

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

**IN RE: NARRAGANSETT ELECTRIC** :  
**d/b/a NATIONAL GRID'S** :  
**PROPOSED RATE CHANGES TO STANDARD** : **DOCKET NO. 3788**  
**OFFER RATE, TRANSITION CHARGE AND** :  
**TRANSMISSION ADJUSTMENT FACTOR** :

**REPORT AND ORDER**

**I. BACKGROUND**

Each electric distribution company is required by law, specifically R.I.G.L. §39-1-27.3, to arrange with wholesale power suppliers for a standard power supply offer (“Standard Offer”) to sell electricity to all customers at a stipulated rate, with certain adjustments permitted. Pursuant to the law, Narragansett Electric 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 kWh<sup>1</sup></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 (“SOS”) and Last Resort Service (“LRS”) revenues, the under-collection is recoverable,

---

<sup>1</sup>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

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 over-collection, 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").<sup>2</sup>

## II. NATIONAL GRID

On November 16, 2006, NGrid filed with the Rhode Island Public Utilities Commission ("Commission") its January 2007 Retail Rate Filing. The filing included: a proposed decrease in the Standard Offer rate from 9.4 cents per kWh to 8.3 cents per kWh; a reduction in the Company's transition charge from 0.575 cents to 0.559 cents per kWh; and an increase in transmission charges that, on average, would raise transmission rates by 0.102 cents per kWh. The result for a typical residential customer using 500 kWh of service would be a decrease of 6.6% equal to \$5.11 per month. Therefore, the average monthly residential bill would decrease from \$77.82 to \$72.71.<sup>3</sup> Additionally, the proposal submitted by the Company sought to continue the second phase of the \$2 million low-income credit that was approved in Docket No. 3710 in 2005.<sup>4</sup> This would result in a credit of 1.306 cents per kWh applicable to the first 450 kWhs consumed per

---

(SOS) cost in that contract. The pricing listed here is the weighted average impact on the overall pricing for all SOS contracts.

<sup>2</sup> National Grid USA is the parent company of New England Power Company and NGrid.

<sup>3</sup> NGrid's proposed Transition charge and overall bill impact analysis assumes approval of NGrid's proposal for the continuation of the Dispensation of Settlement Funds as in Docket No. 3710.

month by the low-income rate class. In support of the proposed rates, NGrid presented the pre-filed testimony of Jeanne A. Lloyd, Principal Financial Analyst for National Grid USA Service Company, Inc., Michael J. Hager, Vice President, Energy Supply - NE for National Grid USA Service Company, Inc., and Mary P. Haines, Senior Analyst in Transmission Rates for National Grid USA Service Company, Inc.

A. Standard Offer Service

The pre-filed testimony of Jeanne Lloyd, a Principal Financial Analyst for National Grid USA Service Company was submitted by NGrid. Ms. Lloyd noted that NGrid is proposing a decrease in the SOS rate of 1.1 cent per kWh, from the current 9.4 cents per kWh to 8.3 cents per kWh.<sup>5</sup> According to Ms. Lloyd's Exhibit JAL-2, NGrid projected an over-collection of approximately \$106.8 million as of December 31, 2007 if the current rate of 9.4 cents per kWh was left in place.<sup>6</sup> Ms. Lloyd explained that the proposed SOS charge is calculated by adding the estimated expenses for the one year period less the estimated over-recovery of SOS expense as of December 31, 2006 and dividing the total by the estimated Standard Offer kWh deliveries for that same period. The average Standard Offer cost for the period January 1, 2007 through December 31, 2007 is estimated at 7.9 cents per kWh. Because of volatility of fuel prices during the past two years, and the fact that in 2005 and 2006 NGrid had to request midyear SOS rate adjustments and keeping rate stability as a goal, NGrid proposed a rate of 8.3 cents per

---

<sup>4</sup> In Docket No. 3710, the Commission by a vote of 2-1, Commissioner Holbrook dissenting, approved the refund \$2 million of CTC Settlement Funds to the A-60 rate class. See Order No. 18510 issued January 24, 2006.

<sup>5</sup> NGrid Exhibit 1 (Pre-filed testimony of Jeanne A. Lloyd), p. 3.

<sup>6</sup> 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).

kWh rather than the 7.9 cents per kWh that was calculated.<sup>7</sup> The total over-collection in the Last Resort Service (“LRS”) reconciliation for the period October 2005 through September 2006 is \$343,357, and NGrid proposed using this amount to offset the fuel index payments in SOS reconciliation as has been done in the past.<sup>8</sup>

NGrid also submitted pre-filed testimony of Michael Hager outlining the costs NGrid expects to incur under its current SOS contracts in the upcoming year. Mr. 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 contracts with four suppliers to serve the retail SOS load within its post-merger (“EUA zone”) service territory<sup>9</sup>. All of these wholesale SOS supply contracts run through December 31, 2009.<sup>10</sup> Mr. Hager explained that the SOS supply contracts contain two price components – a base price and a fuel index adjustment provision. 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 2007 is 6.3 cents per kWh.<sup>11</sup> 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.<sup>12</sup>

In order to determine and estimate the expected costs under the fuel index adjustment provisions for the period January 2007 through December 2007, Mr. Hager

---

<sup>7</sup> NGrid Exhibit 1 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 7-8.

<sup>8</sup> NGrid Exhibit 1 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 22-24.

<sup>9</sup> NGrid Exhibit 1, (Pre-filed testimony of Michael Hager), p. 3. The post merger service territories are the territories served by the former Blackstone Valley Electric Company and Newport Electric Company.

