

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

**IN RE: THE NARRAGANSETT ELECTRIC COMPANY            :**  
**d/b/a NATIONAL GRID’S STANDARD OFFER                :**           **DOCKET NO. 4692**  
**SERVICE RATES FOR THE INDUSTRIAL GROUP            :**  
**PURSUANT TO THE 2018 STANDARD OFFER               :**  
**PROCUREMENT PLAN   :**

**ORDER**

**I.       Introduction**

The Narragansett Electric Company d/b/a National Grid (National Grid or Company) currently procures Standard Offer Service (SOS) supply on behalf of its customers pursuant to the 2018 SOS Procurement Plan approved by the Public Utilities Commission (PUC) at an Open Meeting on March 30, 2017.<sup>1</sup> The procurement plan authorizes National Grid to conduct solicitations throughout the year for Standard Offer Service in varying contract lengths.<sup>2</sup> Based on these solicitations, the Company files SOS rates for the Residential Group and Commercial Group twice per year and SOS rates for the Industrial Group quarterly.<sup>3</sup> In this filing, National Grid proposed Standard Offer rates effective for Residential and Commercial SOS retail rates for October 2018 through March 2019, and proposed base Industrial SOS retail rates for October 2018 through December 2018 (hereinafter, collectively, the Winter Period). 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.<sup>4</sup>

**II.       National Grid’s Proposed Standard Offer Service Rates for the Winter Period**

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<sup>1</sup> PUC Order No. 22774 (Docket No. 4692) (May 12, 2017). The PUC ordered National Grid to follow the approved 2016 SOS Procurement Plan, as modified in Order No. 22677 issued February 22, 2017 in Docket No. 4605, for the procurement period of January 1, 2018 through December 31, 2018.

<sup>2</sup> 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.

<sup>3</sup> The proposed SOS rates include the current per kWh SOS Adjustment Factor, SOS Administrative Cost Factor, and Renewable Energy Charge.

<sup>4</sup> R.I. Gen. Laws § 39-1-27.3

On July 18, 2018, National Grid, pursuant to the 2018 SOS Procurement Plan, filed with the PUC a letter containing the proposed base Residential and Commercial SOS retail rates and proposed base Industrial SOS retail rates for the Winter Period, and a typical bill analysis showing the bill impact of the proposed SOS rates compared to the SOS rates currently in effect.<sup>5</sup> National Grid proposed the following rates:

#### Industrial Group Rates

The SOS rate proposed for the Industrial Group for the Winter Period is \$0.08834/kWh, an increase of 22.5% compared with the July 2018 through September 2018 average Industrial SOS rate of \$0.07209/kWh.<sup>6</sup> In comparison, the same three-month period average was \$0.06440 for the previous year and averaged \$0.07099/kWh for the October through December period for the 5 years of 2013-2017.<sup>7</sup>

#### Residential Group Rates

The SOS rate proposed for the Residential Group for the Winter Period is \$0.12129/kWh, an increase of \$0.03643/kWh, or 43%, compared with the April 2018 through September 2018 average SOS rate of \$0.08486/kWh.<sup>8</sup> In comparison, the same six-month period average was \$0.09515/kWh for the previous year and averaged \$0.09514/kWh for the 2013 through 2017 winter periods.<sup>9</sup>

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<sup>5</sup> Filing Letter, at 1-2 & Attach. 3 (July 18, 2018).

<sup>6</sup> Division of Public Utilities and Carriers (Division) Mem. at 10 (Aug. 10, 2018).

<sup>7</sup> *Id.* at 10-11.

<sup>8</sup> *Id.* at 10.

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

### Commercial Group Rates

The fixed price option SOS rate proposed for the Commercial Group for the Winter Period is \$0.11876/kWh, an increase of \$0.03685/kWh, or 45%, compared with the April 2018 through September 2018 average fixed-price rate of \$0.08191/kWh.<sup>10</sup> In comparison, the same six-month period average was \$0.09350/kWh for the previous year and averaged \$0.09355/kWh for the 2013 through 2017 winter periods.<sup>11</sup>

National Grid did not proffer prefiled testimony. However, in its letter filing, it did acknowledge the impact that its proposed Residential SOS rate will have on residential SOS customers' bills. The bill impact of the proposed rate change on a typical residential customer using 500 kWh per month is an increase of \$18.97 per month, or 19%. National Grid noted that the PUC previously recognized the policy objective of providing customers with appropriate price signals through the use of a six-month rate, so customers can make informed decisions about their electric supply service, while also balancing the objective of mitigating bill impacts on customers when appropriate. But National Grid suggested that the PUC consider an alternative to a six-month Residential SOS rate to balance those objectives.<sup>12</sup> Specifically, National Grid recommended that the PUC consider a 12-month Residential SOS rate, through September 2019, based on the contracts that National Grid had executed to date.<sup>13</sup>

### **III. Division and Intervenor's Positions**

On August 10, 2018, the Division of Public Utilities and Carriers (Division) filed a memorandum summarizing National Grid's proposal and concluding that the calculations for

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

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

<sup>12</sup> Filing Letter at 2.

