

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

IN RE: NARRAGANSETT ELECTRIC COMPANY :  
STANDARD OFFER SERVICE RATE : DOCKET NO. 3379

REPORT AND ORDER

I. BACKGROUND

The Utility Restructuring Act of 1996, as amended ("URA"), requires each electric distribution company to arrange with wholesale power suppliers for a standard power supply offer to sell electricity to all customers at a stipulated rate. Pursuant to the URA, Narragansett Electric Company ("Narragansett" or "Company") entered into wholesale Standard Offer supply contracts with the following prices for the years 1999 through 2003:

<u>Calendar Year</u>	<u>Price per kWh</u>
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents
2003	4.7 cents

The wholesale Standard Offer supply contracts also provide for increases in the price per kilowatt-hour ("kWh") of wholesale power supplied to Narragansett in the event fuel prices increase above certain levels. To the extent that the total cost of the wholesale power supply to Narragansett, including fuel charges, exceeds retail Standard Offer Service ("SOS") and Last Resort Service ("LRS") revenues, the under-collection is recoverable from Narragansett's retail customers through the annual reconciliation provisions of the Standard Offer Adjustment Provision contained in the Company's tariff.

## II. NARRAGANSETT'S FILING

On August 28, 2001, Narragansett filed with the Rhode Island Public Utilities Commission ("Commission") a request to decrease the retail SOS rate from the present rate of 6.302 cents per kWh to 5.5 cents per kWh. Narragansett also proposed to eliminate the existing Standard Offer Adjustment Factor ("SOAF") of .232 cents per kWh which is currently billed to all customers whether or not they are taking SOS. The Company requested an effective date of October 1, 2001 for the proposed rate changes. The net result of the proposed rate reductions for a typical residential customer using 500 kWh per month would be an 8.1% decrease equal to \$5.38 per month. Therefore, the average monthly residential bill would drop from \$66.40 to \$61.02.<sup>1</sup> In support of the proposed rate decreases, Narragansett presented the pre-filed testimony of Michael J. Hager, Manager of Distribution Energy Services for National Grid USA Service Company, and Jeanne A. Lloyd, Principal Financial Analyst from National Grid USA Service Company.

In his pre-filed testimony, Mr. Hager explained that the Company's estimated fuel index adjustment payments for the period April 2001 through December 2001 had been calculated pursuant to the fuel index adjustment provisions contained in Narragansett's Standard Offer supply contracts, using ~~the future gas and crude oil prices reported in the Wall Street Journal on~~  

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February 21 - 23, 2001. Since then, however, actual gas prices have fallen, requiring smaller fuel index adjustment payments than expected between April 2001 and August 2001. Accordingly, for purposes of calculating the proposed SOS rate reduction, Mr. Hager based the estimated fuel index adjustment

<sup>1</sup> Narragansett Ex. 1B. Pre-filed testimony of Jeanne A. Lloyd, pp. 8-9.

payments for October, November and December 2001 on the future gas and crude oil prices for these months as reported in the Wall Street Journal on August 22 - 24, 2001. Consequently, instead of paying an arithmetic average fuel index adjustment payment of 2.53 cents per kWh for the Narragansett zone load and 2.44 cents per kWh for the EUA zone load for the period October through December 2001, as originally projected in February 2001, the Company's revised arithmetic average fuel index adjustment payment for the same period is reduced to 1.899 cents per kWh and 0.998 cents per kWh, respectively.<sup>2</sup>

In her prefiled testimony, Ms. Lloyd noted that Narragansett's proposed decrease in the SOS rate is based on a revised estimate of the average cost of SOS for the period October 2001 through December 2001.<sup>3</sup> She explained that the current SOS rate of 6.302 cents per kWh was approved by the Commission in Docket 3287 on March 29, 2001, after the Company petitioned for a rate increase in order to avoid a significant under-collection of SOS revenues. The Company based that SOS rate on projected fuel prices over the nine-month period from April 2001 through December 2001, because the Company expected its monthly fuel index adjustment payments to increase through July 2001, and then decrease through the end of the year.<sup>4</sup>

As of March 31, 2001, there was a projected under-recovery in SOS revenues of \$2.3 million, because Narragansett had underestimated gas and oil prices in Docket 3243. However, because fuel prices have in fact turned out to be lower than estimated in Docket 3287, Narragansett has now determined that

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<sup>2</sup> Narragansett Ex. 1A, Prefiled testimony of Michael Hager, pp. 4-7, and Ex. MJH-3.

