STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY	:	
PROPOSED RATE CHANGES TO STANDARD	:	DOCKET NO. 3648
OFFER RATE, TRANSITION CHARGE AND	:	
TRANSMISSTION ADJUSTMENT FACTOR	:	

REPORT AND ORDER

I. BACKGROUND

The Utility Restructuring Act of 1996 ("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:

Calendar Year	Price per kWh[1]
2005	5.5 cents
2006	5.9 cents
2007	6.3 cents
2008	6.7 cents
2009	7.1 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 customers through the annual reconciliation provisions of Narragansett's Standard Offer Adjustment Provision. Likewise, to the extent Narragansett collects more than its total cost of providing SOS, the ratepayers are entitled to recoup the benefit, with interest. Furthermore, Narragansett's transmission and transition charges are fully reconciling on an annual basis, the transition charges through an adjustment based on the annual reconciliation of wholesale power contract termination charges ("CTC") filed by National Grid and the transmission charges through a change in Narragansett's transmission adjustment factor ("TAF").

II. NARRAGANSETT

On November 10, 2004, Narragansett filed with the Rhode Island Public Utilities Commission ("Commission") its annual reconciliation filing with respect to SOS, transition and transmission rates. The filing included: a proposed 11.94% increase in the retail SOS rate from the present rate of 6.7 cents per kWh to 7.5 cents per kWh; a proposed 1.17% decrease in the transition rate from the present rate of .855 cents per kWh to .845 cents per kWh; and a proposed 469% increase in the transmission service adjustment factor from the present rate of .042 cents per kWh to .239 cents per kWh.[2]

On December 9, 2004, in response to Commission data requests, Narragansett filed a revised proposed SOS charge of 6.7 cents per kWh, resulting in no change to the rate then in effect.[3] The result for a typical residential customer using 500 kWh of service would be an increase of 1.6% equal to $0.97 per month. Therefore, the average monthly residential bill would increase from $61.80 to $62.77.[4] In support of the proposed rates, Narragansett presented the pre-filed testimony of Jeanne A. Lloyd, Principal Financial Analyst for National Grid USA Service Company, Michael J. Hager,

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[1] The contractual increase over the five year period will be 29.09% before fuel index adjustments.
[2] Narragansett Ex. 1A, Pre-filed testimony of Jeanne A. Lloyd, pp. 3-4, Exhibit JAL-10, p. 1.
[3] PUC Ex. 1, Response to Commission Data Request 1-3.
[4] Narragansett Ex. , Exhibit JAL-12 Update, p. 1.

Vice President, Energy Supply - NE for National Grid USA Service Company, and Carol A. Currier, Senior Analyst in Transmission Rates for New England Power Company.

A. Standard Offer Service

In his pre-filed testimony, Michael Hager explained that Narragansett has wholesale power supply contracts with three suppliers to serve the retail SOS load within its pre-merger ("Narragansett zone") and post-merger (both "Narragansett zone" and "EUA zone") service territories. All of these wholesale SOS supply contracts run through December 31, 2009 and contain a fixed price component.[5] Mr. Hager explained that the Narragansett zone SOS supply contracts contain two price components – a base price and a fuel index adjustment provision. According to Mr. Hager, the fuel index adjustment provides for additional payments ("fuel index payments") to be made to the SOS suppliers in the event of substantial increases in the market price of No. 6 residual fuel and natural gas. The price is based on a comparison of the twelve-month ("Narragansett zone") rolling average of oil and gas prices to a current trigger price. The base price for SOS contracts in both zones in calendar year 2005 is 5.5 cents per kWh.[6]

In order to determine the extent of any fuel index payments for the period January 2005 through December 2005, Mr. Hager based the fuel index adjustment calculations on future gas and crude oil projections. In performing his calculations, he used the average gas and crude oil prices as reported in the Wall Street Journal on November 22, 23, and 24, 2004. Based on the numbers examined, Mr. Hager determined that Narragansett will have to make fuel index payments of 1.158 cents per kWh in the pre-merger Narragansett zone. There are no payments in the former EUA zone, due to the expiration of the fuel