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

National Grid's proposed Residential, Commercial, and Industrial SOS rates were correctly calculated and that the filing complied with the PUC-approved 2018 SOS Procurement Plan.<sup>14</sup>

The Division filed a separate recommendation regarding mitigating the rate impacts for residential and small commercial customers. The Division noted that the typically higher costs experienced in the wholesale markets during the Winter Period were exacerbated by unprecedented higher capacity prices and that these regionally-driven costs are beyond the control of Rhode Island state regulatory authorities and National Grid.<sup>15</sup> The Division noted that, while the filing proposed rate increases for all rate classes, the Division was particularly concerned with the impacts on residential and small commercial customers as the majority of residential and small commercial customers were on standard offer service.<sup>16</sup>

The Division further recognized that, while the PUC has no authority to change energy market costs or to deny National Grid cost recovery where the Company had prudently complied with the procurement duties, it could shape and spread the energy market costs over time in the interest of gradualism to avoid or mitigate undesirable impacts on ratepayers.<sup>17</sup> Specifically, the Division recommended that the PUC moderate the impact on ratepayers by spreading the higher rates over a twelve-month period. The Division recommended that the PUC approve an SOS rate of \$.10990/kWh for the residential classes (A-16 and A-60) and small commercial rate class (C-06) for the Winter Period and recommended that the unrecovered portion of the supply cost be recovered by increasing rates for those classes for the months of April through September 2019 (Summer Period).<sup>18</sup>

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<sup>14</sup> Division Mem. at 14.

<sup>15</sup> *Id.* at 1.

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

<sup>17</sup> *Id.* at 2.

<sup>18</sup> *Id.*

The Division opined that its proposal balanced the four competing objectives of (i) moderating the rate impact for the Winter Period, (ii) retaining a significant seasonal price signal for the higher cost Winter Period, (iii) limiting the magnitude of the under-collection that would be created from any Winter Period mitigation proposal, and (iv) reducing the spring migration risk.<sup>19</sup> The Division reasoned that its proposed reduced rates for the Winter Period were low enough to produce a meaningful reduction from the high unmitigated seasonal rate, but not so low as to increase the likelihood of spring migration.<sup>20</sup>

Direct Energy Business, LLC and Direct Energy Services, LLC (collectively, Direct Energy) intervened in the docket. Direct Energy is a national retail supplier of electricity, natural gas and energy services, and serves Rhode Island electricity and natural gas markets in the National Grid service territory. Direct Energy filed a memorandum with the PUC stating its opposition to the Division's recommendation.<sup>21</sup> Direct Energy set forth its opinion that the PUC not adjust the market price, but if it did, that it does so in a minimalist fashion.<sup>22</sup> Alternatively, Direct Energy proposed that the PUC adopt a set of market enhancements that it believed addressed the same public policy goals the Division set forth, but with a lower impact on consumers and the competitive energy market.<sup>23</sup>

#### **IV. Hearing**

At a hearing held on August 27, 2018, the Company presented Scott McCabe, manager of New England electric pricing; James Ruebenacker, manager of wholesale electric supply New England; Patrick Murray, lead supervisor for customer satisfaction and regulatory compliance;

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<sup>19</sup> *Id.* at 5.

<sup>20</sup> *Id.*

<sup>21</sup> Direct Energy Comments (Aug. 22, 2018).

<sup>22</sup> *Id.* at 4.

<sup>23</sup> *Id.* at 12-19.

Angela Li, lead analyst for the customer energy management group; and Ted Kresse, director of communications. Under questioning from the PUC, Mr. McCabe testified that National Grid believed the Division's proposal - to defer some of the price increases from the Winter Period to the Summer Period for residential and C-06 customers - was a reasonable compromise and would mitigate bill impacts while still providing some seasonal price signals.<sup>24</sup> Mr. Ruebenacker testified that, while there is a natural difference in seasonal prices in the energy market in that winter rates are usually higher than summer rates, the Winter Period rate increase was driven largely by increases in the capacity market.<sup>25</sup> Mr. Ruebenacker also noted that under the proposed deferral, customers would ultimately pay more due to the 2.33% interest rate on the deferred amounts.<sup>26</sup>

