STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S PROPOSED CHANGES TO STANDARD OFFER ADJUSTMENT FACTOR, TRANSITION CHARGE AND TRANSMISSION ADJUSTMENT FACTOR	:	DOCKET NO. 4140 DOCKET NO. 4011

REPORT AND ORDER

I. BACKGROUND

The Utility Restructuring Act of 1996 ("URA") requires each electric distribution company to arrange with wholesale power suppliers for a standard power supply offer to sell electricity to all customers at a stipulated rate, with certain adjustments permitted. Pursuant to the URA, Narragansett Electric Company now d/b/a National Grid ("NGrid" or "Company") entered into wholesale Standard Offer supply contracts at a base price 7.143 cents per kWh for calendar year 2009.[1]

In 2006, the URA was amended to address the manner of Standard Offer procurement. Each electric distribution company is still required, through 2020, to "arrange for a standard power supply offer to customers that have not elected to enter into power supply arrangements with other nonregulated power suppliers." However, a new section of the law, R.I.G.L. § 39-1-27.8 now requires each electric distribution company to annually submit supply procurement plans through March 2018 for the procurement period commencing the following year. In March 2009, NGrid submitted its first

[1] In Docket No. 3496, the Commission approved a Settlement entered into between Narragansett and one of its standard offer suppliers to address responsibility for congestion costs in light of new locational marginal pricing rules in the wholesale electricity market. The settlement altered the base Standard Offer Service (SOS) cost in that contract. The pricing listed here is the weighted average impact on the overall pricing for all SOS contracts. The wholesale Standard Offer supply contracts also provide for increases in the price per kilowatt-hour ("kWh") of wholesale power supplied to NGrid in the event fuel prices increase above certain levels. Additionally, in 2008, the Commission approved two Settlements between NGrid and its

Standard Offer Procurement Plan in Docket No. 4041 for the procurement period commencing January 1, 2010 upon expiration of the former wholesale standard offer contracts. On September 30, 2009, the Commission approved NGrid's Standard Offer Service ("SOS") Procurement Plan for two customer groups, a Small Customer Group comprised of residential and small commercial customers and a Large Customer Group comprised of medium and large commercial customers. The Small Customer Group's power was procured in a manner designed to provide rate stability to those customers whereas the Large Customer Group's power is to be procured four times per year in three-month blocks with rates that change monthly.[2] Additionally, commencing in 2010, NGrid will no longer procure a separate Last Resort Service, but will transition all customers back onto SOS. Standard Offer Service will serve as the default service for customers not taking competitive power supply.[3]

To the extent that the total cost of the wholesale power supply to NGrid exceeds the retail SOS charge, the under-collection is recoverable, with interest, from NGrid's customers through the annual reconciliation provisions of NGrid's Standard Offer Adjustment Provision. Likewise, to the extent NGrid collects more than its total cost of providing SOS, the ratepayers are entitled to recoup the benefit, with interest. Furthermore, NGrid's transmission and transition charges are fully reconciled on an annual basis, the transition charges through an adjustment based on the annual reconciliation of wholesale power contract termination charges ("CTC") filed by New

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suppliers resolving disputes over certain fuel adjustment obligations. These Settlements resulted in adjusted fuel index payments to the two suppliers.

[2] *Order No. 19839 (issued November 24, 2009).*

[3] Under the pre-2010 SOS contracts, suppliers were not obligated to serve customers who left SOS.

England Power Company and charged to NGrid, and the transmission charges through a change in NGrid's transmission adjustment factor ("TAF").[4]

II. NATIONAL GRID

On January 11, 2010, NGrid filed with the Rhode Island Public Utilities Commission ("Commission") its annual reconciliation filing with respect to the SOS, transition and transmission rates.[5] The SOS rates to recover the 2010 contract costs were approved in Docket No. 4041. In that docket, NGrid submitted filings to show that it was in compliance with the approved 2010 SOS Procurement Plan.[6] A decision was made not to adjust the 2009 SOS rate of 9.2 cents per kWh for the Small Customer group for the period January 1, 2010 through February 28, 2010.[7] Where the SOS rate for the Large Customer group varies each month, the March 2010 rate (before adjustments set forth herein) is 8.191 cents per kWh.[8]

In support of the proposed rates, Narragansett presented the pre-filed testimony of Jeanne A. Lloyd, Manager of Rates, New England in the Regulation and Pricing – Electricity Distribution and Generation Department of National Grid USA Service Company, Inc. and James L. Loschiavo, Lead Analyst in Transmission Finance for National Grid USA Service Company, Inc.

