STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S 2017 STANDARD OFFER SERVICE PROCUREMENT PLAN AND 2017 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN	: : : :	DOCKET NO. 4605

REPORT AND ORDER

On March 2, 2016, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed with the Public Utilities Commission (PUC) its proposed 2017 Standard Offer Service (SOS) Procurement Plan to guide its purchasing of energy supply for customers who do not choose a competitive energy supplier.[1] After conducting discovery on the matter and holding hearings to take evidence presented by National Grid and the Division of Public Utilities and Carriers (Division), on July 1, 2016, the PUC rejected the proposed modifications to the SOS Procurement Plan, and instead required National Grid to continue following the 2016 SOS Procurement Plan with the exception of the notice requirements for rate changes.

On the same day, the PUC approved the Company's uncontested Renewable Energy Standard (RES) Procurement Plan, also filed on March 2, 2016. The RES Procurement Plan guides the Company in its procurement of renewable energy certificates to meet the State of Rhode Island's Renewable Energy Standard.

I. National Grid's 2017 Proposed SOS Procurement Plan

In the 2017 SOS Procurement Plan it filed, National Grid proposed to continue procurement of energy for residential and commercial customers through a series of varied load-

[1] The Utility Restructuring Act of 1996 required electric distribution companies, including National Grid, to provide SOS to all customers in an electric distribution company's service area who do not elect to purchase their power supply from a nonregulated, competitive supplier. The Act further provided that the rates for SOS could recover no more than the company's actual costs to provide SOS. On March 1 of each year, National Grid is required to file an SOS procurement plan. R.I. Gen. Laws §§ 39-1-27.3, 39-1-27.8.

following full requirement service contracts. These combined procurements would satisfy 100% of the load to meet the needs of SOS customers during the delivery period. Energy for the Industrial Group would be contracted for three months prior to the delivery period and the rate would vary monthly.[2]

The Company proposed several revisions to its prior year's plan, all of which pertained to the Residential and Commercial Groups. According to National Grid, the primary goal of the proposed 2017 SOS Procurement Plan was to mitigate rate changes for its small commercial and residential customers. Other goals included encouraging energy efficiency and conservation and diminishing risks associated with wholesale procurement, and the price shock associated with those risks, thereby somewhat reflecting a market price signal through seasonal rates.[3] First, the Company proposed first, to eliminate spot market purchases commencing in April 2017. According to National Grid, this would have the effect of reducing anticipated deferral balances and minimize winter cost surprises. National Grid's witness, Margaret Janzen, Director of Wholesale Electric Supply, explained that eliminating the spot market purchases would increase price stability for SOS customers.[4] Ms. Janzen's explanation was based on a report done by the NorthBridge Group, a consultant engaged by National Grid pursuant to a prior PUC order.

Second, noting that procuring energy through quarterly solicitations for different percentages of load and different durations allows for a dollar cost averaging approach to pricing, which mitigates price volatility, Ms. Janzen explained that National Grid proposed to retain this approach but to change the duration of contracts procured in each solicitation for each delivery

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[2] Test. of Margaret M. Janzen, 5; http://www.ripuc.org/eventsactions/docket/4605-NGrid-2017-SOS-RES-Plans_%203-1-16.pdf.
[3] *Id*. at 10.
[4] *Id*. at 10-11, 12-14.

period.[5] Instead of procuring energy through a combination of six-month, twelve-month, eighteen-month, and twenty-four-month contracts, National Grid would now procure energy through only twelve-month and eighteen-month contracts. The twelve-month contract would consist of two six-month contracts. Additionally, unlike the current approach where all contracts require the submission by suppliers of a "shaped" bid, the eighteen-month contract would require two bid blocks consisting of a twelve-month "flat" bid price and a six-month "shaped" bid price. Thus, no underlying contract would have a duration greater than twelve months. Ms. Janzen explained that a shaped bid prices each month according to the delivery price. A flat bid, she testified, requires the supplier to price each month the same, regardless of the anticipated delivery price for that specific month. Ms. Janzen stated that, based on the analysis prepared by the Northbridge Group, flat bids of more than six months will reduce rate volatility and decrease deferral balances.[6] She noted that while providing more rate stability, "the 2017 SOS [Procurement] Plan may have somewhat higher supply prices than the 2016 SOS [Procurement] Plan."[7] However, she continued, "the Company believes the benefit from reducing rate volatility outweighs the potential increase in price and decrease in seasonal price signal."[8]

Finally, National Grid requested a modification to the notice requirement imposed by the PUC in its approval of the 2016 SOS Procurement Plan. In approving that plan, the PUC increased the notice requirement for rate changes to seventy-five days. According to National Grid, that could result in solicitations being made during the first weeks of January and July thereby

