La Capra Associates

MEMORANDUM

March 16, 2015

TO: RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

FROM: AL PEREIRA, MARY NEAL AND LAURA KIER, LA CAPRA ASSOCIATES

SUBJECT: NATIONAL GRID 2015 ELECTRIC RETAIL RATE FILING, DOCKET 4554 RENEWABLE ENERGY STANDARD ("RES") CHARGE AND RECONCILIATION, DOCKET 4490

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") 2015 Electric Retail Rate Filing requesting Commission approval of various charges and adjustment factors as well as NGrid's 2015 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 the proposed charges, adjustment factors, and changes to the tariff should be approved at this time.

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 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 net under-recovery (with interest) of $5.7 million for 2014, compared to the under-recovery of $6.2 million in 2013. The 2014 total is a sum of the separately calculated totals for each of the three SOS customer groups: residential, commercial, and industrial. These totals are then adjusted for additional interest during the recovery period and divided by forecasted customer group SOS kWh sales for April 2015-March 2016 to calculate three different adjustment factors, one for each customer group. The residential, commercial and industrial groups had under-recoveries of $1.7 million, $3.4 million, and $0.6 million respectively.

One of the major drivers of the under-recovery this year (in similar vein to last year) is the increase in spot market purchase expense in 2014, which is shown in the table below.

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

	Year	Spot Market Purchases ($M)
Residential	2012	$17.9
Residential	2013	$26.2
Residential	2014	$25.5
Commercial	2012	$6.8
Commercial	2013	$10.3
Commercial	2014	$11.0

The increase is consistent with the increase in Rhode Island locational marginal prices in 2013 and 2014 compared to 2012, as shown in the figure below. The colder temperatures in the winter of January-February 2013 and December 2013-March 2014 along with limited natural gas pipeline capacity resulted in natural gas scarcity in New England and higher wholesale electricity spot market prices than forecasted. The extent of this winter price increase was not reflected in forward prices when SOS prices were determined, hence causing an under-recovery.

