

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY d/b/a :
NATIONAL GRID'S PROPOSED STANDARD OFFER :
SERVICE RATES for RESIDENTIAL AND COMMERCIAL : DOCKET NO. 4393
GROUPS (JANUARY THROUGH JUNE 2015) and :
INDUSTRIAL GROUP (JANUARY THROUGH MARCH 2015) :

REPORT AND ORDER

I. Introduction

On March 1 of each year, National Grid is required to file a standard offer service procurement plan. The term standard offer service refers to electric service provided to distribution customers who have elected to receive service from National Grid instead of a competitive supplier. The Electricity Restructuring Act of 1996 (Act) required National Grid to provide standard offer service to customers receiving service from National Grid instead of a competitive supplier.¹ The Act further required that the rates charged for standard offer service shall recover no more than the electric distribution company's costs.² The Act, however, allows rates to average costs over a period of time.³ In 2006, the following enactment reiterated the legislative mandate requiring National Grid to recover its costs associated with the provision of standard offer service:

“Once a procurement plan is approved by the commission, the electric distribution Company shall be authorized to acquire standard offer service consistent with the Approved plan and recover its costs incurred from providing standard offer service.”⁴

On November 19, 2014, National Grid filed its proposed standard offer service rates

¹ R.I. Gen. Laws §39-1-27.3

² Id.

³ Id.

⁴ R.I. Gen. Laws §39-1-27.8

for the periods January through June 2015 for the Residential and Commercial Groups and January through March 2015 for the Industrial Group. The Company conducts RFPs throughout the year for the procurement of power to serve the standard offer service load of all three customer groups for upcoming rate periods. The RFPs are conducted pursuant to a standard offer service procurement plan which is filed with the Commission in March of each year and approved by the end of June. Following a series of solicitations, the Company files proposed standard offer service rates to recover the cost of these procurements. The Company files proposed standard offer service rates four times each year on February 28, May 31, August 31 and November 30. As a result of these filings, new SOS rates go into effect each year on January 1, April 1, July 1 and October 1. The Company's proposed rates are designed to recover the cost of these procurements pursuant to R.I. Gen. Laws §39-1-27.8. The Company derives no profit from the collection of standard offer service rates.

**II. National Grids Proposed Standard Offer Service Rates Residential and Commercial Groups (January to June 2015)
Industrial Group (January to March 2015)**

On November 30, 2014, the Company filed the following proposed standard offer service rates for the Residential and Commercial Groups: \$0.12705/kWh and \$0.13375/kWh (fixed commercial rate).⁵ The Company proposed the following SOS rates for the Commercial customers on the variable price option:⁶

January..... \$0.20347/kWh

⁵ The Residential SOS rate consists of a SOS charge of \$0.11899/kWh, a SOS adjustment factor of \$0.00171/kWh, a SOS administrative cost factor of \$0.00155, and RES charge of \$0.0048/kWh. The Commercial fixed SOS rate consists of a SOS charge of \$0.12363/kWh, a SOS adjustment factor of \$0.00370/kWh, a SOS administrative cost factor of \$0.00162/kWh, and RES charge of \$0.0048.

⁶ The C-06 Class (small commercial customers) is automatically placed on a fixed price option but may opt for a variable price option. The G-02 Class (large commercial customers) is automatically placed on a variable price option but may opt for a fixed rate. Variable commercial SOS rates include SOS adjustment factor of \$0.00370/kWh, SOS administrative cost factor of \$0.00162 and RES charge.

February.....\$0.19809/kWh
March.....\$0.12422/kWh
April.....\$0.08063/kWh
May.....\$0.06763/kWh
June.....\$0.08162/kWh

The Company proposed the following SOS rates for the Industrial Group:

January.....\$0.20340/kWh
February.....\$0.20388/kWh
March.....\$0.12105/kWh⁷

The impact of the proposed SOS rate on a typical residential customer consuming 500 kWh per month is a 26.1% increase. The impact on a typical commercial customer consuming 1,000 kWh per month is a 24.3% increase.

In discovery filed with the Commission, National Grid argued that its Budget Billing and energy efficiency programs are the most effective solutions to mitigate the bill impacts of the proposed rate increase.⁸ The Company opposed a deferral of SOS costs into a future rate period claiming this would cause customer migration which in turn would affect the bidding process through decreased bidder participation or inflated bids resulting from the inclusion of additional risk premiums.⁹ If future solicitations yielded higher bids, the Company argued that this would lead to higher SOS prices.¹⁰ The Company argued that budget billing allows the customer to spread the costs of SOS over a twelve month period and alleviate the impact of SOS prices over the short-term. Through budget billing, customers are charged a rate that is based on a historical rate and usage.¹¹ If a rate change occurs during the course of the twelve month payment period, the Company will adjust the monthly payment to reflect the rate change during an automatic six

⁷ All Industrial customers are on a variable SOS rate.

