

**DIVISION OF PUBLIC UTILITIES AND CARRIERS
MEMORANDUM**

TO: LULY MASSARO

DATE: 2/8/07

**FROM: STEPHEN SCIALABBA
CHIEF ACCOUNTANT**

**SUBJECT: NARRAGANSETT ELECTRIC MARKET ASSESSMENT DOCKET
3605, FILED JANUARY 5, 2007**

On January 5, 2007 Narragansett Electric d/b/a National Grid submitted a market assessment to the PUC, as required by Commission Order 18699 in Docket 3605. Basically, the purpose of the market assessment is to assess the conditions in the electric wholesale and retail markets, and determine if those conditions warrant modifications to the manner in which Narragansett procures its power supply for its Last Resort Service (LRS) load. Prior to filing this most recent assessment with the PUC, Narragansett and the Division engaged in a brief discussion regarding the state of the market and the upcoming procurement process.

As a result of its assessment of the New England wholesale and Rhode Island retail competitive markets, Narragansett recommends to the Commission that it continue to procure LRS for the May through October 2007 period under the currently approved LRS Acquisition Plan. Similar to the prior LRS procurement, Rhode Island's acquisition will be made concurrent with the RFP process for National Grid's retail distribution affiliates in Massachusetts and New Hampshire. This combined solicitation has been done previously. Based on our review of the filing and our assessment of current market conditions, the Division agrees that the Last Resort Service procurement should continue in the manner proposed in Narragansett's January 5, 2007 filing. Similar to prior approved procurements, supply will be sought separately for LRS Residential and Commercial & Industrial customer groups.

Narragansett's assessment included discussion of certain issues that may affect future procurements, but were not proposing adoption in the instant case. These dealt with multi-year supply agreements as well as fixed versus variable pricing option. While these were discussed, Narragansett is not proposing to adopt them. The Division agrees that conditions for LRS do not yet warrant consideration of these provisions. Regarding Renewable Energy Standard (RES) requirements for 2007, Narragansett plans to have LRS bidders provide a separate RES adder in their bid to cover Narragansett's RES statutory obligations. Narragansett will have the option of taking the power with or without the RES adder. The Division finds this approach provides a degree of flexibility regarding its RES procurement obligation and is reasonable regarding its LRS RES procurement.

Regarding capacity costs, National Grid will have bidders include the costs of the Forward Capacity Market in their bids.

Based on our review of the January 5, 2007 market assessment submitted by Narragansett, the Division is of the opinion that it is reasonable and that Narragansett's LRS procurement plan as described in the market assessment filing should be approved.