

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY :
d/b/a NATIONAL GRID'S :
PROPOSED RATE CHANGES TO STANDARD : DOCKET NO. 3706
OFFER RATE, TRANSITION CHARGE AND :
TRANSMISSION 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, with certain adjustments permitted. Pursuant to the URA, Narragansett Electric Company now d/b/a National Grid (“NGrid” or “Company”) entered into wholesale Standard Offer supply contracts with the following prices:

<u>Calendar Year</u>	<u>Price per kWh¹</u>
2006	5.943 cents
2007	6.343 cents
2008	6.743 cents
2009	7.143 cents

The wholesale Standard Offer supply contracts also provide for increases in the price per kilowatt-hour (“kWh”) of wholesale power supplied to NGrid in the event fuel prices increase above certain levels. To the extent that the total cost of the wholesale power supply to NGrid, including fuel charges, exceeds retail Standard Offer Service

¹ The contractual increase over the five year period will be 20.19% before fuel index adjustments. In Docket No. 3496, the Commission approved a Settlement entered into between Narragansett and one of its standard offer suppliers to address responsibility for congestion costs in light of new locational marginal pricing rules in the wholesale electricity market. The settlement altered the base Standard Offer Service (SOS) cost in that contract. The pricing listed here is the weighted average impact on the overall pricing for all SOS contracts.

("SOS") and Last Resort Service ("LRS") revenues, the under-collection is recoverable, with interest, from NGrid's customers through the annual reconciliation provisions of NGrid's Standard Offer Adjustment Provision. Likewise, to the extent NGrid collects more than its total cost of providing SOS, the ratepayers are entitled to recoup the benefit, with interest. Furthermore, NGrid'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 New England Power Company and charged to NGrid, and the transmission charges through a change in NGrid's transmission adjustment factor ("TAF").²

II. NATIONAL GRID

On November 15, 2005, NGrid filed with the Rhode Island Public Utilities Commission ("Commission") its annual reconciliation filing with respect to transition and transmission rates. On November 30, 2005, NGrid filed its SOS update with the Commission.³ The filing included: a proposed 21.95% increase in the retail SOS rate from the present rate of 8.2 cents per kWh to 10.0 cents per kWh; a proposed 31.95% decrease in the transition rate from the present rate of 0.845 cents per kWh to 0.575 cents per kWh; and a proposed 55.23% increase in the transmission service adjustment factor from the present rate of 0.239cents per kWh to 0.371 cents per kWh.⁴ The result for a typical residential customer using 500 kWh of service would be an increase of 14.7% equal to \$10.36 per month. Therefore, the average monthly residential bill would

² National Grid USA is the parent company of New England Power Company and Narragansett Electric Company.

³ On October 31, 2005, NGrid filed a proposed SOS adjustment for effect on and after December 1, 2005. The Commission suspended the effective date and ordered NGrid to file an update no later than November 30, 2005. The forecasts and proposed charges contained in this Order only reference the updated filing. The original filing is only referenced for purposes of addressing general testimony.

increase from \$70.58 to \$80.93.⁵ 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, Vice President, Energy Supply - NE for National Grid USA Service Company, Susan L. Hodgson, Senior Analyst in Transmission Rates for New England Power Company, Michael Laflamme, Manager of Regulatory Support for National Grid USA Service Company, Inc. and Ronald T. Gerwatowski, Vice-President of Distribution Regulatory Services for the Narragansett Electric Company d/b/a National Grid.

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.⁶ 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

⁴ NGrid Ex. 2, Pre-Filed Testimony of Jeanne A. Lloyd, p. 2; NGrid Ex. 3, Pre-filed testimony of Jeanne A. Lloyd, pp. 3-4.

⁵ PUC-1 (NGrid’s Responses to Commission’s Second Set of Data Requests), 2-1. NGrid’s proposed Transition charge and overall bill impact analysis assumes approval of NGrid’s proposal for the Dispensation of Settlement Funds in Docket No. 3710. The proposal set forth in Docket No. 3710 was approved by a vote of 2-1 on December 22, 2005 and is addressed in a separate Report and Order. Order No. 18510 (issued January 24, 2006).

⁶ NGrid Ex. 1, (Pre-filed testimony of Michael Hager), p. 3.