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[4] National Grid USA is the parent company of New England Power Company and Narragansett Electric Company.

[5] In this case, NGrid is using a fifteen-month reconciliation period and thirteen-month rate period in order to adjust the timing of this rate change to coincide with a pending distribution rate matter and to adjust the reconciliation period to coincide with the above-referenced changes to the SOS procurement period set forth in R.I.G.L. § 39-1-27.8 and approved in Docket No. 4041. NGrid Ex. 1A (Pre-Filed Testimony of Jeanne Lloyd), pp. 3-4.

[6] *Order No. 19839* (issued November 24, 2009); Docket No. 4041, NGrid's Large Customer Filing (11/19/09); NGrid's Compliance Tariffs (1/4/10).

[7] NGrid Ex. 1A, JAL-17; NGrid's Compliance Tariffs (1/4/10).

A. Standard Offer Service Adjustment Factors

Ms. Lloyd proposed a uniform per kWh adjustment factor of $0.00135 per kWh on all SOS customers. She explained that this adjustment factor is designed to recover an estimated $8.0 million under recovery accrued from October 2008 through December 2009. She explained that although commencing January 1, 2010, SOS will be procured separately for different customer groups, the under recovery was incurred during the prior period when all SOS customers were paying the same rate under the same contracts. However, with regard to the estimated Last Resort Service ("LRS") balances as of December 31, 2009, Ms. Lloyd noted that LRS had been procured and accounted for separately for residential and non-residential customers. Therefore, the Small Customer Group will be credited with approximately $40,000, or $0.00001 per kWh, for a net SOS Adjustment Factor of $0.00134 per kWh. The Large Customer Group will be charged an additional $0.00009 per kWh to make up an under recovery of approximately $231,000.[9]

B. Renewable Energy Standard Charge

Ms. Lloyd noted that the Commission approved a Renewable Energy Standard ("RES") Charge of $0.00123 per kWh in Dokcet No. 4041 effective on usage on and after March 1, 2010. She stated that as of December 31, 2009, there was an over recovery of approximately $2.1 million. However, the Company will continue to incur RES expenses through June 2010 for the period ending December 31, 2009 and expects to incur an under collection of RES expenses in the amount of $1,323,581. Ms. Lloyd noted that when NGrid proposed the $0.00123 per kWh, the Company included the

[8] NGrid Ex. 1A at JAL-17; Docket No. 4041, NGrid's Large Customer Filing (11/19/09); NGrid's Compliance Tariffs (1/4/10).
[9] *Id*. at 6-12.

projected under collection, thus obviating the need for further adjustments to the rate in this docket.[10]

C. Transition Charge

In her pre-filed testimony, Ms. Lloyd explained that the transition charge is intended to recover the contract termination charges ("CTC") that were billed to the Company by its affiliated supplier, New England Power ("NEP"), including charges in effect under the former Montaup Electric Company CTC.[11] The Company reconciles transition revenues on an annual basis in accordance with the requirements of the Non-Bypassable Transition Charge Adjustment Provision, which requires an annual reconciliation of the Company's total CTC expense against the Company's total revenue from the Transition Charge. Any over or under-collection is to be refunded to or collected from customers, with interest. Ms. Lloyd indicated that the current transition rate produced an over-collection of approximately $1,395,542 for the period October 1, 2008 through December 31, 2009.[12]

Using this information, Ms. Lloyd indicated that the weighted average base transition charge of $0.00085 per kWh and a transition charge adjustment credit factor of $0.00017 per kWh designed to refund the transition over-collection for the period October 2008 through December 31, 2009 results in a net transition charge of $0.00068 per kWh.[13]

D. Transmission Rate

[10] *Id*. at 12-14.
[11] *Id*. at 14-15.
[12] *Id*. at 17.
[13] *Id*. at 15.

