From: "Leo Wold" <LWold@riag.ri.gov>
To: <Lmassaro@puc.state.ri.us>
Date: 3/20/2013 1:25:26 PM
Subject: Docket Nos. 4391, 4315

Dear Ms. Massaro,

Enclosed for filing with the Commission on behalf of the Division is a Memorandum from Richard Hahn to the Division of Public Utilities and Carriers.

Very truly yours,

Leo J. Wold

Assistant Attorney General

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La Capra Associates

MEMORANDUM

March 20, 2013

TO: RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

FROM: RICHARD HAHN, LA CAPRA ASSOCIATES

SUBJECT: NATIONAL GRID 2013 ELECTRIC RETAIL RATE FILING, DOCKET 4391 AND 2013 RENEWABLE ENERGY STANDARD ("RES") CHARGE AND RECONCILIATION, DOCKET 4315

On behalf of the Rhode Island Division of Public Utilities and Carriers ("Division"), La Capra Associates, Inc. reviewed National Grid's ("NGrid" or "the Company") 2013 Electric Retail Rate Filing requesting Commission approval of various charges and adjustment factors as well as NGrid's 2013 RES Charge and Reconciliation filing. This memorandum summarizes the results of our review. We organize our discussion by the changes related to five major bill components or charges: standard offer, transition, transmission, renewable distribution, and the RES Charge. Based on this review and following telephone conversations with Company representatives, we find that with the minor corrections outlined in the memo, the proposed charges, adjustment factors, and changes to the tariff should be approved at this time. Because proposed revenues are reconciled to actual costs, any forecast variances should be captured.

Standard Offer Service Adjustment Factors

The Company is proposing to adjust two standard offer service ("SOS")-related rate charges: (1) an adjustment factor that is designed to collect (or refund) net under (or over) recovery of SOS expense and (2) the standard offer service administrative cost adjustment ("SOSACA") factor, which is the sum of an administrative cost factor designed to collect various administrative expenses related to the provision of SOS and an SOS administrative cost reconciliation adjustment factor, which accounts for any under- or over-recovery or SOS administrative costs.

For the first charge, the SOS reconciliation adjustment, the filing shows a total over recovery (with interest) of $4.8 million for 2012, which compares to an under recovery of $151,347 for 2011. This 2012 total is a sum of the separately-calculated totals for each of the three SOS procurement groups: residential, commercial, and industrial. These totals are then adjusted for additional interest during the recovery period and divided by forecasted customer group SOS sales for April 2012-March 2013 to calculate three different adjustment factors, one for each procurement group. Although the total amount to be reconciled is greater than in recent years, our review indicates these factors are consistent with the underlying data and tariff R.I.P.U.C. No. 2113 and are reasonable.

The administrative cost factor includes an allowance for SOS uncollectible expense, which accounts for approximately 70% of this factor, and a number of administrative cost elements (chief of which is cash working capital). The 2013 filing shows total administrative expense of approximately $5.78 million compared to approximately $5.80 million in the 2012 filing. As with the adjustment factor, separate cost factors are calculated for the three customer groups. Reconciliation of these costs is added to these totals for each customer group. For the 2013 filing, the Company reports an over-collection of 2012 administrative costs of approximately $600,000. The estimated administrative costs and over-collection refund is divided by the forecast SOS sales by customer group to arrive at three different factors.

In the calculation of the estimate of uncollectible expense included in the SOSACA, NGrid's tariff R.I.P.U.C. No. 2113 states:

> "The allowance for Standard Offer-related uncollectible amounts shall be estimated for purposes of setting the Standard Offer Service Administrative Cost Factors for the upcoming year as the approved rate applied to the sum of (1) an estimate of Standard Offer costs associated with each customer group pursuant to the Standard Offer and Renewable Energy Standard procurement plans in effect at the time, as approved by the Commission, and (2) any over- or under-recoveries of Standard Offer Service from the prior year associated with each customer group."