⁸ National Grid Response to PUC 2-3, 3-1.

⁹ National Grid Response to PUC 3-1.

¹⁰ Id.

¹¹ National Grid Response to PUC 2-3, PUC 3-4, PUC 5-1.

month review, unless the customer requests a payment adjustment sooner.¹² The Company touted its energy efficiency programs as a means of lowering customers' monthly energy bills.¹³

The Commission issued a discovery request asking the Company whether the budget billing program complies with the PUC's Rules and Regulations Governing Termination of Residential Electric, Gas and Water Utility Service (Termination Rules). Specifically, Section V of the Termination Rules requires that a ten or twelve month payment plan shall be made available to residential customers.¹⁴ The Termination Rules further provide that if a rate change occurs during the course of a payment plan, the effect of that rate change shall be included ratably over the remainder of the payment plan.¹⁵ In response to this inquiry, the Company distinguished between a payment plan established pursuant to the Termination Rules and a budget billing payment schedule, stating that a customer enrolled in budget billing is not in arrears and has the discretion to adjust the payment plan or wait until the six month review.¹⁶ In its response, the Company indirectly acknowledged that customers who are in arrears are entitled to an automatic adjustment in the event of a rate change, without specifically requesting an adjustment or waiting for a six month review. In stating that budget billing customers must specifically request an adjustment, instead of being allowed an automatic adjustment pursuant to the Termination Rules, the Company implied that the provision in Section V of the Termination Rules requiring automatic payment plan adjustments in the event of a rate change, applies only to customers who are in arrears.

¹² National Grid Response to PUC 5-1.

¹³ National Grid Response to PUC 2-3.

¹⁴ Rules and Regulations Governing the Termination of Residential Electric, Gas and Water Utility Service at Section V (1)(A).

¹⁵ Id.

¹⁶ National Grid Response to PUC 5-1.

III. Intervenor

On December 3, 2014, Rhode Island Attorney General, Peter F. Kilmartin, filed a Motion to Intervene. The Attorney General claimed that as the representative of the public, empowered to bring actions to redress grievances suffered by the public as a whole, he had an interest which may be directly affected and which is not adequately represented by the existing parties.¹⁷ He also cited the ability to assist the Commission in its determination as to whether the proposed rate increases are consistent with law, regulatory practice and the public interest.¹⁸ Receiving no objection to the motion, the Commission granted intervention on December 16, 2014. The Attorney General recommended spreading the SOS rate over a twelve month period. He also recommended that the Commission order National Grid to more actively promote its budget billing program.

On December 4, 2014, then Lieutenant Governor-Elect of the State of Rhode Island, Daniel J. McKee (McKee), filed a Motion to Intervene in this matter. McKee requested intervention on behalf of the small businesses of Rhode Island which he alleged were historically underrepresented in ratemaking matters.¹⁹ The motion was filed in McKee's individual capacity, in his capacity as the Lieutenant-Governor Elect and upcoming Chairperson of the Small Business Advisory Council, as the Mayor of the Town of Cumberland, and in his capacity as the officer of a small business.²⁰ Receiving no objection to the motion, the Commission granted intervention on December 16, 2014.

¹⁷ Motion to Intervene of Peter F. Kilmartin at 2.

¹⁸ Id.

¹⁹ Motion to Intervene of Daniel J. McKee at 2.

²⁰ Id. at 2.

McKee filed the direct testimony of John Farley who recommended that the Commission defer an amount equal to \$12.6 million of the commercial class' standard offer service costs.²¹ He also recommended immediately reviewing the approved 2015 SOS procurement plan to determine how to modify it to respond to market conditions. Finally, Mr. Farley recommended that going forward, National Grid modify its procurement strategy to effectively manage winter price volatility.

