

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**PUBLIC UTILITIES COMMISSION**

IN RE: NARRAGANSETT ELECTRIC COMPANY :  
PROPOSED RATE REDUCTIONS TO STANDARD : DOCKET NO. 3571  
OFFER RATE, TRANSITION CHARGE AND :  
TRANSMISSION ADJUSTMENT FACTOR :

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. Pursuant to the URA, Narragansett Electric Company (“Narragansett” or “Company”) entered into wholesale Standard Offer supply contracts with the following prices:

<u>Calendar Year</u>	<u>Price per kWh</u>
2004	5.1 cents
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 cents

The wholesale Standard Offer supply contracts also provide for increases in the price per kilowatt-hour (“kWh”) of wholesale power supplied to Narragansett in the event fuel prices increase above certain levels. To the extent that the total cost of the wholesale power supply to Narragansett, including fuel charges, exceeds retail Standard Offer Service (“SOS”) and Last Resort Service (“LRS”) revenues, the under-collection is recoverable from Narragansett’s customers through the annual reconciliation provisions of Narragansett’s Standard Offer Adjustment Provision. Likewise, to the extent Narragansett collects more than its total cost of providing SOS, the ratepayers are entitled

to recoup the benefit, with interest. Furthermore, Narragansett's transmission and transition charges are fully reconciling on an annual basis, the transition charges through an adjustment based on the annual reconciliation of wholesale power contract termination charges ("CTC") filed by National Grid and the transmission charges through a change in Narragansett's transmission adjustment factor ("TAF").

## II. NARRAGANSETT

On November 18, 2003, Narragansett filed with the Rhode Island Public Utilities Commission ("Commission") its annual reconciliation filing with respect to SOS, transition and transmission rates. The filing included: a proposed increase in the retail SOS rate from the present rate of 5.5 cents per kWh to 5.9 cents per kWh; a proposed decrease in the transition rate from the present rate of .944 cents per kWh to .855 cents per kWh; and a proposed increase in the transmission adjustment factor from the present rate of .063 cents per kWh to .080 cents per kWh. The result for a typical residential customer using 500 kWh of service would be an increase of 2.9% equal to \$1.70 per month. Therefore, the average monthly residential bill would increase from \$58.98 to \$60.68.<sup>1</sup> In support of the proposed rates, Narragansett presented the pre-filed testimony of Jeanne A. Lloyd, Principal Financial Analyst for National Grid USA Service Company, Michael J. Hager, Vice President, Energy Supply - NE for National Grid USA Service Company, and Anne M. Rodrigues, Senior Analyst in Transmission Rates for New England Power Company.

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<sup>1</sup> Narragansett Ex. 1A, Pre-filed testimony of Jeanne A. Lloyd, pp. 3-4, Exhibit JAL-10, p. 1.

A. Standard Offer Service

In his pre-filed testimony, Michael Hager explained that Narragansett has wholesale power supply contracts with several non-affiliated generators to serve the retail SOS load within its pre-merger (“Narragansett zone”) and post-merger (both “Narragansett zone” and “EUA zone”) service territories. All of these wholesale SOS supply contracts run through December 31, 2009.<sup>2</sup> Mr. Hager explained that Narragansett’s SOS supply contracts contain two price components – a base price and a fuel index adjustment provision. According to Mr. Hager, the fuel index adjustment provides for additional payments (“fuel index payments”) to be made to the SOS suppliers in the event of substantial increases in the market price of No. 6 residual fuel and natural gas. The price is based on a comparison of the six-month (“EUA zone”) and twelve-month (“Narragansett zone”) rolling average of oil and gas prices to a current trigger price.

In order to determine the extent of any fuel index payments for the period January 2004 through December 2004, Mr. Hager based the fuel index adjustment calculations on future gas and crude oil projections. In performing his calculations, he used the average gas and crude oil prices as reported in the Wall Street Journal on October 28, 29, and 30, 2003. Based on the numbers examined, Mr. Hager determined that Narragansett will have to make fuel index payments of .908 cents per kWh in the pre-merger Narragansett zone and .811 cents per kWh in the former EUA zone for the period January 2004

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<sup>2</sup> Narragansett Ex. 1B, (Pre-filed testimony of Michael Hager), pp. 3-4.

