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September 7, 2022

Luly Massaro, Clerk
Division of Public Utilities and Carriers
89 Jefferson Blvd.
Warwick, RI 02888
Luly.massaro@puc.ri.gov

RE: In Re: Narragansett Electric Company, d/b/a Rhode Island Energy –
Last Resort Service Rate Filing
Docket 4978

Dear Luly:

Enclosed herewith please find the Rhode Island Division of Public Utilities and Carriers' Position Memorandum, for filing in the above-referenced docket.

Should you have any questions, please do not hesitate to contact me.

Regards,

/s/ Gregory S. Schultz
Special Assistant Attorney General
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To: **Linda George, Esq., Administrator**
Division of Public Utilities and Carriers

From: Alberico Mancini, Rate Analyst
Paul Roberti, Esq., Chief Economic & Policy Advisor
Division of Public Utilities & Carriers

CC: **John Spirito, Esq., Deputy Administrator**
Christy Hetherington, Esq., Chief Legal Counsel
Division of Public Utilities and Carriers

Date: **September 7, 2022**

Re: **Docket 4978 Narragansett Electric – Last Resort Rate Filing**

On July 21, 2022 Narragansett Electric Company d/b/a Rhode Island Energy ("RIE" or "Company") filed with the Public Utilities Commission (Commission) proposed Last Resort Service ("LRS") rates effective October 1, 2022 together with the results of the Company's most recent LRS procurement. [1] As with prior LRS Rate filings, the Division has prepared this memo in response to the Company's filing.

The Company submitted a Request for Confidential Treatment covering the detailed bid results. The Company submitted these confidential materials to the Division for review.

Included in the Company's filing are:

- A calculation of the LRS retail rates for the Residential, Commercial, and Industrial Groups for each month of the service period;
- A RIPUC Tariff No. 2096 Rate Summary, Reflecting the proposed rates for the period October 2022 through March 2023.

[1] Filings entitled: *Proposed Last Resort Service Rates for the Residential Group and the Commercial Group for the Months of October 2022 through March 2023 and for the Industrial Group for the Months of October 2022 through December 2022.* The filing also includes the results of competitive procurement for the Months of October 2022 through March 2024 for the Residential and Commercial Group, and for the Months of October 2022 through December 2022 for the Industrial Group.

- A typical bill analysis for LRS for the Residential, Commercial, and Industrial Customer Groups.

- A copy of the Request for Proposals ("RFPs") issued on June 10, 2022 to solicit LRS supply for the period October 2022 through March 2024 for the Residential and Commercial Group, and October 2022 through December 2022 for the Industrial Group.

- A redacted summary of the procurement process, and;

- Redacted versions of the executed confidential Amendment to the Master Power Agreement and Transaction Confirmations for October 2022 through March 2024 for the Residential and Commercial Group, and October 2022 through December 2022 for the Industrial Group.

Un-redacted versions of the Procurement Summary, an amendment to a Master Power Agreement, and Transaction Confirmations have been supplied under separate cover.

Last Resort Service Procurement Plan Summary

Industrial Group: 100% of the load for **October 2022 through December 2022**.

Commercial Group: Procurements encompassing **October 2022 through March 2024.**

With this most recent solicitation for another 20% of the load requirements for the **October 2022 through March 2023** period, **90%** of the load requirements for the Commercial Group for the October 2022 through March 2023 period have now been procured (15% in January 2021, 20% in July 2021, 15% in January 2022, 20% in April 2022 and 20% in July 2022). For the October 2022 through March 2023 period, the Company will purchase the remaining 10% of the load in the spot market as the approved plan specifies.

Also, 20% of the Commercial Group's load requirements for the **April 2023 through September 2023** period have been procured in the July 2022 solicitation. With this most recent solicitation, **55%** of the load requirements have been purchased for the April 2023 through September 2023 period (15% in January 2022, 20% in April 2022 and 20% in July 2022). For the April 2023 through September 2023 period, the Company will procure another 20% in the fourth quarter of 2022 and 15% in the first quarter of 2023. Those procurements will total 90% for the April 2023 through September 2023 period and 10% will be made in the spot market.

Also, 20% of the Commercial Group's load requirements for the **October 2023 through March 2024** period have been procured in the July 2022 solicitation. With this most recent solicitation, **35%** of the load requirements have been purchased for the October 2023 through March 2024 period (15% in January 2022 and 20% in July 2022). For the October 2023 through March 2024 period, the Company will procure another 15% in the first quarter of 2023, 20% in the second quarter of 2023, and 20% in the third quarter of 2023. Those procurements will total 90% for the October 2023 through March 2024 period and 10% will be made in the spot market.