In her pre-filed testimony, Ms. Lloyd noted that Mr. Loschiavo had forecast total transmission costs for 2010 of approximately $116.7 million, representing a net increase of $12.8 million, or 12.3% from the 2009 forecast.[14] She also noted that the Company was estimating an over collection of approximately $253,000 for the period October 2008 through December 31, 2009.[15] Ms. Lloyd noted that "transmission charges are billed to customers through base charges which differ by rate class and a transmission adjustment factor which is designed to collect or refund to customers over or under recoveries of expense from the prior year."[16] The transmission adjustment factor ("TAF") is a uniform per kWh charge to all customers. She noted that this is a proposed change in the design of the transmission rate which had previously been a base charge plus a TAF which recovered projected costs above the base rate in addition to any prior years' over or under recoveries. Ms. Lloyd stated that if the Commission did not approve this rate design change in pending Docket No. 4065, the Company would continue with the old methodology.[17] Under the proposed methodology, the TAF would be $0.00003 per kWh credit to refund the over collection as of December 31, 2009.[18]

In his pre-filed testimony, Mr. Loschiavo indicated that the $12.7 million increase in 2010 estimates is primarily due to the following factors: (1) an increase in the actual RNS rates from March 2010 through May 2010 of $5.0 million; and (2) an estimated additional RNS rate increase effective June 1, 2010 based on forecasts of plant investment to go "in-service" in 2010 across New England.[19] He also explained that the

[14] NGrid Ex. 1A at 18.
[15] *Id*. at 21.
[16] *Id*. at 19.
[17] *Id*. at 19-21.
[18] *Id*. at 21.
[19] NGrid Ex. 1B (Pre-Filed Testimony of James L. Loschiavo), p. 15.

PTF plant investment drives the increase of the ISO-NE RNS charges.[20] However, the increased expenses are offset by projected decreases in PTF load and ancillary services in 2010.[21]

Mr. Loschiavo discussed the various tariffs under which transmission service is provided to NGrid and how it is priced.[22] He estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2010 to be approximately $116.7 million and explained that his estimate included charges for Scheduling and Dispatch, Load Response, Black Start and Reactive Power.[23] Costs for Pool Transmission Facilities ("PTF"), Scheduling and Dispatch, Load Response, Black Start and Reactive Power total $88,324,739, with over $84 million allocated to the PTF demand charge.[24]

His estimates for the cost of Black Start Service is based on the costs for the period August 2007 through July 2008 average monthly ISO Black Start cost multiplied by 12 months to derive estimated costs for the entire New England Region. He then calculated a monthly amount and multiplied it by Narragansett's monthly network load, resulting in an allocated cost of $634,464 in 2010.[25] He calculated the Reactive Power costs in a similar manner using the full year 2008 actual ISO costs, resulting in an estimated $1.4 million to be allocated to Narragansett for 2010.[26] He also based the costs associated with Scheduling and Dispatch Service on the currently effective rate and for the Load Response Program on the most recent 12 month period. Mr. Loschiavo

[20] *Id*. at 16.
[21] *Id*. at 15-16.
[22] NGrid Ex. 1C at 2-12.
[23] *Id*. at 4-8, JLL-1.
[24] *Id*. at 16, JLL-1. PTF charges are assessed under the FERC approved ISO/RTO Tariff that provides access over New England's 69kV or greater looped transmission facilities which serve as the electric transmission "highway" in New England. *Id*. at 4.
[25] *Id*. at 11-12.
[26] *Id*. at 12.

explained that no Reliability Must Run ("RMR") contract charges have been estimated because Narragansett did not incur any RMR contract charges for the Rhode Island reliability region during 2009.[27]