through December 2004.<sup>3</sup> This equates to a total SOS cost of 6.008 cents per kWh and 5.911 cents per kWh, respectively.<sup>4</sup>

Mr. Hager updated the Commission regarding the status of the dispute resolution between Narragansett and two of its SOS suppliers over disputed ISO-NE charges. Mr. Hager stated that the formal dispute resolution with one supplier was completed in June 2003, with an arbitration award in favor of the supplier. To date, Narragansett had not pursued a formal dispute resolution with the second supplier.<sup>5</sup>

Addressing the New England Power Pool (“NEPOOL”) standard market design (“SMD”) program that ISO New England commenced March 1, 2003, Mr. Hager explained that congestion costs are included in the energy component, thus making suppliers responsible for those costs. Mr. Hager noted that most of the SOS suppliers have implemented their SOS contracts in a manner that has not resulted in a reallocation of costs to Narragansett. However, Mr. Hager testified that two of its contracts with suppliers are subject to a dispute over responsibility for congestion costs. He stated that “[a]s a result of how these suppliers have implemented their contracts within the NEPOOL market system, the Company may incur some additional costs under these Standard Offer Service contracts.”<sup>6</sup> Specifically, Narragansett had entered into a confidential agreement with one supplier whereby each party has agreed to temporarily bear certain costs for which each believes the other is responsible pending a final resolution of the dispute. The second supplier has unilaterally implemented its SOS contract in a manner which causes Narragansett to be charged by ISO-NE for certain

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<sup>3</sup> Id. at 4-6.

<sup>4</sup> Id. at 6.

<sup>5</sup> Id. at 7-8.

<sup>6</sup> Id. at 8-9.

post-SMD costs. According to Mr. Hager, Narragansett has deducted all of the costs ISO-NE billed to it from the amounts that Narragansett has owed to the supplier. As of September 2003, the cost relative to this one contract has been approximately \$1.5 million.<sup>7</sup>

In her pre-filed testimony, Jeanne Lloyd noted that Narragansett's current SOS rate is 5.5 cents per kWh. Ms. Lloyd pointed out that the current rate consists of a base charge of 4.7 cents per kWh plus an estimated .8 cent per kWh in fuel index payments. The charge was designed in a manner where Narragansett would neither over-collect nor under-collect its total wholesale SOS expenses through December 2003.<sup>8</sup>

Ms. Lloyd stated that Narragansett is proposing to increase its SOS rate to 5.9 cents per kWh in order to meet anticipated fuel index payments.<sup>9</sup> According to Ms. Lloyd, if Narragansett were not to increase the SOS charge above the current level of 5.5 cents per kWh, she projects that Narragansett's SOS expenses will exceed its revenues by approximately \$26.9 million in December 2004.<sup>10</sup> In order to mitigate the impact of the fuel index payments, Narragansett proposes to utilize \$573,639 of last resort service

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<sup>7</sup> Id. at 10.

<sup>8</sup> Narr. Ex. 1A (Pre-filed testimony of Jeanne A. Lloyd), p. 18. Narragansett incurred fuel index payments of approximately \$66.8 million for the period October 2002 through September 2003, with approximately \$21.4 million offset by a supplier credit to Narragansett during a prior period. Id. at 21. In Docket No. 3508, the Commission directed Narragansett to monitor its SOS reconciliation on a monthly basis and file with the Commission for an adjustment to the rate if the projected balance as of December 2003 were to exceed \$16 million, either positive or negative. The balance as of December 2003 is estimated to be an over recovery of \$8.1 million, which Ms. Lloyd uses to mitigate the proposed rate increase. Id. at 18-19, JAL-7, p. 2.

<sup>9</sup> Id. at 16-19. The base SOS charge for 2004 is 5.1 cents per kWh. The remainder of the proposed increase, or .8 cents per kWh, is related to anticipated fuel index payments.

<sup>10</sup> Id. at 18-19.