IV. Division

The Division filed a memorandum on December 10, 2014. The Division pointed out that electricity prices are rising across New England due to gas pipeline constraints, increased reliance on natural gas, and retirement of non-gas generators. The Division provided a chart of the standard offer service rates across New England. According to the Division's research, the standard offer service rate increases in Massachusetts and New Hampshire have surpassed Rhode Island's standard offer rate increase, in some cases by as much as 45%.²² The Division noted that Rhode Island's comparatively low standard offer service rates reflect that National Grid has already mitigated the impact of winter price volatility to some extent by establishing a rate that reflects an average of six different price points and by procuring power over longer and more varied time periods.²³

Recognizing that the discovery requests had revealed the Commission's interest in possibly deferring standard offer costs into future periods, the Division raised two concerns. First, the Division noted that the effect of deferring power supply costs into a future period will

²¹ John Farley is President of John Farley Consulting LLC and former Executive Director of The Energy Council of Rhode Island.

²² New Hampshire's standard offer service rates recently increased from \$0.077 to \$0.155, an increase of 100%. Division Memorandum at 4 (12/10/14). "Electric Rates and Market Drivers," presentation by Northeast Utilities to the ISO-NE Consumer Liaison Group (12/04/14).

²³ Division Memorandum at 6.

reduce present rates below market and put future rates above market which is not without market consequences. The Division asserted that disguising the true market costs of power in this fashion will affect competitive suppliers' ability to compete with the standard offer since these suppliers, unlike National Grid, do not have a similar ability to defer costs as a result of a statutory right of cost recovery. Another impact of disguising the true market costs of power is increased customer migration. Lowering standard offer rates below market during the winter months could arguably cause people to return to standard offer service. Conversely, raising standard offer rates above market in the summer months could have the effect of increasing migration away from standard offer service at a time when customers typically do not do this. This increased migration could translate to uncertainty in the solicitation process leading suppliers to include additional risk premiums in their bids. The ultimate effect of this could be overall higher standard offer rates in the future. These possible effects of deferring costs into a future period were also noted by the Company in discovery.

Despite the policy issues of deferring costs into the future, the Division acknowledged the Commission's concern over the ratepayer impact of the proposed rate increase and recommended that if the Commission opts to defer collection of standard offer costs into the future, it should select a 10% cost deferral because it would maintain an appropriate price signal while providing a significant amount of relief from the filed rate. The Division also urged National Grid to promote its budget billing for both residential and commercial customers, as well as energy efficiency programs. Finally, the Division recommended that in order to facilitate customer awareness and the ability to compare SOS rates to alternative retail supplier rates, the RES charge appearing on customers' electric bills should be included in the standard offer service charge, as opposed to appearing as a separate line item. The Division felt this would improve

customers' ability to compare National Grid's standard offer rates to competitive suppliers' rates which include the RES charge.

V. Public Comment

Public Comment was received in form of handwritten notes, emails, and live testimony.²⁴ The Commission appreciates the concerns voiced by the public in this proceeding, and although Commission Rules do not recognize public comments or protests as evidence, the Commission listened carefully to all of the concerned citizens, elected officials and advocates who protested this rate increase.²⁵ Individuals from various organizations expressed concern over the potential impact of the pending rate increase on the elderly, disabled, and low income populations. R.I. Attorney General Kilmartin urged the Commission to allow the Company to recover the standard offer costs associated with the increase over a twelve month period, rather than the proposed six month period. R.I. Senate President, Teresa Paiva Weed, and Senate Majority Leader Dominick Ruggerio, expressed concern over the harmful impacts the 23.6% increase could have on the Rhode Island economy and requested that the Commission moderate the increase to the maximum extent feasible.²⁶ Representative John J. Lombardi (District 8) echoed these concerns

²⁴ The Commission received public comment from the following entities: R.I. Attorney General, Peter F. Kilmartin, R.I. Senate President Teresa Paiva Weed, R.I. Senate Majority Leader Dominick J. Ruggerio, Representative John J. Lombardi, R.I. Office of Energy Resources, Transcanada Power Marketing LTD, Retail Energy Supply Association, Providence Housing Authority, Ratepayers Advisory Board, R.I. Assisted Living Association, AARP, R.I. Sierra Club, Cranston Chamber of Commerce, Direct Action for Rights and Equality (DARE), Energy Council of Rhode Island (TEC-RI), Livia Greenberg, Tracy Greco, Bob Myron, Tom Spooner, Nicole Florio, Trevor Clark, Kristy Dupuis, Steve Pitassi, Steve Anderson, Catherine Orloff, Christopher Currie, Jack Colby, Sandra Kelly, Mike Berberman, Jeannine Casselman, Blake Filippi, Nick Katkevich, Rachel Bishop, Jan Campbell, Jack Reinbold, Pat McNeil, Jonathon Schermerhorn, William H. Ise, Robert J. Oliveira, Jr., and Christopher Rotondo. A few names are missing simply because the identity of the public commenter was indecipherable or unknown.

