

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

**IN RE: NARRAGANSETT ELECTRIC :  
d/b/a NATIONAL GRID'S LAST RESORT SERVICE :  
ACQUISITION PLAN FOR THE PERIOD : DOCKET NO. 3605  
BEGINNING NOVEMBER 1, 2007 :**

**REPORT AND ORDER**

**I. BACKGROUND**

Narragansett Electric Company d/b/a National Grid (“NGrid” or “the Company”) and all other electric distribution companies in Rhode Island are required to provide Last Resort Service (“LRS”) to any customers who have left Standard Offer Service (“SOS”) for any reason and who are not receiving electric service from a non-regulated power producer. R.I.G.L. §39-1-27.3(c). The Public Utilities Commission (“Commission”) has the statutory authority to approve a LRS Acquisition Plan including the procedure for such acquisition, the pricing options being sought and the term of service for which LRS will be acquired. R.I.G.L. §39-1-27.3(c). NGrid can recover its costs incurred from providing LRS pursuant to the Commission approved plan. R.I.G.L. §39-1-27.3(c).

At an open meeting on February 12, 2007, the Commission approved, in Order No. 18882 (February 26, 2007), NGrid’s January 5, 2007 proposal to follow the LRS Acquisition Plan previously approved by the Commission in this Docket, specifically Order No. 18699 (August 23, 2006), for the purpose of procuring power for residential and non-residential customers for the six month period May 1, 2007 through October 31, 2007. The Commission has the authority to require modification of the approved LRS Acquisition Plan should it determine market conditions warrant such change.<sup>1</sup> Order No. 18882 also required NGrid to file a Market Assessment by July 2, 2007 so that the

Commission could determine whether the Company should continue to procure LRS according to the previously approved plan.

## II. MARKET ASSESSMENT

On July 3, 2007, the Company filed the Market Assessment required by Order No. 18882 and recommended that it be allowed to continue to procure LRS under the current plan approved by the Commission.<sup>2</sup> NGrid proposed that it continue to procure LRS supply for residential and non-residential customers in conjunction with the procurement for the Company's customers in New Hampshire and Massachusetts, and that it be allowed to use the same RFP process and standard form agreement, with some minor modifications none of which shift risks or costs between the supplier and NGrid, previously approved by the Commission.<sup>3</sup>

In compliance with the Commission's previous order and in order to determine whether modifications were necessary to the procurement process contained in the approved LRS Acquisition Plan, NGrid conducted an assessment of the New England wholesale and Rhode Island competitive retail markets since its February 2007 procurement. The Company evaluated a number of factors in arriving at its conclusion that there were no significant changes in the market to warrant a change in the procurement process previously approved by the Commission.<sup>4</sup>

The first aspect of the market that the Company evaluated was the wholesale energy market trends. In 2007, the price of natural gas has trended upward when compared to prices for the same period during the previous year. Specifically, the price

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<sup>1</sup> R.I.G.L. §39-1-27.3.

<sup>2</sup> Last Resort Service Market Assessment, July 3, 2007, p. 2

<sup>3</sup> *Id.*

<sup>4</sup> *Id.* at pp. 2-12.

of natural gas from the last two LRS procurements, compared to the futures market price for the twelve month period beginning November 2007, reveals an increase in price of approximately 44 percent. The Company anticipates that the price per kWh for the November 2007 through April 2008 period will be three to four cents, or 34 to 45 percent, higher than the price received in the last RFP.<sup>5</sup> A G-62 customer with a demand charge based on 7500kw and monthly consumption of 1,500,000kWh would see their monthly bill increase from \$208,000 per month to between \$255,000 and \$271,000 per month, an increase of 23-30 percent.<sup>6</sup>

NGrid also evaluated experiences with prior RFPs. Even though it received more bids for LRS for its February 2007 RFP than it did in previous RFPs, it polled its suppliers to identify changes that may be beneficial to the RFP and increasing LRS participation. After review of the suggestions NGrid did not believe it appropriate at the present time to change its retail rules. The Company will continue to review alternative procurement strategies internally and with the Division of Public Utilities and Carriers (“Division”) as such strategies are proposed.<sup>7</sup>

Beginning in 2007 NGrid is required by law to procure 3% of its energy from renewable sources.<sup>8</sup> On March 21, 2007 the Commission approved NGrid’s Renewable Energy Procurement Plan. As required by the RES Procurement Plan, NGrid will require bidders to its RFP to include separate pricing to provide the RES obligation in addition to their bids to provide LRS. In the event that the chosen supplier’s RES pricing is higher

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<sup>5</sup> *Id.* at pp. 3-4.