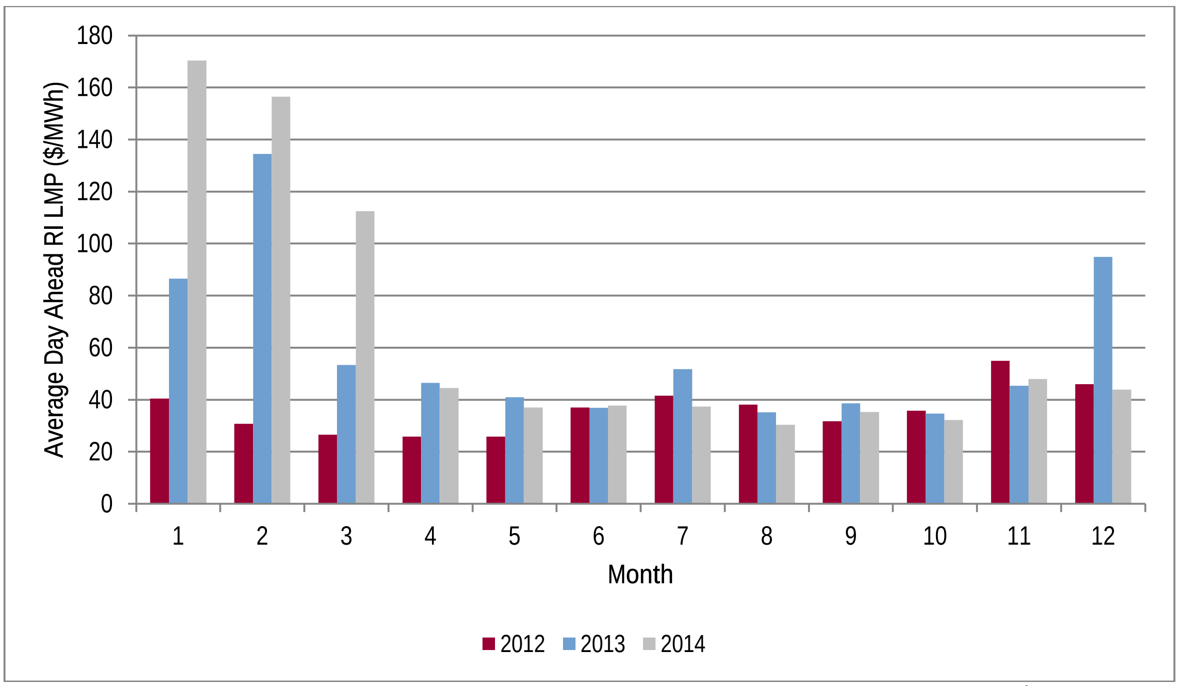

Figure 1. Comparison of monthly Day Ahead locational marginal prices for the Rhode Island Zone.[1]

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 and a number of administrative cost elements (chief of which is cash working capital). The 2015 filing shows a total administrative expense of approximately $8.2 million compared to approximately $7.9 million in the 2014 filing. The increase in administrative costs is due primarily to slightly higher uncollectible expenses from higher SOS rates; the other administrative expenses decreased by

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

approximately 50% from the 2014 filing. The increase in the SOS uncollectible expense and decrease in the other administrative factors caused the SOS uncollectible expense to be an even larger portion of the total administrative cost factor; in 2013 the SOS uncollectible expense accounted for 75% of the total and in 2014, it grew to 89% of the total.

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 2015 filing, the Company reports an over-recovery of 2014 administrative costs of approximately $300,000 in total.

Both the estimated administrative costs and over-collection of 2014 administrative costs are divided by the forecast SOS kWh sales by customer group to arrive at three different factors.

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 2015, the adjustment charge is a credit due to over-recovery of $1.1 million in calendar year 2014. The transition adjustment charge is calculated by dividing the over recovery balance from 2014 by the forecasted GWh deliveries during the recovery period, April 2015 through March 2016. This adjustment incorporates the final balance of under-recovery in 2012.

The transition charge itself is almost entirely a function of the contract termination charges ("CTC") billed to NGrid by NEP. The CTC charge is calculated by aggregating the individual CTC charges and dividing them by the total GWh deliveries, resulting in a weighted average base Transition Charge. Even though transition costs are traditionally a charge, the proposed transition "charge" is a credit in 2015. The transition costs decreased significantly in 2015 primarily because NEP and Montaup received net credits for actual nuclear decommission and other post shut-down costs, which were estimated to be zero starting in 2011. 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. In total, $61.4 million in proceeds were credited to NEP and $13.1 million were credited to Montaup during the period October 2013 through September 2014. Narragansett, Blackstone and Newport receive portions of those credits based on their shares, which flowed through to their CTC charges to be reconciled in 2014 and projected for 2015.

Overall, we find the transition charge to be consistent with the 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 as well as factors related to (a) adjustments or reconciliation of past over collections and (b) uncollectable expenses. 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 $156.5 million in estimated 2015 transmission expenses and includes the combined costs of both Regional Network Service ("RNS") and Local Network Service ("LNS"). The charges are allocated to each class based on a coincident peak demand allocation factor, which is developed using a load weighted average of coincident peak data for years ending 2008 to 2011.

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 a 0.5% decrease in prospective transmission expenses compared to the forecast provided for calendar year 2014 in R.I.P.U.C Docket Nos. 4485 and 4393, or $740,000. (Schedule JAL-10, page 1 of 2.)

Testimony filed by Theresa Guleksen in 2015 explains that the net decrease of $740,000 is mainly due to a decrease in the forecasted ISO-NE PTF RNS charges of $10.25 million, offset by an increase in NEP Schedule 21 charges of $9.50 million. The decrease in ISO PTF charges is attributed to an overall decrease in monthly load in addition to ISO-NE Resettlement Charges. The Resettlement Charges resulted from a FERC order on October 2014 that set the base Return on Equity at 10.57%, not to exceed 11.74%. The order mandates that New England Transmission operators provide refunds with interest for the period October 1, 2011 through December 31, 2012 based on the revised ROE. A compliance filing submitted by the ISO is currently under review at FERC and may result in additional revisions. The increase in NEP Schedule 21 charges can be explained by higher Non-PTF demand charges in calendar year 2014 compared to the forecast. The NEP charges were slightly offset by Refund Charges. These charges are the Company's best estimate of reductions in LNS rates due to the aforementioned FERC order changing the allowed ROE.