Schedule JAL-4 only shows an estimate of uncollectible expense for the upcoming year based on the current SOS charge and RES charge. The over-recovery of costs from last year is not included as the tariff indicates it should. This was discussed with NGrid, and they agreed to revise this schedule to account for this.

Schedule JAL-6, which shows a calculation of cash working capital, has two different representations of Gross Receipts Tax, one on page 1, line 2, column e and one on page 6 at note 2. NGrid was asked to explain the difference between these two numbers and reported that it found a potential problem with one of the estimates. NGrid clarified that the numbers were not intended to be equal because the number on page 1 is only intended to include the commodity-related tax whereas the number on page 6 is intended to include commodity- and delivery-related tax. However, in NGrid's original filing, the number on page 6 was missing payments as it was lower than the number on page 1. NGrid provided a corrected analysis, which lowers the cash working capital estimate and hence lowers the SOSACA factors. This update should be included in the final revised tariff approved by the Commission.

Finally, Ms. Lloyd's testimony at page 10, line 20 to page 11, line 3, indicates that SOS administrative costs are allocated based on each customer group's forecasted share of SOS kWhs. NGrid clarified that these expenses are in fact allocated on revenue or expense. However, the allocation used is still reasonable.

Transition Charge and Adjustments

NGrid is requesting changes to both the transition charge and transition adjustment charge, which is used to account for prior under- or over-collection of these costs. For 2013, the adjustment charge is a cost due to a negative ending balance at the end of 2012 (due to under-collection of charges in 2012). The transition charge itself is almost entirely a function of the contract termination charges billed to NGrid by NEP. Since those charges increased in 2013 relative to 2012, the proposed transition charge is higher in 2013. Part of the cost is driven by over $2 million in CTC reconciliation adjustments from nuclear decommissioning costs that were estimated to be zero starting in 2011. Overall, we find the transition charge to be consistent with the NEP charges reported in the NEP and Montaup CTC Reconciliation Reports. We also find that the adjustment charge to be consistent with the underlying data presented and the Company's tariff. Both charges should be approved.

Transmission Charges

The Company is proposing changes to the base transmission charge, which is based on a Company-conducted forecast/estimate of transmission expenses to Narragansett Electric under the ISO/RTO Tariff and, factors related to (a) adjustments or reconciliation of past over collections and (b) uncollectable revenues. These last two factors are analogous to the adjustment factors related to standard offer service discussed above but are specific to transmission expenses and use different methods of allocating costs to the different rate classes than found in the SOS adjustment factors.

The filing is requesting Transmission Charges to recover $147 million in estimated 2013 transmission expenses and includes the combined costs of both Regional Network Service (RNS) and Local Network Service (LNS). RNS represents the cost of bulk or pooled transmission facilities (PTF), while LNS represents non-pooled transmission provided by NEP, who then allocates a portion of these charges to Narragansett. This requested total represents an 8.49% increase over 2012, or $11.5 million, of which $4.5 million has been allocated to Schedules A16/A60 or residential customer classes. (Schedule JAL-10, page 1 of 2.)

Testimony filed by James Loschiavo indicates that the majority of the $11.5 million increase is derived from a projected $8.7 million increase in ISO-NE PTF Regional Network Service Charge (page 14 at 11, and Schedule JLL-1 page 2 of 2). NGRID estimates RNS costs to be $111.8 million from April 1, 2013 through March 31, 2014, compared to $103.1 million from the February 2012 filing which covered the period from April 1, 2012 through March 31, 2013. The 2013 forecast of $111.8 million is based upon two RNS rates. The current RNS rate of $6.27 per KW-month has been approved by FERC and will be in effect for April and May 2013. For the remainder of the forecast period from June 1, 2013 through March31, 2014, NGRID used a rate of $7.08 per KW-month. This rate is based upon an August 2012 forecast of the RNS rate prepared by the Participating Transmission Owners Administrative Committee ("PTO AC"). This group is responsible for preparing the RNS rate for the annual FERC filing, which is typically made in July of each year. Given the amount of transmission being constructed throughout New England, the forecasted increase, while quite large, is not unreasonable. We accept NGRID forecast of transmission costs.