Mr. Loschiavo estimated the 2010 ISO charges based on the revenue requirement filed with the Federal Energy Regulatory Commission ("FERC"). To estimate Narragansett's 2010 ISO charges, Mr. Loschiavo adjusted ISO's actual costs for the period January 2009 through September 2009 plus estimated costs for the remainder of 2009 by adding an inflationary factor to the October 2008 through December 2008 period.[28] The total estimated amount of direct ISO/RTO charges estimated to be allocated to Narragansett is $1,748,167.[29]

Estimating charges under Schedule 21 of the ISO/RTO tariff, Mr. Loschiavo projected a total of $26,591,359 which would be charged by New England Power Company pursuant to the Local Network Service Tariff. This is a slight reduction from 2009.[30]

E. <u>Reconciliation of Low Income Credit and Proposed Credit for 2009</u>

In Docket No. 3710, NGrid proposed to utilize $8 million from the proceeds of a settlement agreement to fund a four-year enhanced low income credit increasing the distribution credit on the A-60 rate by applying an additional $2 million per year on a per kWh basis for the first 450 kWh used by each customer taking service under the A-60 rate. The Commission approved the program for the first year only (CY 2006). In 2006, 2007 and 2008, the Commission approved the program for the second, third and fourth

[27] *Id*. at 13.
[28] *Id*. at 13-14.
[29] *Id*. at 13-14, JLL-1.
[30] *Id*. at 16.

years (CY 2007, CY 2008 and CY 2009). In this docket, Ms. Lloyd stated that after the final year of the refund, the balance in the account was $996,000. The Company proposed to continue an additional per kWh discount on the A-60 rate, of $0.00419 per kWh for the period March 1, 2010 through March 31, 2011.[31]

F. Lost Distribution Revenue Associated with Net-Metered Facilities

Ms. Lloyd noted that the Company is allowed to reconcile on an annual basis, the distribution portion of any renewable credits and any distribution charges displaced by renewable energy systems subject to Tariff R.I.P.U.C. No. 2006 and to recover those amounts from all customers through a uniform per kWh surcharge. Ms. Lloyd calculated $30,897 in displaced revenues from 2008 and an additional $17,264 paid during calendar year 2009. She stated that because the two-year amount of $45,019 was still too small to produce a billable factor, the Company was not seeking recovery through 2010 rates and would defer proposed recovery to the next annual reconciliation.[32]

G. Lost Distribution Revenue Resulting from Clariant Corporation Rate Transfer

Ms. Lloyd explained that in Docket No. 4042, the Commission approved a request by Clariant Corporation for a transfer from Rate G-62 to Rate G-32. The Commission also approved a tariff change made by NGrid which allowed the transfer and allowed the Company to recover the lost revenue from the transfer through December 31, 2009. According to the Company's calculations, the lost revenue was $103,976 for which NGrid is seeking recovery from both the G-62 and G-32 rate classes through a uniform per kWh charge of $0.00003 per kWh.[33]

[31] NGrid Ex. 1A, pp. 26-27.
[32] *Id*. at 28-29.

III. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on February 3, 2010. The following appearances were entered:

FOR NATIONAL GRID:	Thomas R. Teehan, Esq.
FOR DIVISON:	Leo J. Wold, Esq. Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

Ms. Lloyd and Mr. Loschiavo testified on behalf of NGrid. They each explained changes to their respective schedules and the impact on the original filing. Ms. Lloyd stated that while she had utilized updated forecasts, revenues and expenses for each SOS, Transition and Transmission, only the Transmission charge was significant enough to warrant filing updated rates.[34] She noted that the adjustments result in a $0.10 per month reduction of the proposed increase to a typical residential customer using 500 kWh per month.[35] With regard to the calculation of the LRS reconciliation, Ms. Lloyd indicated that while there are some customers who were in the non-residential group who are now in the Small Customer group, the inclusion of their LRS-related costs in the Large Customer group reconciliation did not change the calculated rate.[36]

Mr. Loschiavo provided more detail regarding the transmission related adjustments, noting that the total was a $9.3 million reduction in the 2010 transmission forecast. He explained that:

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[33] *Id*. at 29-30.
[34] Tr. 2/3/10 at 7-8, 28.
[35] Id. at 10-12. She stated that the Company is still comfortable using 500 kWh as the typical customer because approximately 54% of the residential customers use 500 kWh or less per month. *Id*. at 21.
[36] *Id*. at 25.