("LRS") over-recovery.<sup>11</sup> Narragansett asserted that use of the over-recovery in the LRS account to offset the fuel index payments is consistent with past Commission policy.<sup>12</sup>

Narragansett argued that the circumstances fell within the Commission's past practice because, like in the previous cases, the current LRS over-recovery, incurred for the period October 2001 through September 2002, is due in part from out-of-period adjustments to wholesale expenses. Ms. Lloyd explained that many of the customers who had been taking LRS in the months to which the adjustments apply are now taking service from competitive suppliers.<sup>13</sup>

#### B. Transition Charge

In her pre-filed testimony, Ms. Lloyd explained that the transition charge is intended to recover the contract termination charge ("CTC") that was billed to Narragansett by its affiliated supplier, New England Power ("NEP"), when NEP released Narragansett from the all-requirements contract whereby Narragansett had contracted to buy all of the power required to serve Narragansett's customer load.<sup>14</sup> The Non-Bypassable Transition Charge Adjustment Provision in Narragansett's retail service tariff was established in the merger agreement between Narragansett, Newport Electric Company and Blackstone Valley Electric Company.<sup>15</sup>

Narragansett 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 Narragansett's total CTC expense against

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<sup>11</sup> Narr. Exhibit 1A, p. 22-23.

<sup>12</sup> Id. at 26-27. See Order No. 16635 (issued June 13, 2001) (allowing a Standard Offer adjustment factor to be applied to all kWh deliveries to collect under recoveries from both the SOS and LRS accounts) and Order No. 16916 (issued February 15, 2002) (allowing a SOS over-recovery be used to offset the LRS under-recovery incurred during the same period).

<sup>13</sup> Id. at 22-24.

<sup>14</sup> Id. at 5-6.

Narragansett'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-recovery of approximately \$125,000 for the period October 1, 2002 through September 30, 2003.<sup>16</sup> Because the over-recovery is relatively small, Narragansett proposed carrying the balance forward into the 2004 reconciliation to offset expenses incurred in 2004.<sup>17</sup> The result of Ms. Lloyd's calculations is a proposed reduction in the transition charge to .855 cents per kWh.

### C. Transmission Rate

In her pre-filed testimony, Ms. Lloyd outlined the three components of Narragansett's proposed increase in the Transmission Adjustment Factor: (1) a decrease of .011 cents per kWh to represent a decrease in forecasted transmission costs for 2004; (2) a decrease of .026 cents per kWh to refund a \$2 million over-recovery from the period October 2002 through September 2003; (3) an increase of .054 cents per kWh, due to the elimination of the 2003 transmission reconciliation factor.<sup>18</sup> The net result was a proposed increase of .017 cents per kWh, increasing the Transmission Adjustment Factor from .063 cents per kWh to .080 cents per kWh.<sup>19</sup>

Narragansett forecasted total transmission costs for 2004 of approximately \$38.7 million, resulting in a unit cost of 0.503 cents per kWh for 2004, or .011 cents less than the 2003 average transmission expense of .514 cents per kWh.<sup>20</sup> Narragansett reported a \$4.8 million transmission revenue over-recovery as of September 30, 2003. Ms. Lloyd

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<sup>15</sup> Id. at 6-7, See Order No. 16200 (issued March 24, 2000).

<sup>16</sup> Id. at 9-10.

<sup>17</sup> Id. at 8-10. The weighted average transition charge is based on a formula comparing the transition charges of the Narragansett zone and the EUA zone. Id. at 6-8.

<sup>18</sup> Id. at 10-11.

<sup>19</sup> Id. at 10.

<sup>20</sup> Id. at 12.

noted that in accordance with the Commission's Orders in Dockets No. 3031 and No. 3402 and No. 3479, Narragansett has continued to defer recovery of certain disputed uplift costs pending the outcome of an ongoing dispute with two of its suppliers. Narragansett proposed to continue to retain \$2.9 million of the transmission over-recovery, representing disputed ISO Tariff charges, as a deferred line item pending resolution of disputed ISO Tariff charges for the years 1999, 2000, 2001 and 2002 and year-to-date August 2003. Ms. Lloyd noted that, as discussed by Mr. Hager, the dispute with one supplier was resolved in the supplier's favor. Therefore, the Commission will have the opportunity to rule on the recovery of the disputed ISO Tariff expenses by Narragansett once Narragansett files for recovery of those costs.<sup>21</sup> Therefore, of the entire transmission over-recovery of \$4.8 million, Narragansett proposes refunding only approximately \$2 million at this time.<sup>22</sup>

In her pre-filed testimony, Ms. Anne Rodrigues explained that since January 1, 1998, Narragansett has been taking transmission services on behalf of its entire customer base under two open access transmission tariffs, NEP's FERC Electric Tariff No. 9 and NEPOOL's FERC Electric Tariff No. 1. Additionally, under ISO-NE's FERC Electric Tariff No. 1, ISO-NE provides Scheduling System Control and Dispatch, Energy Administration Service, and Reliability Administration Service.<sup>23</sup>

Ms. Rodrigues estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2004 to be approximately \$38.71 million, representing a net increase of \$138,078 from the 2003 forecast, primarily due to the combination of increases in transmission investments, NEPOOL Reactive Power and ISO-related costs together with

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<sup>21</sup> Narragansett Exhibit 1A, pp. 13-14.

