

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY :
LAST RESORT SERVICE : DOCKET NO. 3005

REPORT AND ORDER

I. BACKGROUND

The Utility Restructuring Act (“URA”) requires electric distribution companies, such as Narragansett Electric Company (“Narragansett”) to provide Last Resort Service (“LRS”) “for customers who are no longer eligible to receive service under the standard offer”, and that “acceptance of bids by the electric distribution company and the terms and conditions for such last resort service shall be subject to approval by the Commission.”¹

II. LAST RESORT SERVICE FROM MAY 2001-AUGUST 2001

On March 23, 2001, Narragansett formally requested a hearing for the Commission to consider the Company’s selection of a new LRS supplier for the period May through October 2001. Narragansett recommended using the same procedure followed on January 18, 2001, when Narragansett received LRS bids and at the hearing made a recommendation as to the selection of the winning bid and the Commission issued a bench decision.² On March 27, 2001, Narragansett requested that the LRS procurement period be shortened to May through August 2001 because of legislation pending in the Rhode Island General

¹ R.I.G.L. § 39-1-27.3(f).

Assembly that if enacted would allow LRS customers to switch back to Standard Offer Service.³ Narragansett was concerned that suppliers would inflate their LRS bids in order to take into account the risk of losing the entire LRS load in one month due to the potential implementation of the legislation in September 2001.⁴

Following due notice, a public hearing was conducted at the offices of the Commission, 89 Jefferson Boulevard, Warwick, Rhode Island, on April 24, 2001. The following appearances were entered:

FOR NARRAGANSETT: Ronald J. Gerwatowski, Esq.

FOR DIVISION: Paul J. Roberti, Esq.
Assistant Attorney General

FOR COMMISSION: Steven Frias, Esq.
Executive Counsel

At the hearing, Michael Hager, the Manager of Distribution Energy Services for National Grid USA Service Company, testified for Narragansett. He recommended that the Commission select Bid B on Exhibit 01-6, which excludes an ICAP charge, for May 2001, and Bid B on Exhibit 01-5, which includes an ICAP charge, for the months of June through August 2001.⁵ Counsel for Narragansett indicated that due to the U.S. 1st Circuit Court of Appeals' Stay of the FERC Order to implement a ICAP deficiency charge of \$8.75 per kWh/month, it is likely that only the .17 cents per kWh/month ICAP deficiency charge filed by

² Narragansett's letter dated March 23, 2001, Order No. 16638 (issued 6/14/01) p.9.

³ Narragansett's letter dated March 27, 2001, p. 1.

⁴ Id.

ISO-New England would be charged to Narragansett for the month of May 2001; however, it was also possible that the U.S. 1st Circuit Court could issue a decision allowing for the implementation of \$8.75 per kWh/month for June 2001 and beyond.⁶ Mr. Hager also explained that purchasing ICAP in conjunction with the energy supply instead of separately, provides prices certainty to LRS customers, thereby allowing them to seek lower prices in the market.⁷ In addition, the purchase of ICAP separately is more costly because it must be purchased on the basis of potential LRS energy demand instead of actual LRS energy use, thereby effectively requiring Narragansett to “overbuy ICAP.”⁸

In addition, Bidder B required two contractual provisions which are different than what Narragansett has accepted in the past.⁹ The first contract provision is a Material Adverse Change Clause which states that if the Rhode Island Public Utilities Commission, NEPOOL or FERC make a change to the rules affecting LRS that materially and adversely affect Bidder B then Bidder B could make a filing at FERC seeking relief.¹⁰ Narragansett accepted this provision because this LRS bid was only for a short period of time and that the likelihood that this provision would be triggered was outweighed by the benefit of the lower electric prices in this

⁵ Tr. 4/24/01, p. 23.

⁶ Id., p. 13.

⁷ Id., pp. 17-18.

⁸ Id.

⁹ Id., p. 34.

¹⁰ Id., pp. 35-36, Narr. Ex. 01-8.

bid for this summer.¹¹ The second contract provision requires Narragansett to assume congestion costs that may be allocated to Bidder B under future NEPOOL rules.¹² Narragansett did not anticipate this would occur in the next four months and this provision would only prevent Narragansett from gaining the benefit of lower congestion costs.¹³

Mr. Stephen Scialabba, the Chief Accountant for the Division of Public Utilities and Carriers (“Division”) also recommended that the Commission select Bid B on Exhibit 01-6 for May 2001 and Bid B on Exhibit 01-5 (which includes ICAP charges) for the months of June through August 2001.¹⁴ Mr. Scialabba also concurred that the benefits of selecting Bid B with the two controversial contract provisions outweighed any risks due to the short-term nature of this LRS contract.¹⁵

In a bench decision at the conclusion of the hearing, the Commission considered the evidence presented and found Bid B on Exhibit 01-6 for May 2001 and Bid B on Exhibit 01-5, containing LRS supply prices for the months of June through August 2001, to be in the best interest of the ratepayers. It was disclosed that Bidder B was Duke Energy. The new LRS rates, including any applicable ICAP charges, for the period May through August 2001 were approved as follows:

¹¹ Id., pp. 37, 49.

¹² Id., pp. 52-53; Narr. Ex. 01-8.

¹³ Id., p. 54.

¹⁴ Id., p. 103.

¹⁵ Id., pp. 105-107.