[5] *Id. at 8, 15-17.*
[6] *Id*. at 16-18. Ms. Janzen noted that while the report by the NorthBridge Group suggested that a portfolio consisting of twenty-four-month contracts would significantly reduce rate shock, the Company did not choose this approach because it might lead to higher costs due to increase risk premiums built into bids and reduced bidder participation. Furthermore, it would likely reduce seasonal price signals that encourage more efficient consumption and inform customers in their decision to engage in competitive supply. *Id*. at 18-19.
[7] Janzen Test. at 18.
[8] *Id*. at 26.

adversely impacting supplier participation because major holidays occur during those two times. Therefore, the Company requested the ability to delay the notice by up to seven days if a solicitation might be affected by New Year's Day or the Fourth of July.[9]

II. National Grid's Proposed 2017 Renewable Energy Standard Procurement Plan

For 2017, the Company is subject to an 11.5% Renewable Energy Standard (RES) obligation.[10] The Company proposed to continue its practice of procuring renewable energy certificates (RECs) through a combination of long-term contracts, RES requests for proposals and brokers.[11] The procurement of RECs is currently linked to the Company's procurement of SOS. Thus, when the Company solicits bids for SOS it simultaneously requests separate pricing from full requirement service bidders to include the RES obligation for the period served by the full requirement service contract.[12] The Company proposed to discontinue this practice. According to Ms. Janzen, the RECs from the Company's long-term contract obligations are projected to exceed the Company's RES obligation in 2017, making it unnecessary to seek contracts for RECs from SOS suppliers.[13] Should the Company's projections fall short of meeting the obligation, National Grid will issue requests for proposals for RECs or engage with a broker. In 2017, if the number of new RECs purchased from long-term contracts exceeds the RES obligation, the Company will sell the excess RECs and credit the sale proceeds to distribution customers through the Long-Term Contracting Standard reconciliation factor.[14]

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[9] *Id*. at 20-21.
[10] R.I. Gen. Laws § 39-26-4; Janzen Schedule 7 at 1. The PUC delayed implementation of the incremental 1.5% increase in the RES obligation scheduled for 2015. PUC Order No. 21353, Docket No. 4404 (Feb.10, 2014).
[11] Test. of Janzen at 23.
[12] *Id*. at Schedule 7 at 2.
[13] *Id. at 23-25*
[14] *Id*. at 32-34.

III. Memorandum Filed by the Division of Public Utilities and Carriers (Direct)

On April 14, 2016, Richard S. Hahn, of LaCapra Associates, submitted a memorandum on behalf of the Division, summarizing National Grid's proposed 2017 SOS Procurement Plan. He provided a brief analysis of Rhode Island's SOS rates since January 2010 and compared them to Massachusetts's residential rates. He concluded that the procurement plan has produced good results and "the inclusion of spot products has not been problematic. Rhode Island rates are lower and more stable than similar rates in Massachusetts."[15] Nevertheless, he did not oppose eliminating the spot market purchases despite his belief that they are a desirable component of a procurement portfolio, noting that National Grid does not want to include them.[16] Additionally, although he questioned the elimination of the twenty-four month contracts, he did not oppose that either.[17] Furthermore, Mr. Hahn supported elimination of all shaped bid contracts in favor of all flat bid contracts on the basis that flat bid contracts will reduce deferral balances caused by customers switching to competitive supply during high cost months. He indicated that seasonal price signals will be sent to customers through semi-annual rate changes that will occur in October and April, commencing in 2017.[18] Therefore, Mr. Hahn recommended approval of the 2017 RES Procurement Plan as filed and the 2017 SOS Procurement Plan with the modification that all bids be flat bids.[19]

IV. National Grid's Rebuttal Testimony

On May 4, 2016, National Grid submitted Ms. Janzen's rebuttal testimony wherein she reiterated the Company's support for the Company's proposal to procure energy for residential and

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[15] Mem. of Richard Hahn at 3 (Apr. 14, 2016); http://www.ripuc.org/eventsactions/docket/4605-DPU-Memo(4-15-16).pdf.
[16] *Id*.
[17] *Id*.
[18] *Id*.
[19] *Id*. at 3-4.

commercial customers through 40% shaped flat bid blocks and 60% shaped bid blocks. According to Ms. Janzen, unlike Mr. Hahn's proposal, the Company's would strike a more appropriate balance between rate volatility and seasonal market signals. She also noted that a portfolio comprised of only flat bid blocks would eliminate the variable price option for the Commercial Group. She did agree, however, that seasonal price signals between winter and summer rates are dependent upon the six-month contract regardless of whether it is shaped or flat.[20]

