La Capra Associates

MEMORANDUM

March 18, 2014

TO: RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

FROM: MARY NEAL AND RICHARD HAHN, LA CAPRA ASSOCIATES

SUBJECT: NATIONAL GRID 2014 ELECTRIC RETAIL RATE FILING, DOCKET 4485 AND 2014 RENEWABLE ENERGY STANDARD ("RES") CHARGE AND RECONCILIATION, DOCKET 4393

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") 2014 Electric Retail Rate Filing requesting Commission approval of various charges and adjustment factors as well as NGrid's 2014 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 to collect (or refund) net under (or over) recovery of SOS expense and (2) the standard offer service administrative cost adjustment 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 of SOS administrative costs.

For the first charge, the SOS reconciliation adjustment, the filing shows a total under-recovery (with interest) of $6.2 million for 2013, which compares to an over recovery of $4.8 million for 2012. This 2013 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 2014-March 2015 to calculate three different adjustment factors, one for each procurement group. The residential and commercial groups had under-recoveries of $5.2 million and $4.5 million, respectively, while the industrial group had an over recovery of $3.6 million.

One of the major drivers of the under-recovery this year compared to the over-recovery last year is the increase in spot market purchase expense, which is shown in the table below.

Table 1. Summary of change in spot market purchase expense.

	Year	Spot Market Purchases ($M)
Residential	2012	$17.9
Residential	2013	$26.2
Difference	*2013-2012*	*$8.3*
Commercial	2012	$6.8
Commercial	2013	$10.3
Difference	*2013-2012*	*$3.5*

The increase is consistent with the increase in Rhode Island locational marginal prices in 2013 compared to 2012, as shown in the figure below. During the mild winter of January and February 2012, natural gas prices were very low, resulting in low wholesale electricity prices. The colder temperatures in the winter of January and February 2013 and December 2013 along with limited natural gas pipeline capacity resulted in natural gas scarcity in New England and higher wholesale electricity prices.