²⁵ "A protest is intended solely to alert the Commission and the parties to a proceeding of the fact and nature of the protestant's objection to an application, petition, or any other proposed Commission action and does not become evidence in the proceeding. The filing of a protest does not make the protestant a party to the proceeding." §1.14(b) of the PUC's Rules of Practice and Procedure.

²⁶ 23.6% represents the percentage increase of the proposed SOS rates from the SOS rates that were in effect from January to June 2014.

and asked the Commission to delay acting on the proposed rate increase until January when a new administration is inducted and the legislature convenes.

Entities representing competitive energy suppliers, such as Transcanada and the Retail Energy Supply Association, reiterated the arguments made by National Grid. They claimed that creating energy prices that are below market during winter months and above market in the summer will increase customer migration causing suppliers to include risk premiums in the bidding process which will lead to higher rates and thwart state policies to promote retail competition or to reduce energy costs through energy efficiency and distributed generation. They argued that without the appropriate price signal, customers will not be incentivized to buy energy from a competitive supplier or to participate in energy efficiency or other programs designed to reduce energy costs. Competitive suppliers urged the Commission to allow the full rate increase to go into effect, and let competitive suppliers mitigate the increase through offering fixed 12-month contracts. Transcanada and RESA both noted that the MA Department of Public Utilities recently rejected a proposal to defer default service costs citing increased bids from regulatory risk.

Dan Allegretti, representing the Retail Energy Supply Association, reiterated the arguments of Transcanada including the importance of maintaining a price signal for customers and the negative consequences of distorting the true cost of electricity. Mr. Allegretti asked the Commission to avoid masking seasonal price variability as it is an avoidance of reality.²⁷ He argued that artificially suppressing and inflating prices through a 12 month deferral will impede the development of a truly robust competitive market and the ability of non-regulated power suppliers to compete in the market.²⁸ Furthermore, captive ratepayers will arguably bear the

²⁷ Comments of Retail Energy Supply Association at 3 (12/16/14)

²⁸ Id.

brunt of incremental costs associated with mass migration caused by a disparity between standard offer service rates and competitive supplier rates.²⁹ He urged the Commission to encourage customers to pursue lower rates offered by competitive suppliers and to promote National Grid's budget billing, energy efficiency and energy assistance programs. Finally, Mr. Allegretti recommended the Commission open a stakeholder process to improve and facilitate customer awareness and access to the retail competitive supply market.

Douglas Gablinske, Executive Director of the Energy Council of Rhode Island (TEC-RI), did not oppose National Grid's proposed rate increase on the grounds that such a rate increase would be a call to action for state officials around the region to address the pipeline capacity problem.

VI. Decision

National Grid's proposed 26.1% standard offer service rate increase reflects a problem that extends beyond the R.I. Public Utilities Commission, National Grid and the State of Rhode Island. It is a problem faced by the entire New England region which policymakers, utility experts and the regional system operator have been grappling with for years. The Independent System Operator of New England (ISO-NE) recognized the gas constraint issue in 2010 when it launched the Strategic Planning Initiative (SPI). SPI, supported by stakeholders from around the region, identified three problems facing the region which threatened the reliability of the grid and the efficiency of electricity wholesale markets.³⁰ To suggest that the rising cost of power is attributable to National Grid or this Commission ignores what is common knowledge in the utility industry.

²⁹ *Id.* at 5.

³⁰ ISO-NE's 2014 Regional Electricity Outlook.

The Independent System Operator of New England (ISO-NE), the entity responsible for ensuring the reliability of New England's bulk power system and administering the region's competitive wholesale electricity markets, has been working diligently the past several years to address the natural gas constraint issue which poses a significant challenge to wholesale electricity markets. In the past few years, we have seen a number of proposals from ISO-NE attempting to address this issue including Pay for Performance Incentives, Winter Reliability Programs, and the Energy Market Offer Flexibility Project, to name a few. Stakeholders from around the region have also been working to develop a solution to this problem. In the beginning of 2014, the New England States Committee on Electricity (NESCOE) signed a memorandum of understanding with the six New England Governors to address the gas pipeline constraint issue. NESCOE requested that ISO-NE socialize the cost of additional natural gas pipeline capacity and up to three electric transmission lines to facilitate increased imports of renewable energy. Governors across New England have spearheaded legislation to advance this goal. During the most recent legislative session, Governor Chafee signed the Affordable Clean Energy Security Act which aims to build on regional efforts to secure additional pipeline capacity. In late July, however, the Massachusetts legislature failed to pass the Clean Energy Resources bill, which has stalled the multi-state, collaborative effort to support additional gas pipeline capacity to the region.

