

June 6, 2014

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**RE: Docket 4490 - 2015 Standard Offer Service Procurement Plan
2015 Renewable Energy Standard Procurement Plan
National Grid Rebuttal Testimony**

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed the Rebuttal Testimony of Margaret M. Janzen in response to certain recommendations Mr. Richard Hahn filed on behalf of the Rhode Island Division of Public Utilities and Carriers regarding the Company's proposed Standard Offer Service Procurement Plan and Renewable Energy Standard Procurement Plan for 2015.

Thank you for your attention to this transmittal. If you have any questions, please call me at (781) 907-2121.

Very truly yours,



Raquel J. Webster

Enclosure

cc: Docket 4490 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below. Paper copies of this filing were hand delivered to the RI Public Utilities Commission and the RI Division of Public Utilities and Carriers.



Joanne M. Scanlon

June 6, 2014
Date

**Docket No. 4490 - National Grid – 2015 SOS and RES Procurement Plans
Service List updated 4/8/14**

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REBUTTAL TESTIMONY

OF

MARGARET M. JANZEN

JUNE 6, 2014

TABLE OF CONTENTS

I.	Introduction	1
II.	Purpose of Rebuttal Testimony	1
III.	Response to the Division	1
IV.	Conclusion	7

1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Margaret M. Janzen, and my business address is 100 East Old Country Road,
4 Hicksville, NY 11801.

5
6 **Q. Have you previously filed testimony in this proceeding?**

7 A. Yes.

8
9 **II. Purpose of Rebuttal Testimony**

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. The purpose of this rebuttal testimony is for The Narragansett Electric Company d/b/a
12 National Grid (the “Company”) to respond to certain recommendations Mr. Richard
13 Hahn filed on behalf of the Rhode Island Division of Public Utilities and Carriers (the
14 “Division”) regarding the Company’s proposed Standard Offer Service (“SOS”)
15 Procurement Plan and Renewable Energy Standard (“RES”) Procurement Plan for 2015.

16
17 **III. Response to the Division**

18 **Q. What does Mr. Hahn recommend with regards to the Company’s proposed
19 contingency plan; specifically, the determination of bid competitiveness?**

20 A. Mr. Hahn recommends that the Company should not require at least two bids for a bid
21 block to determine if the solicitation is competitive. Mr. Hahn states that the Company
22 should compare a single bid to the Company’s estimated bid price to determine its

1 competitiveness. Mr. Hahn also recommends that the Company inform the Division if it
2 intends to not award a bid block due to inadequate participation and to provide the
3 Division with a comparison of the single bid to the Company’s estimated bid price.

4
5 **Q. What is the rationale for Mr. Hahn’s recommendation to evaluate a single bid**
6 **price?**

7 A. Mr. Hahn states that the Company should maintain flexibility and discretion “to reject a
8 single (or all) bid(s) that it deemed noncompetitive (for whatever reason).”

9
10 **Q. If the Company does compare a single bid to its estimated bid price, does Mr. Hahn**
11 **propose thresholds or limits to determine when the bid is competitive and when it is**
12 **not competitive?**

13 A. No, he does not.

14
15 **Q. What is your response to Mr. Hahn’s recommendation to compare a single bid price**
16 **to the Company’s estimated bid price to determine competitiveness?**

17 A. I respectfully disagree with Mr. Hahn’s recommendation for the reasons described below.
18 First, the Company’s requirement for bidder participation complies with the Rhode Island
19 Public Utilities Commission’s (“PUC”) orders regarding the procurement of SOS. The
20 PUC has previously approved the Company’s procurement plans to solicit Full
21 Requirements Service (“FRS”) transactions through Request for Proposals (“RFP”), and
22 these solicitations are conducted competitively. The Company and Mr. Hahn, however,

1 differ on the definition of the word “competitive”. As described in the Company’s
2 responses to the Division’s First Set of Data Requests in this docket, the Company
3 defines a bid block as competitive when there are two actual suppliers vying for the
4 opportunity to serve SOS customers. Mr. Hahn suggests that “market indicators” can be
5 used to determine competitiveness. However, an estimated market price is not a binding
6 bid to provide SOS. Only when there are two suppliers submitting bids for the same bid
7 block can the competitive bid process yield the lowest price for SOS customers.

8
9 Second, the Company’s expected bid prices are not appropriate for evaluating the
10 competitiveness of a single or multiple bids. The Company’s expected bid price
11 calculation is acceptable for its original purpose: to be used internally to provide an
12 approximation of prices for certain transaction authorizations and reporting. It also is
13 provided as informational to the PUC in the RFP Summary. Other than New York
14 Mercantile Exchange, Inc. (“NYMEX”) electric futures and the Forward Capacity Market
15 prices, the calculation uses historical data to estimate all expected loads and charges.
16 Because the purpose is to establish an estimated bid price, this approach is practical and
17 acceptable. However, as a comparison tool to establish bid accuracy, this is less
18 acceptable because the calculation does not incorporate all future market conditions.

19
20 Third, even if it were determined that an estimated market price was sufficient to validate
21 a single bid, there is no procedure for determining which bids are excessive and which
22 bids are acceptable. Any threshold to determine whether a bid is excessive would be an

1 arbitrary amount. For example, if a single submitted bid is 10% higher than the
2 Company's estimated bid price, some may believe that the price is excessive, while
3 others may believe it is acceptable. To establish consistency and fairness, a threshold
4 should be determined in advance if the Company is to evaluate a single bid with its
5 estimated market price.

