

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

**IN RE: NARRAGANSETT ELECTRIC :
d/b/a NATIONAL GRID'S LAST RESORT SERVICE :
ACQUISITION PLAN FOR THE PERIOD : DOCKET NO. 3605
BEGINNING MAY 1, 2007 :**

REPORT AND ORDER

I. BACKGROUND

Narragansett Electric Company d/b/a National Grid (“NGrid” or “the Company”) and all other electric distribution companies in Rhode Island are required to provide Last Resort Service (“LRS”) to any customers who have left Standard Offer Service (“SOS”) for any reason and who are not receiving electric service from a non-regulated power producer. R.I.G.L. §39-1-27.3(c). The Public Utilities Commission (“Commission”) has the statutory authority to approve a LRS Acquisition Plan including the procedure for such acquisition, the pricing options being sought and the term of service for which LRS will be acquired. R.I.G.L. §39-1-27.3(c). NGrid can recover its costs incurred from providing LRS pursuant to the Commission approved plan. R.I.G.L. §39-1-27.3(c).

At an open meeting on July 13, 2006, the Commission approved, in Order No. 18699 (August 23, 2006), NGrid’s June 1, 2006 proposal to follow the LRS Acquisition Plan previously approved by the Commission in this Docket, specifically Order No. 18495 (January 11, 2006), for the purpose of procuring power for residential and non-residential customers for the six month period November 1, 2006 through April 30, 2007. The Commission has the authority to require modification of the approved LRS Acquisition Plan should it determine market conditions warrant such change.¹ Order No. 18699 also required NGrid to file a Market Assessment by November 1, 2006 so that the

Commission could determine whether the Company should continue to procure LRS according to the previously approved plan. Prior to November 1, 2006, NGrid requested an extension of deadline to January 5, 2007 in order that the information provided to the Commission would be more current to the next procurement period.

II. MARKET ASSESSMENT

On January 5, 2007, the Company filed the Market Assessment required by Order No. 18699 and recommended that it be allowed to continue to procure LRS under the current plan approved by the Commission.² NGrid proposed that it continue to procure LRS supply for residential and non-residential customers in conjunction with the procurement for the Company's customers in New Hampshire and Massachusetts, and that it be allowed to use the same RFP process and standard form agreement, with some minor modifications, previously approved by the Commission.³

In compliance with the Commission's previous order and in order to determine whether modifications were necessary to the procurement process contained in the approved LRS Acquisition Plan, NGrid conducted an assessment of the New England wholesale and Rhode Island competitive retail markets since its August 2006 procurement. The Company evaluated a number of factors in arriving at its conclusion that there were no significant changes in the market to warrant a change in the procurement process previously approved by the Commission.⁴

The first aspect of the market that the Company evaluated was the wholesale energy market trends. The price of natural gas reached historic levels by the end of 2005.

¹ R.I.G.L. §39-1-27.3.

² Last Resort Service Market Assessment, January 5, 2007, p. 2

³ Id.

⁴ Id. at pp. 2-3.

In 2006, the price has trended downward. Specifically, the price of natural gas from the last two LRS procurements, compared to the futures market price for the twelve month period beginning May 2007, reveals a decrease in price. The Company anticipates that the price per kWh will be one cent less than the price received in the last RFP.⁵

NGrid also evaluated experiences with prior RFPs and concluded that although it received fewer bids for LRS than it did for other services, primarily because suppliers did not want to risk migration from competitive supply to LRS, it would not change its retail rules at this time. The Company will continue to review alternative procurement strategies internally and with the Division of Public Utilities and Carriers (“Division”) as such strategies are proposed.⁶

Beginning in 2007 NGrid is required by law to procure 3% of its energy from renewable sources.⁷ In November of 2006, it filed its Renewable Energy Procurement Plan with the Commission for review and approval. Since that plan has not yet been approved, the Company is requesting that suppliers responding to the RFP include a RES adder, with separate pricing to provide the RES obligation, in addition to their bid to provide LRS. In the event that the Commission approves the RES Procurement Plan prior to the next RFP, the Company will include the RES obligation in its subsequent RFP(s).⁸

The Company also looked at wholesale market rule changes approved and implemented since their last procurement. On December 1, 2006, new capacity market rules went into effect. NGrid proposed requesting that all bids include the costs of

⁵ Id. at pp. 3-4.