<sup>6</sup> These calculations are based on data provided in Docket No. 3788, NGrid Exhibit 1, Schedule JAL-15 at p.19.

<sup>7</sup> Last Resort Service Market Assessment, July 3, 2007 at p. 5-6.

<sup>8</sup> R.I.G.L. §39-26-4.

than NGrid's market estimate, NGrid will forego purchasing RES compliance with LRS and will include the unmet obligation in its next solicitation for RES-compliant RECs.<sup>9</sup>

The Company also looked at wholesale market rule changes approved and implemented since their last procurement. On February 28, 2007, FERC issued an order, accepting Market Rule 1 revisions. These revisions will formalize the processes and methodologies used to determine Installed Capacity Requirements for the New England Control Area and will also govern the calculation of the Local Sourcing Requirements and Maximum Capacity Limits used in the Forward Capacity Market ("FCM"). Additionally on April 16, 2007, FERC issued an order accepting a number of FCM rule revisions and on June 5, 2007 approved the remaining revisions required for the FCM. The first FCM auction is anticipated for early 2008 for a Capacity Commitment Period commencing June 1, 2010. NGrid already factored these market rule changes into the pricing it received in the last RFP. Its existing contracts obligated the suppliers for the supplier costs.<sup>10</sup>

In addition to the approved rule changes, the Company also evaluated the anticipated wholesale market rule changes and identified revisions required to add Long-Term Transmission Rights ("LTTR") to the existing Financial Transmission Rights ("FTRs") available under the current ISO-NE rules and changes to the allocation of "out-of-merit" operation costs. The NEPOOL Participants Committee approved Market Rule 1 revisions for LTTRs that were developed by ISO-NE and NEPOOL in response to the FERC's Final Rule on LTTRs and are awaiting FERC approval. Additionally ISO-NE filed revisions to the market rule governing the allocation of real-time "out-of-merit"

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<sup>9</sup> Last Resort Market Assessment, January 5, 2007 at pp. 5-6.

<sup>10</sup> *Id.* at pp. 7-8.

operation costs paid to generators dispatched as local second contingency protection resources (“LSCPR”) in New England. The proposed revisions add self adjusting caps on the total monthly level of charges allocated to suppliers in a reliability region in order to limit the exposure of suppliers in a reliability region to extreme, unexpected/unforeseeable increases in such costs and to allocate LSCPR costs above the cap to transmission customers in the region. NGrid anticipates these proposed market rule changes to be included in suppliers’ prices in the next RFP.<sup>11</sup>

NGrid reviewed requests for proposals that had been issued by other New England distribution companies since the January 2007 Market Assessment to ensure 1) that it was employing the best practices for procurement of LRS and 2) that no changes were necessary to its current plan. The Company evaluated a pilot program implemented by Fitchburg Gas and Electric Light Company (“Fitchburg”) designed to increase wholesale supplier interest in serving a large customer group by requesting both fixed and variable monthly pricing for its large customer group default service requirements. Fitchburg has selected this variable pricing option for its last three RFPs. NGrid will continue to monitor this pilot program.<sup>12</sup>

The number of customers taking competitive supply has not changed since the last filing in this docket. This demonstrates and supports the assertion that non-regulated power producers have been successful in competing against rates for Standard Offer Service and LRS currently in effect. Because of the number of customers that could

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<sup>11</sup> *Id.* at pp. 8-9.

<sup>12</sup> *Id.* at pp. 9-10.

potentially transfer to LRS, NGrid does not believe any changes are required in its LRS Acquisition Plan for the pending LRS solicitation.<sup>13</sup>

Finally, the Company reviewed its LRS customers and its load requirements and found that since the last Market Assessment in January 2007 the number of customers receiving LRS has remained unchanged and the LRS load has remained relatively flat since June 2006. Again, these numbers led the Company to the conclusion that no changes are required to the LRS Acquisition Plan for the upcoming solicitation.<sup>14</sup>

In order to improve its solicitation process, NGrid developed a master power supply agreement designed to reduce the amount of time needed to negotiate contract terms. Rather than negotiating every term of the contract for each RFP, the Company will negotiate general boiler plate terms one time. Subsequent RFPs will require only the negotiation of only those terms specific to each contract, i.e., price, duration, award blocks, etc. The Company will offer this master power supply agreement in August 2007 when it issues its LRS RFP.<sup>15</sup>