NGrid proposes to change the allocation factors used to allocate base transmission costs and transmission service cost adjustment factors ("TSCAF") to customer classes. For base transmission costs, NGrid proposes to use an allocation based on peak load data from 2008 and 2011. NGrid clarified through a phone conversation that these years were selected because they had total degree days that were closest to ten-year averages and that this allocator had been used in a recent rate case. For the TSCAF, in past filings, NGrid calculated this as a uniform charge for all rate classes. Now, this adjustment factor will be allocated to rate classes based on actual peak data from 2012. We agree with NGrid that these changes are in accord with the principles of cost causation and should be approved.

The TSCAF also includes an adjustment of $1,279,724 representing Narragansett Electric's allocated portion of a $20 million fund for ISO-NE market participants ("Disgorgement Fund"). The Disgorgement Fund was created per a Stipulation and Consent agreement between the Office of Enforcement and the Constellation Energy Commodities Group ("CCG") approved by

FERC.[1] As part of the agreement, CCG agreed to disgorge unjust profits from violating FERC's anti-manipulation rule. The amount that NGrid proposes to refund to customers is in accord with the New England Parties' request for disbursement in Docket No. IN12-7-000 and should be approved.

Renewable Energy Distribution Charge

The Renewable Energy Distribution Charge is the sum of two components: (1) the net metering charge and (2) the Long-Term Contracting for Renewable Energy Recovery Factor and Reconciliation ("LTCRER") charge. The net metering charge recovers the costs of renewable net metering credits and payments to qualifying facilities in excess of ISO-NE sales revenues. NGrid proposes to recover these costs through a uniform 0.005 cent/kWh charge. The proposed rate is consistent with the underlying data NGrid presents in its filing and is in accord with applicable tariffs, namely R.I.P.U.C. No. 2098 and R.I.P.U.C. No. 2099. The current LTCRER is the sum of a 0.012 cent/kWh charge approved in Docket No. 4371 and a 0.007 cent/kWh charge approved in Docket No. 4308 to recover certain administrative expenses related to the negotiation of two purchased power agreements. The 0.007 cent/kWh charge expires at the end of March 2013. Therefore, NGrid proposes to reduce the LTCRER by this amount starting April 2013. Any reconciliation of the administrative costs recovered by the 0.007 cent/kWh charge would be filed for next year. The reduction in LTCRER is reasonable. Any costs to be recovered from any reconciliation of this charge will be addressed when NGrid files to recover those costs.

2012 RES Charge and Reconciliation (Docket 4315)

The filing in Docket 4315 requests approval of an RES Charge for the April 2013-March 2014 period. This charge is one component of the standard offer charge that is found on customer's bills (in addition to the standard offer service charge, and the two standard offer service adjustment factors discussed above). The filing requests an increase in the RES Charge from 0.00253/kWh to 0.00512/kWh for the period beginning April 1, 2013.

This increase in the charge is mostly a result of the increases in REC market prices due to REC shortfalls. The market price for renewable energy certificates (RECs) used to calculate the RES Charge is $62.75, which is close to the Alternative Compliance Payment level of $65.27 (Attachment 1 page 1). According to the Company, this forecast of REC prices is based upon recent broker quotes. NGRID used this price for its estimate of REC costs for the entire forecast year, regardless of the source of the RECs. That is to say, whether the Company uses RECs acquired via the long-term contracting process or whether the Company purchases RECs independently of that process, NGRID estimates that the price per REC will be $62.75. This higher price is due to a tightened supply situation for RECs eligible for Rhode Island RES compliance. This approach is reasonable, and we recommend its approval. As the year progresses, the Company will likely receive RECs from the long-term contracting process, and will need to decide when and how to use those RECs and determine the actual REC costs during the year.

[1] FERC, Order Approving Stipulation and Consent Agreement, March 9, 2012, Docket No. IN12-7-000.