

DIVISION OF PUBLIC UTILITIES AND CARRIERS
MEMORANDUM

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PUBLIC UTILITIES COMMISSION
DATE: 7/11/06

TO: LULY MASSARO

FROM: STEPHEN SCIALABBA
CHIEF ACCOUNTANT

**SUBJECT: NARRAGANSETT ELECTRIC MARKET ASSESSMENT DOCKET
3605, FILED JUNE 1, 2006**

On June 1, 2006 Narragansett Electric d/b/a National Grid submitted a market assessment to the PUC, as required by Commission Order 18495 in Docket 3605. Basically, the purpose of the market assessment is to assess the conditions in the electric wholesale and retail markets, and determine if those conditions warrant modifications to the manner in which Narragansett procures its power supply for its Last Resort Service (LRS) load. Prior to filing this most recent assessment with the PUC, Narragansett and the Division engaged in discussions regarding the state of the market and the upcoming procurement process. Narragansett provided the Division with a draft of its assessment prior to its filing with the Commission.

Based on our review of the filing and our assessment of current market conditions, the Division agrees that the Last Resort Service procurement should continue in the manner proposed in Narragansett's June 1 filing. In the upcoming procurement, for the period November 1, 2006 through April 30 2007, Narragansett plans to procure LRS power in conjunction with its procurement for National Grid's Massachusetts Basic Service and New Hampshire's Energy Service (the equivalent to LRS in Rhode Island). This combined solicitation was previously discussed by Narragansett in this docket, and its current LRS contract term was timed to conclude so as to put Rhode Island on the same procurement schedule as Massachusetts and New Hampshire. Similar to prior approved procurements, supply will be sought separately for LRS Residential and Commercial & Industrial customer groups.

Regarding Renewable Energy Standard (RES) requirements for 2007, Narragansett is required to have at least 2% of its supply from renewable resources in 2007. Due to the required timing of the LRS RFP and present uncertainties associated with RES costs, Narragansett plans to subsequently file for an RES adder for effect in January 2007. This is a reasonable proposal in our opinion.

Regarding capacity costs, if Narragansett determines that there are sufficient uncertainties in the market rules at the time that final LRS bids would be due, Narragansett would ask that bids not include "uncertain" capacity costs, and actual market costs for capacity would be paid to the supplier when known. This eliminates a

possibility of bids for LRS carrying a significant risk premium due to uncertainty in the capacity market. This approach has been approved in the past by the Commission.

Based on our review of the June 1 market assessment submitted by Narragansett, the Division is of the opinion that it is reasonable and that Narragansett's LRS procurement plan as described in the market assessment filing should be approved.