### III. DIVISION'S RECOMMENDATION

On August 1, 2007, Stephen Scialabba, Chief Accountant with the Division, submitted a Memorandum in response to NGrid's Market Assessment. Mr. Scialabba concluded that based on his review of the Company's filing and his review of current market conditions, NGrid's LRS Procurement Plan should continue in the manner proposed. Mr. Scialabba addressed the Company's review of purchasing LRS supply based on hourly ISO clearing prices, as well as buying a fixed block of power at a fixed price, and agreed with NGrid that conditions for LRS do not yet warrant consideration of

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<sup>13</sup> *Id.* at p.10, 16.

<sup>14</sup> *Id.* at pp. 11, 17, 18.

these options. Additionally, he found the Company's proposal to have bidders provide a separate RES adder to be flexible and reasonable regarding its Last Resort Service RES procurement.<sup>16</sup>

#### IV. COMMISSION FINDINGS

On August 9, 2007, the Commission held an open meeting to consider, among other things, NGrid's Market Assessment and proposal to continue procuring LRS for customers pursuant to the Acquisition Plan approved in this Docket in Order No. 18882 (issued February 26, 2007). Based on the Market Assessment prepared by NGrid and the recommendation of the Division, the Commission found that the LRS Acquisition Plan will provide power supply contracts which are in the best interest of the residential and non-residential ratepayers who are currently purchasing, or may in the future, purchase, electricity through LRS supply. Based on the Company's evaluation of the wholesale energy market trends, previous RFP experience, wholesale market rule changes and anticipated changes, recent procurement practices of other New England utilities and the stability in the number of customers taking competitive retail supply and those enrolled in LRS or the quantity of load to be served, these contracts should ensure that the price of the electricity purchased on the customers' behalf will be purchased at the fairest price and in adequate supply. Further, the Commission finds NGrid's approach to its RES procurement obligations to be reasonable.

Although not specifically addressed by the parties, the Commission finds that the agreement entered in Docket No. 3444, as approved by the Commission in Order Nos. 17203 and 17903, remain in full force and effect and that it is a reasonable approach to

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<sup>15</sup> *Id.* at pp. 10-11.

<sup>16</sup> Division of Public Utilities and Carriers Memorandum, August 1, 2007.

the issue of the Commission's right to review the prudence of NGrid's discretionary actions under the approved Acquisition Plan as well as to review NGrid's actions for compliance with the Plan.<sup>17</sup>

Accordingly, it is hereby

(19050) ORDERED:

1. NGrid's proposal to continue following the Last Resort Service Acquisition Plan approved by the Commission in Order No. 18882 for the purposes of procuring power for residential and non-residential customers for the six month period, November 1, 2007 through April 30, 2008, in accordance with the terms of the Acquisition Plan as amended in its July 3, 2007 filing, is hereby approved.
2. On or before January 4, 2007, NGrid shall file with the Commission a Market Assessment or proposed Last Resort Service Acquisition Plan for review.
3. Within thirty (30) days from NGrid's filing of a Market Assessment or proposed Last Resort Service Acquisition Plan, the Division shall file with the Commission a recommendation for review.
4. The Commission shall have the right to review NGrid's Last Resort power supply contracts for compliance with the approved

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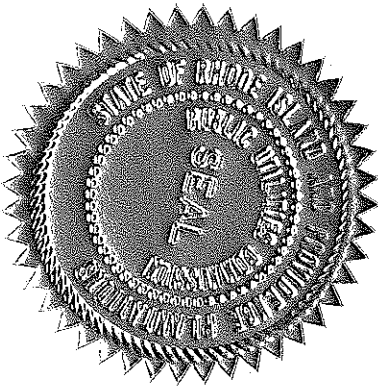
<sup>17</sup> In Docket No. 3444, the parties agreed, and the Commission subsequently approved, in Order Nos. 17203 and 17903, that NGrid be allowed to exercise discretion under its approved LRS acquisition plan but that such discretionary actions would be subject to retrospective review by the Commission to ensure compliance with the approved plan as well as the prudence of such action.



Acquisition Plan, and to review the prudence and reasonableness of any discretionary actions taken by NGrid under the approved Acquisition Plan.

5. NGrid and all parties shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON AUGUST 9, 2007, WRITTEN ORDER ISSUED AUGUST 31, 2007.



PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner