nationalgrid

Jennifer Brooks Hutchinson
Senior Counsel

February 6, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4676-Proposed National Grid Proposal to Bid Capacity of Customer-Owned DG Facilities into the Forward Capacity Market
National Grid Rebuttal Testimony

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed the rebuttal testimony of Stefan Nagy and Ian Springsteel in the above-referenced docket.

The Company has engaged in discussions with staff from the Division of Public Utilities and Carriers (Division) regarding the outstanding issues in the docket as presented in the pre-filed direct testimony of Richard S. Hahn of Daymark Energy Advisors filed on behalf of the Division. At the time of the filing of this rebuttal testimony, the parties had not yet reached an agreement. The Company and the Division may continue their discussions in an attempt to reach an agreement prior to the hearing.

Thank you for your attention to this matter. If you have any questions, please contact me at 401-784-7288.

Very truly yours,

Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4676 Service List
Leo Wold, Esq.
Jon Hagopian, Esq.
Steve Scialabba, Division

[1] The Narragansett Electric Company d/b/a National Grid (National Grid or Company).

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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.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

__________________________________ February 6, 2017
Joanne M. Scanlon Date

Docket No. 4676 National Grid – Forward Capacity Market Proposal
Service List updated 12/22/16

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JOINT REBUTTAL TESTIMONY

OF

STEFAN NAGY

AND

IAN SPRINGSTEEL

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I. **<u>Introduction and Qualifications of Stefan Nagy</u>**

Q. Please state your name and business address.

A. My name is Stefan Nagy, and my business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

Q. Have you previously submitted testimony in this proceeding?

A. Yes, I previously submitted pre-filed direct testimony in this proceeding on November 21, 2016.

II. **<u>Introduction and Qualifications of Ian Springsteel</u>**

Q. Please state your name and business address.

A. My name is Ian Springsteel. My business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

Q. Mr. Springsteel, by whom are you employed and in what position?

A. For the past six years, I have been employed by National Grid Service Company in its Regulation and Pricing department. My current role is Director of U.S. Retail Regulatory Strategy. I am responsible for clean energy policy and program development, including the oversight of the development and implementation of the Rhode Island Renewable

Energy (RE) Growth Program. In this role, I have also worked on general regulatory policies regarding distributed generation in Rhode Island.

Q. Please describe your educational background and professional experience.

A. I have a Bachelor of Arts degree in Comparative Political Economy from Boston University and a Master of Public Administration from the Harvard Kennedy School of Government, with concentrations in regulatory analysis and finance. Prior to working at National Grid, I started and ran a clean energy consultancy for public and private clients called Green Edge Solutions for just over a year. Before that, for four years, I held the position of senior program manager at the Massachusetts Technology Collaborative, which managed the Massachusetts Renewable Energy Trust. In this role, I managed a lending fund for early stage manufacturers, ran a renewable energy certificate sales program, and led the initial development of the Massachusetts Wind Blade Technology Center. Prior to that, and prior to attending the Kennedy School, I worked as a journalist, editor, and consultant, covering business and economics for a variety of trade and general interest publications for approximately 12 years.

Q. Have you previously submitted testimony in this proceeding?

A. No I have not. However, I have represented the Company before the Public Utilities

Commission (PUC) in the Company's annual Renewable Energy Growth Program tariff filings in Dockets 4589 and 4672.

III. Purpose of Rebuttal Testimony

Q. What is the purpose of your joint rebuttal testimony?

A. The purpose of our joint rebuttal testimony is to respond to the pre-filed direct testimony of Richard S. Hahn of Daymark Energy Advisors filed on behalf of the Division of Public Utilities and Carriers (Division Testimony) filed with the PUC in this proceeding on January 20, 2017.

Q. How is your testimony organized?

A. Section IV responds to the recommendations set forth in the Division Testimony regarding the Company's[1] recovery of administrative costs. Specifically, this section of our testimony addresses Mr. Hahn's recommendations that:

(i) the recovery of administrative costs to implement the Company's FCM Proposal[2] should be deferred, without interest, until FCM revenues materialize (Division Testimony at 16);

[1] The Narragansett Electric Company, d/b/a National Grid.
[2] Capitalized terms used herein but not otherwise defined shall have those meanings ascribed to such term(s) in the Company's Joint Pre-filed Direct Testimony of Stefan Nagy and Scott M. McCabe filed with the PUC in Docket 4676 on November 21, 2016.