<sup>22</sup> Id. at 14.

decreases in NEPOOL costs. She explained that her estimate included NEP Tariff 9 charges, NEPOOL RNS transmission charges, Black Start, Reactive Power and Load Dispatch charges.<sup>24</sup> In estimating Narragansett's ISO-NE expenses, Ms. Rodrigues based the charges on a revenue requirement filed by ISO-NE with FERC. She indicated that the increases in the estimates from ISO-NE between 2003 and 2004 are due to increased staffing and additional insurance expenses. Similarly, estimates for NEP Tariff 9 charges were based on NEP's actual expenses from September 2002 through August 2003 and increased that figure by \$6.6 million to reflect additional costs associated with forecasted capital additions to be completed during the rate year.<sup>25</sup>

The estimated NEPOOL tariff charges for 2004 were based on current tariff rates, with adjustments for an estimated annual increase to become effective June 1, 2004. Ms. Rodrigues' estimate included \$18.1 million in charges for certain Reactive power charges and \$6.5 million for Black Start service.<sup>26</sup>

### III. DIVISION

In response, on December 5, 2003, the Division of Public Utilities and Carriers ("Division") submitted a Memorandum authored by Mr. David Stearns, a Division Rate Analyst V, after he reviewed the filing made by Narragansett. Mr. Stearns indicated that the Division supported the Standard Offer and Transition Charges as filed by Narragansett. However, Mr. Stearns made an alternate recommendation regarding the TAF.<sup>27</sup>

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<sup>23</sup> Narragansett Ex. 1C, Pre-filed testimony of Anne M. Rodrigues, pp. 2-4, 8.

<sup>24</sup> Id. at 8, 11.

<sup>25</sup> Id. at 9, 11.

<sup>26</sup> Id. at 9-11.

<sup>27</sup> Division Exhibit 1 (Memorandum of David Stearns), 2.

Mr. Stearns recommended that the Commission order Narragansett to return the total over-recovery in 2004 in order to mitigate the increase in the TAF. In the past, the Commission has allowed Narragansett to hold the funds for future ratepayer benefit when the rates were stable or being reduced. As Mr. Stearns noted, the Commission has not approved the payment of the disputed ISO charges from ratepayer funds if Narragansett is unsuccessful in its challenge and therefore, at this time, he maintained that it is unclear whether Narragansett will be able to recover these costs.<sup>28</sup>

The difference between the filed request for an increase in the TAF to .080 cents/kWh and the Division's recommended decrease in the TAF to .042 cents/kWh results in a \$1.50 increase in a 500kWh customer's bill, 20 cents less than the increase proposed by Narragansett.<sup>29</sup>

#### IV. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 9, 2003. The following appearances were entered:

FOR NARRAGANSETT:	Terry L. Schwennesen, Esq.
FOR DIVISON:	Paul J. Roberti, Esq. Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson, Esq. Senior Legal Counsel

##### A. Narragansett's Testimony

At the hearing, Mr. Hager, Ms. Lloyd and Ms. Rodrigues testified on behalf of Narragansett. Ms. Lloyd testified that she had prepared an exhibit that calculates rates

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<sup>28</sup> Id.

