STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
89 Jefferson Boulevard
Warwick, Rhode Island 02888
(401) 941-4500
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February 24, 2021

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

IN RE: Docket No. 5096 - National Grid – 2021 Renewable Energy Standard (RES) Procurement Plan

Dear Luly,

Attached please find the Division of Public Utilities and Carriers Comments in the above entitled matter for filing with the Public Utilities Commission.

I appreciate your anticipated cooperation in this matter.

Very truly yours,

Jon G. Hagopian
Deputy Chief Legal Counsel

STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
Accounting Section
89 Jefferson Boulevard
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Memo

To: **Luly Massaro, Commission Clerk**
Rhode Island Public Utilities Commission

From: **John Bell, Rhode Island Division of Public Utilities and Carriers**
Jennifer Kallay, Synapse Energy Economics
Courtney Lane, Synapse Energy Economics
Tim Woolf, Synapse Energy Economics

Date: **February 24, 2021**

Re: **Docket 5096 – 2021 Renewable Energy Standard Procurement Plan**

The Division of Public Utilities and Carriers ("Division") respectfully offers the following comments on The Narragansett Electric Company's ("National Grid" or the "Company") Docket 5096 – 2021 Renewable Energy Standard Procurement Plan ("2021 RES Plan"). After review of the 2021 RES Plan and responses provided by the Company to the Division's discovery, the Division supports the 2021 RES Plan.

Background

The Renewable Energy Standard Regulations state that from 2007 forward, the Company is required to obtain a specified percentage of their energy supply from a mix of new and existing renewable energy resources. In 2021, the Company is required to procure renewable energy credits (RECs) for sales equivalent to 17.5 percent of its load or 703,118 RECs. 15.5 percent or 622,761 RECs need to come from new renewable energy resources. The additional 2 percent or 80,357 RECs can come from new or existing renewable energy resources.

If the Company does not procure enough RECs to meet its requirement in a given year, it will pay an Alternative Compliance Payment. The Company estimates that the Alternative Compliance Payment will be $72.51 in 2021. The 2021 market price for New RECs is $39.71, or

$32.80 less than the Alternative Compliance Payment. The 2021 market price for Existing RECs is $1.45, or $71.06 less than the Alternative Compliance Payment. As the differential between the price of new and existing RECs and the Alternative Compliance Payments are large, the Company seeks to procure enough RECs to meet its requirement as this is the significantly less costly option. As existing RECs are significantly less costly than new RECs, the Company intends to use existing renewable energy resources to meet as much of its requirement as allowed.

The Company can bank up to 30 percent of the RES obligation or sell the RECs. Banking RECs can lessen the financial penalty associated with paying the Alternative Compliance Payment in the event of a future shortfall. Selling RECs decreases current RES costs for customers by providing a revenue stream that offsets a portion of the costs of compliance. For its 2021 RES Plan, the Company proposes to decide whether it will bank or sell remaining RECs in the fourth quarter using market prices. The Company proposes to bank either 5 or 30 percent of the RES obligation and sell the remaining RECs. It is also possible that the final banking percentage will be between 5 and 30 percent if the Company cannot sell all the RECs.

In 2019, the Company began to have an oversupply of new RECs and the Company sold excess New RECs in January 2020 and January 2021. The Company states it will have an oversupply of RECs for the foreseeable future and intends to bank solely if it is financially advantageous to do so. To determine if it is financially advantageous to bank this year, Company will compare the current year's market price to the next year's spot market price in the fourth quarter of 2021. If the current year's prices are lower than next year's prices, the Company will bank 30 percent. If the current year's prices are higher than next year's prices, the Company will bank 5 percent.

Summary of National Grid's Proposed Changes

The Company's 2021 RES Plan proposes four changes from the 2020 RES Plan: (1) use of online broker platforms to sell RECs, (2) quarterly REC sales, (3) valuation methodology for recovery factor reconciliation, and (4) change in banking strategy. We discuss each in more detail below.

<u>Use of Online Broker Platforms to Sell RECs</u>. In its 2020 RES Plan, the Company received approval to procure RECs through online brokers. For its 2021 RES Plan, the Company proposes to expand the use of online broker platforms to include selling RECs. The Company plans to sell more RECs and sell RECs more often. As a result, the Company wants more options available to ensure all the RECs can be sold. While there may be fees associated with using online broker platforms that could increase costs, the Company asserts that the fees are low and represent a small portion of the costs of procuring and selling RECs. Additionally, the Company expects that it will be able to meet its 2021 RES obligation without online brokers and intends to sell its RECs through a Request for Bids process.

<u>Quarterly REC Sales</u>. In its 2020 RES Plan, the Company sold excess RECs only after the banking allowance of 30 percent was met, which usually occurred in the third or fourth quarter of the year. As a result, most of the RECs used for RES compliance were valued with market prices from the first and second quarter. For its 2021 RES Plan, the Company proposes to sell excess RECs quarterly as they are created. This would allow the Company to sell RECs in

each quarter throughout the year and the purchases would be valued each quarter. The Company demonstrated that REC prices have fluctuated significantly on a quarterly basis over the years. The Company states that more price points will lower the market price risk that is presented when pricing varies significantly from quarter to quarter.

Valuation Methodology for Recovery Factor Reconciliation. In its 2020 RES Plan, the sale price for excess RECs was used to calculate the Long-Term Renewable Contracts (LTC) and RE Growth recovery factors. For its 2021 RES Plan, the Company proposes to use different approaches for New RECs used for RES compliance and New RECs sold. The approach for calculating the cost for New RECs sold will not change and will continue to be based on the sale price for excess RECs. The approach for New RECs used for RES compliance will change from the sale price for excess RECs to the average market price. Quarterly market prices will be averaged to calculate annual REC values for reconciliation through the two factors. The result of this change is that the average sales price for excess RECs may differ from the average market price used for RES compliance. As the average market and sale prices can differ, this change can result in changes to the recovery factors. However, the Company appears to be proposing this change to use more precise pricing and calculations to generate the recovery factors.

Change in Banking Strategy. The 2021 RES Plan requests an amendment to the 2020 RES Plan to allow the Company to change its banking strategy. If approved, the Company may bank only 5 percent of its RES obligations instead of 30 percent. The Company does not have a specific rationale for selecting 5 percent and proposes this number as the Company feels it balances the many financial considerations discussed.

Conclusions

The Division finds that the Company's proposed changes are in ratepayers' best interest, as the changes will likely result in lower costs to meet the RES requirements in 2021 and moving forward.

Regarding the banking choices of 5 percent or 30 percent proposed by the Company, the Division appreciates the transparency and simplicity afforded by the Company's proposal of two options. However, the Division also supports other banking options between 0 and 30 percent so long as the banking options represent the lowest cost approach. The Division invites the Company to consider other banking options and present them for consideration by parties in future filings, if merited.