from the projects that have contracted with the Company under the long-term contracting standard and are expected to start producing RECs during calendar year 2012. We support the Company's proposal to use the "new" RECs obtained through the long-term contracting standard to satisfy the SOS-related RES obligations. I also support the decision to not sell (and then repurchase) these RECs and agree that this will result in lower broker fees and other transaction costs. In terms of "existing" RECs, I agree that there will continue to be oversupply, thus I do not anticipate any upward pressures that would necessitate a more aggressive procurement strategy than the Company has proposed.

Similar to the MPA, the Company has made minor changes to the purchase agreement used to procure RECs, known as the certificate purchase agreement, and other REC procurement documents. The agreement and procurement documents should be approved.

Summary and Recommendations

Our review indicates that the SOS plan should be approved as filed.

¹ Capacity is only purchased from some distributed generation standard contract projects. These capacity purchases will not be used to offset the SOS capacity requirement, rather revenues will be credited to all customers.

In terms of the RES plan, though there may be no need to award REC pricing in all SOS competitive solicitations, the Company should still request pricing in the event that deliveries from the resources under long-term contracts do not meet expected amounts. I expect “new” REC markets to continue to be tight over the foreseeable future and the Company should avoid being short under such market conditions.

Finally, the Company should continue to notify the Division of its REC solicitations and unsolicited offers that it has received or is considering. Though the need to be more proactive in REC procurements has been mitigated somewhat by the anticipated delivery of RECs from resources under long-term contracts, the Company should continue to evaluate potential supply offers or the need to solicit relative to anticipated market conditions.