The Division presented John Bell, Acting Chief Accountant; and Alberico Mancini, rate analyst. Mr. Bell testified that the Division supported the deferral and mitigation of the seasonal rate impacts and believed that the proposed \$.10990 kWh price would be more affordable to customers.<sup>27</sup> Mr. Bell testified that if the PUC approved either National Grid's proposed unmitigated rate or the Division's proposed mitigated rate, he did not expect a significant migration of residential customers to alternative competitive supply for the Summer Period.<sup>28</sup> Mr. Bell also clarified that, while the Division was not opposed to mitigating the rate increase for both variable and fixed customers in the C-06 rate class, the Division was only proposing the deferral for the fixed-price C-06 customers.<sup>29</sup>

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<sup>24</sup> Hr'g Tr. at 29, 48.

<sup>25</sup> Id. at 84.

<sup>26</sup> Id. at 91.

<sup>27</sup> Id. at 106-7.

<sup>28</sup> Id. at 113.

<sup>29</sup> Id. at 114-15.

Direct Energy presented Christopher Kallaher, Senior Director of Government and Regulatory Affairs; Mark Hanks, Senior Manager for Corporate and Regulatory Affairs; and Frank Lacey, Direct Energy's expert witness. Direct Energy's witnesses urged the PUC to approve the rates as filed by National Grid and to reject the Division's proposal to defer a portion of the rate increase. Specifically, Mr. Kallaher testified that Direct Energy opposed any deferral of the proposed rate increase and emphasized the increased cost that ratepayers would pay given the interest on the deferred amounts.<sup>30</sup> Mr. Kallaher also testified that lowering the cost of electricity during the Winter Period would lead to over-consumption during that period and negatively impact the wholesale suppliers that bid into this procurement based on expected consumption at unmitigated prices.<sup>31</sup> Mr. Hanks testified that artificially reducing rates confuses customers by interfering with price signals and has a deleterious effect on the retail competitive market in Rhode Island.<sup>32</sup>

#### **V. Commission Findings and Decision**

At the conclusion of the August 27, 2018 hearing, the PUC recognized and discussed the tension that exists between the policies of gradualism, rate stability, rate sustainability, and the state policy supporting retail competition. The PUC discussed the economic and social challenges and costs caused by higher rates and the PUC's desire to mitigate those challenges and costs by providing short-term rate relief, and the competing challenges faced by the competitive retail market caused by short-term rate mitigation. The PUC recognized that these

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<sup>30</sup> *Id.* at 151-52. Mr. Lacey estimated that the deferred amount was \$14.8 million and that ratepayers would be responsible for an additional \$175,000 in interest assuming that deferral was paid off over six-months. *Id.* at 154-55.

<sup>31</sup> *Id.* at 155-58.

<sup>32</sup> *Id.* at 160-62.

competing interests placed the PUC in a difficult position, but that the consequences of the unmitigated rate impacts on ratepayers warranted the short-term deferral.

After discussion, the PUC unanimously approved the Company's rates as filed, except for the residential and fixed-rate C-06 class customers. The PUC voted to approve the Division's recommendation that rates be set at \$.10990/kWh for the residential classes (A-16 and A-60) and small commercial fixed-rate class (C-06) for the Winter Period. It further ordered that the unrecovered portion of the supply cost be recovered by increasing rates for those classes during the Summer Period. Moreover, the PUC required that the tariff be amended to prohibit fixed-rate C-06 customers from switching from the fixed rate to the variable rate over the twelve-month period.

Accordingly, it is hereby

(23633) ORDERED:

1. The proposed Standard Offer rates effective for Residential and Commercial SOS retail rates for October 2018 through March 2019 and proposed base Industrial SOS retail rates for October 2018 through December 2018 are approved, except that rates are set at \$.10990/kWh for the residential classes (A-16 and A-60) and small commercial fixed-rate class (C-06) for those periods.
2. The unrecovered portion of the supply cost shall be recovered by increasing rates for residential classes (A-16 and A-60) and the small commercial fixed-rate class (C-06) for the months of April through September 2019.
3. The tariff shall be amended to prohibit fixed-rate C-06 customers from switching from the fixed rate to the variable rate over the twelve-month period.

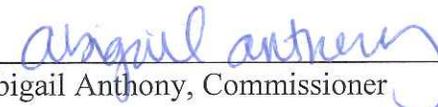
EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 30, 2018  
PURSUANT TO AN OPEN MEETING DECISION HELD AUGUST 28, 2018. WRITTEN  
ORDER ISSUED JULY 16, 2019.

PUBLIC UTILITIES COMMISSION



  
Margaret E. Curran, Chairperson

  
Marion S. Gold, Commissioner

  
Abigail Anthony, 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.