[5] Narragansett Ex. 1B, (Pre-filed testimony of Michael Hager), p. 3.
[6] Id. at 4.

index in the EUA SOS contracts, for the period January 2005 through December 2005. This equates to a total weighted average SOS cost of 6.653 cents per kWh, slightly below the current level.[7] Mr. Hager noted that recent procurements in Massachusetts had resulted in energy charges ranging from 6.646 cents per kWh for certain industrial customers to 7.093 for residential customers for the periods beginning in November 2004 and extending into 2005.[8]

In her pre-filed testimony, Jeanne Lloyd noted that Narragansett's current SOS rate is 6.7 cents per kWh. The charge was designed in a manner where Narragansett would neither over-collect nor under-collect its total wholesale SOS expenses through December 2004.[9] According to Ms. Lloyd's Updated Exhibit JAL-7, Narragansett projected an under collection of approximately $1,522,134 as of December 31, 2004.

Ms. Lloyd stated that Narragansett is proposing to maintain its SOS rate of 6.7 cents per kWh in order to meet anticipated fuel index payments.[10] According to Ms. Lloyd, maintaining the current level of 6.7 cents per kWh will cause Narragansett's SOS expenses to be approximately $882,184 more than the Company's revenues.[11] Because the over recovery of $72,938 in the Last Resort Service ("LRS") reconciliation is

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[7] Id. at 5.
[8] Id. at 6.
[9] Narr. Ex. 1A (Pre-filed testimony of Jeanne A. Lloyd), p. 18. Narragansett incurred fuel index payments of approximately $66.8 million for the period October 2002 through September 2003, with approximately $21.4 million offset by a supplier credit to Narragansett during a prior period. Id. at 21. In Docket No. 3508, the Commission directed Narragansett to monitor its SOS reconciliation on a monthly basis and file with the Commission for an adjustment to the rate if the projected balance as of December 2003 were to exceed $16 million, either positive or negative. The balance as of December 2003 is estimated to be an over recovery of $8.1 million, which Ms. Lloyd uses to mitigate the proposed rate increase. Id. at 18-19, JAL-7, p. 2.
[10] Id. at Exhibit JAL-1-Update. The base SOS charge for 2005 is 5.5 cents per kWh. The remainder of the proposed charge is related to anticipated fuel index payments.
[11] Id. at Exhibit JAL-7-Update.

minimal, rather than applying it to the SOS balance as in the past, Narragansett proposes to carry it forward to the next reconciling period.[12]

B. Transition Charge

In her pre-filed testimony, Ms. Lloyd explained that the transition charge is intended to recover the CTC that was billed to Narragansett by its affiliated supplier, New England Power ("NEP"), when NEP released Narragansett from the all-requirements contract whereby Narragansett had contracted to buy all of the power required to serve Narragansett's customer load.[13]

Narragansett reconciles transition revenues on an annual basis in accordance with the requirements of the Non-Bypassable Transition Charge Adjustment Provision, which requires an annual reconciliation of Narragansett's total CTC expense against Narragansett's total revenue from the Transition Charge. Any over or under-collection is to be refunded to or collected from customers, with interest. Ms. Lloyd indicated that the current transition rate produced an over-recovery of approximately $437,110 for the period October 1, 2003 through September 30, 2004.[14] Narragansett proposed reducing the weighted average transition charge by a transition charge adjustment factor credit to return the over recovery to customers.[15]

Therefore, the Company's proposed transition charge of 0.845 cents per kWh represents the weighted average base transition charge of 0.850 cents per kWh and a

[12] Narr. Exhibit 1A, p. 18. The non-residential over recovery is $74,704 and the residential under recovery is $1,767 for the period October 2003 through September 2004. The balance will earn interest on behalf of ratepayers.
[13] Id. at 4.
[14] Id. at 5-6.
[15] Id. at 6. The weighted average transition charge is based on a formula comparing the transition charges of the Narragansett zone and the EUA zone. Id. at 5.

transition charge adjustment factor credit of 0.005 cents per kWh designed to refund the transition over recovery for the period October 2003 through September 2004.[16]

C. Transmission Rate

In her pre-filed testimony, Ms. Lloyd outlined the three components of Narragansett's proposed increase in the Transmission Adjustment Factor: (1) an increase of 0.061 cents per kWh to represent an increase in forecasted transmission costs for 2005; (2) an increase of 0.048 cents per kWh to collect a $3.8 million under recovery from the period October 2003 through September 2004; (3) an increase of .064 cents per kWh, due to the elimination of the 2004 transmission reconciliation factor and (4) an increase of 0.024 cents per kWh designed to recover approximately $5.6 million over three years for the deferred ISO Tariff Expenses.[17] The net result was a proposed increase of 0.197 cents per kWh, increasing the Transmission Adjustment Factor from 0.042 cents per kWh to 0.239 cents per kWh.[18]

Narragansett forecasted total transmission costs for 2005 of approximately $44.2 million, resulting in a unit cost of 0.564 cents per kWh for 2005, or .061 cents more than the 2004 average transmission expense of .503 cents per kWh.[19] Narragansett reported a $3.8 million transmission revenue under recovery as of September 30, 2004, which will be collected in 2005. Ms. Lloyd noted that in accordance with the Commission's Order in Docket No. 3617, Narragansett will begin collecting $5.6 million of the total $7.45 million of previously disputed transmission costs over a three-year period.[20]

[16] Id. at 4-5.
[17] Id. at 6-7. Approval of the three year recovery was provided by the Commission in Docket No. 3617, Order No. 18037 (issued November 9, 2004).
[18] Id. at 6-7, Exhibit JAL-1-Update.
[19] Id. at 7-8.
[20] Id. at 8-11.

In her pre-filed testimony, Ms. Carol Currier explained that since January 1, 1998, Narragansett has been taking transmission services on behalf of its entire customer base under two open tariffs, New England Power Company's NEP Federal Energy Regulatory Commission ("FERC") Electric Tariff No. 9 and New England Power Pool's ("NEPOOL") FERC Electric Tariff No. 1.[21] FERC Tariff No. 9 provides service over NEP's local, non-PTF facilities. NEP also provides metering, transformation and certain ancillary services to Narragansett to the extent such services are required by Narragansett and not otherwise provided under the NEPOOL Tariff.[22] NEPOOL's FERC Tariff No. 1 covers regional transmission service over Pool Transmission Facilities ("PTF"), calculated pursuant to a FERC-approved formula. The NEPOOL Tariff also provides for Black Start, Reactive Power, and Scheduling, System Control and Dispatch Services.[23] Additionally, since January 1, 1999, Narragansett takes service pursuant to the New England Independent System Operator's ("ISO-NE") FERC Electric Tariff No. 1, under which ISO-NE provides Scheduling System Control and Dispatch, Energy Administration Service, and Reliability Administration Service.[24]

Ms. Currier estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2005 to be approximately $44.2 million, representing a net increase of $5.49

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[21] Narragansett Ex. 1C, Pre-filed testimony of Carol A. Currier, p. 3.
[22] Id. at 9-10.
[23] Id. at 4. Pool Transmission Facilities are defined as "the transmission facilities owned by Participating Transmission Owners (PTO) over which the ISO shall exercise Operating Authority in the terms set forth in the Transmission Owners Agreement (TOA), rated 69kV or above required to allow energy from significant power sources to move freely on the New England transmission system as defined in the Open Access Transmission Tariff, and include: 1. All transmission lines and associated facilities owned by PTOs rated 69 kV and above, except for lines and associated facilities that contribute little or no parallel capability to the PTF . The following do not constitute PTF: (a) Those lines and associated facilities which are required to serve local load only. (b) Generator leads, which are defined as radial transmission from a generation bus to the nearest point on the NEPOOL Transmission System. (c) Lines that are normally operated open. The remainder of the definition as contained in FERC Electric Tariff 3 (Open Access Tariff) has not been included in this footnote.
[24] Id. at 3.