<sup>29</sup> Id.

based on the Division's recommendations regarding the TAF.<sup>30</sup> The effect would be an increase of \$1.51 on the typical residential monthly bill, or approximately 2.6%, for a total bill of \$60.49 per month. The effect on the average low income residential customer without a water heater credit would be an increase of \$1.15 or approximately 3.1%, for a total bill of \$38.35 per month.<sup>31</sup> In December 1997, just prior to restructuring, the average residential monthly bill was \$61.92.<sup>32</sup>

Mr. Hager testified that, although the rate increase Narragansett requested, based on November fuel projections had not changed when calculated using December fuel projections, the prices had fluctuated in the interim.<sup>33</sup> Furthermore, Mr. Hager explained that one can expect a change in market prices each day. He stated that, "[i]n general, I always expect the gas and oil markets to be volatile, that there's always daily price movements."<sup>34</sup>

Addressing the fuel adjustment provision, Mr. Hager indicated that the purpose of the provision is to take some of the risks of a long term fixed-price contract off of the supplier in the event the market price is greater than the contract price. It also provides protections to ratepayers against a supplier walking away from a contract after evaluating the contract and the market and determining that the contract is so below the market that it is impossible to perform under the contract prices.<sup>35</sup> He noted that Narragansett never expected the fuel index provision being triggered in 2004, but the wholesale prices of natural gas have more than doubled since the standard offer contract was signed.<sup>36</sup>

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<sup>30</sup> Tr. 12/9/03, pp. 22-23. Narragansett Exhibit 3.

<sup>31</sup> Id. at 56.

<sup>32</sup> Id. at 57.

<sup>33</sup> Id. at 25-26.

<sup>34</sup> Id. at 35.

<sup>35</sup> Id. at 36-38.

<sup>36</sup> Id. at 37-38.

Turning to a comparison of the standard offer prices in Rhode Island compared to Massachusetts, Mr. Hager noted that Narragansett and Massachusetts Electric incurred the same monthly procurement costs and had identically priced contracts for the reconciliation period. However, Mr. Hager noted that whereas Rhode Island has adopted a forward looking ratemaking approach, Massachusetts has adopted a different approach.

In Rhode Island, rates are set based on anticipated costs going forward, with a policy toward minimizing under- or over-collections at the end of the reconciling period, even if it means allowing an interim decrease or increase in rates, whereas Massachusetts follows a policy of implementing rate stability. Therefore, as prices rose in late 2000 and early 2001, the Rhode Island Commission allowed incremental rate increases and when the prices began to fall in later 2001, the rates followed suit and allowed the SOS rate to remain stable for an eighteen month period without incurring an under-collection. Massachusetts SOS customers, on the other hand, are facing an under-collection of \$60 million, down from \$150 million. Ms. Lloyd noted that Narragansett, on the other hand, was projecting an over-collection of \$8 million to be rolled into the 2004 rates to mitigate the increase to 5.9 cents per kWh.<sup>37</sup> For comparison, if the filing to the Massachusetts Department of Technology and Energy (“DTE”) accepts Massachusetts Electric’s rate filing for 2004, Massachusetts SOS customers would face a SOS rate of 6.524 cents per kWh.<sup>38</sup> Mr. Hager explained that the filing anticipated the rate remaining in effect through the end of Massachusetts’ standard offer period, or February 28, 2005.<sup>39</sup>

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<sup>37</sup> Id. at 39-42.

<sup>38</sup> Massachusetts Electric’s website indicates that the SOS charge for effect January 1, 2004 is 6.802 cents per kWh. The default service rate in Massachusetts through April 2004 is 5.702 cents per kWh.

<sup>39</sup> Tr. 12/9/03, pp. 42-43.

On cross examination, Mr. Hager noted that during 2003, the SOS rate was almost  $\frac{3}{4}$  of a penny more than the default service rate and Mr. Hager testified that the large industrial customers have elected to enter the competitive supply market but that the small commercial and residential customers have been “slow to develop, although there are still some suppliers that are starting to look at it.”<sup>40</sup>

Narragansett’s filing proposed to retain the LRS over-collection for the period October 2002 through September 2003 to offset the anticipated fuel index payments. Ms. Lloyd explained that, like the basis for the offset that was previously allowed between the SOS account and LRS account in Docket No. 3402, the over-collection was due in large part to out-of-period adjustments that were related to non-residential customers who were taking LRS in a prior period. Ms. Lloyd noted that the timing issue is created by the ISO settlement process. The monthly true-up procedure reconciles monthly estimates with actual charges. Payments have been made to Narragansett as late as up to six months after a prior period. Those customers no longer taking LRS would be administratively difficult to identify (if they are still customers of Narragansett at all) for purposes of a refund.<sup>41</sup> Furthermore the majority of the ratepayers currently taking LRS are residential customers who are charged the SOS rate, not the non-residential LRS rate which is higher.<sup>42</sup>

#### B. Division’s Testimony

The Division presented Mr. Stearns to testify in support of the Division’s position. Mr. Stearns reiterated his recommendation that the Commission accept Narragansett’s SOS and transition charges as filed and reduce the transmission charge by returning all of

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<sup>40</sup> Id. at 45-46.