V. Memorandum Filed by the Division of Public Utilities and Carriers (Surrebuttal)

On May 20, 2016, the Division submitted a Memorandum from Mr. Hahn in response to National Grid's Rebuttal Testimony. Mr. Hahn reiterated his original rationale for eliminating shaped bid requirements. He disagreed that flat bids would reduce bidder participation and further questioned why SOS customers should have a variable price option which they could get in the competitive market.[21]

VI. Commission Findings

Following an evidentiary hearing held on June 15, 2016, during which testimony was taken from Ms. Janzen and Mr. Hahn, the PUC approved National Grid's 2017 RES Procurement Plan as filed at an Open Meeting held on June 27, 2016. The PUC found the RES Procurement Plan to be consistent with the policy and provisions of the Renewable Energy Standard. As to the 2017 SOS Procurement Plan, the PUC found that there was insufficient evidence to deviate from the current approved 2016 SOS Procurement Plan.

National Grid had testified that its proposed 2017 SOS Procurement Plan was designed to (1) mitigate volatility for smaller customers; (2) diminish risks associated with wholesale

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[20] Rebuttal Test. of Margaret M. Janzen at 3-4, 6 (May 4, 2016); http://www.ripuc.org/eventsactions/docket/4605-NGrid-Rebuttal(5-4-16).pdf.

[21] Mem. of Richard Hahn at 1-2 (May 20, 2016); http://www.ripuc.org/eventsactions/docket/4605-DPUC-Hahn-Surrebttal_5_25_16.pdf.

procurement and the price shock associated with those risks; and (3) reflect market price signals through seasonal rates, to some extent, for all customer groups; as well as encourage conservation and energy efficiency measures. The PUC found insufficient evidence to conclude that the proposed 2017 SOS Procurement Plan would meet the Company's stated goals any more effectively or efficiently than the approved 2016 SOS Procurement Plan.

In 2015, the PUC ordered several changes to the 2016 SOS Procurement Plan. The one most relevant to the PUC's finding in this matter was a change in the retail rate periods. Whereas rate changes have typically become effective in January and July each year, the PUC ordered new rates to become effective in April and October, commencing on October 1, 2016. The winter pricing commencing on October 1, 2016 would be the first six-month pricing period to include all of the winter months (December through March).[22] The PUC changed the retail rate periods with the goal of sending seasonal price signals and better matching the contract cost with the retail rates.[23]

There has been insufficient time to determine whether implementing October-April rate periods will achieve the PUC's goal. One cannot determine whether the PUC's changes may serve to reduce the differential between the Company's SOS contract costs and SOS pricing in the winter, thereby mitigating price volatility and rate shock because they had not even gone into effect when National Grid filed its proposal to vitiate them. Furthermore, the evidence clearly indicated that the PUC's modification to the retail rate periods, rather than contract lengths or the timing of procurements, will primarily be what sends seasonal price signals.[24] Accordingly, until the PUC

[22] Ms. Janzen testified to this at the hearing. Tr. at 25 (June 15, 2016).
[23] *Id*. at 26-27.
[24] National Grid's Response to PUC-1-4.

has had a reasonable opportunity to assess the effect of its modifications to the 2016 SOS Procurement Plan, it would be unreasonable to make further changes.

Based on the responses to data requests and record requests made at the hearing, the 2016 SOS Procurement Plan will not subject customers to an unacceptable risk of price shock due to the inclusion of the 10% spot market purchases. Neither did any evidence show that the 2016 SOS Procurement Plan would put customers at an increased risk of winter cost surprise compared to the proposed 2017 SOS Procurement Plan. SOS costs were approximately $450 million in 2015. The rates charged were within 2% of the overall cost.[25] Additionally, the winter cost surprise, or the difference in the projected costs versus the actual costs during the periods October through March, for the last five years was within a half of one cent per kWh. During the last two winter periods, 2013 to 2014 and 2014 to 2015, the actual cost of energy was lower than the predictions used to set the rate.[26] Thus, it appears that the addition of spot market purchases may benefit customers; it certainly does not place them at an unreasonable risk due to price volatility. Furthermore, National Grid was unable to equate the elimination of the spot market purchases with cost savings to customers.[27] There is no reason to eliminate the 10% spot market purchases at this time.