(ii) administrative costs should be paid out of the annual FCM revenues, before any revenue sharing (Division Testimony at 16**)**; and

(iii) the PUC should cap or limit administrative costs (Division Testimony at 22).

Section V of our testimony responds to the recommendation set forth in the Division Testimony that the Company's sharing ratio should be reduced to 10% of the FCM proceeds.

Section VI is the conclusion to our rebuttal testimony.

IV. <u>Response to Division Recommendations on Administrative Cost Recovery</u>

Q. How does the Company respond to Mr. Hahn's recommendation that the Company should be required to defer administrative costs, without interest, until FCM revenues materialize?

A. The Company does not believe that deferral of administrative costs, without interest, is appropriate for the following reasons. First, the recovery of administrative costs incurred with this activity as they pertain to those projects under the RE Growth Program is explicitly authorized by statute.[3] Cost recovery for the remaining DGSC program projects, although not explicitly provided for by statute, can be allowed pursuant to the

[3] <u>See</u> R.I. Gen. Laws § 39-26.6-13. Once all of the currently-approved RE Growth facilities have come online in 2021, the RE Growth program is expected to represent approximately 78% of the Company's bidding portfolio.

PUC's broad regulatory authority to approve the recovery of costs that are prudently incurred. The Company's FCM Proposal seeks to align the treatment of projects under the DGSC program with the forward-looking cost recovery that is explicitly authorized for the RE Growth Program by statute and recover the administrative costs resulting from the implementation of its FCM Proposal through the respective Recovery and Reconciliation for the RE Growth and DGSC programs in the year in which the Company will incur those costs. Second, the Company has an obligation and commitment to control costs for the benefit of its customers. Furthermore, the PUC has the authority to deny recovery of any costs, which the PUC determines have not been prudently incurred. As a result, requiring the Company to defer the recovery of administrative costs until FCM proceeds materialize is not necessary in order to incentivize the Company to control the costs associated with implementing its FCM Proposal. Finally, as noted on page 10, line 11, of the Company's pre-filed testimony, the DGSC and RE Growth Program tariff provisions already approved by the PUC allow, but do not require, the Company to bid the capacity of non-residential DG Facilities into the FCM. The Company voluntarily developed its FCM Proposal in an effort to bring significant long-term benefits to its customers, recognizing that changes in the FCM market rules which, when finalized, made it clear that this activity also carried with it both significant administrative costs and a number of risks that would need to be actively managed.

Q. If the PUC determines that deferring and netting such costs against associated revenue is reasonable, how should such costs be recovered?

A. As a threshold matter, the Company believes that any deferral of costs should only pertain to the costs associated with the bidding of capacity from projects under the DGSC program because costs associated with the bidding of capacity from projects under the RE Growth Program are appropriately recovered through the RE Growth reconciliation factor in accordance with the statute. To the extent that the PUC determines that the Company should be required to defer recovery of the administrative costs associated with bidding the capacity from projects under the DGSC program until FCM revenues materialize, the Company requests that the PUC allow the Company to also recover the cost of carrying that deferral until the costs are recovered at an interest rate equal to the rate paid on customer deposits.

Q. When does the Company expect that FCM revenues from DGSC projects will offset administrative costs related to such projects and result in a net benefit to customers?

A. The Company indicated in its response to PUC 1-16 that the Company's revised Base Case[4] projections of the Net Customer Benefit[5] estimate that the Net FCM Proceeds[6] will offset and outweigh the administrative costs beginning in 2018 and in all subsequent years. The Company estimates that FCM revenues from the DGSC facilities by themselves will also offset the associated administrative costs beginning in 2018, thus deferral of these costs would be for approximately one to two years. Costs associated with RE Growth projects would not be offset by revenues until 2020.

Q. How would Mr. Hahn's recommendation that annual FCM revenues be used to pay the administrative costs incurred by the Company before applying any percentage of sharing affect recovery of costs in the initial years of this program?

