

**DIVISION OF PUBLIC UTILITIES AND CARRIERS
MEMORANDUM**

**TO: LULY MASSARO
COMMISSION CLERK**

DATE: 7/30/08

**FROM: STEPHEN SCIALABBA
CHIEF ACCOUNTANT**

**SUBJECT: NARRAGANSETT ELECTRIC MARKET ASSESSMENT DOCKET
3605, FILED JULY 1, 2008**

On July 1, 2008 Narragansett Electric d/b/a National Grid submitted a market assessment to the PUC, as required by Commission Order 19201 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 November 2008 through April 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. National Grid's assessment of the wholesale energy market trends notes the significant volatility in the wholesale energy spot market, caused in large part on the increase in the cost of natural gas. 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 July 1, 2008 filing. Similar to prior approved procurements, supply will be sought separately for LRS Residential and Commercial & Industrial customer groups.

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.

The Master Power Supply Agreement submitted as part of Grid's July 1, 2008 filing identifies Mr. Michael Hager as Grid's representative (Page 18). Mr. Hager is no

longer associated with National Grid. The Company has been notified of this discrepancy, and has assured the Division that it will be corrected before any contracts are negotiated. Based on our review of the July 1, 2008 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.