<sup>3</sup> Narragansett Ex. 1B, Prefiled testimony of Jeanne Lloyd, p. 3.

<sup>4</sup> See Commission Order 16651 (issued July 10, 2001), pp. 1-2.

the entire under-collection (\$1.9 million balance remaining as of September 1, 2001) will be recovered as of September 30, 2001.<sup>5</sup> As a result, Narragansett

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~~estimates that, if the current SOS rate of 6.200 cents per kWh is continued, an~~  
SOS revenue *over*-collection of approximately \$15.8 million would accumulate by December 31, 2001.<sup>6</sup>

Ms. Lloyd testified that Narragansett's proposal to reduce the SOS rate to 5.5 cents per kWh would have the effect of avoiding the accumulation of a significant SOS revenue *over*-collection while still providing consumer protection in the event of an increase in fuel prices. Thus, if prices during the months of October through December 2001 follow the estimates, Narragansett still anticipates an *over*-recovery of approximately \$1.65 million in SOS revenues as of December 2001. However, Narragansett expressly endorses this approach as providing "a reasonable cushion that allows the Company to reduce the [SOS] rate, while at the same time providing "insurance" against the need for a rate increase early next year in the event that actual fuel prices turn out to be higher than anticipated. Any actual *over*-collection that may occur will be credited or refunded to customers through the Standard Offer reconciliation mechanism.<sup>7</sup> Mr. Hager added that the revised SOS rate of 5.5 cents is very close to the Last Resort Service ("LRS") rate of 5.674 cents per kWh recently procured by the Company for the period September 2001 through February 2002.<sup>8</sup>

At this time, Narragansett is also proposing to eliminate the SOAF of .232 cents per kWh, previously approved by the Commission in Docket 3138.

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<sup>5</sup> Narragansett Ex. 1B, pp. 6-8.

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

<sup>7</sup> *Id.*, at 5-7.

The SOAF was implemented for usage on and after October 1, 2000, to recover over a twelve-month period the combined SOS and LRS revenue under-collections of some \$16 million that had accumulated during the period January 2000 through September 2000. Because the entire under-collection will now be recovered as of September 30, 2001, as planned, the SOAF is no longer necessary. In fact, the Company estimates that there will be a modest over-collection from the SOAF of \$415,736 at September 30, 2001. Any actual over-collection will be reflected in the base reconciliation in the month of October 2001 and be used to offset any future under-recoveries in those reconciliations.<sup>9</sup>

### III. DIVISION

In response to the Company's filing, on September 13, 2001, the Division of Public Utilities and Carriers ("Division") submitted a Memorandum prepared by David R. Stearns, a Division Rate Analyst.<sup>10</sup> The Division noted that the current standard offer rate had become effective on April 1, 2001 for the purpose of collecting the estimated cost of SOS for the period April 2001 through December 2001.<sup>11</sup> The Division further noted that Narragansett's proposal of 5.5 cents per kWh represented a reduction of .802 cents per kWh, or 12.7%, compared to the current rate of 6.302 cents per kWh.<sup>12</sup>

The Division also noted that the SOAF had been implemented on October 1, 2000 to collect an under-recovery of SOS and LRS costs, totaling some \$16 million, that had accumulated between January 2000 and September 2000.

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<sup>8</sup> Narragansett Ex. 1A, p. 7.

<sup>9</sup> Narragansett Ex. 1B, pp. 7-8.

<sup>10</sup> Division Exhibit 1, Memorandum dated 9/13/01, p. 1.

<sup>11</sup> Id.

<sup>12</sup> Id.