(“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 2006 is 5.9 cents per kWh.⁷

In order to determine the extent of any fuel index payments for the period October 2005 through December 2006, 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 21, 22, and 23, 2005. Based on the numbers examined, Mr. Hager determined that Narragansett will have to make fuel index payments of 4.969 cents per kWh in the pre-merger Narragansett zone. There are no payments in the former EUA zone for the period January 2005 through December 2006, due to the expiration of the fuel index in the EUA SOS contracts. This equates to an arithmetic average of 3.677 cents per kWh applicable to both zones.⁸ Analyzing the data using the November 1, 2005 through November 23, 2005 fuel prices, Mr. Hager noted that NGrid would pay an arithmetic average fuel index payment for the period January 2006 through September 2006 of 5.025 cents per kWh for the Narragansett zone, corresponding to an arithmetic average of 3.718 cents per kWh applicable to both zones, again, because the EUA zone has no applicable fuel index provision.⁹ However, while using more data yields a higher payment, Mr. Hager suggested it would be more appropriate to use the three day average because that methodology corresponds to the methodology used in the applicable contracts.¹⁰ Furthermore, he expressed concern that averaging over long periods of time may not

⁷ Id. at 4.

⁸ NGrid Ex. 2 (Pre-Filed Testimony of Michael Hager), p. 2.

⁹ Id. at 2-3.

¹⁰ Id. at 3.

appropriately reflect the market. He opined that the use of the three-day average would be unlikely to overstate market prices.¹¹

In her pre-filed testimony, Jeanne Lloyd noted that Narragansett's current SOS rate is 8.2 cents per kWh.¹² According to Ms. Lloyd's Updated Exhibit JAL-1, Narragansett projected an under-collection of approximately \$17,225,501 as of December 31, 2005 and a greater than \$100 million under-collection at December 31, 2006.¹³ Ms. Lloyd explained that the proposed SOS charge is calculated by adding the estimated expenses for a nine-month period to three-fourths of the expected under-collection as of December 31, 2006 and dividing the total by the estimated SOS kWh deliveries for the same nine-month period. Therefore, utilizing Mr. Hager's fuel index adjustment provisions, Ms. Lloyd proposed a SOS rate of 10.0 cents per kWh effective January 1, 2006.¹⁴ The total over-collection in the Last Resort Service ("LRS") reconciliation for the period October 2004 through September 2005 is \$631,413 and Ms. Lloyd proposed to apply it to offset the SOS balance as in the past.¹⁵

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-

¹¹ Id. at 3-4.

¹² NGrid Ex. 3 (Pre-filed testimony of Jeanne A. Lloyd), p. 18.

¹³ In prior orders, the Commission has permitted the Company to file for an adjustment if the projected over- or under-collection exceeds \$16 million. See Order Nos. 18151 (issued February 17, 2005) and 17800 (issued March 31, 2004).

¹⁴ NGrid Ex. 2 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 2-4.

¹⁵ NGrid Ex. 3 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 11-13.

requirements contract whereby Narragansett had contracted to buy all of the power required to serve Narragansett's customer load.¹⁶

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 under-recovery of approximately \$142,922 for the period October 1, 2004 through September 30, 2005.¹⁷

In his Pre-Filed Testimony, Mr. Laflamme explained that, as a result of a bankruptcy settlement, the Company has available to it approximately \$44 million to be applied to reduce the CTC expenses. One trade-off is that NEP will now be reassuming responsibilities previously transferred to the bankrupt generator. He noted that a proposal before the Federal Energy Regulatory Commission would allow the Company to apply the funds directly to pay off a portion of the unrecovered stranded costs of Montaup, the assets representing the most expensive CTC costs for customers. Under this proposal, customers will avoid the repayment of those assets plus the rate of return on those assets at a rate in excess of 12%. This is because the total fixed transition cost will be lower, resulting in lower payments over the remainder of the transition amortization period. He maintained that this represents a greater benefit to customers than simply applying the

¹⁶ Id. at 4.