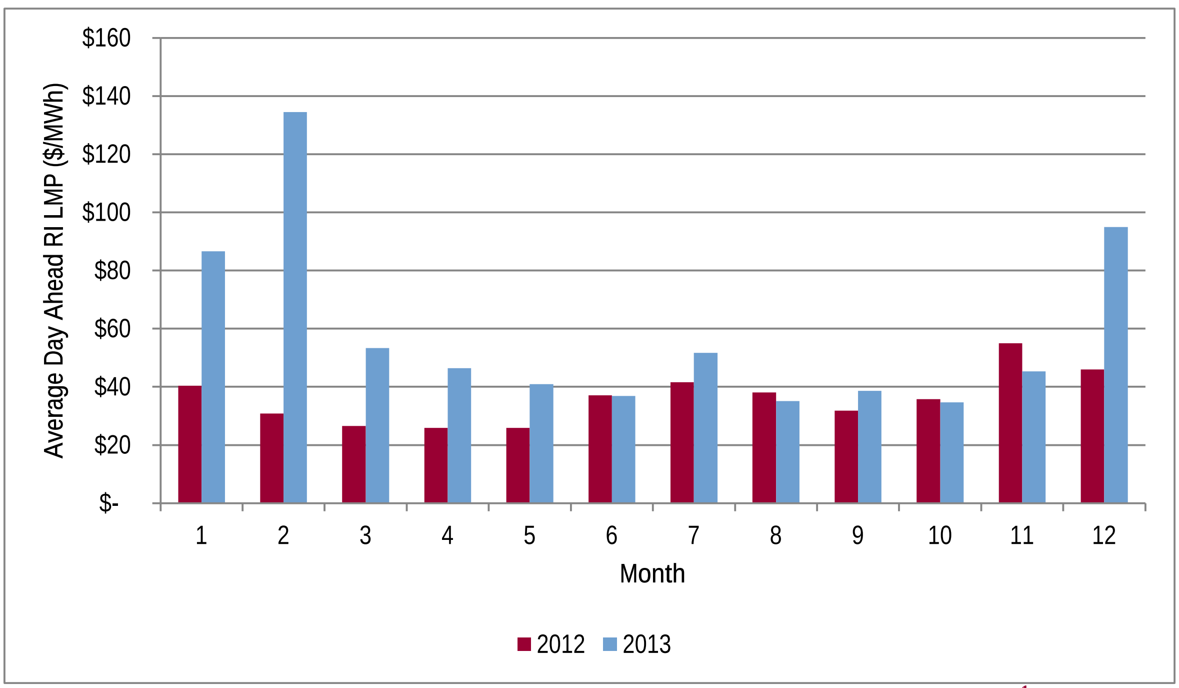

Figure 1. Comparison of monthly Day Ahead locational marginal prices for the Rhode Island Zone.[1]

Our review indicates the SOS reconciliation adjustment 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 75% of this factor, and a number of administrative cost elements (chief of which is cash working capital). The 2014 filing shows total administrative expense of approximately $7.9 million compared to approximately $5.61 million in the 2013 filing. The

[1] Data from ISO NE at http://www.iso-ne.com/markets/hstdata/znl_info/monthly/index.html.

increase in administrative costs is due primarily to higher uncollectible expenses from higher SOS rates.

As with the SOS 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 2014 filing, the Company reports an under-collection of 2013 administrative costs of approximately $578,000.

Both the estimated administrative costs and under-collection of 2013 administrative costs are divided by the forecast SOS sales by customer group to arrive at three different factors.

In our review of schedule JAL-5, we noticed that the cash working capital and other administrative expense for 2013 for the industrial group was based on 13 months of expenses instead of 12. This is shown on JAL-5, p. 6 in columns (h) an (i). We discussed this with NGrid and it agreed that this was an error. The additional amount of dollars is small (only about $24,000), but because forecasted costs are based on prior-year actual costs, this impacts both the SOS adjustment factor and the SOS administrative cost factor, multiplying the impact of the error. NGrid expressed willingness to make the rate adjustment for the industrial group since it is a downward adjustment.

In addition, Schedule JAL-4 shows that SOS uncollectible expense is based on a RES charge of 0.512 cents/kWh, the current RES rate. In Docket 4393, NGrid is proposing a rate of 0.48 cents/kWh, a 6.25% decrease. NGrid clarified that it neglected to use the proposed rate only because of a matter of timing, as the retail rate filing was completed before the RES rate filing. Using NGrid's workpapers, we estimate that lowering the RES rate would lower total uncollectible expense by $21,575, which is enough to lower the SOS administrative cost factors for the residential and commercial classes by 0.001 cents/kWh, a very small impact. NGrid expressed reluctance to update the schedules because the impact is small and would be reconciled in the adjustment factor in next year's filing. We agree the impact is small, and an adjustment may not be necessary at this time. Alternatively, the Commission may require NGrid to make the change to use the proposed RES rate for estimating uncollectible expense since NGrid did revise the calculation of uncollectible expense last year in Docket 4391 after the RES charge increased.

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 2014, the adjustment charge is a cost due to under-collection of charges in 2013. The transition charge itself is almost entirely a function of the contract termination charges ("CTC") billed to NGrid by NEP. After increasing in 2013, the proposed transition charge is lower in 2014. Part of the transition cost increase last year was driven by CTC reconciliation adjustments from nuclear decommissioning costs that were estimated to be zero starting in 2011. This year, nuclear decommissioning costs were offset by a credit in July of approximately $7.7 million from litigation proceeds. Connecticut Yankee, Maine Yankee, and Yankee Atomic filed suit against the DOE for the DOE's failure to remove the Yankees' respective spent nuclear fuel stores as required by law. 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 forecast 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.

NGrid is requesting Transmission Charges to recover $157 million in estimated 2014 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 pool transmission facilities (“PTF”), while LNS represents non-pool transmission provided by NEP, who then allocates a portion of these charges to Narragansett. This requested total represents an 6.96% increase over 2013, or $10.2 million, of which $6.8 million has been allocated to Schedules A16/A60 or residential customer classes. (Schedule JAL-10, page 1 of 2.)