million, or 14.2% from the 2004 forecast, primarily due to the combination of eliminating border charges with New York, increased PTF transmission investments and the updated RNS Rate, and increased NEPOOL Reactive Power costs.[25] She explained that her estimate included NEP Tariff 9 charges, NEPOOL Regional Network Service ("RNS") transmission charges, Black Start, Reactive Power and Load Dispatch charges.[26]

In estimating the 2005 NEPOOL RNS charges, Ms. Currier indicated that she used the currently effective rates and adjusted them to reflect an estimated rate increase that becomes effective on June 1st each year. The estimated cost for Black Start Service is based on the January 1, 2005 rate. She calculated the Reactive Power cost by using the actual costs for the period September 2003 through August 2004. She also based the costs associated with Scheduling and Dispatch Service on the currently effective rate. All rates are further based on Narragansett's network load. Ms. Currier explained that no Reliability Must Run ("RMR") contract charges have been estimated because Rhode Island does not appear to be an affected reliability region.[27]

Ms. Currier calculated NEP Tariff No. 9 charges based on NEP's actual Non-PTF expenses for the 12 months ending August 2004 increased to reflect additional costs associated with forecasted capital additions anticipated for the rate period. Likewise, she based metering, transformation and ancillary service charges on current rates.[28] Ms. Currier estimated the ISO-NE charges based on the ISO-NE revenue requirement filed with FERC. To estimate Narragansett's 2005 ISO-NE charges, Ms. Currier adjusted ISO-NE's actual costs for the period September 2003 through August 2004 by an

[25] Id. at 14.
[26] Id. at 11-14.
[27] Id. at 11-13.
[28] Id. at

inflationary factor which is intended to recognize the increase or decrease in the ISO-NE revenue requirement from the budget as filed for the periods ending December 2004 versus December 2005.[29]

Finally, Ms. Currier provided an explanation of the primary changes from the 2004 forecasted expenses. She indicated that in response to a FERC Order regarding elimination of market "seams" between New England and New York, the two control areas reached an agreement which became effective on December 1, 2004. She explained that elimination of this charge will decrease NEP's credit to its transmission revenue requirement by the amount it currently receives from New York for the border charge. This increases the Non-PTF costs allocated to Narragansett. Ms. Currier indicated that the increase in the PTF forecast for 2005 is primarily due to an increased PTF rate in 2005. The increase in Reactive Power costs is primarily due to the costs associated with system changes in the Boston area which are allocated to the entire New England region.[30]

III. DATA REQUESTS

The Energy Council of Rhode Island ("TEC-RI"), a full party intervenor, and the Commission issued data requests to which Narragansett responded. TEC-RI asked several questions regarding transmission costs and allocations from NEP. TEC-RI also requested information regarding the current rules related to the procurement of last resort service. Both TEC-RI and the Commission requested updated fuel information and cost projections from Narragansett. The Commission requested information regarding the

[29] Id. at 14. The inflationary factor varies based on the category of expense, but when the cost of all categories is combined, the average inflationary factor is 5.24%

[30] Id. at 15-16.

impact of Standard Market Design ("SMD") on RMR costs.[31] Under the pre-SMD model, Rhode Island would have been required to pay $11,497,893 for RMR costs in 2004.

Finally, the Commission requested an analysis from the Company as to whether or not SMD has resulted in an overall savings to customers in Rhode Island. In response, Narragansett provided information from ISO-NE's website and 2003 Annual Markets Report which indicates that if energy costs are excluded, SMD has resulted in more efficiency in the New England wholesale electricity market. Including energy costs does not decrease efficiency, but shows increased overall costs to customers.

IV. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 13, 2004. The following appearances were entered:[32]

FOR NARRAGANSETT:	Laura S. Olton, Esq.
FOR DIVISON:	Paul J. Roberti, Esq. Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson, Esq. Senior Legal Counsel

A. Public Comment

Nine members of the public provided comment regarding the proposed rate change.

B. Narragansett's Testimony

[31] Reliability Must Run costs are those associated with electric generating units in congested areas that ISO-NE must run regardless of price in order to ensure system reliability.

[32] Mr. John Farley, Executive Director of TEC-RI, an intervenor, was allowed to make a statement for the record without counsel present during the hearing after no objection was made by the parties.

At the hearing, Mr. Hager, Ms. Lloyd and Ms. Currier testified on behalf of Narragansett. Ms. Lloyd testified regarding the effect of the revised calculations, indicating that there would be an increase of $0.97 on the typical residential monthly bill, or approximately 1.6%, for a total bill of $62.77 per month. The effect on the average low income residential customer without a water heater credit would be an increase of $0.97 or approximately 1.9%, for a total bill of $51.29 per month.[33]

The witnesses summarized their pre-filed testimony and were presented for cross examination. Ms. Currier and Ms. Lloyd responded to questions regarding transmission calculations. Ms. Lloyd acknowledged that the TAF is increasing by a significant amount, approximately 69%. Ms. Currier noted that approximately $3.5 million of the PTF charges are due to increased NEPOOL charges. She agreed that the non-PTF charges increased by approximately 13.8%. She indicated that $2.6 million is associated with transmission plant and other infrastructure improvements. She noted that $3.6 million is associated with payments to affiliate companies that own transmission facilities which NEP may use in the provision of transmission services pursuant to an integrated facilities agreement. She acknowledged that the largest component of the increase is $6 million associated with Administrative and General expenses resulting from NEP's costs pursuant to the formula set forth in FERC Tariff 9. She indicated that any transmission customer, such as Narragansett can ask for an audit to determine if the charges agree with the costs. She was not aware if Narragansett has ever sought such an audit. She was also not aware of the administrative procedure for approving the costs or for triggering the audit provision. Finally, she was unsure of whether any reasonableness review is

[33] Id. at 56.

undertaken by any jurisdictional entity such as FERC.[34] With regard to the costs associated with Reactive Power, Ms. Currier explained that the reactive power allocation per the NEPOOL Tariff is allocated to all of New England as it is necessary to maintain reliability of the New England transmission system, rather than something which is identifiable to a subset of customers.[35]

Mr. Hager clarified that the National Grid USA costs are allocated to the various distribution companies, including Narragansett, either based on actual costs for a Narragansett-specific project or based on a formula for a project that benefits all of the distribution companies. He indicated that an employee's daily wages are allocated based on the hours he has incurred for his various functions throughout the day to ensure no double billing.[36]

With regard to SOS issues, Mr. Hager indicated that the EUA fuel adjustment provision expired in accordance with the contracts between EUA and Narragansett on December 31, 2004. Two of the three suppliers had acknowledged the expiration and one had remained silent. In the event the remaining supplier disagreed with Narragansett's interpretation of the contract, the supplier could request arbitration. However, Mr. Roberti noted that this issue has been raised by the Commission in the last several SOS proceedings and should come as no surprise to the remaining supplier. He expressed

[34] Id. at 55-71. In response to Record Requests, Ms. Currier indicated that the Integrated Facilities Agreements were filed with FERC and that the recovery of the costs are provided for in the Agreements and Tariff 9. The Integrated Facilities Agreements were approved by FERC in 1975 (Blackstone Valley Electric), 1990 (Blackstone Valley Electric), 1996 (Narragansett), and 1999 (Newport Electric Corporation). She indicated further that Narragansett has never sought an audit of NEP's accounts and records as allowed under Tariff 9. She explained that the revenue requirements under NEP's FERC Tariff 9 are calculated pursuant to a formula rate filed with and approved by FERC. The approved formula rate permits NEP to recover its actual costs for cost components approved as part of the cost of service formula. Thus, she explained, FERC approves the formula but does not specifically review the Tariff 9 costs. However, FERC may audit the application of NEP's formula or the transmission customers may conduct an audit. See Responses to Record Requests, 2, 3, and 4.

concern that if there were arbitration, a ratepayer advocate should have a right to be involved.

