DAYMARK
ENERGY ADVISORS

TO:	**THE RHODE ISLAND PUBLIC UTILITIES COMMISSION**
FROM:	**RICHARD HAHN, DAYMARK ENERGY ADVISORS, INC., ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS**
DATE:	**May 25, 2016 (Re-Filing of 5/24 Memo with Attachment)**
SUBJECT:	**NATIONAL GRID 2017 STANDARD OFFER SUPPLY AND RENEWABLE ENERGY STANDARD PROCUREMENT PLANS, DOCKET NO. 4605 RESPONSE TO THE REBUTTAL TESTIMONY OF NATIONAL GRID.**

The Rhode Island Division of Public Utilities and Carriers ("Division") requested that Daymark Energy Advisors, Inc. ("Daymark") review the Narragansett Electric Company ("NECO" or "the Company") 2017 Standard Offer Supply ("SOS") and Renewable Energy Standard ("RES") Procurement Plans that were filed on March 1, 2016. On April 14, 2016, a memorandum was filed that provided the results of my review. On May 4, 2016, the Company filed the rebuttal testimony of Ms. Margaret Janzen. The purpose of this current memorandum is to respond to that rebuttal testimony.

In the Company's filing, it proposed to use contracts with shaped monthly pricing for approximately 60% and flat pricing for approximately 40% of the residential and commercial Standard Offer load. In my April 14, 2016 memorandum, I recommended using 100% flat pricing. In the Company's rebuttal testimony, it opposes the use of 100% flat pricing. The basis of the Company's opposition to 100% flat pricing appears to be three-fold. The first basis is that flat pricing is higher than shaped bids because flat pricing contains a risk premium that wholesale suppliers will seek to cover the possibility of customer switching from Standard Offer to a competitive provider. The second basis is that the elimination of shaped pricing will eliminate the Variable Pricing Option for the commercial customer class. The third basis is that a portfolio constructed entirely of contracts with flat pricing will have decreased bidder participation. The Company acknowledges that with six-month supply blocks, seasonal price signals are sent regardless of whether bids are flat or shaped, so seasonal price signals is not a reason to use shaped prices.

If the Company seeks bids with flat pricing, potential wholesale suppliers may include a risk premium over bids with shaped pricing, which may result in higher standard offer rates than if shaped bids were averaged by the Company. I agree with the Company that this risk does not go away. However, the Company's proposal to maintain shaped pricing in 60% of its contracts shifts this risk to all distribution customers, as any standard offer revenue shortfall due to shaped wholesale bids and customer switching is recovered from all distribution customers. In effect, this creates a rate subsidy where customers who obtain power supply from a competitive retail supplier may end up paying unrecovered standard offer costs so Standard Offer customers may enjoy potentially lower rates. Rate subsidies are generally undesirable and sometimes unavoidable. But in this situation, there is a simple fix to avoid this rate subsidy, and that is to eliminate shaped bids and use flat pricing to establish six-month Standard Offer rates. This approach will properly place the cost of procuring Standard Offer power supply with the customers that caused that cost to be incurred. The Company should evaluate the risk premium inherent in all bids received (including flat and shaped bids), and it can reject any bid if that bid is deemed to be inappropriate.

Regarding the Variable Price Option for commercial customers, I see no reason why such a pricing options needs to be offered to Standard Offer customers. Standard Offer Service is supposed to serve as a back stop to those customers who either can't or do not want to switch to a competitive retail supplier, or to hedge against a retail competitive supplier failing to meets it obligation. Standard Offer rates that are flat for six months will achieve those objectives. Commercial customers operate their own businesses and are used to procuring goods and services. If such customers want monthly pricing, or any other innovative rate structures, they can obtain that from competitive retail suppliers. However, if the Commission wished to continue this Variable Priced Option, the Company should solicit both flat and shaped pricing, but use the shaped pricing only for those customers that wanted the monthly Variable Price Option.

I disagree with the Company that a portfolio consisting entirely of flat priced contracts will discourage or have lower supplier participation. The Company has provided no support for that statement. Under the Company's proposal, 40% of the contracts will having flat pricing. If the Company believes that flat pricing will result in low bidder interest, this portion of its portfolio and its procurement plan is in jeopardy. Furthermore, flat pricing has been used exclusively in other jurisdictions. For example, in Pennsylvania, electric distribution companies have been using contracts with 100% flat pricing to procure default service power suppliers for many years. A copy of PECO Energy's bidder submittal form is attached to this memo to illustrate that point. The attachment shows that on March 14, 2017, PECO will solicit bids. PECO will seek to procure nine tranches of residential default service load under 24-month contracts. Each tranche is a fixed percentage of load for the 24-month term. Bidders may submit different prices for each of the nine tranches, but the price for any tranche must be the same for 24 months, which is a flat price. This approach has been in use for Pennsylvania's electric distribution companies for many years, and none have reported insufficient bidder participation.

In conclusion, nothing in the Company's rebuttal testimony has caused me to alter the recommendations in my April 14th Memorandum. I continue to recommend that the Commission approve the proposed 2017 SOS and RES procurement plans, with the modification that pricing for Standard Offer Service contracts be flat and the no shaped priced bids be solicited, exception when and if variable Standard Offer prices are offered.

PECO Energy Company
Default Service Program RFP
March 2017 Solicitation

Bids
Bid Date: Tuesday, March 14, 2017

Bids

- A 'Bid' is a price in $/MWh for one tranche of a given product.
- A 'Bid' is rounded to the nearest cent.
- An RFP Bidder may submit different Bids for different tranches of a given product.
- Bids should be entered from top to bottom, without skipping rows.

Section 1. Total Number of Tranches Bid

Total Tranches Across all Products
0

Section 2. Bids for each Tranche of each Product

Bids (All Bids are in $/MWh)

	Residential	Residential	Residential	Small Commercial	Small Commercial	Consolidated Large Commercial and Industrial
	RES-60-Jun17	RES-12-Jun17	RES-24-Jun17	SC-12-Jun17	SC-24-Jun17	CCI-12-Jun17
	June 2017 - May 2022	June 2017 - May 2018	June 2017 - May 2019	June 2017 - May 2018	June 2017 - May 2019	June 2017 - May 2018
	Bid ($/MWh)	Bid ($/MWh)	Bid ($/MWh)	Bid ($/MWh)	Bid ($/MWh)	Bid ($/MWh)
1						
2						
3						
4						
5						
6						
7						
8						
9						
10						
11						
12						

Number of Tranches Bid

Residential	Residential	Residential	Small Commercial	Small Commercial	Consolidated Large Commercial and Industrial
June 2017 - May 2022	June 2017 - May 2018	June 2017 - May 2019	June 2017 - May 2018	June 2017 - May 2019	June 2017 - May 2018
0	0	0	0	0	0

Bidder-Specific Load Caps

2	12	9	9	3	4
31			12		

Load Cap Status

OK	OK	OK	OK	OK	OK
OK					

Your bidder-specific load caps for a Class are set so that you serve no more than 50% of the load for a Class at any given time and take into account the tranches won in previous solicitations under DSP III and DSP IV.