Testimony filed by Tiffany Forsyth indicates that the $10.2 million increase is driven mainly from a projected $15 million increase in ISO-NE PTF RNS Charge (page 14 at 13-14, and Schedule TMF-1 page 2 of 2 at line 4). NGrid estimates RNS costs to be $126.9 million from April 1, 2014 through March 31, 2015 compared to $111.8 million from the February 2013 filing, which covered the period from April 1, 2013 through March 31, 2014. This is offset by a $5.1 million decrease in Non-PTF and other NEP charges.

The 2014 forecast of $126.9 million for PTF charges is based upon two RNS rates as shown on Schedule TMF-3. The current RNS rate of $85.32 per kW-year has been approved by FERC and will be in effect for April and May 2014. For the remainder of the forecast period from June 1, 2014 through March 31, 2015, NGrid used a rate of $92.35 per kW-year. This rate is based upon a July 2013 forecast of the RNS rate prepared by the Participating Transmission Owners Administrative Committee (“PTO AC”) rates working group. 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's forecast of transmission costs.

Despite the sizable projected increase in transmission costs, Schedule JAL-10, p. 1 shows the B62/G62/X01 rate classes are projected to receive a 6.42% decrease in allocated transmission expenses compared to the allocated estimated transmission expenses in 2013. This is primarily driven by a decrease in forecasted load in MWh for these classes, which is shown by comparing JAL-10, p. 2 from this year’s filing and last year’s filing. In last year’s filing, forecasted MWh for the B62/G62/X01 rate classes were 657,904 compared to 590,470 this year, an approximately 10% decrease. However, when compared to the load data provided in NGrid’s workpapers, the 2013 forecast of 657,904 MWh may simply have been too high, as shown in the figure below. When asked about the change, NGrid indicated that last year’s forecast did not account for the fact that one customer left the class in 2012, which would be consistent with the finding that last year’s forecast was too high. Based upon information received to date, we accept the load forecast and allocation of transmission expenses.