A. As noted above, the Company's participation in the FCM is discretionary and the Company has voluntarily submitted its FCM Proposal in order to create value for its customers. Changing the manner by which the Company would recover administrative costs from what the Company has proposed to one whereby the administrative costs are deducted from the FCM proceeds prior to applying the sharing percentages throughout

[4] The "Base Case" projections of the Net Customer Benefit, as referenced in footnote 21 on page 24 of the Company's pre-filed testimony, assume a capacity price of $11.64 per kW-month, which is equal to the Net Cost of New Entry for Forward Capacity Auction 11, and an average amount of Performance Incentive payments.
[5] Net Customer Benefit, as originally defined in the Company's pre-filed testimony, is comprised of 80 percent of the Net FCM Proceeds and the incremental administrative costs incurred as a result of the implementation of the Company's FCM Proposal.
[6] Net FCM Proceeds are defined in the Company's pre-filed testimony as all payments received from ISO-NE for participation in the FCM, net of any ISO-NE fees, charges, or penalties that may be assessed under the current or future FCM market rules.

the program term would create additional risk for the Company under its proposed symmetrical sharing mechanism and cause the Company to incur an unrecovered cost in the first year of implementation of its FCM Proposal.

Q. Would netting administrative costs from the FCM proceeds, as the Division Testimony recommends, affect the Company's risk to participate in the FCM with its FCM Proposal over time?

A. Netting the administrative cost from the FCM Proceeds prior to calculating the Company's incentive would increase the risk proposition to the Company over time as well. The Company has estimated that the risk of Performance Incentive penalties outweighing the positive market proceeds, such that the Net FCM Proceeds are negative, is less than 1.5% on an annual basis. Changing the sharing mechanism to net administrative costs from the FCM proceeds, as the Division Testimony recommends, would cause the risk of negative net proceeds to increase to approximately 5% on an annual basis. Furthermore, as Mr. Hahn states on page 13, of the Division Testimony, the potential for Capacity Scarcity Conditions, and thus Performance Incentive Penalties, could increase in the future due to multiple generator retirements in the region. Increases in the occurrence of Capacity Scarcity Conditions could further increase the Company's exposure to risk.

Q. How does the Company respond to Mr. Hahn's recommendation that the PUC establish a cap, or otherwise limit, the Company's recovery of administrative costs?

A. As noted earlier in this testimony, the Company always has an incentive and responsibility to control costs for its customers. It's the Company's position that establishing a cap for the Company's recovery of the administrative costs associated with the implementation and operation of its FCM Proposal is not only unnecessary to incentivize the Company to control administrative costs, but could impede the Company's ability to implement its FCM Proposal and operate it to maximize value and mitigate risks. The Company noted in footnote 26, of the Company's pre-filed testimony at 27, that the administrative costs necessary to implement the Company's FCM Proposal could vary based on the actual number of projects that are enrolled under the RE Growth and DGSC programs. In the event that the PUC were to cap, or otherwise limit, the Company's recovery of administrative costs, a situation could arise where the Company is forced to defer the enrollment of DG Facilities in the FCM in order to avoid exceeding the cap on its recoverable administrative costs in a single year. Therefore, the Company's proposal serves to capture as many DG Facilities as possible, again, to maximize value and mitigate risk of the FCM Proposal.

Q. Does the Company believe it is necessary, as Mr. Hahn suggests (Division Testimony at 23), to participate in a Request for Proposal (RFP) to test the reasonableness of the Company's administrative cost estimate in this proceeding?

A. No, the experience of the Company's affiliate Massachusetts Electric Company[7] serves as a benchmark for the reasonableness of the estimated labor and associated costs required to implement the Company's FCM Proposal. Additionally, administering an RFP process would delay the initiation of activity in this program and would put at risk the ability to enter projects into the next auction cycle this year. Final qualification materials for FCA-12 are due to ISO-NE in June 2017 and the Company will need to begin preparing these materials as soon as possible if it is to be successful in qualifying these facilities for FCA-12. If the Company were required to participate in an RFP process to test the Company's cost estimate and, as Mr. Hahn's testimony suggests, set a cap on the costs that the Company may recover, this would impede the Company's ability to qualify projects in the upcoming FCA-12.