However, the Division pointed out, Narragansett was now projecting an *over*-recovery from the SOAF of \$415, 736 at September 30, 2001.<sup>13</sup>

In conclusion, the Division recommended that the Commission approve Narragansett's proposal to decrease the SOS rate to 5.5 cents per kWh and to eliminate the SOAF. The Division stated that it had "performed an analysis, based upon the base Standard Offer cost per kWh to Narragansett in 2002 and the 2002 Fuel Trigger Point in the Standard Offer Supply contracts, along with forecasted fuel prices as of [September 13, 2001]." The Division pointed out that, even with the scheduled increase in Standard Offer base cost to Narragansett from 3.8 cents to 4.2 cents per kWh in 2002, due to lower expected fuel costs and the contractual increase in the Fuel Trigger Point from \$5.35 to \$6.09 in 2002, a reduction of the SOS rate to 5.5 cents would "adequately recover Standard Offer fuel costs during 2002".<sup>14</sup> Therefore, the Division recommended that the proposed SOS rate reduction to 5.5 cents per kWh be approved for Standard Offer sales on and after October 1, 2001, and that the SOAF be eliminated as of that date, as well.<sup>15</sup>

#### IV. HEARING

Following notice, a public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on September 20, 2001. The following appearances were entered:

FOR NARRAGANSETT: Ronald T. Gerwatowski, Esq.

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

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<sup>13</sup> Id., at 2.

<sup>14</sup> Id. In fact, the Division went on to predict that if the current fuel price forecast is accurate and conditions remain static, "there may well be an opportunity for a further reduction in the Standard Offer Retail rate in 2002."

<sup>15</sup> Id.

FOR COMMISSION:

Cynthia G. Wilson, Esq.  
Senior Legal Counsel

At the hearing, Mr. Hager and Ms. Lloyd testified on behalf of Narragansett. Each witness adopted his or her respective pre-filed testimony, and was subject to cross-examination. Under questioning by the Commission, Mr. Hager acknowledged that because fuel prices have continued to drop since the date of the Company's filing, if conditions remain stable for the remainder of the year, Narragansett could expect to have an SOS revenue over-recovery of almost twice that estimated at the time of the filing, or approximately \$3 million by December 31, 2001. However, Mr. Hager cautioned that because of recent world events (i.e., the September 11 terrorist attack on the World Trade Center in New York City) and the prospect of impending military action by the United States in the Middle East, current estimates are somewhat unreliable.

Therefore, Mr. Hager and Ms. Lloyd testified, it was Narragansett's position that it would be more prudent to set the SOS rate at 5.5 cents per kWh, with an anticipated revenue over-recovery, than to set the rate lower and risk an under-recovery. Ms. Lloyd testified that setting the SOS rate at 5.5 cents provided a reasonable "cushion" to insulate consumers from another rate increase in the event fuel prices were to rise over the next three months. Ms. Lloyd and Mr. Hager agreed that even if fuel prices did rise significantly, there might be no further need to change the SOS rate. Furthermore, they acknowledged that "optimistically," if fuel prices remain stable, consumers could see a further SOS rate decrease to 4.7 cents per kWh as early as January 2002.

The Division presented Mr. Stephen Scialabba, Chief Accountant for the Division, as its witness at the hearing. Mr. Scialabba testified that he had reviewed the Memorandum submitted to the Commission by Mr. Stearns and that he agreed with its findings and recommendations. He then adopted the Memorandum as his own pre-filed testimony in this matter. Mr. Scialabba also relied on several documents introduced as Division exhibits during his testimony. He provided the Commission with the most recent NYMEX gas prices.<sup>16</sup> He also provided the Commission with industry commentary upon which he relied in reaching his opinion that there should be a decrease in the SOS rate to 5.5 cents per kWh.<sup>17</sup> He testified that the industry analysis indicated that oil and gas prices were likely to continue to decrease more than originally expected during the fall of 2001. Therefore, he concurred with the Company that, even at the lower SOS rate of 5.5 cents per kWh, Narragansett could expect a greater over-recovery than initially anticipated. He also agreed with Narragansett that a further SOS rate reduction would be warranted as early as January 2002, if there are no significant changes in the oil and gas price trends. However, he also cautioned the Commission not to be overly aggressive in reducing the SOS rate, given the uncertainty created by recent world events. Under questioning by the Commission, Mr. Scialabba stated that the Division considered a projected SOS over-recovery in excess of \$5 million to be significant enough to warrant a rate reduction. However, he also indicated that the projected over-recovery associated with an SOS rate of 5.5 cents per kWh fell below that level.