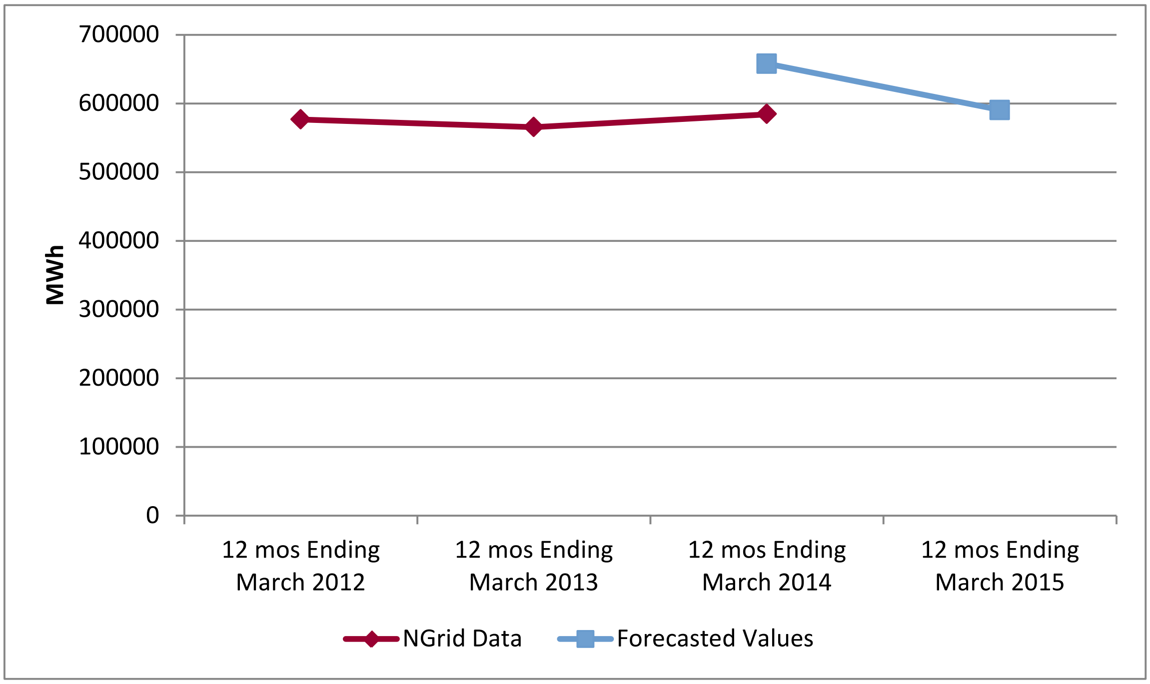

Figure 2. Comparison of NGrid load data to forecasted load as presented in the retail rate filings for the past two years for the B62/G62/X01 rate classes.

Renewable Energy Distribution Charge

The Renewable Energy Distribution Charge is the sum of three components: (1) the net metering charge and (2) the Long-Term Contracting for Renewable Energy Recovery Factor ("LTCRER") and (3) the LTCRER Reconciliation factor. The net metering charge recovers the costs of renewable net metering credits and payments to qualifying facilities in excess of ISO-NE sales revenues. This year, the balance is too small to result in a billable charge, so the net metering rate will be 0.000 cents/kWh, and the balance will appear as an adjustment to the 2014 reconciliation next year. The current LTCRER is a 0.021 cent/kWh credit. NGrid proposes to add to this a 0.032 cent/kWh charge as an LTCRER reconciliation factor in accord with tariff R.I.P.U.C. No. 2125. The LTCRER reconciliation factor is used to collect (or refund) any under- (or over-) recovery of LTCRER expenses. For 2013, NGrid reports an under-recovery of approximately $2.5 million. This is net of REC proceeds from RECs purchased through long-term contracts for renewable energy. In order to estimate the REC proceeds, NGrid must calculate a transfer price. NGrid provided the transfer price in its workpapers, and it appears to be reasonable. NGrid's calculation of the LTCRER reconciliation factor appears to be supported by the data provided and is in accordance with R.I.P.U.C. No. 2125. The proposed rate should be approved.

2012 RES Charge and Reconciliation (Docket 4393)

The filing in Docket 4393 requests approval of an RES Charge for the April 2014-March 2015 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 a decrease in the RES Charge from $0.00512/kWh to $0.00480/kWh for the period beginning April 1, 2014. The proposed factor is comprised of a $0.00430 per kWh charge for new and existing renewable energy resource charges and a $0.00050 per kWh charge to recover an estimated under-collection of

$2,748,621 for obligation year 2013.

The $0.00430 per kWh charge for new and existing renewable energy resource charges is based upon an estimate for 2014 obligations for new and existing REC prices of $62.00 and $0.70 respectively. We find these estimates of REC prices to be reasonable. A loss factor is applied to arrive at the final number.

The $0.00050 per kWh charge to recover an estimated under-collection of $2,748,621 for obligation year 2013 is based upon a $8,041,492 over-collection through December 2013, estimated additional expenses for January through June 2014 of $10,790,113, and forecasted kWh sales of 5,393,812,677. The kWh forecast is virtually the same as included in the filing in Docket 4485 and is reasonable. The over-collection through December 2013 of $8,041,492 is supported by the Company's workpapers. The Company provided supporting documentation for the estimated remaining expense for obligation year 2013 of $10,790,113 on March 17, 2014. We estimate that NGrid's SO RES obligation of the 2013 obligation year to be approximately $19 million. Through December 2013, actual spending was $8.2 million according to the Company, leaving $10.8 million to be spent. Therefore, we find the Company's estimate of $10,790,113 to be reasonable. As a result of our review, we recommend that the proposed 2014 RES charge of $0.00480 be approved.