With regard to the treatment of the LRS over collection, Ms. Lloyd acknowledged that the Company is not recommending rolling it into the SOS balance in 2005 and explained that because the balance is so small, the Company believed it would be more appropriate to carry it forward in an interest bearing account through to the next reconciliation. She noted that most of the over collection was due to a timing issue between the monthly usage and the billing cycles, specifically regarding prorating of usage on bills.

Addressing public comment that restructuring was supposed to provide lower electric prices for customers, Mr. Hager explained that there is competition in the wholesale market, although not in the retail market for residential customers in Rhode Island. He reiterated a point from a prior SOS proceeding, noting that gas prices at the end of November 2004 for calendar year 2005 purchases were averaging $7.15 per MMBtu. He reminded the Commission that when the restructuring concept was being developed in 1996, 1997 and 1998, the natural gas market prices would fluctuate between $2.00 and $3.00 per MMBtu. At that time, $3.00 per MMBtu put people into crisis mode. He indicated that economists are advising market participants to "forget the old prices [and that] $5.00 or $5.50 should be the normal price." Both Mr. Hager and Dr. Stutz, the Division's witness agreed that some of the reason for the increased energy

[35] Id. at 78-79. See Response to Record Request 7.
[36] Id. at 72-75.

prices is due to increased generating capacity, built after the commencement of restructuring, which is dependent on natural gas.[37]

Mr. Hager noted that ISO-NE had issued a report which indicated that if one backs out the increased fuel costs, and normalizes them back to the oil and gas prices of the prior year, the actual wholesale market prices were lower in 2003 than in the year prior. According to ISO-NE, this shows the efficiencies created by the restructured market. Therefore, while customers were experiencing actual increases in their bills, it was due to increases in energy costs rather than inefficiencies in the system.[38]

C. Division's Testimony

The Division presented Dr. John Stutz of the Tellus Institute in support of its position. Dr. Stutz indicated that while the transmission costs and erratic behavior of the SOS costs concern the Division, the Division supports the amended proposal that Narragansett filed with the Commission.[39] In response to a question from the Bench inquiring as to whether or not the SOS rate should be increased, Dr. Stutz agreed with a comment made by Mr. Hager that the current SOS rate should provide some cushion in the midst of volatility. Dr. Stutz also pointed out that with a volatile market such as the historical natural gas market, a valid projection of a trend is very difficult. He noted that the natural gas market, shown on a graph, tends to have peaks and valleys. Therefore, while there has been an overall upward trend in the energy market over time, it is very difficult to project what the market will do in the next twelve-month period for the purposes of setting rates. He also indicated that 6.7 cents per kWh is a reasonable level

[37] Id, at 94-102.
[38] Id. at 96-98.
[39] Id. at 83-84.

for the SOS rate and that it provides a cushion.[40] He stated that "I do have to admit that the cushion isn't anywhere near as big as these swings we've seen, but I hope these swings are more indicative of spikes than trends."[41] He maintained that in light of the volatility, where a clear trend is not discernable, this was not the time to be building up large surpluses.[42] With regard to the Commission's previous Orders which contained provisions to encourage the Company to file for a rate change when the over- or under-collection in the SOS account reaches $16 million, Dr. Stutz noted that in light of the volatility, such a benchmark should not be an absolute mandate, but rather a trigger that a rate change may be necessary.[43]

D. TEC-RI's Testimony

Mr. John Farley, Executive Director of TEC-RI, stated that the organization has some concerns with the transmission rate. Furthermore, with regard to the SOS rate, he noted that TEC-RI has two competing positions within the organization. Some customers are receiving energy through competitive supply while others are taking SOS. Addressing the SOS concerns, he acknowledged that there is still no clear answer as to what the base line price will be. He maintained that it is important for Rhode Island to seek the best strategy for mitigating risk when it comes to the prices. He believed that the procurement of SOS is not flexible enough to mitigate risk. He opined that the State is at a point where it should either move forward in encouraging the competitive market or

[40] Id. at 123-26, 128.
[41] Id. at 127-28.
[42] Id. at 128-129.
[43] Id. at 126-27.

that Narragansett will continue to procure most of the power, in which case there needs o be a review of the Company's ability to procure it in the best way possible.[44]

V. COMMISSION FINDINGS

After considering the evidence presented, the Commission approved Narragansett's amended rate proposal as filed. Specifically, the Commission approved Narragansett's proposals with regard to the SOS rate, TAF, transition rate, and the LRS over-recovery, as just and reasonable and in the best interests of the ratepayers.

