

Memorandum

To: L. Massaro

Commission Clerk

From: D. R. Stearns

Rate Analyst, Division of Public Utilities & Carriers

Date: 12/11/2003

Re: Narragansett Electric – Annual Rate Reconciliation Filing – Docket 3571

On November 18, 2003 Narragansett Electric Company (“Narragansett”, or “Company”) submitted to the Commission the annual filing for the Company’s tariff adjustment provisions: Narragansett’s Non-bypassable Transition Adjustment Charge Provision, its Standard Offer Adjustment Provision, and its Transmission Service Cost Adjustment Provision.

The Company has reconciled its actual revenue and expenses associated with these provisions through September 2003, and estimated the provisions’ revenues and expenses through December 2004.

As a result, for 2004 Narragansett proposes:

A decrease of \$0.00089 in the Transition charge, from \$0.00944 to \$0.00855 per kWh,

An increase of \$0.00017 in the Transmission charge, from \$0.00499 to \$0.00516 per kWh, and

An increase of \$0.00400 in the Standard Offer charge, from \$0.05500 to \$0.05900.

The Division has reviewed the filing, and the calculations appear to be mathematically correct.

There are two areas the Division wishes to address:

1. The Company’s projected Standard Offer charge for 2004 was calculated using forecast natural gas and oil price data as published in the Wall Street Journal during the three day period November 28 through November 30, 2003. The Division has twice recalculated the Standard Offer charge using more recent data, from NYMEX Henry Hub Natural Gas: Futures Market Quotation and NYMEX Crude Oil Futures Quotes and Market Prices, for the period November 23 through November 25 and the period December 1 through December 3,

2003. The Division's calculations resulted in Standard Offer charges for the November and December periods of about \$0.0600 per kWh and \$0.06100 per kWh, respectively. This more recent information indicates an upward trend in projected fuel prices, resulting in a slightly higher Standard Offer charge than the \$0.05900 per kWh calculated by the Company using the earlier data. The Division performed these calculations in the course of analysis, and is not recommending that the Commission approve a Standard Offer charge other than that proposed by the Company.

2. Narragansett has been involved for some time in a dispute with a standard offer supplier regarding certain transmission "uplift charges". The dispute was resolved in the supplier's favor leaving Narragansett with approximately \$7 million in costs associated with standard offer service for which they have not sought recovery. Order number 17424, issued by the Commission in Narragansett's 2002 annual reconciliation filing (Docket 3479), allowed Narragansett to retain \$2,894,617 of an over recovery resulting from the 2002 Transmission Service Cost Adjustment Provision. In the event that the results of the dispute were unfavorable toward Narragansett, and presuming that Narragansett was permitted to pass through these disputed charges to Narragansett customers, this retained over collection amount was to be used to mitigate the impact of a potential charge to customers. The Division notes that at the time, Narragansett was in a position to propose a decrease in the Transmission Adjustment Factor. Retention of the \$2,894,617 kept the adjustment factor stable. At this point, it is the Division's opinion, that it is unclear whether Narragansett will be able to recover these costs. By refunding the \$2,894,617 during 2004 as the Division is recommending, the proposed increase would be somewhat mitigated. The Transmission Adjustment Factor would be reduced from the \$0.00080 proposed by the Company to about \$0.00042. This equates to a reduction of \$0.20 in the proposed 2004 increase in the 500 kWh bill of a residential customer, from the \$1.70 increase proposed by Narragansett to a \$1.50 increase.

After review, the Division recommends approval of the 2004 Transition Adjustment Charge and Standard Offer Adjustment proposed by the Company, and that the calculation of Narragansett's 2004 Transmission Adjustment Factor include a refund of the \$2.9 million over collection currently being retained by the Company.

Cc: Thomas Ahern,

Administrator, Division of Public Utilities and Carriers