

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 MAY 2008 :

**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 August 9, 2007, the Commission approved NGrid’s procurement plan for the period November 1, 2007 through April 30, 2008 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 a six-month all requirements, cost inclusive, load following contract for LRS for residential and non-residential customers. The procurement coincided with Massachusetts’ procurement of its Basic

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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).

Service and New Hampshire's Energy Service in order to maximize the number of bids.<sup>3</sup> The procurement of LRS for the six-month period commencing May 1, 2008 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 August 2007 decision in this docket, NGrid was ordered to file with the Commission, by January 4, 2008, 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. NGrid's Market Assessment**

On January 4, 2008, NGrid filed a Market Assessment, indicating that "based on its assessment of the New England wholesale and Rhode Island competitive retail markets, [NGrid] recommends that it continue to procure LRS under the Current Acquisition Plan approved by the Commission."<sup>5</sup> The procurement would coincide with energy procurements for Massachusetts' Basic Service and New Hampshire's Energy Service with a Request for Proposals ("RFP") being issued in mid-February 2008.<sup>6</sup>

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<sup>3</sup> Narragansett Electric Last Resort Service Acquisition Plan November 2005 Market Assessment, filed January 4, 2008 ("Market Assessment"), p. 1-2, 5.

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

<sup>5</sup> Market Assessment, p. 1.

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

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>7</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 autumn 2005. NGrid noted that in its most recent analysis of the New England electricity market, ISO-NE found that new incentives have been implemented to encourage the construction of new generation.<sup>8</sup> However, despite those incentives, NGrid indicated that based on recent analyses, natural gas prices in 2008 are expected to be higher than those in 2007. NGrid still expected LRS bids to be similar to those received in the most recent procurement.<sup>9</sup> Second, NGrid noted that the last two Rhode Island LRS procurements had yielded more bids than in prior years, supporting the continuation of timing the Rhode Island procurement with that of Massachusetts and New Hampshire.<sup>10</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>7</sup> *Id.* at 2.

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

<sup>9</sup> *Id.* at 4-5.

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

provided from renewable energy resources. In December 2007, the Commission approved NGrid's Renewable Energy Procurement Plan ("procurement plan") for the period commencing January 1, 2008. Consistent with the approved procurement plan, NGrid will require as part of its RFP bids which include separate pricing to provide the RES obligation in addition to the commodity service. If the winning supplier's bid for the RES obligation exceed NGrid's projected cost for its LRS related RES obligation, it will include the needed renewable energy certificates ("RECs") in its next solicitation for its SOS related RES obligation.<sup>11</sup>

Fourth, NGrid summarized recent and anticipated market rule changes. With regard to approved wholesale market changes, NGrid indicated that it does not expect wholesale market changes which had been approved by the Federal Energy Regulatory Commission ("FERC") to increase costs for NGrid's customers.<sup>12</sup> With regard to anticipated wholesale market rule changes related to Financial Transmission Rights and payments made to generators running "out of merit" which could affect pricing, NGrid stated that "[a]ny costs or credits resulting from the proceedings...that are not allocated as transmission charges would be expected to be reflected in supplier prices in future RFPs...[and] existing contract language places responsibility for supplier costs on suppliers and thus does not need to be modified."<sup>13</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 July 2007 Market Assessment, 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

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<sup>11</sup> Id. at 5-6.

<sup>12</sup> Id. at 6-7.

months.<sup>14</sup> Sixth, NGrid indicated that the number of customers taking competitive supply since May 1, 2007 has decreased by 5%, while the number of customers taking LRS has increased 15% with that load increasing approximately 11%. Based on this analysis, NGrid does not believe any changes to the LRS Acquisition Plan are required at this time.<sup>15</sup> Finally, NGrid indicated that as part of its routine review of all contracts, it has not made changes to the master power supply agreement which was previously developed to improve the solicitation process by reducing the amount of time needed to negotiate contract terms with potential suppliers.<sup>16</sup>

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

On January 28, 2008, the Division submitted a Memorandum of Stephen Scialabba, its Chief Accountant. Mr. Scialabba summarized NGrid's filing and recommendations. He indicated that the Division agrees that the Last Resort Service procurement should be undertaken in the manner proposed in NGrid's January 4, 2008 filing. In discussing the RES requirements, the Division concurred with NGrid's approach.<sup>17</sup>

### **IV. Commission Findings**

On January 31, 2008, 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 filed on January 4, 2008. 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

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<sup>13</sup> *Id.* at 7.

<sup>14</sup> *Id.* at 8.

<sup>15</sup> *Id.* at 8-9.

<sup>16</sup> *Id.* at 9.

the best interest of the residential and non-residential ratepayers who are current or future purchasers of electricity through the LRS supply. The Commission also finds NGrid's Acquisition Plan to be in compliance with the Commission's decision in Docket No. 3901 approving NGrid's RES 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 any discretionary actions exercised by NGrid under the approved Acquisition Plan as well as to review NGrid's actions for compliance with the Plan.<sup>18</sup>

Accordingly, it is hereby

(19201) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's proposal to procure Last Resort Service in accordance with its Proposed Procurement Plan filed on January 4, 2008, is hereby approved.
2. On or before July 1, 2008, Narragansett Electric Company d/b/a National Grid shall file with the Commission a Market Assessment or proposed Last Resort Service Acquisition Plan for review.

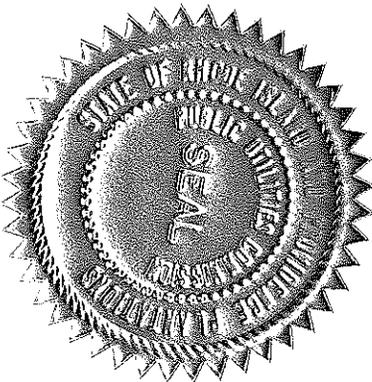
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<sup>17</sup> Division's Memorandum, filed January 28, 2008.

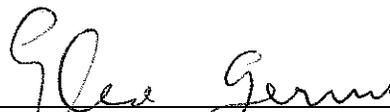
<sup>18</sup> Under the agreement, NGrid may exercise discretion. However, "...Narragansett's discretionary actions under an approved LRS acquisition plan should also be subject to an after-the-fact prudence review. Such a review would most likely be prompted if Narragansett's discretionary action, such 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.

3. Within thirty (30) days from Narragansett Electric Company d/b/a National Grid'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 d/b/a National Grid'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 National Grid under the approved Acquisition Plan.
5. Narragansett Electric Company d/b/a National Grid and all Parties shall comply with all other findings and instructions contained in this Report and Order.

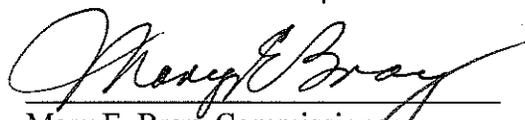
EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON JANUARY 31, 2008. WRITTEN ORDER ISSUED FEBRAURY 7, 2008.



PUBLIC UTILITIES COMMISSION

  
Elia Germani, Chairman

  
Robert B. Holbrook, Commissioner

  
Mary E. Bray, Commissioner