

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

IN RE: NARRAGANSETT ELECTRIC COMPANY :  
d/b/a NATIONAL GRID LAST RESORT SERVICE :  
ACQUISITION PLAN FOR THE PERIOD : Docket No. 3605  
BEGINNING NOVEMBER 1, 2006 :

**REPORT AND ORDER**

**I. Background**

The 2002 Amendments to the Utility Restructuring Act (“URA”) require electric distribution companies, such as Narragansett Electric Company d/b/a National Grid (“NGrid” 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 NGrid complies with an approved LRS acquisition plan, it is entitled to recover its costs associated with providing LRS.<sup>2</sup>

On December 22, 2005, the Commission approved NGrid’s procurement plan for the period March 1, 2006 through October 31, 2006 for all customers, with separate pricing for the residential customer group and the non-residential customer group. In accordance with the approved Acquisition Plan, NGrid entered into an eight-month all requirements, cost inclusive, load following contract for LRS for residential and non-residential customers. The purpose of an eight-month procurement period was to time

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<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).

the next procurement to coincide with Massachusetts' procurement of its Basic Service. All things being equal, NGrid would propose future procurements to span six-month periods. Under the proposal, the Rhode Island procurement would not be a part of the Massachusetts procurement, but will be issued simultaneously in order to make it easier for suppliers to bid the smaller Rhode Island load.<sup>3</sup> The procurement of LRS for the six-month period commencing November 1, 2006 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 NGrid 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>4</sup> To determine whether the market conditions have changed since the Commission's December 2005 decision in this docket, NGrid was ordered to file with the Commission, by June 1, 2006, 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 in response to NGrid's filing.

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

On June 1, 2006, NGrid 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."<sup>5</sup> The

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<sup>3</sup> *Id.* at 1-2.

<sup>4</sup> R.I.G.L. § 39-1-27.3(c) (2002).

<sup>5</sup> Narragansett Electric Last Resort Service Acquisition Plan November 2005 Market Assessment, filed November 1, 2004 ("Market Assessment"), p. 1.

procurement would coincide with energy procurements for Massachusetts' Basic Service and New Hampshire's Energy Service.

In arriving at its conclusion, NGrid reviewed the following eight aspects of the market: (1) wholesale energy market trends; (2) lessons learned from previous RFPs; (3) compliance with the Renewable Energy Standard; (4) wholesale market rule changes approved and implemented since the last procurement; (5) anticipated wholesale market rule changes that may become effective during the period covered by the next solicitation; (6) recent procurement practices of other New England utilities; (7) changes in the number of customers taking competitive retail supply in Rhode Island; and (8) changes in the number of customers enrolled in LRS or the quantity of load to be served.<sup>6</sup>

First, NGrid 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, peaking in the Fall 2005. NGrid opined that "until there is a significant change that reduces the current natural gas futures market price level, it is expected that the wholesale electricity prices will remain at current record levels."<sup>7</sup>

Second, NGrid noted that timing the most recent New Hampshire procurement with the larger Massachusetts procurement had yielded more bids than historically received for the New Hampshire load. The assumption is that the Company will also receive more bids for the small Rhode Island LRS load issuing all three solicitations simultaneously.<sup>8</sup>

Third, the Company recognized that commencing January 1, 2007, each Obligated entity, including NGrid, must show that a percentage of its resources are

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<sup>6</sup> Id. at 2.

<sup>7</sup> Id. at 2-3.

provided from renewable energy resources. NGrid is required by Commission Regulation to file a Renewable Energy Procurement Plan (“procurement plan”) with the Commission for review and approval prior to January 1, 2007. The procurement plan has not yet been filed nor approved. Also, NGrid noted that to date, no generators have applied to the Commission for certification as a renewable energy provider. Therefore, for both of these reasons, NGrid proposed not to request responding suppliers to include the cost of meeting the RES obligation in their bids. Rather, NGrid is proposing to include an RES adder, the amount to be subject to Commission approval.<sup>9</sup>