The 2015 forecast of $120.4 million for PTF charges is based upon the two RNS rates as shown in Schedule TRG-3. The current RNS rate of $88.23 per kW-year has been approved by FERC and will be in effect for April and May 2015. For the remainder of the forecast period from June 1, 2015 through May 31, 2016, NGrid used a rate of $94.88 per kW-year. This rate is based upon a November 2014 forecast of the RNS rate prepared by the Participating Transmission Owners Administrative Committee ("PTO AC") rates working group in Docket #RT04-2-000. This group is responsible for preparing the RNS rate for the annual FERC filing. Given the amount of transmission being constructed throughout New England, the forecasted increase, while quite large, is not unreasonable.

Based upon information received to date, we accept the forecast and allocation of transmission expenses.

Renewable Energy Distribution Charge

The Renewable Energy Distribution Charge is the sum of three components: (1) the net metering charge, (2) the Long-Term Contracting for Renewable Energy Recovery ("LTCRER") Factor, 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 payments the Company receives from ISO-NE for the sale of this energy in the market. The company is proposing a Net Metering charge change to 0.002 cents/kWh from 0.000 cents/kWh. Last year, the balance was too small to result in a billable change, therefore the ending balance was added to this year's net metering charge calculation.

The current LTCRER is a 0.056 cent/kWh credit. NGrid proposes to add to this a 0.113 cent/kWh charge as an LTCRER reconciliation factor in accord with tariff R.I.P.U.C. No. 2127, which results in a charge of 0.057 cent/kWh. The LTCRER reconciliation factor is used to collect (or refund) any under- (or over-) recovery of LTCRER expenses. For 2014, NGrid reports an under-recovery of approximately $8.7 million compared to over-recovery $2.5 million in 2013. The under-recovery amount 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 and forecast production. NGrid provided the transfer price in its workpapers, and it appears to be reasonable. A portion of the under-recovery was due to actual REC prices ranging from $47 - $63 compared to the forecasted transfer price of approximately $62. We do not expect such a discrepancy between forecasted and actual to be repeated in 2015. Also, we understand that there is a lag between production of RECs and crediting of REC revenue, thus REC revenues credited in Q1 and Q2 of 2014 reflected lower actual than forecasted production from Q3 and Q4 2013, which was credited against much higher production (and contract costs) from Q1 and Q2 of 2014, respectively. We believe that this large a difference in estimated and forecasted production may be an isolated occurrence, but we will review in future filings.

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. 2127. The proposed rate should be approved.

2015 RES Charge and Reconciliation (Docket 4490)

The filing in Docket 4490 requests approval of an RES Charge for the April 2015-March 2016 period. This charge is a 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 $0.00480/kWh to $.00294/kWh for the period beginning April 1, 2015. The proposed factor is comprised of a $0.00366/kWh charge for new and existing renewable energy resource charges and a $0.00072/kWh credit adjustment to recover an estimated over-collection of $3,856,069 for obligation year 2014.

The $0.00366 per kWh charge for new and existing renewable energy resource charges is based upon an estimate for 2015 new and existing REC prices of $52.75 and $1.00, respectively. We find these estimates of REC prices to be reasonable. A loss factor is applied to arrive at the final number.

The $0.00072 per kWh credit to recover an estimated over-collection of $3,856,069 for obligation year 2014 is based upon a $14,621,859 over-collection through December 2014, estimated remaining expenses for the 2014 Obligation Year of $10,765,790, and forecasted kWh sales of 5,300,683,292. The kWh forecast is virtually the same as included in the filing in Docket 4393. The over-collection through December 2014 of $14,621,859 is supported by the Company's workpapers. The expense for obligation year 2014 of $10,765,790 is virtually the same as for obligation year 2013. We find the RES charge and adjustment to be reasonable.