¹⁷ Id. at 5-6.

funds to reduce the transition charge in 2006 only to have it rise to the currently projected 2007 levels on January 1, 2007.¹⁸

Using this information, Ms. Lloyd indicated that the weighted average base transition charge of 0.679 cents per kWh and a transition charge adjustment factor of 0.001 cents per kWh designed to collect the transition under-recovery for the period October 2004 through September 2005 results in a net transition charge of 0.680 cents per kWh. However, relying on NGrid's proposal to return a portion of a transition charge credit discussed in Docket No. 3710 to customers, the Company proposed a transition charge of 0.575 cents per kWh for Calendar Year 2006.¹⁹

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) a factor of 0.653 cents per kWh, representing the Company's 2006 forecasted transmission expenses; (2) a factor of 0.088 cents per kWh designed to collect an under-collection of approximately \$7.0 million incurred for the period October 2004 through September 2005; and (3) a factor of 0.024 cents per kWh designed to collect the Company's share of uplift expenses incurred from January 1999 through May 2004 over three years. The net result was a proposed increase of 0.132 cents per kWh, increasing the Transmission Adjustment Factor from 0.239 cents per kWh to 0.371 cents per kWh.²⁰

In her Pre-Filed Testimony, Ms. Hodgeson forecasted total transmission costs for 2006 of approximately \$52.8 million, representing a net increase of \$8.6 million, or

¹⁸ NGrid Ex. 1 (Pre-Filed Testimony of Michael Laflamme), pp. 5-8.

¹⁹ NGrid Ex. 3 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 6-7.

²⁰ Id. at 7-8.

19.46% from the 2005 forecast.²¹ She indicated that the net increase is primarily the result of the transmission plant investment forecast for 2006 for all of New England and the proposed ISO charges for reactive power.²² The forecasted transmission costs for 2006 result in an average per unit cost of 0.765 cents per kWh for 2005, or 0.201 cents more than the 2005 average transmission expense of 0.564 cents per kWh.²³ Ms. Lloyd reported a \$7.0 million transmission revenue under-collection as of September 30, 2005, which will be collected in 2006. Ms. Lloyd noted that in accordance with the Commission's Order in Docket No. 3617, Narragansett will continue collecting \$5.6 million of the total \$7.45 million of previously disputed transmission costs over a three-year period.²⁴

In her pre-filed testimony, Ms. Hodgeson discussed the various tariffs under which transmission service is provided to NGrid and how it is priced.²⁵ Ms. Hodgeson estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2006 to be approximately \$52.8 million, representing a net increase of \$8.6 million, or 19.46% from the 2005 forecast, primarily due to the transmission plant investment forecast for 2006 for all of New England and the proposed ISO charges for reactive power.²⁶ She explained that her estimate included charges for Regional Network Service ("RNS") transmission, Black Start, Reactive Power and Scheduling and Dispatch Services.²⁷

In estimating the 2006 RNS charges, Ms. Hodgeson indicated that she used the currently effective rates and adjusted them to reflect an estimated rate in effect for the

²¹ NGrid Ex. 3 (Pre-Filed Testimony of Susan Hodgeson), p. 14.

²² Id. at 14-15.

²³ NGrid Ex. 3 (Pre-Filed Testimony of Jeanne Lloyd), pp. 7-8.

²⁴ Id. at 9, 11.

²⁵ NGrid Ex. 3 (Pre-Filed Testimony of Susan L. Hodgeson), pp. 2-11.

²⁶ Id. at 11, 14-15.

²⁷ Id. at 11-14.

period March 1, 2006 through May 31, 2006 and an increase that becomes effective on June 1, 2006.²⁸ The estimated cost for Black Start Service is based on the January 1, 2006 rate. She calculated the Reactive Power cost by using the actual costs for the period August 2004 through July 2005. 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. Hodgesson explained that no Reliability Must Run ("RMR") contract charges have been estimated because Rhode Island does not appear to be an affected reliability region.²⁹

Ms. Hodgesson calculated charges under Schedule 21 of the ISO/RTO Tariff based on NEP's actual Non-PTF expenses for the 12 months ending August 2005, 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.³⁰ Ms. Hodgesson estimated the 2006 ISO/RTO charges based on the revenue requirement filed with FERC. To estimate Narragansett's 2006 ISO charges, Ms. Hodgesson adjusted ISO's actual costs for the period August 2004 through July 2005 by an inflationary factor which is intended to recognize the increase or decrease in the ISO revenue requirement from the budget as filed for the prior year.³¹ Ms. Hodgesson also included an additional item (\$602,442) in the forecast of NGrid's transmission costs which NEP had previously inaccurately charged to a generation-related account rather than a transmission-related account. She indicated that NEP will make an accounting

²⁸ Id. at Workpaper SLH-1.

