Division of Public Utilities and Carriers

Memorandum

To: Luly Massaro
Commission Clerk

Date: June 16, 2014

From: Stephen Scialabba
Division of Public Utilities

Subject: National Grid Long-Term Contracting for Renewable Energy Recovery Factor, Docket 4412.

On May 15, 2014, the Narragansett Electric Company, d/b/a National Grid filed with the Commission its Long-Term Contracting for Renewable Energy Recovery Factor for the period July, 2014, through December 31, 2014. The Company's LTC Recovery Provision, Tariff No. 2127 was approved by the Commission in Docket No. 4338. The tariff nets the cost of payments to renewable projects against the proceeds from the sale of energy, capacity and REC's, and collects/credits the difference through a uniform reconciling factor, per RIGL 39-26.1-5(f).

The Company's proposed factor lists estimated costs and market revenues associated with the forecast output of 16 contracts/units. By far the largest unit is RI LFG Genco with a forecasted output of 119,508 MWh. (The total forecast output of all 16 units is about 145,000 MWh). The cost of the Genco contract for the six month period is slightly over $15 million.

For all the units under contract, the forecast of cost and market value is:

Total Cost	$18,783,666
Energy Market Value	($ 9,137,912)
Capacity Value	($ 542,880)
REC Market Value	($ 8,801,928)
Cost over Market Value	$ 300,946

When divided by the forecast of KWh sales for the six month period, the $300,946 above-market cost results in a LTC recovery factor of $0.00007. When added to the current LTC Recovery Reconciliation Factor[1] of $0.00032, this results in a Total Long Term Contracting Recovery factor of $0.00039 ($0.00032+$0.00007).

[1] The LTC Recovery *Reconciliation F*actor tracks the historic revenues and costs associated with the renewable contracts, and sets a rate based on how well past forecasts matched up against actual experience. This process occurs in the Annual Rate Reconciliation Filing, usually filed every February 15, for effect April 1. The most recent filing was docketed as docket 4485. In contrast, the LTC Recovery Factor, like the instant docket, sets a rate/kwh based on a forecast of costs and revenues/market values for the upcoming six month period.

The Division had asked LaCapra Associates to aid in the review of the filing to determine its reasonableness. LaCapra indicated to the Division that:

- The forecasts of project output and contract prices for each PPA are consistent with previous filings.

- The Company's forecasts of market energy prices is consistent with forward / futures prices for the Rhode Island load zone.

- The Company's forecast of REC prices is consistent with LaCapra's outlook.

- PPA-1 (Genco) is the only agreement for which capacity revenues are forecast. LaCapra reviewed the underlying assumptions used by the Company and found this forecast to be reasonable.

LaCapra recommended to the Division that the proposed LTC Recovery factor be approved. Based on our review, the Division recommends that the Commission approve the proposed LTC Recovery factor for the period July through December, 2014 of $0.00007 and a Total Long Term Cost Recovery Factor of $0.00039.