> [H]istorically, New England Power has had an imputed debt rate of 7.87 as a result of the CTC settlement. There was a provision in the settlement hat allowed for the pass-back of finance savings to CTC customers. That provision terminated on 12/31/09, so looking forward, we dropped that debt rate down to zero pending any new NEP issue debt.[37]

That one adjustment made up $6.3 million of the $9.3 million decrease in projected expenses. The remaining $3 million resulted from a change in the Company's treatment of routine repair/maintenance costs for tax purposes.[38] Mr. Loschiavo explained that the only long-term debt New England Power ("NEP") currently had was in the form of pollution control bonds which "under the tariff for purposes of the debt-to-equity ratio pollution control bonds are allowed, but for the debt rate, you're suppose to exclude [them]."[39]

The Division presented Mr. Stearns to provide updated information in response to NGrid's revised schedules. While Mr. Stearns initially stated that the underlying accounting and tax changes that led to the transmission changes appeared accurate and appropriate, he did welcome the opportunity to conduct a further review regarding the propriety of same in the form of a future memorandum to the Commission.[40]

IV. POST-HEARING SUBMISSIONS

On February 5, 2010, NGrid filed responses to Commission Record Requests. Regarding the increase in the deferred tax liability, NGrid responded that the methodology was the result of a Company change in an income tax accounting method rather than a change in tax law or IRS Regulation. The Company indicated that this

[37] *Id*. at 16.
[38] *Id*. at 17-18.
[39] *Id*. at 26.
[40] *Id*. ***at 46-47.***

accounting change will likely be reviewed through the IRS audit process due to a decision by the IRS to review certain tax provisions as applied by the utility industry.[41]

On February 8, 2010, the Division submitted a Memorandum from Stephen Scialabba, Chief Accountant and David Stearns, Rate Analyst V. They stated that after further review of the tax accounting changes, "it is the Division's position that the changes made by NEP to its transmission rate are appropriate for billing beginning March 1, 2010."[42] The Division noted that NGrid had referred to a potential challenge of its change by the IRS but had "disclosed to the Division that it was setting up a reasonable level of reserve to account for the potential for future tax disallowance."[43] Messrs. Scialabba and Stearns indicated that the Division is still reviewing the propriety of excluding pollution control bonds from NEP's long-term debt, but were not yet proposing any adjustments.[44] Finally, the Division recommended approval of the rates proposed by the Company on February 2, 1010 for usage on and after March 1, 2010.[45]

V. DOCKET NO. 4011 – STANDARD OFFER RECONCILIATION REPORTS

On February 22, 2010, NGrid submitted its monthly SOS Reconciliation Report, providing the final balance of the reconciliation of SOS costs through December 31, 2009 under the Wholesale Standard Offer Contracts which expired on December 31, 2009. Those WSOS's were long-term contracts exceeding ten years and included fuel adjustment provisions which were dependent upon changes in the price of oil and natural gas. The expenses under those contracts had a tendency to fluctuate substantially. Because the Company will now be procuring SOS through shorter term contracts which

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[41] NGrid Response to PUC-RR-1 and 2.
[42] Division Memorandum, 2/8/10 at 1.
[43] *Id*. at 1-2.
[44] *Id*. at 2.

do not have fuel adjustment provisions, the Company anticipated much less volatility in expenses. Therefore, the revenues should match the expenses more closely. In light of this, the Company requested permission from the Commission to cease filing monthly reports.[46]