²⁹ Id. at 11-13.

³⁰ Id. at 13; Workpaper SLH-1, p. 2.

³¹ Id. at 13-14.

adjustment to reclassify the actual costs to the correct account while simultaneously crediting the other account.³²

Finally, Ms. Hodgeson provided an explanation of the primary changes from the 2005 forecasted expenses. She indicated that the increase to the 2006 forecast of the ISO Pool Transmission Facilities expenses is primarily due to an expected investment value of all New England Transmission Owners, the most significant of which relate to three projects in Vermont, Massachusetts and Connecticut. The increase in Reactive Power costs is, like last year, primarily due to the costs associated with system changes in the Boston area which are allocated to the entire New England region.³³

III. TESTIMONY AND POSITION STATEMENT OF WILEY CENTER

The Wiley Center provided a statement requesting the Commission deny the rate increase, or in the alternative, to moderate the increase by setting a rate that would permit an anticipated under-collection of at least \$16 million. The statement indicated that under NGrid's proposal, the A-60 rate class will experience a larger percentage increase than the A-16 rate class. Therefore, according to the statement, the burden on the low income customer would be unmanageable.³⁴

IV. POSITION OF THE ATTORNEY GENERAL

The Attorney General filed a position statement recommending the Commission approve the Transmission Adjustment Factor and Transition charges as proposed by the Company, including an additional credit of \$2,000,000 to the A-60 rate class as proposed in Docket No. 3710. With regard to the SOS charge, the Attorney General made no

³² Id. at 14.

³³ Id. at 15.

recommendation regarding the rate to be set, but rather, focused on promoting energy conservation, balancing the goals of rate stability, avoidance of substantial deferrals and limitation of rate shock, and continuing protest payments to TransCanada for disputed fuel index payments.³⁵

V. DIVISION'S TESTIMONY

The Division filed the Pre-Filed Testimony of John Stutz, its consultant. Dr. Stutz testified that the Commission should approve a SOS rate that both avoids a substantial deferral and limits rate shock. He also advocated for assistance to the low income customers on the basis that the rate increase would affect them more than other ratepayers. Finally, utilizing NGrid's updated fuel payment projections, Dr. Stutz recommended the Commission approve a SOS rate of 9.8 cents per kWh, slightly lower than that which was proposed by NGrid. Dr. Stutz recommended the Commission alter the threshold deferral from \$16 million to approximately \$23 million. In other words, a rate should be allowed to remain in effect until the deferral reached that threshold. However, Dr. Stutz also focused on the period of time over which to attempt to set the rate. He maintained that anything less than nine months would cause too much instability for customers.³⁶

With regard to the protest payments being made to TransCanada for disputed fuel index payments, Dr. Stutz recommended the Commission approve the continuation and recovery of these payments. Addressing the impact on low income customers, Dr. Stutz expressed support for the Company's proposed Transition charge based on approval of

³⁴ WC Ex. 1, (Statement of the Wiley Center), pp. 1-2. The Commission also allowed the Wiley Center to submit as full exhibits the testimony of Mr. John Howat from Docket Nos. 3689 (In re: Narragansett Electric Proposed Standard Offer Rate) and 3690 (In re: New Gas Distribution Adjustment Clause).

³⁵ AG Ex. 1 (Position Statement of Attorney General), pp. 1-3.

the Company's proposal in Docket No. 3710. Finally, Dr. Stutz recommended approval of the Company's proposed TAF.³⁷

VI. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 16, 2005. The following appearances were entered:

FOR NATIONAL GRID:	Thomas G. Robinson, Esq.
FOR WILEY CENTER:	B. Jean Rosiello, Esq.
FOR ATTORNEY GENERAL:	William K. Lueker, Esq. Special Assistant Attorney General
FOR DIVISON:	Paul J. Roberti, Esq. Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

A. Public Comment

The Commission allowed members of the public to provide comment regarding the proposed rate change on December 12, 2005 and December 16, 2005.