V. <u>Response to Recommendations on Net FCM Sharing Ratio</u>

Q. The Division Testimony points out that the Company receives incentives to administer and carry such obligations on its balance sheet from both the DGSC and RE Growth Programs (Division Testimony at 19-21). How do these existing

incentives relate to the Company's participation in the FCM under each of these programs?

A. Those incentives do not have any relation to the Company participating in the FCM. They are provided for by statute, and are calculated based on the gross value of payments under the contracts and the tariff mechanisms. As such, these incentives are earned by the Company regardless of its participation in the FCM with each program's capacity resources.

Q. Please explain in more detail the risks associated with the participation of DG Facilities in the FCM?

A. The Company's pre-filed testimony identified certain risks of participating in the FCM with DG Facilities, including operational risks as well as the risk of low market prices, and thus, low Net FCM Proceeds, and the risk of Performance Incentive Penalties. The Division Testimony similarly outlines numerous risks associated with participating in the FCM, stating that, due to these risks, "there is no guarantee that participation in the FCM will yield significant or even positive benefits."

While the Company's original FCM Proposal seeks to mitigate the risks associated with

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[7] The Company's affiliate Massachusetts Electric Company qualified Company-owned solar DG Facilities in the FCM in 2015 and 2016. The Company's estimates of the time required for the initial qualification and ongoing monitoring of each DG Facility in the FCM is based upon the Company's experience in Massachusetts.

participating in the FCM, the Company agrees with Mr. Hahn's statement that there is no guarantee that participation in the FCM will yield positive benefits. The Company's FCM Proposal seeks to share symmetrically in the upside benefits and the downside risks of bidding DG Facilities in the FCM. As a result, the Company would share in the risk that penalties could outweigh the positive payments from participating in the FCM and result in negative Net FCM Proceeds.

Q. Would a change to the recovery of the administrative costs, as recommended in the Division Testimony, affect the Company's response above?

A. Yes. As noted earlier in this testimony, requiring the Company to defer and then recover all of the administrative costs from the FCM Proceeds, prior to applying the sharing percentages, would increase the risks to the Company under its proposed symmetric sharing and further reduce the Company's incentive below 10% of the Net FCM Proceeds.

Mr. Hahn, in the Division Testimony at 22, recognizes the argument that "under the [Pay for Performance] rules, participation in the FCM is riskier than past FCM rules and represents a new activity for which the Company should receive additional incentives." The Company's proposed 80/20 sharing level takes into account this additional risk.

Q. Mr. Hahn's suggests that the incentive levels the Company receives under its Energy Efficiency Program Plan and Natural Gas Portfolio Management Plan (NGPMP) support a reduction in the Company's RE Growth and DGSC programs FCM sharing proposal (Division Testimony at 22). Does the Company agree that the FCM participation under these programs, and therefore the incentive levels for such participation, are comparable?

A. No, the Company does not see these incentives as directly comparable.

First, the energy efficiency incentive allowed in the Energy Efficiency Program Plan (EEPP) provides the incentive for the successful delivery of savings versus the goals for the year within the budget allowed for by the EEPP, and incentivizes the Company to effectively manage the complexities of the EE program and provide benefits to customers as agreed to in the EEPP. The incentive is also calculated as a percentage of the budget, whereas the incentive under the Company's FCM Proposal in this proceeding would be calculated based upon monetary benefits that are paid to the Company as a result of its participation in the FCM for the benefit of customers.

Second, the NGPMP is different from the FCM Proposal in that gas assets are used to maximize margin when they are not needed by firm customers, and there is very little financial penalty or risk associated with managing the gas assets that is outside of the control of the Company. Thus, the risk profile of this activity is much lower than that of FCM participation, which Mr. Hahn appears to agree with, as cited above from his testimony. Because of this higher risk profile, it would be appropriate for the sharing with the Company to be higher as well, as proposed under its 80/20 sharing ratio.

Q. Is the Company amendable to an alternative sharing arrangement?

A. Yes. The Company is willing to consider other incentive levels, provided the Company is able to mitigate its risk exposure through full administrative cost recovery.

VI. Conclusion

Q. Does this conclude your testimony?

A. Yes.