The Commission determined that Narragansett's proposal to continue reporting monthly on the projected balance of the SOS account as of December 31, 2004 is reasonable. Furthermore, Narragansett Electric should consider filing for a SOS rate adjustment if monthly projections indicate that the SOS account will accrue an over- or under-collection in excess of $16 million as of December 31, 2005. The Commission agrees with Dr. Stutz that the filing should not be required based solely on the projected number, but should consider the time of year and projections of oil and gas prices. In other words, if there appears to be a large over- or under-collection after only a couple of months of the year, time may smooth out the result. Likewise, if the over- or under-collection does not appear until after September, when Narragansett will be filing shortly for its annual reconciliation, it may not be appropriate to file. In other words, the Company has discretion utilizing various factors to determine when a rate adjustment is necessary beyond simply the figure of $16 million. It is encouraged to seek Division input prior to filing for a rate change if one is not clearly necessary.

The Commission notes that Narragansett does not earn any profit on the SOS, transmission or transition charges. These rates are the result of charges that Narragansett

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[44] Id. at 129-131.

must pay in order to distribute the electricity to homes and businesses. With regard to the SOS rate, the Commission regulates Narragansett, but does not regulate the wholesale oil and natural gas prices. The Commission must appropriately address those costs and allocate those costs to the different groups of customers as those costs are incurred.

While the Commission is hopeful that a market will develop under restructuring, it will continue to diligently ensure that rates remain as stable as possible given the wholesale market volatility. The Commission reiterates that the General Assembly has voted in favor of electric restructuring twice based on the theory that competition will ensure lower energy prices. What the Commission has seen, however, is that the wholesale market prices have increased dramatically since 2000. Testimony at Commission hearings has consistently indicated that no one contemplated wholesale natural gas prices would settle out at $5, $6 and $7 per MMBtu, when they hovered around $2 and $3 in 1996. The Commission reminds ratepayers that it does not control or regulate these commodity prices.

While the Commission has heard the concerns of TEC-RI with regard to the procurement of SOS supply, the Commission notes that the SOS contracts that are currently in place are all requirements load following contracts with fixed prices, some that have fuel adjustment clauses, which extend through 2009. These contracts were approved by FERC after its administrative process back in 1998. If large commercial and industrial ("C&I") customers are truly concerned with what they perceive as above-market SOS prices, we encourage them to seek pricing in the market. It may be that while there may be less long-term price certainty, actual costs could be lessened in the market.

However, in response to a generalized concern that the SOS pricing may be in excess of the market, the Commission notes that after a review of Mr. Hager's pre-filed testimony, recent procurements in Massachusetts resulted in energy charges ranging from 6.646 cents per kWh for certain industrial customers to 7.093 cents per kWh for residential customers for the periods beginning in November 2004 and extending into 2005. Although filed after determination in this docket and not a part of the Commission's deliberations, the Commission notes that the average LRS pricing for non-residential customers for the eight month period January 1, 2005 through August 31, 2005 is 6.987.

Accordingly, it is hereby

(18151) ORDERED:

1. Narragansett Electric Company's proposed retail Standard Offer Service Rate of 6.7 cents per kWh is approved for service on and after January 1, 2005.
2. Narragansett Electric Company's proposed Transition Rate of 0.845 cents per kWh is approved to become effective for service on and after January 1, 2005.
3. Narragansett Electric Company shall file a monthly reconciliation of the projected SOS balance for December 31, 2005.
4. 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 BENCH DECISION ON DECEMBER 13, 2004. WRITTEN ORDER ISSUED FEBRUARY 17, 2005.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Robert B. Holbrook, Commissioner