⁶ Id. at p. 5.

⁷ R.I.G.L. §39-26-4.

⁸ Last Resort Market Assessment, January 5, 2007 at pp. 5-6.

meeting the Forward Capacity Market obligations which result in approximately a one cent per kWh increase in costs. Additionally, FERC issued an order, accepting Appendix H to Market Rule 1 concerning cold weather operating procedures, which provide for coordination with ISO-NE in addressing the negative effects, such as exposure to high natural gas prices, of extreme cold weather in New England. These cold weather operating procedures also allow for the recovery of extraordinary fuel expenses during cold weather events and provide an assurance to generators that they will be able to recover start-up, no-load, and incremental energy costs in the event that those costs exceed \$1,000/MWh.⁹

In addition to the approved rule changes, the Company also evaluated the anticipated wholesale market rule changes and identified only one significant change anticipated at the time of its filing. The change required revisions to add Long-Term Transmission Rights (“LTTR”) to the existing Financial Transmission Rights (“FTRs”) available under the current ISO-NE rules. These proposed rules will add five-year LTTRs to the current monthly and annual FTR auctions. Allocated LTTRs will be available and directly allocated to eligible Load Serving Entities upon request, in addition to Auctioned LTTRs that are available to all market participants. The Auction Revenue Rights holders would be allocated any charges required to assure the full funding of FTRs and LTTRs under these new rules.¹⁰

NGrid reviewed requests for proposals that had been issued by other New England distribution companies since the June 2006 Market Assessment to ensure 1) that it was employing the best practices for procurement of LRS and 2) that no changes were

⁹ Id. at pp. 6-7.

¹⁰ Id. at pp.7-8.

necessary to its current plan. The Company evaluated a pilot program implemented by Fitchburg Gas and Electric Light Company (“Fitchburg”) designed to increase wholesale supplier interest in serving a large customer group by requesting both fixed and variable monthly pricing for its large customer group default service requirements. Fitchburg accepted a bid for the variable pricing option for the period December 2006 through February 2007 that provided the most overall value to its large customer group. NGrid will continue to monitor this pilot program and consider including this option in future solicitations or in its Contingency plan. Distribution companies in Connecticut and Massachusetts have purchased multi-year supplies in an attempt to limit price volatility. NGrid concluded that due to a number of conditions, including customer migration, market rule changes and the uncertainty of capacity costs subsequent to the transition period, the pricing for multi-year supplies included a significant risk premium for all multi-year all-requirements service as compared to projections of wholesale power prices over the same period.¹¹

Since its June 1, 2006 filing in this Docket, NGrid has observed a 10% increase in the number of customers taking competitive supply in Rhode Island.¹² Additionally, calculations have revealed that approximately 274 Standard Offer Service customers had elected to take service from non-regulated power producers. Both of these figures demonstrate and support the assertion that non-regulated power producers have been successful in competing against rates for Standard Offer Service and LRS currently in effect. Because of the number of customers that could potentially transfer to LRS, NGrid

¹¹ Id. at pp. 8-9.

¹² Id. at pp. 9, 15.

does not believe any changes are required in its LRS Acquisition Plan for the pending LRS solicitation.¹³

Finally, the Company reviewed its LRS customers and load requirements and concluded that since filing its Market Assessment in June 2006, the number of LRS customers has decreased by 7% or 58 customers. This decrease has the potential to cause significant LRS load volatility, even though the LRS load has remained relatively flat since June 2006. Again, these numbers led the Company to the conclusion that no changes are required to the LRS Acquisition Plan for the upcoming solicitation.¹⁴

In order to improve its solicitation process, NGrid developed a master power supply agreement designed to reduce the amount of time needed to negotiate contract terms. Rather than negotiating every term of the contract for each RFP, the Company will negotiate general boiler plate terms one time. Subsequent RFPs will require only the negotiation of only those terms specific to each contract, i.e., price, duration, award blocks, etc. The Company will offer this master power supply agreement in February 2007 when it issues its LRS RFP.¹⁵

III. DIVISION'S RECOMMENDATION

On February 8, 2007, Stephen Scialabba, Chief Accountant with the Division, submitted a Memorandum in response to NGrid's Market Assessment. Mr. Scialabba concluded that based on his review of the Company's filing and his review of current market conditions, NGrid's LRS Procurement Plan should continue in the manner proposed. Mr. Scialabba addressed the Company's review of the multi-year supply agreements and the fixed versus variable pricing option and agreed with NGrid that

¹³ Id.