Factors contributing to winter price spikes in New England, including Rhode Island, are natural gas dependency and power plant retirements. Natural gas has become the favored source of energy generation in the region due to its low cost and comparatively appealing environmental attributes. Half of the electricity generated in New England is from gas-fired plants, and with ninety-five percent (95%) of proposed new generation coming from gas and wind resources, the

trend is toward more, not less, natural gas. During periods of peak demand, i.e. the coldest days of winter, New England suffers from the inability to import needed natural gas from neighboring states like Pennsylvania, which are plentiful in natural gas. This constraint has led to increasingly high wholesale electricity prices. It is these increasingly high wholesale electricity prices which distribution companies from around the region, including National Grid, must pay to supply standard offer service to customers. The Rhode Island General Assembly mandates that these power supply costs paid by National Grid must be recovered from ratepayers.³¹ The gas constraint problem is exacerbated by the retirement of baseload power plants and expansion of renewable energy resources. The retirement of four major power plants over the next five years, equivalent to an estimated 3,300 MW, will make the region even more reliant on natural gas.

As noted in the introduction, the R.I. General Assembly has established an unequivocal mandate authorizing National Grid to recover its costs incurred in providing standard offer service. That mandate is codified in R.I. Gen. Laws §39-1-27.8 which reads,

“Once a procurement plan is approved by the commission, the electric distribution company shall be authorized to acquire standard offer service supply consistent with the approved procurement plan and recover its costs incurred from providing standard offer service pursuant to the approved procurement plan.”

National Grid has acquired standard offer supply in accordance with the 2015 Standard Offer Procurement Plan, approved by the Commission on June 30, 2014.³² It has conducted RFPs throughout the year seeking laddered procurements for various rate blocks covering six to twenty-four months for residential customers, and six to twelve months for commercial customers. Industrial supply was acquired in a single, two block solicitation for an upcoming three month period. These procurements were made pursuant to the 2015 Standard Offer Service

³¹ R.I. Gen. Laws §39-1-27.8.

³² Docket No. 4490.

Procurement Plan, approved by the Commission on June 30, 2014. As previously noted, R.I. General Laws require that National Grid shall recover the cost of providing standard offer service pursuant to the approved procurement plan; however, the Commission is authorized pursuant to R.I. Gen. Laws §39-1-27.3(b) to establish a standard offer service rate that averages costs over periods of time. The Commission is also authorized and obligated to ensure just and reasonable rates.³³ The Commission finds that National Grid's proposed SOS rates for the Residential and Commercial Groups, for the period January to June 2015, as filed, will pose a significant hardship to residential and commercial customers. Therefore, in an effort to alleviate the impact of the proposed rate increase, the Commission will exercise its authority to ensure just and reasonable rates and average the costs of standard offer service over a longer term than proposed by National Grid.

The Commission considered several options proposed by staff that would defer varying percentages of the Company's Residential and Commercial standard offer service costs applicable to the rate period from January through June 2015, over the twelve month period from January to December 2015. These deferral options would require the Company to defer and recover a portion of its January to June standard offer service costs in the period from July to December 2015. Spreading out the Company's standard offer service costs beyond the rate period would decrease the monthly SOS rate in effect during the rate period from January to June 2015. The Commission considered these deferral options for the Residential and Commercial Groups since the standard offer service costs for these customer groups are capable of being identified with a reasonable degree of certainty. This degree of certainty is due to the fact that 90% of the Residential and Commercial standard offer service load has already been procured

³³ It is the policy of this state to provide just and reasonable rates for utility services. R.I. Gen. Laws §39-1-1(b). The rate, toll or charge of any public utility shall be reasonable and just. R.I. Gen. Law §39-2-1

for the upcoming rate period, January to June 2015. For the period July through December 2015, 70% and 30% of the Residential and Commercial loads, respectively, have been procured.³⁴ The Company provided projections of standard offer costs for the entire 2015 calendar year. The deferral options proposed by staff are based on these cost assumptions, as well as the standard offer service costs already incurred from procurements completed in 2014. The Commission acknowledges there is less certainty surrounding the standard offer costs for the Commercial Group for the period July through December; however, this uncertainty is mitigated by the Commercial Group's comparative ability to respond to price signals and migrate to competitive supply. The Commercial Group's ability to respond to price signals is evidenced by the fact that 80% of C-06 customers (small commercial customers) receive standard offer service, and only 58% of G-02 (large commercial customers) receive standard offer service.³⁵ By way of comparison, 93% of Residential customers receive standard offer service.³⁶