B. Narragansett's Testimony

At the hearing, Mr. Gerwatowski, Mr. LaFlamme, Mr. Hager, Ms. Lloyd and Ms. Hodgeson testified on behalf of Narragansett. Ms. Lloyd testified regarding the effect of her calculations, assuming approval of its proposal impacting the transition charge, indicating that there would be an increase of \$10.35 on the typical residential monthly bill, or approximately 14.7%, for a total bill of \$80.93 per month. The effect on the

³⁶ Division Ex. 1 (Pre-Filed Testimony of John Stutz), pp. 2-6.

average low income residential customer without a water heater credit would be an increase of \$4.56 or approximately 7.7%, for a total bill of \$63.66 per month.³⁸

Mr. Hager testified that oil and natural gas prices continue to settle at historically high prices. Discussing the Company's methodology for forecasting costs using the futures prices as indicators, Mr. Hager noted that although the projections are never completely accurate, the differences are "insignificant."³⁹ During this direct testimony, he quoted a research paper from the National Bureau of Economics Research which concluded that "futures prices do quite a good job in terms of both unbiasedness and smallest forecast errors for both natural gas and gasoline futures, [and] also do well in terms of the smallest errors for premium and heating oil."⁴⁰ Upon cross-examination, Mr. Hager agreed that volatility means that prices increase and decrease and that there is no guarantee that prices will continue to increase solely because there was an increase between the end of October 2005 and the end of November 2005.⁴¹

During cross-examination, Mr. Gerwatowski testified that the best information the Company has is that with a 10.0 cents per kWh rate in place for SOS, the Company would realize an under-collection of approximately \$16 million at the end of June 2006. However, he would not concede that the Company expects to need a rate increase in June 2006.⁴² Upon cross-examination, Mr. Gerwatowski only stated that the Company proposes 10.0 cents per kWh for the SOS charge, but did not specifically object to a rate set at 9.8 cents per kWh when pressed.⁴³ Despite his reliance on the previous threshold

³⁷ Id. at 6- 9.

³⁸ Tr. 12/16/05, pp. 44, 46. See also NGrid 4.

³⁹ Id. at 47, 51-53.

⁴⁰ Id. at 54.

⁴¹ Id. at 105-06.

⁴² Id. at 96-99.

⁴³ Id. at 101-103.

of \$16 million when evaluating whether or not a rate change should be considered, Mr. Gerwatowski agreed that a \$23 million deferral is a manageable amount, explaining that the Company did not want the deferral to become unmanageable.⁴⁴

With regard to the Transition Charge, Mr. Laflamme testified that since the date of the filing, which was based on estimates, the Company had received an updated reconciliation report from NEP, which included an additional \$600,000 benefit for customers. However, as explained by Ms. Lloyd, because the amount would result in a very small change to the Transition Charge, approximately 3.0 cents per month for a typical residential customer, the Company proposed to carry the amount for inclusion in the next annual reconciliation for calendar year 2007.⁴⁵

During cross-examination, Mr. Laflamme explained that the CTC is made up of a fixed component, set to end in 2009 and a variable component based on certain purchased power contracts, set to end in 2014 or 2015. He testified that the Settlement Funds will be applied to pay down of assets which make up a portion of the fixed price component.⁴⁶

Addressing the proposal to reduce the distribution rate further for A-60 customers, Ms. Lloyd responded that, assuming the Commission approved the proposal for effect January 1, 2006 and FERC were to deny the Settlements, the cost to be borne from the early approval would be approximately \$185,000 for the month of January.⁴⁷

Updating the Commission regarding the status of the litigation with TransCanada over disputed fuel index adjustment charges, Mr. Gerwatowski indicated that the case

⁴⁴ Id. at 107.

⁴⁵ Id. at 56-57.

⁴⁶ Id. at 60-64.