¹⁴ Id. at pp. 10, 16, 17.

conditions for LRS do not yet warrant consideration of these options. Additionally, he found the Company's proposal to have bidders provide a separate RES adder to be flexible and reasonable regarding its Last Resort Service RES procurement.¹⁶

IV. COMMISSION FINDINGS

On February 12, 2007, the Commission held an open meeting to consider, among other things, NGrid's Market Assessment and proposal to continue to procure LRS for customers pursuant to the Acquisition Plan approved in this Docket in Order No. 18699 (issued August 23, 2006). Based on the Market Assessment prepared by NGrid and the recommendation of the Division, the Commission found that the LRS Acquisition Plan will provide power supply contracts which are in the best interest of the residential and non-residential ratepayers who are currently purchasing or may in the future purchase electricity through LRS supply. Based on the Company's evaluation¹⁷ of the wholesale energy market trends, previous RFP experience, wholesale market rule changes and anticipated changes, recent procurement practices of other New England utilities and the changes in the number of customers taking competitive retail supply and those enrolled in LRS or the quantity of load to be served, these contracts should ensure that the price of the electricity purchased on the customers' behalf will be purchased at the fairest price and in adequate supply. The Commission will address the LRS RES requirements at the time that it reviews NGrid's RES Procurement Plan.

Although not specifically addressed by the parties, the Commission finds that the agreement entered in Docket No. 3444, as approved by the Commission in Order Nos.

¹⁵ Id. at pp. 10-11.

¹⁶ Division of Public Utilities and Carriers Memorandum, February 8, 2007.

¹⁷ The conclusions of these evaluations are set forth in the body of this decision.

17203 and 17903, remain in full force and effect and that it is a reasonable approach to the issue of the Commission's right to review the prudence of NGrid's discretionary actions under the approved Acquisition Plan as well as to review NGrid's actions for compliance with the Plan.¹⁸

Accordingly, it is hereby

(18882) ORDERED:

1. NGrid's proposal to continue following the Last Resort Service Acquisition Plan approved by the Commission in Order No. 18699 for the purposes of procuring power for residential and non-residential customers for the six month period, May 1, 2007 through October 31, 2007, in accordance with the terms of the Acquisition Plan as amended in its January 5, 2007 filing, is hereby approved.
2. On or before July 2, 2007, NGrid shall file with the Commission a Market Assessment or proposed Last Resort Service Acquisition Plan for review.
3. Within thirty (30) days from NGrid's filing of a Market Assessment or proposed Last Resort Service Acquisition Plan, the Division shall file with the Commission a recommendation for review.

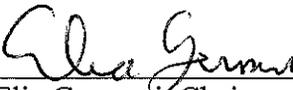
¹⁸ In Docket No. 3444, the parties agreed, and the Commission subsequently approved, in Order Nos. 17203 and 17903, that NGrid be allowed to exercise discretion under its approved LRS acquisition plan but that such discretionary actions would be subject to retrospective review by the Commission to ensure compliance with the approved plan as well as the prudence of such action.

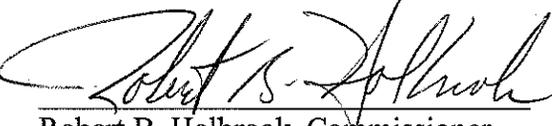
4. The Commission shall have the right to review NGrid's Last Resort power supply contracts for compliance with the approved Acquisition Plan, and to review the prudence and reasonableness of any discretionary actions taken by NGrid under the approved Acquisition Plan.
5. NGrid and all parties shall 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 FEBRUARY 12, 2007, WRITTEN ORDER ISSUED FEBRUARY 26, 2007.

PUBLIC UTILITIES COMMISSION




Elia Germani, Chairman


Robert B. Holbrook, Commissioner


Mary E. Bray, Commissioner