The Commission did not consider deferral options for the Industrial class for three reasons. First, at the time of the filing, the Company reported that it had not acquired any of the Industrial standard offer service load for the period April through December 2015.³⁷ Second, the Company reported that 66% and 84% of the two subclasses of the Industrial Group, the G-32 and G-62 classes, currently receive electric service from a competitive supplier.³⁸ Finally, the Industrial Group receives a monthly variable rate reflecting the cost of standard offer service for each month. The variable pricing for the Industrial group differs from the pricing for the Residential and Commercial Groups in that the Residential and Commercial customers receive a standard offer rate based on a six-month weighted average of the cost of supply for a six month

³⁴ National Grid's Standard Offer Service Plan Summary of Bids, Attachment 1 at 12-13 (11/13/14).

³⁵ National Grid's reply to Division 2-3, Attachment DIV 2-3 at 1.

³⁶ Id.

³⁷ National Grid's Standard Offer Service Plan Summary of Bids, Attachment 1 at 14.

³⁸ National Grid's Response to Division 2-3, Attachment DIV 2-3 at 1.

period. The pricing for these rate classes is designed to reflect the specific characteristics and preferences of each customer class and their ability to adapt to market conditions. In contrast, the ability of the Industrial class to adapt and respond to market conditions is evidenced by the fact that the majority of these customers are already on competitive supply.

In considering these options, the Commission is mindful of the risk that foreseeable migration may have on future solicitations and thus, future standard offer rates, as well as the potential effect that these options could have on the retail, energy supply market.³⁹ As the Division noted, any movement away from the underlying supply cost can impact competitive suppliers' ability to compete with the standard offer.⁴⁰ The Division correctly noted that Rhode Island is a retail choice state with a legislative policy to promote competition in the electricity industry.⁴¹ The Commission agrees with the advice of the Division that the option chosen by the Commission should attempt to balance the policies of encouraging retail competition with the duty to ensure just and reasonable rates. The Division recommended that if the Commission should decide to implement one of the deferral options for the residential and commercial classes, it would recommend the 10% deferral option. The Division found the 10% deferral to be the most reasonable option because it maintains an appropriate price signal to ratepayers while providing significant relief from the filed rate.⁴² It also noted that the 10% deferral option would preserve an anticipated rate reduction in the July to December period, whereas the 16.9% deferral may not.

The Commission considered the testimony of John Farley, on behalf of the Lieutenant Governor-elect, Daniel J. McKee. The Commission notes that when asked whether his proposed

³⁹ National Grid Response to Comm 3-1.

⁴⁰ Division Memorandum at 5.

⁴¹ R.I. Gen. Laws §39-1-1(d)(4).

⁴² Division memorandum at 6.

\$12.6 million deferral would have a detrimental effect on seasonal small businesses in Rhode Island, Mr. Farley responded that it would be up to the Commission in terms of the manner in which the deferral would be recovered in the future.⁴³ Furthermore, Mr. Farley's explanation of how the \$12.6 million dollar deferral was calculated was not entirely clear in either his direct or live testimony.⁴⁴ Regardless of this fact, the Commission recognizes that deferring the Company's standard offer costs over a longer period of time than proposed in the Company's filing will mitigate the impact of the proposed rate increase. Such a deferral is also the only option for providing ratepayer relief with respect to the proposed rate increase, given the statutory framework governing this docket. Accordingly, the Commission is inclined to implement a cost deferral similar to that recommended by Mr. Farley.

Mr. Farley's recommendation to re-open Docket 4490 would require proof by a moving party that material changes of fact or law have occurred since the conclusion of the hearing.⁴⁵ Market price volatility due to regional pipeline constraints was well known at the time the 2015 plan was approved and would, therefore, not constitute a material change of fact which has occurred since the conclusion of the hearing. In December of 2013, the Company's standard offer supply costs increased by 11.9% due to increases in regional wholesale electricity prices due to natural gas constraints. As previously noted, industry leaders, utility consultants and policymakers, acknowledged in 2013 that winter price spikes would continue to plague the New England region unless and until the gas constraint problem is solved. Given these circumstances, the Commission will not re-open docket 4490 to address what essentially is an inherent flaw in the wholesale electricity market that pre-dates the hearing in Docket 4490. The Commission notes that the Company is scheduled to file its 2016 Standard Offer Procurement Plan in March.

