

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY :  
LAST RESORT SERVICE ACQUISITION PLAN : Docket No. 3605

**REPORT AND ORDER**

**I. Background**

The 2002 Amendments to the Utility Restructuring Act (“URA”) require electric distribution companies, such as Narragansett Electric Company (“Narragansett” or “Company”) to provide Last Resort Service (“LRS”) to any customers who have left standard offer for any reason and are not otherwise receiving electric service from nonregulated power producers.<sup>1</sup>

Rather than approving the actual LRS rates, the Public Utilities Commission (“Commission”) has been granted the authority by the General Assembly to approve a LRS acquisition plan, specifically, the acquisition procedure, the pricing options sought and the term of service. As long as Narragansett complies with an approved LRS acquisition plan, it is entitled to recover its costs associated with providing LRS.<sup>2</sup>

On May 17, 2004, the Commission approved Narragansett’s procurement plan for the period September 1, 2004 through February 28, 2005 for all customers, with an option for Narragansett to procure power for residential customers for additional periods if the average market price fell below certain specified levels. To better match the competitive market Narragansett would procure power for non-residential customers for only the first six month period. In accordance with the approved Acquisition Plan, Narragansett entered into a six-month all requirements, cost inclusive, load following

---

<sup>1</sup> R.I.G.L. § 39-1-27.3(c) (2002).

<sup>2</sup> R.I.G.L. § 39-1-27.3(c) (2002).

contract for LRS for residential and non-residential customers. No final responsive bids were received for additional periods for residential customers. As a result, in accordance with the Acquisition Plan, Narragansett did not procure power beyond six months for LRS customers. Such procurement is the subject of this order.

Under R.I.G.L. § 39-1-27.3(c), the Commission is not required to conduct a full hearing regarding a proposed Acquisition Plan for each procurement and Narragansett may continue to procure power under the Acquisition Plan approved in this docket. However, “the Commission may periodically review the acquisition plan to determine whether it should be prospectively modified due to changed market conditions.”<sup>3</sup> To determine whether the market conditions have changed since the Commission’s May 2004 decision in this docket, Narragansett was ordered to file with the Commission, by November 1, 2004, an assessment of the market as it exists at the time the procurement process would need to commence. The Division of Public Utilities and Carriers (“Division”) was required to provide the Commission with its position by December 1, 2004.

## **II. Narragansett’s Market Assessment**

On November 1, 2004, Narragansett filed a Market Assessment, indicating that “based on its assessment of the New England wholesale and Rhode Island competitive retail markets and discussions with the Division...the Company recommends that it continue to procure LRS under the Current Acquisition Plan approved by the Commission in Docket No. 3605.”<sup>4</sup>

---

<sup>3</sup> R.I.G.L. § 39-1-27.3(c) (2002).

<sup>4</sup> Narragansett Electric Last Resort Service Acquisition Plan November 2004 Market Assessment, filed November 1, 2004 (“Market Assessment”), p. 1.

In arriving at its conclusion, Narragansett reviewed the following seven aspects of the market: (1) wholesale energy market trends; (2) lessons learned from previous RFPs; (3) wholesale market rule changes approved and implemented since the last procurement; (4) anticipated wholesale market rule changes that may become effective during the period covered by the next solicitation; (5) recent procurement practices of other New England utilities; (6) changes in the number of customers taking competitive retail supply in Rhode Island; and (7) changes in the number of customers enrolled in LRS or the quantity of load to be served.<sup>5</sup>

First, Narragansett summarized recent wholesale market trends, noting that the clearing price in the wholesale energy spot market has shown an upward trend over the last few years. Narragansett opined that this trend will continue.<sup>6</sup> Second, Narragansett indicated that the main lesson it has learned from previous RFPs is that suppliers have been unwilling to provide pricing beyond six months due to the volatility of the LRS customer base and uncertainty in the wholesale energy market prices.<sup>7</sup> Third, Narragansett summarized recent and anticipated market rule changes. Narragansett indicated that any changes that could affect costs have been addressed in the power supply contract and put responsibility for any of those costs on suppliers.<sup>8</sup> Fourth, Narragansett indicated that after a review of RFPs that have been issued by its affiliates and other New England distribution companies since the June 2004 LRS solicitation in RI, the Company believes that the process approved by the Commission in May still

---

<sup>5</sup> Id. at 2.

<sup>6</sup> Id.

<sup>7</sup> Id. at 3.