Residential Group: Procurements encompassing **October 2022 through March 2024.**

With this most recent solicitation for another 20% of the load requirements for the **October 2022 through March 2023** period, **90%** of the load requirements for the Residential Group for the October 2022 through March 2023 period have now been procured (15% in January 2021, 20% in July 2021, 15% in January 2022, 20% in April 2022 and 20% in July 2022). For the October 2022 through March 2023 period, the Company will purchase the remaining 10% of the load in the spot market as the approved plan specifies.

Also, 20% of the Residential Group's load requirements for the **April 2023 through September 2023** period have been procured in the July 2022 solicitation. With this most recent solicitation, **55%** of the load requirements have been purchased for the April 2023 through September 2023 period (15% in January 2022, 20% in April 2022 and 20% in July 2022). For the April 2023 through September 2023 period, the Company will procure another 20% in the fourth quarter of 2022 and 15% in the first quarter of 2023. Those procurements will total 90% for the April 2023 through September 2023 period and 10% will be made in the spot market.

Also, 20% of the Residential Group's load requirements for the **October 2023 through March 2024** period have been procured in the July 2022 solicitation. With this most recent solicitation, **35%** of the load requirements have been purchased for the October 2023 through March 2024 period (15% in January 2022 and 20% in July 2022). For the October 2023 through March 2024 period, the Company will procure another 15% in the first quarter of 2023, 20% in the second quarter of 2023, and 20% in the third quarter of 2023. Those procurements will total 90% for the October 2023 through March 2024 period and 10% will be made in the spot market.

Last Resort Service Proposed Rates and Trends

Industrial Group Rates

The LRS rates proposed for the **Industrial Customer Group** for the October 2022 through December 2022 period, including the current per-kWh Last Resort Adjustment Factor of ($0.00375), the Administrative Cost Factor of $0.00268, and the Renewable Energy Charge of $0.00721 are:

- October 2022: $0.14397 / kWh
- November 2022: $0.23801 / kWh
- December 2022: $0.39974 / kWh

The three-month average of the proposed October 2022 through December 2022 Industrial Group LRS rate is $0.26057/kWh, which results in a $0.13304 increase when compared with the current July 2022 through September 2022 average Industrial Last Resort rate of $0.12753/kWh. In comparison, the proposed three-month average rate represents an increase of $0.17808/kWh when compared to last year's October 2021 through December 2021 Industrial average rate of $0.08249/kWh.

Commercial Rates

The **fixed price option** LRS rate proposed for the **Commercial Customer Group** for the October 2022 through March 2023 period, including the current per-kWh Last Resort Adjustment Factor of $0.00665, Administrative Cost Factor of $0.00210, and the Renewable Energy Charge of $0.00721 is:

- October 2022 – March 2023: $0.18279 / kWh

The proposed rate represents an increase of $0.10232/kWh when compared with the current fixed price option charge of $0.08047/kWh but compared to last year's October 2021 through March 2022 Commercial Group LRS fixed winter rate of $0.10174/kWh, the proposed rate represents an increase of $0.08105/kWh or 80% for the same six-month period in the previous year.

The **variable price option** proposed LRS rates for the **Commercial Customer Group** including the current per-kWh Last Resort Adjustment Factor of $0.00665, Administrative Cost Factor of $0.00210, and the Renewable Energy Charge of $0.00721 are as follows:

- October 2022 $0.16863 / kWh
- November 2022 $0.17578 / kWh
- December 2022 $0.18743 / kWh
- January 2023 $0.19357 / kWh
- February 2023 $0.19246 / kWh
- March 2023 $0.17846 / kWh