Fourth, NGrid summarized recent and anticipated market rule changes. With regard to approved wholesale market changes, NGrid indicated that any changes that would affect costs have been addressed in the power supply contract and put responsibility for any of those costs on suppliers.<sup>10</sup> With regard to anticipated wholesale market rule changes which will affect capacity costs, NGrid is proposing to require suppliers to include capacity costs in their bids, providing an all-inclusive price. However, if the FERC delays implementation of expected rule changes, NGrid may request suppliers not to include the capacity costs in their bids and instead, to compensate the suppliers for their actual market costs based on the final capacity market rules. This would limit exposing LRS customers to premium prices due to continuing capacity market uncertainties.<sup>11</sup>

Fifth, NGrid indicated that after a review of RFPs that have been issued by its affiliates and other New England distribution companies since the November 2005 LRS

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

<sup>9</sup> Id. at 3-4.

<sup>10</sup> Id. at 4-5.

<sup>11</sup> Id. at 5.

solicitation in RI, the Company believes that the process approved by the Commission in December still represents the best practices for the procurement of LRS for the next six months.<sup>12</sup> Sixth, Narragansett indicated that the number of customers taking competitive supply since November 1, 2005 has increased by 6%, 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>13</sup> Seventh, Narragansett indicated that the number of customers taking LRS has decreased 9% since the last filing in November 2005 and that the load had significant volatility, due to the migration of nonresidential customers on and off of LRS.<sup>14</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>15</sup>

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

On July 11, 2006, the Division submitted a Memorandum of Stephen Scialabba, its Chief Accountant. Mr. Scialabba summarized Narragansett's filing and recommendations. He indicated that the Division agrees that the Last Resort Service procurement should be undertaken in the manner proposed in Narragansett's June 1 filing. In discussing the RES requirements, the Division concurred with NGrid's approach.<sup>16</sup>

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<sup>12</sup> *Id.* at 6.

<sup>13</sup> *Id.* at 6.

<sup>14</sup> *Id.* at 6-7.

<sup>15</sup> *Id.* at 7.

<sup>16</sup> Division's Memorandum, filed July 11, 2006.

#### **IV. Commission Findings**

On July 13, 2006, at an open meeting, the Commission considered the filings made by NGrid and the Division and approved NGrid's proposal to procure LRS for customers in accordance with the Acquisition Plan approved in this docket in Order No. 18250 (issued May 24, 2005). The Commission finds that, based on NGrid'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. The Commission will further address the LRS RES requirements when NGrid files its procurement plan.

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 NGrid's discretionary actions under the approved Acquisition Plan as well as to review NGrid's actions for compliance with the Plan.<sup>17</sup>

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<sup>17</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

Accordingly, it is hereby

(18699) ORDERED:

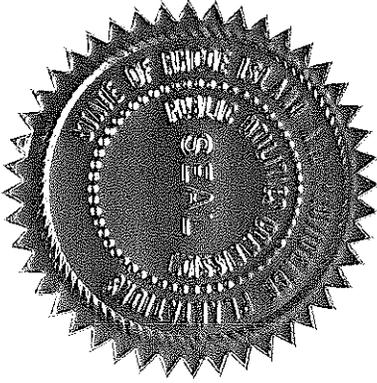
1. Narragansett Electric Company d/b/a National Grid's proposal to continue following the Last Resort Service Acquisition Plan approved by the Commission in Order No. 18122 for the purposes of procuring power for residential and non-residential customers for the six month period, November 1, 2006 through April 30, 2007 in accordance with the terms of the Acquisition Plan as amended in its June 1, 2006 filing is hereby approved.
2. On or before November 1, 2006, 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.

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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.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN  
MEETING DECISION ON JULY 13, 2006. WRITTEN ORDER ISSUED AUGUST 23,  
2006.

PUBLIC UTILITIES COMMISSION



*Elia Germani*  
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Elia Germani, Chairman

*Robert B. Holbrook*  
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Robert B. Holbrook, Commissioner

*Mary E. Bray*  
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Mary E. Bray, Commissioner