⁴³ Transcript at 240, lines 3-7.

⁴⁴ Direct Testimony of John Farley at 39; Transcript at 238, lines 18-21.

⁴⁵ Commission Rule 1.26(a).

The Commission will expect the Company to provide assurances at this time that its procurement practices have been designed to the fullest extent possible to mitigate winter price volatility and strive to achieve reasonable and stable standard offer service rates for all customer classes.

Based on the record, the Commission finds that if National Grid defers 16.9% of its costs of providing standard offer service over the twelve month period from January to December 2015, a deferral of approximately \$28.2 million, the standard offer service rate for the residential class will be \$0.10728/kWh for the period January through December of 2015, as opposed to the Company's proposed SOS rate of \$0.12705 for the period January to June of 2015. This deferral will result in a 14.25% increase from the current rate of \$0.08359 for the period January to June 2015, instead of the Company's proposed SOS rate increase of 26.14%. Such a deferral will mitigate to the best extent possible the harmful effect of the Company's proposed SOS increase on residential customers during the upcoming winter months. The Commission is mindful that such a deferral will likely eliminate the SOS rate decrease anticipated during the period July to December of 2015 due to the Company's collection of deferred costs during the summer months; however, in light of the size of the increase proposed in this matter and the level of public opinion waged in this docket, the Commission is compelled to exercise its authority to mitigate the impact of this rate increase to the greatest extent possible. The Commission recognizes that a 16.9% deferral is larger than the deferral recommended by the Division and will likely be criticized by individuals in favor of promoting retail competition, including retail electricity suppliers. The Commission is also mindful of the legislative policy in favor of promoting retail competition in the electricity industry; however, the Commission does not interpret this policy to mean that it should promote retail competition by creating undue hardship on ratepayers or that the Commission should elevate retail competition above its obligation to ensure just and

reasonable rates. Such an inference cannot be drawn from the legislative scheme creating the Utility Restructuring Act. On the contrary, the legislature has expressly recognized the limitation of retail competition and the importance of rate stability to a viable economy, as is evident from the following policy declaration:

That while utility restructuring has brought some benefits, notably in transmission and distribution costs and more efficient use of generating capacities, it has not resulted in competitive markets for residential and small commercial industrial customers, lower overall prices, or greater diversification of energy resources used for electrical generation;

That the state's economy and the health and general welfare of the people of Rhode Island benefit when energy supplies are reliable and least-cost; and that it is a necessary move beyond basic utility restructuring in order to secure for Rhode Island, to the maximum extent reasonably feasible, the benefits of reasonable and stable rates, least-cost procurement, and system reliability that includes energy resource diversification, distributed generation, and load management.⁴⁶

The Commission finds that a 16.9% deferral of the Company's standard offer service costs for the Residential Group appropriately mitigates the rate increase proposed by National Grid which is consistent with the legislative purpose to secure for Rhode Island the benefits of reasonable and stable rates. This will result in a SOS increase of 14.25% for a typical residential customer consuming 500 kWh per month, instead of the 26.14% increase proposed by National Grid. In ordering this deferral, the Commission recognizes the Division's concern that mitigating the Residential standard offer rate in this fashion indeed constitutes a movement away from the Company's underlying costs of providing standard offer service and as such, may affect the ability of competitive suppliers to compete with the standard offer. The Commission also appreciates the similar concerns of the individuals filing public comment, including the Retail Energy Supply Association. However, the Commission is unpersuaded that mitigating the proposed rate increase in this fashion will inhibit a customer's ability or inclination to move to

⁴⁶ R.I. Gen. Laws §39-1-1(e)(2) through (4).

competitive supply. A SOS rate increase of 14.25% ought to be a sufficient price signal to trigger migration to competitive supply. If it is not a sufficient price signal, it is difficult to fathom what level of price signal would cause a customer to leave the standard offer and take electric service from a competitive supplier. It has been approximately seventeen years since the advent of retail electricity restructuring seventeen years ago, and approximately 93% of residential customers are still on standard offer service. The Division also noted the paucity of migration to competitive supply which has occurred since implementation of electricity restructuring and recognized, albeit indirectly, that the potential impacts of a deferral on the competitive market ought to be considered in this context.⁴⁷ There undoubtedly exist social, economic and political theories supporting the reasons for this anomaly which are beyond the scope of this order. When viewed in this context, the Commission is unpersuaded that exercising its duty to mitigate the proposed rate impact would impede the legislative policy of promoting retail competition, especially in light of the express legislative purpose to secure stable rates for Rhode Island.

