

**DIVISION OF PUBLIC UTILITIES AND CARRIERS
MEMORANDUM**

**TO: LULY MASSARO
COMMISSION CLERK**

DATE: 1/28/09

**FROM: STEPHEN SCIALABBA
CHIEF ACCOUNTANT**

**SUBJECT: NARRAGANSETT ELECTRIC MARKET ASSESSMENT, DOCKET
3605, FILED JANUARY 9, 2009.**

On January 9, 2009 Narragansett Electric d/b/a National Grid submitted a market assessment to the PUC, as required by Commission Order 19368 in Docket 3605. Fundamentally, the purpose of the filing is to assess the conditions in the electric wholesale and retail markets, and determine if those conditions warrant modifications to the manner by which Narragansett procures its power supply for its Last Resort Service (LRS) load.

As a result of its assessment of the New England wholesale and Rhode Island retail competitive markets, Narragansett recommends to the Commission that it continue to procure LRS for the May 2009 through December 2009 period under the currently approved LRS Acquisition Plan. Similar to the prior LRS procurement, Rhode Island's acquisition will be made concurrent with the RFP process for National Grid's retail distribution affiliates in Massachusetts and New Hampshire. This combined solicitation has been done previously. One component of the proposed LRS procurement that is different from prior procurements is that Grid seeks to secure a supply for an eight month period, through December 2009, as opposed to the usual six month procurement. Grid has explained that this would allow the next Last Resort procurement period to coincide with the start of the new Standard Offer Service contract(s) in 2010. It is unknown at this time what the 2010 (and beyond) Standard Offer procurement will consist of and it may be possible that a separate Last Resort procurement may not be necessary for 2010. I would agree that until those issues are vetted in the proceeding before the PUC, it is reasonable for National Grid to go out for an eight month contract now, in order to avoid the possibility of having to go for a two month Last Resort supply contract for November and December of 2009.

National Grid's assessment of the wholesale energy market trends notes the significant volatility in the wholesale energy spot market, with large price spikes in the price of natural gas in the first half of 2008, followed by significant price drops in the second half of 2008. As prices remain low into 2009, Grid expects a lower set of bid prices for the next contract than the prices in effect under the current contract.

Regarding Renewable Energy Standard (RES) requirements, Narragansett plans to have LRS bidders provide a separate RES adder in their bid to cover Narragansett's RES statutory obligations. Narragansett will have the option of taking the power with or

without the RES adder, depending on Grid's assessment of the bids and Grid's market estimate for REC's. The Division finds this approach provides a degree of flexibility regarding Grid's RES procurement obligation and is reasonable regarding the LRS RES procurement.

Regarding capacity costs, National Grid will have bidders include the costs of the Forward Capacity Market in their bids. Also, similar to prior approved procurements, supply will be sought separately for LRS Residential and Commercial & Industrial customer groups.

Based on our review of the January 9, 2009 market assessment submitted by National Grid, the Division is of the opinion that it is reasonable and that National Grid's LRS procurement plan as described in the market assessment filing should be approved.