<sup>8</sup> Id. at 3-4.

represents the best practices for the procurement of LRS for the next six months.<sup>9</sup> Fifth, Narragansett indicated that the number of customers taking competitive supply since May 2004 has increased by 28%, indicating both a willingness of LRS customers to review competitive offers and move back into the market and the ability of competitive suppliers to compete against the LRS prices currently in effect.<sup>10</sup> Sixth, Narragansett indicated that the number of customers taking LRS has decreased 28% since the last filing in May 2004 and that the load has decreased by 7%.<sup>11</sup> Finally, Narragansett reiterated that as part of its routine review of all contracts, it has made changes to clarify terms, and has reserved the right to negotiate specific contract changes with the suppliers, but will ensure that any changes do not shift risks or obligations described in the Acquisition Plan to customers.<sup>12</sup>

### **III. Division's Recommendation**

On December 1, 2004, the Division submitted a Memorandum of Stephen Scialabba, its Chief Accountant. Mr. Scialabba summarized Narragansett's filing and recommendations. He indicated that the Division is "in general agreement with the Company's November 1 market assessment" and it "recommends that for the next LRS procurement, that the Company procure under the existing approved acquisition plan approved in Docket 3605."<sup>13</sup>

### **IV. Commission Findings**

On December 17, 2004, at an open meeting, the Commission considered the filings made by Narragansett and the Division and approved Narragansett's proposal to procure LRS for customers in accordance with the Acquisition Plan approved in this

---

<sup>9</sup> *Id.* at 4.

<sup>10</sup> *Id.* at 5.

<sup>11</sup> *Id.*

<sup>12</sup> *Id.*

docket in Order No. 17903 (issued July 12, 2004). The Commission finds that, based on Narragansett's market assessment and the Division's recommendation, the Acquisition Plan will provide power supply contracts which are in the best interest of the residential and non-residential ratepayers who are current or future purchasers of electricity through the LRS supply.

Although not specifically addressed by the parties, the Commission also finds that continuation of the agreement between the parties in Docket 3444, as approved in Commission Order No. 17203 and Order No. 17903, is a reasonable approach to the issue of the Commission's right to review the prudence of Narragansett's discretionary actions under the approved Acquisition Plan as well as to review Narragansett's actions for compliance with the Plan.<sup>14</sup>

Accordingly, it is hereby

(18122) ORDERED:

1. Narragansett Electric Company's proposal to continue following the Last Resort Service Acquisition Plan approved by the Commission in Order No. 17903 for the purposes of procuring power for residential and non-residential customers for the six-month period, March 1, 2005 through August 31, 2005,

---

<sup>13</sup> Division's Memorandum, filed December 1, 2004.

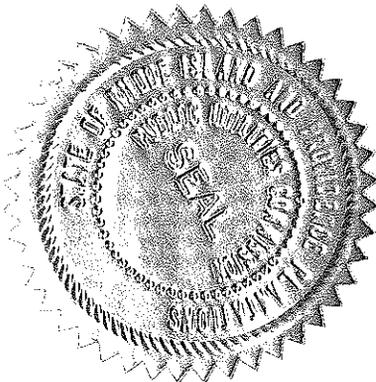
<sup>14</sup> Under the agreement, Narragansett may exercise discretion. However, "...Narragansett's discretionary actions under an approved LRS acquisition plan should also be subject to an after-the-fact prudence review. Such a review would most likely be prompted if Narragansett's discretionary action, such as a decision to accept a non-conforming bid, had an adverse impact on the ratepayers. The review would be based on a review of the facts before Narragansett at the time it exercised its discretion. The letter concluded with the statement that, "with these limitations, Narragansett agrees that, notwithstanding the notification to the Division and Commission...the Commission retains the authority to conduct a retrospective review of the exercise of Narragansett's discretion undertaken under an approved plan. Narragansett's actions would also be subject to review for compliance with the Plan approved by the Commission." July 17, 2002 Letter from the parties to the Commission in Docket No. 3444.

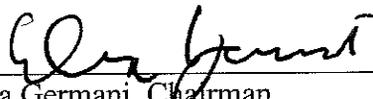
with the option for additional procurements for residential customers in accordance with the terms of the Acquisition Plan is hereby approved.

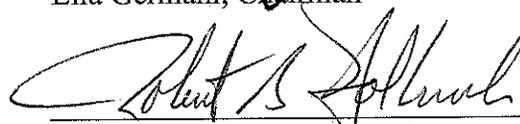
2. On or before April 15, 2005, Narragansett Electric Company shall file with the Commission a Market Assessment or proposed Last Resort Service Acquisition Plan for review.
3. Within thirty (30) days from Narragansett Electric Company's filing of a Market Assessment or proposed Last Resort Service Acquisition Plan, the Division shall file with the Commission a recommendation for review.
4. The Commission shall have the right to review Narragansett Electric Company's Last Resort power supply contracts for compliance with the approved Acquisition Plan, and to review the prudence and reasonableness of any discretionary actions taken by Narragansett under the approved Acquisition Plan.
5. Narragansett Electric Company and all Parties shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 17, 2004. WRITTEN ORDER ISSUED JANUARY 11, 2005.

PUBLIC UTILITIES COMMISSION



  
Elia Germani, Chairman

  
Robert B. Holbrook, Commissioner