To mitigate the rate impact suffered by the Commercial Group, the Commission will direct National Grid to defer collection of 10% of its costs incurred for procuring standard offer service for the Commercial Group during the rate period (January to June 2015) over the twelve month period from January to December 2015. This 10% deferral, equivalent to approximately \$7.3 million, will result in a standard offer service rate increase of 16.9% for the Commercial Group for the period January to June 2015. Given that the Company proposed a standard offer increase of 24.3%, this deferral, resulting in a 16.9% rate increase, should provide some relief to commercial customers while still allowing for a rate reduction in July when rates typically decline due to the warmer weather and decreased demand for natural gas. While the result of

⁴⁷ Division memorandum at 5-6.

extending the Company's collection of standard offer service costs beyond the rate period will undoubtedly reduce the amount of the rate decrease experienced by commercial customers in July, the Commission nonetheless feels compelled to provide immediate, meaningful rate relief to ratepayers due to the magnitude of this proposed rate increase. The Commission appreciates Mr. Farley's expertise and valuable contribution to this docket but finds that a \$12.6 million deferral would in all likelihood eradicate the rate decrease experienced by commercial customers in July which would negatively impact the tourist industry and economy of Rhode Island.

Accordingly, it is hereby

(21827) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid shall defer collection of 16.9% of its costs incurred in providing standard offer service to the Residential Group during the rate period of January to June 2015 in the following manner: 16.9% of National Grid's cost of providing standard offers supply to the Residential Group for the period January to June 2015 will be deferred and recovered in the period July to December 2015. Such deferral will result in a standard offer service rate for the Residential Group of \$0.10728/kWh during the period January through December 2015, a 14.25% increase from the current SOS rate of \$0.08359/kWh.
2. The Company shall conduct a mid-year review of estimated deferred costs to mitigate any significant deferral balances. If the projected balance of the estimated Residential SOS deferral at December 31, 2015 exceeds the updated estimate of Residential SOS costs by 5% or more, the Company shall file a revised base Residential SOS rate at the same time it files proposed SOS rates for the Commercial and Industrial Groups, for effect on July 1. The revised base Residential SOS rate should recover the remaining

estimated Residential SOS costs such that the estimated deferral balance at the end of December 2015 is as close to zero as possible.

3. The Narragansett Electric Company d/b/a National Grid shall defer collection of 10% of its costs incurred in providing standard offer service to the Commercial Group during the rate period of January to June 2015 in the following manner: 10% of National Grid's cost of providing standard offer supply to the Commercial Group for the period January to June 2015 will be deferred and recovered in the period July to December 2015. Such deferral will result in a standard offer service rate for the Commercial Group of \$0.12139/kWh during the period January through June 2015, a 16.9% increase from the current SOS rate of \$0.09281/kWh. For the period July to December 2015, the standard offer service rate for the Commercial Group is estimated to be \$0.10592/kWh, a 7.8% decrease from the January to June rate of \$0.12139/kWh.

4. The Narragansett Electric Company d/b/a National Grid's proposed standard offer service rates for the Industrial Group are approved as filed. Accordingly, effective January 1, 2015, the standard offer service rates for the Industrial Group, including the SOS administrative cost factor and SOS adjustment factor, are as follows:

| | |
|---------------|---------------|
| January 2015 | \$0.20340/kWh |
| February 2015 | \$0.20388/kWh |
| March 2015 | \$0.12105/kWh |

5. The Narragansett Electric Company d/b/a National Grid shall address the direct testimony of John Farley when it files its proposed 2016 Standard Offer Service Plan on or before March 1, 2015.

6. The Commission will hold an informal meeting in January with National Grid and the Division concerning the details of the Budget Billing program to determine whether

modifications are appropriate. At this meeting, the parties will also consider the Division's suggestion to include the renewable energy standard (RES) charge with the standard offer supply charge, so that the RES charge does not appear as a separate line item on customers' bills.

7. The Narragansett Electric Company d/b/a National Grid shall file all necessary and appropriate tariffs consistent with this Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON DECEMBER 23, 2014
PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED
FEBRUARY 23, 2015.

PUBLIC UTILITIES COMMISSION




Margaret E. Curran, Chairperson


Paul J. Roberti, Commissioner


Herbert DeSimone, Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.