Residential Rates

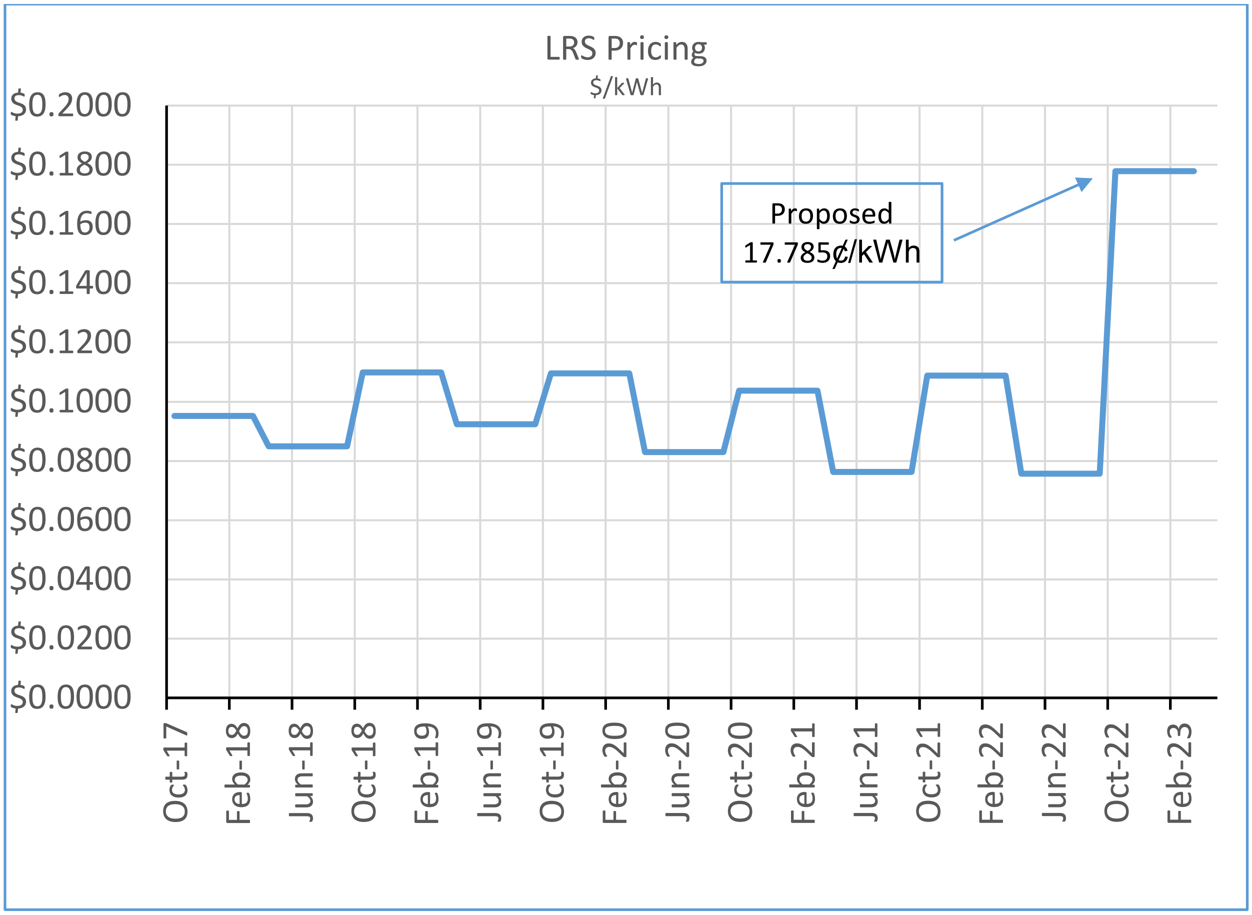
The LRS rate proposed for the **Residential Customer Group** for the October 2022 through March 2023 period, including the current per-kWh Last Resort Adjustment Factor of $(0.00318), the Administrative Cost Factor of $0.00233, and the Renewable Energy Charge of $0.00721 is:

- October 2022 – March 2023: $0.17785/kWh

The proposed rate represents an increase of $0.09975/kWh when compared with the current LRS rate of $0.07810/kWh but compared to last year's October 2021 through March 2022 LRS average winter rate of $0.10882/kWh, the proposed rate represents an increase of $0.06903/kWh or 63% for the same six-month period in the previous year.

Last Resort Service Rate Bill Impact

The trend over the last several years has been higher electric supply prices in the winter verses the summer season. The graph, G-1 on the following page, shows this trend going back to the winter of 2017 – 2018.



Energy prices included in the Company's July procurement were significantly higher than the previous four procurements with each procurement coming in higher than the prior period's procurement. These higher prices were slightly mitigated by recent decreases in capacity costs which are driven by the Forward Capacity Auction (FCA). The FCA had peaked in the ninth capacity period (June1, 2018 to May 31, 2019) but has since continued to decrease.

Based on June 2022 statistics, 93% of residential supply service is provided through LRS, while this amount is 54% for commercial and less than 10% for the industrial class. For the majority industrial customers and for those customers active in the open market, this proposed increase will have no impact. To mitigate the impact of the proposed increase in LRS, customers that still purchase their energy supply from the Company have the option to enter the marketplace and shop for lower cost power supply. Another alternative for customers is to avail themselves of the Company's budget billing option.