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<sup>16</sup> Division Exhibit 2.

<sup>17</sup> Division Exhibits 3 and 4.

## COMMISSION FINDINGS

Immediately following the close of the hearing on September 20<sup>th</sup>, the Commission publicly deliberated the evidence and testimony presented regarding the rate filing in this docket. In a bench decision rendered the same day, the Commission voted unanimously to approve the Company's proposal to ~~reduce the SOS rate to 5.5 cents per kWh, which is the GOAD rate~~ October 1, 2001, as just and reasonable and in the best interests of the ratepayers.

The Commission is pleased that the Company's Standard Offer customers will now be able to reap the rewards of the tough choices the Commission had to make in raising the SOS rate five times over the last nine months. The Commission recognizes that it was difficult for Narragansett and the Division to appear before the Commission several times to ask for rate increases in order to keep up with the unprecedented increases in fuel index adjustment payments associated with the provision of SOS during this period.

However, ratepayers will now benefit from the diligent efforts of the Company and the Division to avoid a substantial under-collection of SOS costs which, if deferred, would have resulted in significant amounts (including interest) now owing to Narragansett. Because of the incremental SOS rate increases we approved during the period July 2000 through April 2001, this Commission is now in the position to approve the first of what it hopes will be future incremental decreases in the SOS rate, if current forecasts of oil and gas prices remain accurate.<sup>18</sup>

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<sup>18</sup> The Commission notes that the average residential customer's monthly electric bill, which was \$61.92 in December 1997, will now be reduced to \$61.02, or a decrease of 1.5%.

We also find that, because the SOS/LRS under-collection that accumulated during the period January 2000 through September 2000 will be recovered in its entirety as of September 30, 2001, the SOAF is no longer necessary, and approve its elimination effective October 1, 2001.

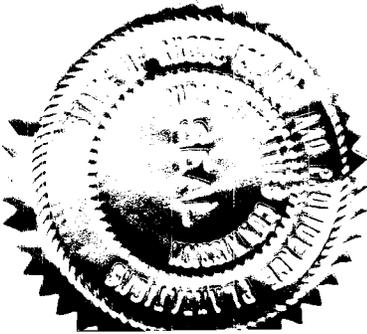
Accordingly, it is hereby

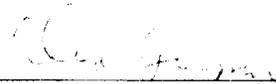
(16731) ORDERED:

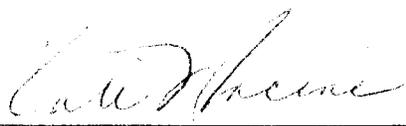
1. Narragansett Electric Company's proposed retail Standard Offer Service Rate of 5.5 cents per kWh is approved to become effective for usage on and after October 1, 2001.
2. Narragansett Electric Company's proposed elimination of the Standard Offer Adjustment Factor of 0.232 cents per kWh is approved to become effective October 1, 2001.
3. Narragansett Electric Company shall comply with all other findings and instructions as contained in this Report and Order.

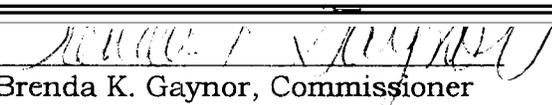
EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO A UNANIMOUS BENCH DECISION ON SEPTEMBER 20, 2001. WRITTEN ORDER ISSUED OCTOBER 2, 2001.

PUBLIC UTILITIES COMMISSISON



  
Elia Germani, Chairman

  
Kate F. Racine, Commissioner

  
Brenda K. Gaynor, Commissioner