<sup>41</sup> Id. at 32-33.

the deferred over-collection. Additionally, Mr. Stearns testified that the Division believed it is reasonable for Narragansett to file for a SOS rate increase or decrease if the under- or over-collection projected at the end of 2004 exceeds \$16 million. Finally, Mr. Stearns testified that even with the volatility in the market, he was comfortable with the SOS rate being set at 5.9 cents per kWh, especially in light of the fact that Narragansett will be monitoring the projected end-of-the-year balance monthly.<sup>43</sup>

#### V. COMMISSION FINDINGS

After considering the evidence presented, the Commission approved Narragansett's rate proposal as filed in part and denied the proposal as filed in part. Specifically, the Commission approved Narragansett's proposals with regard to the SOS rate, transition rate, and the LRS over-recovery, as just and reasonable and in the best interests of the ratepayers. With regard to the TAF, the Commission found the Division's recommendation to return the entire over-collection to be just and reasonable and in the best interests of the ratepayers.

The Commission determined that Narragansett's proposal to continue reporting monthly on the projected balance of the SOS account as of December 31, 2004 is reasonable. Furthermore, the Commission found that Narragansett Electric should file for a SOS rate adjustment if monthly projections indicate that the SOS account will accrue an over- or under-collection in excess of \$16 million as of December 31, 2004. The effect of a \$16 million balance is 2.4 mills per kWh on the SOS rate.

In rendering its decision, the Commission noted that Narragansett does not earn any profit on the SOS, transmission or transition charges. These rates are the result of

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<sup>42</sup> Id. at 33.

<sup>43</sup> Id. at 60-62.

charges that Narragansett must pay in order to distribute the electricity to homes and businesses. With regard to the SOS rate, the Commission regulates Narragansett, but does not regulate the wholesale oil and natural gas prices. The Commission must appropriately address those costs and allocate those costs to the different groups of customers as those costs are incurred.

The Commission notes that while the various state news agencies are quick to print or announce headlines that indicate the Commission has raised rates, what these headlines, and oftentimes even the stories, do not tell ratepayers is that the overall residential monthly bill is still lower than it was six years ago and in fact, the SOS rate is still lower than it was during the wholesale market spike in 2001. Furthermore, the 2004 SOS rate is still lower than the rate Narragansett was able to set when it procured last resort service power in the market for the period January 2004 through August 31, 2004.

While the Commission is hopeful that a market will develop under restructuring, it will continue to diligently ensure that rates remain as stable as possible given the wholesale market volatility. The Commission reiterates that the General Assembly has voted in favor of electric restructuring twice based on the theory that competition will ensure lower energy prices. What the Commission has seen, however, is that the wholesale market prices have increased dramatically over the past six years. Testimony at Commission hearings has consistently indicated that nobody ever thought wholesale natural gas prices would settle out at \$5 and \$6 per MMBTU, when they hovered around \$2 and \$3 in 1996. The Commission reminds ratepayers that it has no control over these commodity prices.

Accordingly, it is hereby

(17800) ORDERED:

1. Narragansett Electric Company's proposed retail Standard Offer Service Rate of 5.9 cents per kWh is approved for service on and after January 1, 2004.
2. Narragansett Electric Company's proposed Transition Rate of .855 cents per kWh is approved to become effective for service on and after January 1, 2004.
3. The Division of Public Utilities and Carriers's proposed adjustment to Narragansett Electric Company's retail Transmission Rate to .478 cents per kWh is approved to become effective for service on and after January 1, 2004.
4. Narragansett Electric Company shall apply the Last Resort Service account over-recovery for the period October 1, 2002 through September 30, 2003 to fuel index charges as incurred.
5. Narragansett Electric should file for a SOS rate adjustment if monthly projections indicate that the SOS account will accrue an over- or under-collection in excess of \$16 million as of December 31, 2004.
6. Narragansett Electric Company shall comply with all other findings and instructions as contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN  
MEETING DECISION ON DECEMBER 9, 2003. WRITTEN ORDER ISSUED  
MARCH 31, 2003.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Robert B. Holbrook, Commissioner