Neither has the Company shown that a requirement that bidders submit flat bids will provide customers with more benefit over the term of the delivery period than allowing the choice between shaped and flat bids. While National Grid has noted that flat bids will reduce price volatility, the proposed 2017 SOS Procurement Plan will have less of a price signal than the 2016 SOS Procurement Plan.[28] A review of the evidence indicates that flat bids are more expensive

[25] Tr. at 30-32 (June 15, 2016), *citing* National Grid's Response to PUC-1-1.
[26] National Grid's Response to PUC-1-2.
[27] National Grid's Response to PUC 1-9.
[28] National Grid's Response to PUC-1-3.

than shaped bids.[29] For example, since 2010, flat bids were chosen only twice in twenty-nine solicitations. Of the 787 bids received, only thirty-two were flat and only two of those were chosen.[30] It appears, given the foregoing, that bidders prefer shaped bids and are able to bid more competitively over the entire term of the procurement. Therefore, the PUC finds that the risk of higher costs from flat bids does not outweigh the reduction in potential price volatility from shaped bids.

At the hearing, the Division's witness stated that the current SOS Procurement Plan is reasonable and that his testimony that it would be reasonable to approve the proposed 2017 SOS Procurement Plan was not meant as a rejection of the current procurement plan and National Grid's witness testified that the Company could continue to follow the current procurement plan. It is reasonable to allow the PUC sufficient opportunities to observe whether the changes it approved and ordered in 2015 for the current procurement plan operate as intended.[31]

Based on the evidence presented, the PUC had four options before it in this case: (1) to reject the proposed 2017 SOS Procurement Plan and retain the 2016 SOS Procurement Plan for another year with 10% spot market purchases; (2) to reject the proposed 2017 SOS Procurement Plan and retain the 2016 SOS Procurement Plan for another year without 10% spot market purchases; (3) to approve the proposed 2017 SOS Procurement Plan with 60% shaped bids and 40% flat bids; or (4) to approve the proposed 2017 SOS Procurement Plan but with 100% flat bids. All four options can support various policy goals, but each has drawbacks. The PUC finds that retaining the 2016 SOS Procurement Plan with 10% spot market purchases meets the policy goals in the most balanced and straightforward manner.

[29] National Grid's Resp. to PUC-1-6, PUC-1-7 (Public).
[30] National Grid's Resp. to PUC 1-7 (Public), PUC-1-8.
[31] Tr. at 128-29 (June 5, 2016).

For example, the other three options include more flat bid requirements and while a transition to flat bids would meet the goal of reducing the underlying rate volatility for the delivery period, flat bids would likely include a higher risk premium that would increase standard offer service costs and ultimately standard offer rates paid by ratepayers. Although flat bids match the Company's contract costs with SOS pricing, the resulting increased standard offer rates paid by customers in the form of risk premiums may offset the benefit derived from eliminating this cost differential. In light of these findings, the Company should continue soliciting either flat or shaped bids.

While the proposal to eliminate spot market purchases would meet the goal of reducing underlying rate volatility for the delivery period, retention of the the 10% spot market purchases provides some pricing offsets, either positive or negative, to the longer term 24-month procurements. The 10% spot market purchases can serve as a hedge against higher longer term procurements. Likewise, the longer term procurements can serve as a hedge against volatile pricing. Therefore, each provides a balance to the other, providing some protection to customers from extremes in pricing, either based on long-term forecasts, or conversely, based on short-term weather-driven price volatility. Additionally, the Division's witness testified that spot market purchases should be part of a procurement portfolio.

Based on the preceding reasoning, the PUC rejects the proposed 2017 SOS Procurement Plan. The Company shall continue to follow the 2016 SOS Procurement Plan until such time as the PUC can assess, at a minimum, a full year of results. Where the evidence does not lead to the conclusion that something is not working as intended, there is little justification for continuing to modify it. While it may be human nature to tinker with something simply because it needs to be looked at annually, there is some value to the old adage, "if it ain't broke, don't fix it." If in March

2017, the Company determines that there is no reason to file changes to the 2016 SOS Procurement Plan, the Company could achieve compliance with R.I. Gen. Laws § 39-1-27.8 by filing a proposal to continue with the 2016 SOS Procurement Plan with no changes.

Accordingly, it is hereby

(22677) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid’s 2017 RES Procurement Plan is approved as filed.
2. The Narragansett Electric Company d/b/a National Grid’s 2017 SOS Procurement Plan is rejected.
3. The Narragansett Electric Company d/b/a National Grid shall continue to follow the approved 2016 SOS Procurement Plan for the 2017 procurement period of January 1, 2017 through December 31, 2017.
4. The Narragansett Electric Company d/b/a National Grid’s request for approval to delay the notice of rate changes by up to seven days if a solicitation may be affected by either the New Year’s Day or Fourth of July holidays is approved.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 27, 2016 PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED FEBRUARY 22, 2017.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Herbert DeSimone, Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.