VI. <u>COMMISSION FINDINGS</u>

After considering the evidence presented, the Commission approved a SOS base rate of 9.281 cents per kWh for the Small Customer group, a rate that excludes the bad debt factor approved in Docket No. 4065, In Re: Narragansett Electric Company d/b/a National Grid Application for Approval of Change in Electric Base Distribution Rates, the RES approved in Order No. 19878 (issued 12/23/09), and the SOAF. The Commission approved a SOAF of $0.00134 per kWh applicable to the Small Customer group and a SOAF of $0.00144 per kWh applicable to the Large Customer group. The Commission approved a Transition Charge of $0.00068 per kWh and a Transmission Adjustment Factor of $0.00001 per kWh. Finally, the Commission approved NGrid's proposal to collect the lost revenue associated with the Clariant transfer from Rate G-62 to Rate G-32 through a surcharge of $0.00003 cents per kWh applicable to customers in both rate classes.

With regard to the Company change in an income tax accounting method causing an increase in deferred tax liability, like the Division, the Commission notes that the Company suggested there could be an audit of such treatment and that the Company had, in fact, suggested to the Division that it had set up a reserve to account for a disallowance. The Commission is pleased that the Company has been forthcoming in

[45] *Id*.
[46] Letter from Thomas Teehan to Luly Massaro, 2/22/10 at 1.

disclosing this information. However, approval of the proposed Transmission rate herein should not be read to imply that the Commission will approve any fines associated with a finding by the IRS that the Company's accounting change was inappropriate.

On March 1, 2010, the Commission considered and approved NGrid's request to cease filing monthly SOS Reconciliation Reports in Docket No. 4011. However, the Commission desires to exercise a level of oversight to ensure that under- or over-collections do not grow excessive, particularly where there is a new procurement plan in place and it includes spot market purchases. The Company shall file quarterly reports which shall include a reconciliation of the current and prior period expenses and revenues broken out by Customer Group and a summary of the combined amounts. There shall be a schedule of the Administrative Costs for each class of customers in accordance with the Commission's decision in Docket No. 4065. Finally, there shall also be a schedule for the Renewable Energy Supply Reconciliation. The reports shall be filed on or before the last business day of the month following the end of the quarter, with the first report due on or before April 30, 2010.

Accordingly, it is hereby

(20031) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's proposed Standard Offer Adjustment Factor of $0.00134 per kWh applicable to the Small Customer Group is hereby approved for usage on and after March 1, 2010.
2. Narragansett Electric Company d/b/a National Grid's proposed Standard Offer Adjustment Factor of $0.00144 per kWh applicable to the Large Customer Group is hereby approved for usage on and after March 1, 2010.

3. Narragansett Electric Company d/b/a National Grid's proposed Transition Rate of $0.00068 per kWh is approved to become effective for usage on and after March 1, 2010.
4. Narragansett Electric Company d/b/a National Grid's proposed Transmission Adjustment Factor of $0.00001 per kWh is approved to become effective for usage on and after March 1, 2010.
5. Narragansett Electric Company d/b/a National Grid's proposed surcharge of $0.00003 per kWh applicable to G-62 and G-32 rate classes is hereby approved.
6. Narragansett Electric Company d/b/a National Grid is no longer required to file monthly Standard Offer Reconciliation Reports in Docket No. 4011, but shall file quarterly reports with the Commission in this Docket no later than the last business day of the month, with the first Report being due on or before April 30, 2010.
7. Narragansett Electric Company d/b/a National Grid shall file its next Annual Reconciliation filing for the period commensurate with the filing of the first Standard Offer Service Rate change for the Small Customer Group in 2011 at least 45 days prior to the proposed change in the Transmission and Transition Rates.
8. Narragansett Electric Company d/b/a National Grid shall comply with all other findings and instructions as contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT ON MARCH 1, 2010 PURSUANT TO OPEN MEETING DECISIONS ON FEBRUARY 10, 2010 AND MARCH 1, 2010. WRITTEN ORDER ISSUED JUNE 25, 2010.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner