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September 12, 2016

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

**Re: *The Narragansett Electric Co. d/b/a
National Grid - Docket 4627***

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of the following:

1. The Response of NextEra Energy Resources, LLC to the Division of Public Utilities and Carriers' Second Set of Data Requests.

Please note that an electronic copy of this document has been sent to the service list.

Thank you for your attention to this matter.

Sincerely,



Joseph A. Keough, Jr.

JAK/kf

Enclosure

cc: Docket 4627 Service List (*via electronic mail*)

NEER-DPUC-2-1

Request:

2-1 Regarding NEER's response to DIV-1-10:

- a) In the attachment, do the values shown under Electric Energy Benefits for each case modeled represent the change in LSE energy costs due to the ANE project for all six New England states combined? If not, please describe in detail what these benefits represent and the geographic area that these benefits apply to.
- b) Please provide the changes in LSE energy costs for the Rhode Island load zone, based upon the impact of the ANE project on Rhode Island Load zone LMPs.
- c) Do the tables provided in this response include the increase in capacity costs that were included in Table 2 of the Massachusetts testimony of Mssrs. Kalt & Cavicchi? If not, please explain why not.
- d) In the text of the response, it states that "Note that the results presented in Attachment DPUC 4627-1-10 (HSCI) rely on an incorrect application of benefit and cost discount rates and cannot be relied upon to reach conclusions regarding the costs and benefits of National Grid's ANE proposal". Please identify all discount rates and other assumptions included in these calculations that Mssrs. Kalt & Cavicchi believe are incorrectly applied. Provide the discount rates and other assumptions Mssrs. Kalt & Cavicchi believe are correct and provide a revised version of the attachment with the correct application of discount rates and other assumptions.

Response:

- a) Yes, the response to DIV-1-10 and the corresponding attachment represent all six New England states.
- b) Our electricity modeling analysis uses a zonal modeling structure that does not estimate Rhode Island load zone LMPs. The modeling analysis estimates zonal prices for various regions of New England (See NEER Response to National Grid's Second Set of Information Request, NG-NEER-2-13, MA D.P.U. Docket 16-05, July 28, 2015). Thus, we are unable to provide the changes in LSE energy costs for the Rhode Island load zone
- c) No. As explained in our Surrebuttal Testimony in Massachusetts D.P.U. Docket No. 16-05 at page 25: "We mistakenly included our measure of capacity market cost impacts in the

social cost-benefit analysis. It properly reflects the increased amount that will have to be paid in capacity markets under National Grid's ANE proposal, but the cost in terms of societies' scarce resources of providing the subject capacity would not be altered. We note that our adverse capacity market price impacts are relatively small and our bottom line conclusion that National Grid's proposed ANE project is a loser does not change if we exclude these impacts from either the social or ratepayer perspective cost-benefit analyses." Thus, Table 2 has been revised in our Surrebuttal Testimony and no longer includes a capacity market cost impact.

d) Please see Attachment DPUC 4627 2-1(HSCI). This attachment provides Table 5 from our Direct Testimony in Massachusetts D.P.U. Docket No. 16-05. Table 5 properly evaluates the estimated energy cost savings assumed to be passed through to retail electricity customers, estimated capacity market cost impacts, retail electric ratepayer costs associated with payment of the ANE tariff, and the use of appropriate discount rates.

The benefits in Table 5 reflect the net present value of the estimated reduced electricity costs to retail electricity ratepayers. The costs in Table 5 reflect the certain costs that would be incurred by retail electricity ratepayers to pay the ANE tariff. The discount rates we use to place these cash flows on a present value basis are explained in our Direct Testimony in Massachusetts D.P.U. Docket No. 16-05.

First, when selecting the discount rate for estimated retail ratepayer benefits, we explain in our Direct Testimony in Massachusetts D.P.U. Docket No. 16-05 at 117-118: "The fact and magnitude, if any, of hoped-for ratepayer benefits from suppression of wholesale electricity prices in New England depend upon the evolution over a 20-year horizon of such matters as natural gas and oil prices, electricity demand in New England and beyond, and the technologies of the various means of generating electricity. As a result, National Grid's proposal subjects hoped-for ratepayer benefits to risks that are driven by factors similar to those that a merchant generation facility would face, although the degree of uncertainty, depending on limited, extreme winter-time events is greater than those facing a merchant generator overall. Accordingly, we conservatively select a discount rate associated with the risk that wholesale power market merchant generators face based on ISO-NE's most recent analysis of merchant generator wholesale market risk." Table 5 uses a 9% discount rate to discount the estimated annual retail electric ratepayer electricity cost reductions.

Next, when selecting the discount rate for estimated retail ratepayer costs, we explain in our Direct Testimony in Massachusetts D.P.U. Docket No. 16-05 at 119-120: "Any discount rate can be decomposed into two components: a pure time value of money component and a risk component. The pure time value of money is measured by the risk-free rate of interest. Today, that is approximately 2% looking over a 20-year period. Now, consider the risk component. What is uncertain or risky about whether ratepayers would have to pay at least the \$526 million per year that National Grid requests under the ANE contracts? Certainly, the risk is not related to National Grid's management of an investment used to serve customers, because National Grid cannot use the capacity facilitated by the contracts..." "In fact, the very reason that National

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Grid says the LGTSC [ANE] tariff is needed is because National Grid says the investors need certainty of payment in order to be induced to make the investment in the ANE project [See Massachusetts D.P.U. Docket No. 16-05 Exhibit NG-MJV-1 at 2]. In other words, it is elimination of risk by having retail customers paying for the project that is the essence of the proposal before the DPU. Thus, the only identifiable uncertainty is that maybe someday the regulators will relieve ratepayers from having to pay the full \$526+ million per year. We, thus, employ a discount rate of 3.75% consistent with high-grade corporate bond debt yield, and a level greater than that for a “riskless” treasury bond of similar term.” In calculating Table 5 we applied a 3.75% discount rate for the certain costs borne by retail ratepayers. This rate is supported by National Grid’s own expert, Dr. Vilbert, who states that: “it is imperative that the Department provide the most rigorous assurance of full cost recovery for the duration of the Proposed Agreement, so that a zero or near-zero risk-factor is appropriate”(See Massachusetts D.P.U. Docket No. 16-05, Exhibit NG-MJV-1 at 28).

Prepared by or under the supervision of: A. Joseph Cavicchi and Joseph P. Kalt

CASE: Futures Market Forecasts

| | Benefits | Estimated Costs |
|---|----------|-----------------|
| Change in Electricity Production Costs | | |
| Electric Energy | \$3,471 | |
| Electric Capacity | | -\$229 |
| Pipeline Cost | | -\$5,892 |
| Total Present Value | \$3,471 | -\$6,121 |
| Total Net Present Value | | -\$2,650 |

REDACTED

CASE: Modeled Market Forecasts

| | Benefits | Estimated Costs |
|---|----------|-----------------|
| Change in Electricity Production Costs | | |
| Electric Energy | \$5,557 | |
| Electric Capacity | | -\$305 |
| Pipeline Cost | | -\$5,892 |
| Total Present Value | \$5,557 | -\$6,196 |
| Total Net Present Value | | -\$640 |

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CERTIFICATION

I hereby certify that on September 12, 2016, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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