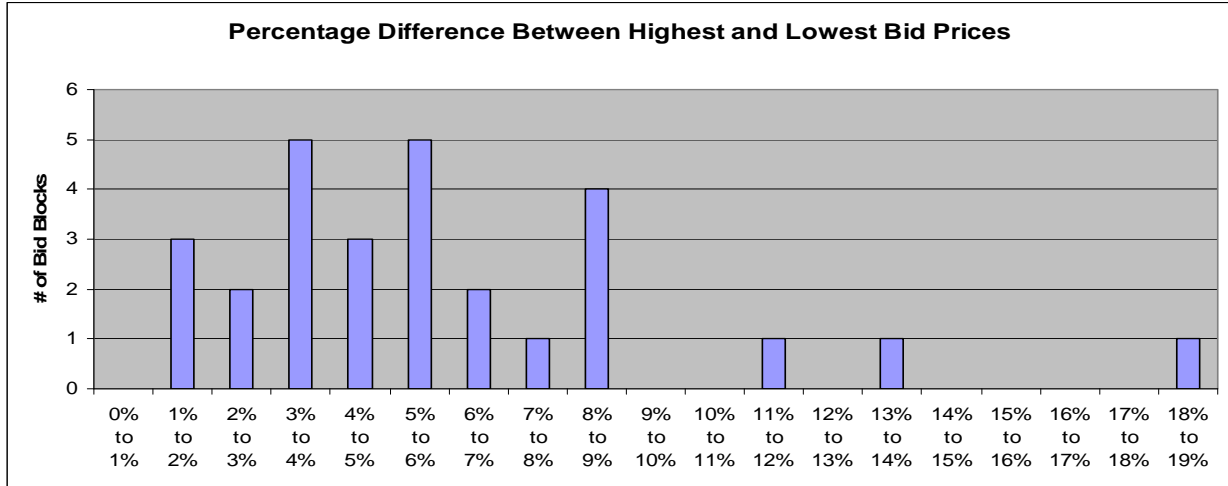
6
7 **Q. Does the Company have a suggestion for a threshold to determine whether or not a**
8 **single bid is competitive?**

9 A. No, it does not. It is difficult to determine a specific threshold that would be reasonable
10 and acceptable to all stakeholders.

11
12 **Q. Do FRS suppliers' bid prices for an individual bid block differ significantly?**

13 A. One would expect supplier bids to be within a few percent of each other for a particular
14 bid block, but this is often not the case. The difference in submitted prices for a bid block
15 is observed by each bid block's lowest and highest bid prices. From January 2013
16 through May 14, 2014, the Company awarded 28 bid blocks in its SOS competitive
17 solicitations. For each bid block, a percentage difference¹ can be calculated between the
18 highest bid price and lowest bid price. Below is a graphical summary of the percentage
19 differences in prices for each bid block.

¹The percentage difference is the maximum price for a bid block divided by the minimum price for a bid block minus one.



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For example, for three bid blocks, the highest and lowest bid prices were within 1% and 2% of each other. As the above graph illustrates, over half the bid blocks had price dispersions over 5%, and seven bid blocks (25% of the bid blocks) had differences over 8%.

Q. Please describe FRS suppliers’ efforts to submit bid prices.

A. FRS suppliers usually have entire teams committed to participating in these solicitations and managing the FRS transactions. The FRS suppliers perform varied tasks to forecast the loads, prices, costs, and risks that they will encounter in providing FRS. They likely incorporate the latest market information and their cost of capital, as well as using analytical techniques and systems to formulate their bid prices. These suppliers also have significant experience providing FRS within New England and in other regions. However, despite all of this expertise and resources, for the majority of the time, the maximum and minimum submitted bid prices are different by at least 5%.

1 **Q. How does this information relate to thresholds and price comparisons?**

2 A. It would be inefficient for the Company to establish the resources necessary to fully
3 replicate FRS suppliers' bid prices. It seems even less practical when one considers that
4 the bid prices of wholesale suppliers vary by at least 5% the majority of the time, while
5 using similar information and resources. This highlights the difficulty of establishing a
6 threshold to compare a single bid to estimated bid prices. Although the Company
7 believes its estimated bid price should not be used to determine competitiveness, the
8 estimated bid price is still acceptable for its current purpose, which is to establish
9 approximate bid prices.

10

11 **Q. Mr. Hahn recommends that the Company inform the Division when it decides not to**
12 **award a bid block due to inadequate participation. He also recommends that the**
13 **Company provide the Division with price comparisons of the bid price to the**
14 **Company's estimate of expected bid prices? What is your response to these**
15 **recommendations?**

16 A. The Company agrees with the Division's recommendations, and makes note that it
17 already incorporates these actions in its proposed procurement plan. Within 24 hours of
18 both the indicative and final bid dates, the Company files with the PUC and the Division
19 a summary of bids received and each bid block's expected prices. The Company does
20 this today and would continue the communication under the proposed contingency plan.
21 Also, the first step of the proposed contingency plan is for the Company to inform the

1 Division that the Company received bids for a bid block from fewer than two bidders and
2 that it will employ alternative measures.

3

4 **IV. Conclusion**

5 **Q. Does this conclude your rebuttal testimony?**

6 **A. Yes.**