The Company has included a detailed typical bill analysis for all classes as part of their LRS rate filing (Schedule 3). A brief summary of the A-16 residential rate class is shown in Table 1 below:

Table 1 – Residential A-16 Rate Class

Monthly kWh	Current Bill	Proposed Bill	Total Increase	% Increase
300	$70.54	$101.72	$31.18	44.2%
500	$111.15	$163.10	$51.95	46.7%
1200	$253.25	$377.94	$124.69	49.2%

As presented in Table 1, a typical A-16 residential customer using 500 kWh's per month would see a $51.95 increase or 46.7% overall increase in their monthly bill.

Table 2 below compares the proposed bill to last year's winter bill which is a more reasonable comparison as winter rates have been trending higher than summer rates.

Table 2 – Residential A-16 Rate Class

Monthly kWh	21/22 Winter	Proposed Bill	Total Increase	% Increase
300	$79.25	$101.72	$22.47	28.4%
500	$125.86	$163.10	$37.24	29.6%
1200	$288.99	$377.94	$88.95	30.1%

As presented in Table 2, a typical A-16 residential customer using 500 kWh's per month would see a $37.24 increase or 29.6% overall increase when compared to last winter's typical bill.

The proposed rates are the result of the Company following the approved procurement plan and obtaining competitive responses to its RFPs. The Company does not earn a profit on the electricity its customers use and has no incentive to retain last resort customers.

Division Confirmation of Compliance

After review, the Division is of the opinion that the proposed Last Resort rates contained in the filing for Residential, Commercial, and Industrial customers are correctly calculated and comply with the PUC-approved Last Resort Procurement Plan as approved in Docket 4978 at the July 23, 2020 open meeting.

The Division also is of the opinion that the power supply procurements undertaken by the Company in the Docket reporting period comply with the Last Resort Procurement Plan approved by the Commission and recommends that the proposed Last Resort rates be approved as filed.

Comments Concerning Alternative Proposals

According to the procedural schedule in this docket, the parties have an opportunity to provide additional comments on September 15th. The Division provides the following comments on alternative proposals at this time and also reserves it right to provide additional comments as allowed under the schedule.

The Division acknowledges that other parties, including the Governor, have proposed various mechanisms to help mitigate the effect of significantly increased rates during this coming winter. The Division typically seeks to ensure that power supply costs and the underlying rate recovery mechanisms are sufficiently aligned during the relevant rate recovery period since such an approach best comports with accepted ratemaking principles, while also producing the least disruptive impacts to competitive markets.[2] The proposal to defer the collection of the fixed monthly customer charge, while generally not advisable from a ratemaking perspective, would produce short-term bill relief that would benefit all residential customers during the upcoming winter period without impacting the competitive market Accordingly, the Division has no objection should the Commission be inclined to adopt this proposal. This stands in contrast to a deferral of commodity charges which are collected on a volumetric basis, where the size of the deferral could be very substantial. For this category of charges, it is important to note that any deferral of costs to a later period also has the tendency to mask the true cost of the power consumed by customers during this winter, and thereby produces the unintended effect of encouraging greater consumption of electricity that would otherwise occur if the rates reflected actual costs. This could further increase the balance of unrecovered costs that would be recovered from future customers, which may not be the same mix of customers that created the deferral. The Company's Last Resort Service Adjustment Provision (Adjustment Provision) is the mechanism that allows the Company to recover deficiencies between LRS revenues and expenses. Traditionally the Adjustment Provision has only been charged to LRS customers. Under this scenario, customers that transition off LRS would not be required to pay for any under recoveries that flow through the Adjustment Provision. For the reasons discussed above, the Division does not support deferring the commodity costs. Lastly, the Governor also proposed to allocate $3,858,150 of RGGI funds to help mitigate the winter rate impacts to low-income customers. The proposal would result in an approximate total bill credit of $105 for each customer enrolled in the A-60 rate class during the winter period. This proposal results in direct benefits and bill relief to qualified customers and therefore the Division fully supports the proposal.[3]

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[2] The Division acknowledges that it has on limited past occasions supported deferral of supply costs to a later period, *see, e.g.* Docket 4692, but under conditions distinct from today.

[3] Consistent with its filed comments in Dockets 22-07-GE and 22-08-GE, the Division takes no position regarding the disposition of settlement funds from the private agreement between PPL Corporation and the Rhode Island Attorney General insofar as the treatment of these funds falls outside the jurisdiction of the Public Utilities Commission.