5.882 cents per kWh for May 2001,
8.102 cents per kWh for June 2001,
10.399 cents per kWh for July 2001, and
9.981 per cents per kWh for August 2001.¹⁶

III. LAST RESORT SERVICE FROM SEPTEMBER 2001-
AUGUST 2002

The Commission followed the same procedure as previously used on January 18 and April 24, 2001 in this docket to consider the Company's selection of a new LRS supplier for the period.

Following due notice, a public hearing was conducted at the offices of the Commission, 89 Jefferson Boulevard, Warwick, Rhode Island on August 14, 2001. The following appearances were entered:

FOR NARRAGASNETT:	Ronald T. Gerwatowski, Esq.
FOR DIVISION:	Paul J. Roberti, Esq. Assistant Attorney General
FOR COMMISSION:	Steven Frias, Esq. Executive Counsel

At the hearing, counsel for Narragansett indicated they sought LRS supply bids for both six-and twelve-month periods.¹⁷ Mr. Hager testified on behalf of Narragansett. He recommended that the Commission select Bid B on Exhibit 01-15, containing LRS supply prices for the six-month period of September 2001 through February 2002, and that the

¹⁶ Id., p. 121.

¹⁷ Tr. 8/14/01, p. 5.

Commission select Bid C on Exhibit 01-15, containing LRS supply prices for the six-month period of March 2002 through August 2002.¹⁸

Mr. Hager noted that the bids presented to the Commission included ICAP charges.¹⁹ Mr. Hager explained that Narragansett sought one-year bids because the prices for the second six-month period were relatively low compared to recent months.²⁰ In addition, he noted that fixed pricing over a one-year period would insulate customers from higher prices while still giving them the opportunity to obtain lower prices from competitive electric suppliers.²¹ Mr. Hager speculated that the recent drop in wholesale electric prices was due to the decrease in natural gas prices and the addition of new electric generation to the market.²² Also, Mr. Hager explained that summer wholesale electric prices tend to increase as the summer approaches.²³ Furthermore, Mr. Hager concurred that it is an appropriate objective to attempt to obtain LRS prices close to or below SOS prices so as to reduce the amount by which residential LRS customers are subsidized by SOS customers.²⁴ Mr. Hager also indicated that LRS customers preferred a fixed price stream for a longer term so they could compare that price to the price offered by competitive suppliers.²⁵

¹⁸ Id., pp. 10-11.

¹⁹ Id., pp. 37-38.

²⁰ Id., pp. 40-41.

²¹ Id., pp. 41-42.

²² Id., p. 42.

²³ Id., p. 43.

²⁴ Id., p. 45.

²⁵ Id., pp. 48-49.

Counsel for Narragansett and the Division concurred that the URA allows the Commission to accept a one-year bid for LRS.²⁶ In a letter to the Commission dated August 1, 2001, Roger Buck, on behalf of TEC-RI, stated that the Commission had the authority to seek LRS bids for up to one year. He also indicated that all TEC-RI members have left LRS and are currently buying power from competitive electric suppliers.²⁷ The Division supported Narragansett's recommendation as to the selection of the winning bids.²⁸ Also, the Division stated that to the extent LRS prices are below the SOS price, residential LRS customers should pay the higher SOS prices.²⁹

In a bench decision at the conclusion of the hearing, the Commission considered the evidence presented and found Bid B, containing LRS supply prices for the first six-month period, and Bid C, containing LRS supply prices for the second six-month period, to be in the best interest of the ratepayers.³⁰ The Commission determined that setting an LRS fixed price stream for a one-year period was appropriate because it would insulate LRS customers from potentially higher prices while providing them with a benchmark for competitive suppliers to beat.³¹ After a brief recess, Narragansett confirmed to the Commission that Bid B and Bid C were still valid. It was disclosed that Bidder B was

²⁶ *Id.*, pp. 49-51.

²⁷ TEC-RI's letter to the Commission dated August 1, 2001.

²⁸ *Id.*, p. 55.

²⁹ *Id.*, pp. 55-56.

³⁰ *Id.*, p. 58.

³¹ *Id.*, pp. 58-59.

Morgan Stanley and Bidder C was Select Energy. The new LRS rates for the period September 2001 through August 2002, were approved as follows:

- 5.674 cents per kWh for September 2001 through February 2002,
- 5.128 cents per kWh for March 2002,
- 5.193 cents per kWh for April 2002,
- 5.164 cents per kWh for May 2002,
- 6.365 cents per kWh for June 2002,
- 7.481 cents per kWh for July 2002,
- 7.496 cents per kWh for August 2002.³²

Accordingly, it is

(16920) ORDERED:

1. The bids of Duke Energy to supply Last Resort Service power to Narragansett Electric Company for the May 2001 through August 2001 contract period are hereby approved.
2. The bid of Morgan Stanley to supply Last Resort Service power to Narragansett Electric Company for the September 2001 through February 2002 contract period is hereby approved.
3. The bid of Select Energy to supply Last Resort Service power to Narragansett Electric Company for the March 2001 through August 2002 contract period is hereby approved.

³² Id., p. 61, Narragansett's letter to the Commission dated September 5, 2001.

4. Narragansett shall comply with all the other findings and instructions contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 24, 2001 AND AUGUST 14, 2001 PURSUANT TO BENCH DECISIONS. WRITTEN ORDER ISSUED FEBRUARY 20, 2002.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Kate F. Racine, Commissioner*

Brenda K. Gaynor, Commissioner

*Commissioner Racine voted in favor of the bench decision of April 24, 2001, but was unavailable to participate in the bench decision of August 14, 2001.