⁴⁷ Id. at 113.

would remain in the Massachusetts federal court and is still in the discovery phase. He agreed to provide the Commission and Division with status reports on a quarterly basis.⁴⁸

C. Division's Testimony

The Division presented Dr. John Stutz of the Tellus Institute in support of its position. Dr. Stutz testified that, based on the updated information provided by the Company at the hearing, he was changing his recommendation from 9.8 cents per kWh to 10.0 cents per kWh for the SOS charge. He reasoned that the goal of a longer term rate is more important than setting a slightly lower rate if that rate would have to be changed sooner.⁴⁹

V. COMMISSION FINDINGS

After considering the evidence presented, the Commission unanimously approved NGrid's proposed TAF based on the calculations provided by the Company. The TAF is based on NGrid's transmission costs which are passed through to customers without profit. The Transition charge was approved by a vote of 3-0 after the Commission voted in Docket No. 3710 by a vote of 2-1, with Commissioner Holbrook dissenting, to approve the return of \$8.5 million to all customers through the Transition Charge with an additional \$2 million returned to A-60 customers through an additional per kWh credit.⁵⁰ The decision regarding disposition of the remaining \$6 million was deferred pending further action by the Commission. The SOS charge of 10.0 cents per kWh was approved by a vote of 2-1, with Commissioner Bray dissenting.

⁴⁸ Id. at 117-120.

⁴⁹ Id. at 158-59.

⁵⁰ See Order No. 18510 (issued January 24, 2006) for a full discussion of the decision regarding the Disposition of Settlement funds.

The goal of ratemaking is to balance the need for revenues sufficient to cover costs with the desire for rate stability over time. The evidence presented by the Company supports the need for a SOS rate of 10.0 cents per kWh given most recent projections. Additionally, this increase will most likely be in effect for a longer period of time than a rate of 9.8 cents per kWh, by as much as three months, as shown by the evidence. The difference between the two rates has the effect of \$1.04 per month to a typical residential customer, but will allow that same customer rate stability for a longer period of time. Where the rates have increased by double-digit percentages over the last three months, the main goal should be stability.

The URA requires the Commission to allow NGrid to collect its costs associated with transition, transmission and SOS. The Company has provided the Commission with reasonable estimates of its projected costs for all three charges in 2006, including fuel adjustment costs on those SOS contracts which contain such clauses. The Commission has the discretion to determine the period of time over which the costs shall be collected, although the Company is required by law to reconcile its expenses and revenues associated with transmission, transition and SOS at least annually. Furthermore, although the Company is allowed to recover all of its costs associated with procuring power under the current SOS contracts, the Commission may require the Company to carry a deferral of costs, with interest.

In the past, the Commission has attempted to set SOS rates based on a twelve-month period with a benchmark over- or under-collection of \$16 million at which point, the Company was advised to consider filing for a rate change. The Commission, in this docket is altering that methodology and benchmark based on the recent volatility in the

market. The Commission is approving a rate of 10.0 cents per kWh for effect on usage on and after January 1, 2006, but is not anticipating the time during which it will be in effect. During the time which the rate is effective, the Company will be collecting a portion of its projected costs and a portion of the costs, estimated to be \$17,225,501 that it had deferred as of December 31, 2005. The Company shall continue to monitor its expenses, revenues, and deferrals and may consider filing for a rate change if the projected under-collection reaches \$23 million.

Accordingly, it is hereby

(18509) ORDERED:

1. National Grid's proposed retail Standard Offer Service Rate of 10.0 cents per kWh is approved for service on and after January 1, 2006.
2. National Grid's proposed Transition Rate of 0.575 cents per kWh is approved to become effective for service on and after January 1, 2006.
3. National Grid's proposed Transmission Adjustment Factor of 0.371 per kWh is approved to become effective for service on and after January 1, 2006.
4. Narragansett Electric Company shall monitor its projected over- or under-collections and is encouraged to file with the Commission for a change to the SOS rate if the projected over- or under-collection exceeds \$23 million.
5. 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 AN OPEN MEETING DECISION ON DECEMBER 22, 2005. WRITTEN ORDER ISSUED JANUARY 24, 2006.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

*Mary E. Bray, Commissioner

*Commissioner Bray concurred with the decision setting the Transmission Adjustment Factor and the Transition Charge, but dissented from the decision setting the Standard Offer Service Charge. She would have set the SOS charge at 9.8 cents per kWh even if it meant slightly less rate stability in the future in order to lessen any rate shock concerns.