<sup>10</sup> *Id.*

<sup>11</sup> *Id.*

<sup>12</sup> *Id.* at p. 4.

used the average natural gas and crude oil prices as reported in the Wall Street Journal on October 25, 26, and 27, 2006. Mr. Hager's analysis revealed that the Company would make fuel index payments of 2.586 cents per kWh in the pre-merger Narragansett zone, which corresponds to an arithmetic average of 1.913 cents per kWh for both zones.<sup>13</sup>

Mr. Hager represented that he does not anticipate any reduction in the current gas and oil prices in the near future. He noted that beginning January 1, 2007, Rhode Island's Renewable Energy Standard ("RES") begins. The law and the regulations promulgated by the Commission pursuant to the law will require retail electricity sales associated with SOS and Last Resort Service to include 3% of those sales from renewable resources. Additionally, the Company must file a plan annually showing procurement of NEPOOL GIS Certificates. NGrid filed its 2007 RES Procurement Plan on November 3, 2006.<sup>14</sup>

#### B. Transition Charge

Ms. Lloyd explained, in her pre-filed testimony, that the transition charge is intended to recover the CTC expense that was billed to NGrid by New England Power ("NEP")<sup>15</sup>. NGrid reconciles total revenue from the transition charge and total CTC expense annually in accordance with the requirements of the Non-Bypassable Transition Charge Adjustment Provision. 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 \$798,533 for the period October 2005

---

<sup>13</sup> Id. at pp. 4-5. For the period January 2007 through December 2007, the fuel index price adjustment is not applicable for the EUA Zone load.

<sup>14</sup> NGrid Exhibit 1 (Pre-filed testimony of Michael J. Hager), pp. 6-7.

<sup>15</sup> The Company had an all-requirements contract whereby it agreed to buy all of the power required to serve its customer load from NEP. NEP subsequently released the Company from this contract in exchange for contract termination costs.

through September 2006.<sup>16</sup> This amount increases to \$816,017 when interest to be earned over the recovery period is factored in. Ms. Lloyd testified that the Company is proposing to decrease the weighted average transition charge of 0.569 cents per kWh by a transition charge recovery factor credit of 0.010 cents per kWh<sup>17</sup>, for a net transition charge of 0.559 cents per kWh.<sup>18</sup>

### C. Transmission Rate

Ms. Lloyd also discussed transmission charges in her pre-filed testimony and explained that the Company forecasted transmission expense for 2007 to be approximately \$61.6 million, 75% or \$46.4 million that it proposes to collect by revising its transmission base charges and the other 25% or \$15.2 million of which it proposes to collect in the transmission adjustment factor. Ms. Lloyd noted that since the transmission base charges were approved in Docket Nos. 2290 and 2515, two significant changes have occurred: 1) the total number of customers increased and changed the load characteristics in each rate class as a result of the merger of NGrid and Eastern Utilities Associates and 2) several existing rate classes were consolidated pursuant to the Docket No. 3617 Settlement. Each rate class' contribution to the coincident peak determines the class specific transmission expense allocation. NGrid is proposing to collect only a portion of the forecasted 2007 transmission expense, 75%, in the base charge, because the demand charges applicable to the general service rate class would almost double if the

---

<sup>16</sup> NGrid Exhibit 1 (Pre-filed testimony of Jeanne A. Lloyd), pp.13-14.

<sup>17</sup> The transition charge adjustment factor credit is determined by dividing the over-recovery, including interest by the 2007 forecasted kWh deliveries resulting in the 0.010 cent per kWh credit. Id. at p. 14.

<sup>18</sup> Id.

base transmission charges were designed to collect the entire 2007 forecasted transmission expense.<sup>19</sup>

In addition to collecting 75% of the forecasted transmission expense through an increase in the base charges, the Company is proposing to collect the remaining 25% in the transmission adjustment factor.<sup>20</sup> Ms. Lloyd outlined the three components of Narragansett's proposed decrease in the Transmission Adjustment Factor: (1) a factor of 0.085 cents per kWh designed to collect an under-collection of approximately \$7.3 million incurred for the period October 2005 through September 2006; (2) 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; and (3) a factor of 0.188 cents per kWh, representing the Company's 2007 forecasted transmission expenses. The net result was a decrease of 0.074 cents per kWh, decreasing the Transmission Adjustment Factor from 0.371 cents per kWh to 0.297 cents per kWh.<sup>21</sup>

The pre-filed testimony of Mary P. Haines, a Senior Analyst in the Transmission Finance group of NGrid USA Service Company, Inc., regarding transmission services and expenses was also submitted with NGrid's filing. Ms. Haines provided testimony about the types of transmission services provided to NGrid and how the Company pays for such services, as well as testimony supporting the 2007 forecast of transmission expenses that NGrid will incur. Ms. Haines estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2007 to be approximately \$61.6 million, representing a net increase of \$8.8 million or 16.7 percent from the 2006 forecast.<sup>22</sup>

---

<sup>19</sup> Id. at pp. 16-18.

<sup>20</sup> Id. at p. 16.

<sup>21</sup> Id. at p.20-21. See also Order No. 18509, Docket No. 3706.

<sup>22</sup> NGrid Exhibit 1 (Prefiled Testimony of Mary P. Haines), p. 12; Schedule MPH-1.

Ms. Haines explained that under the ISO/RTO Tariff, the Pool Transmission Facilities (“PTF”) of bulk transmission facilities serve as New England’s electric transmission highway. The Regional Network Service (“RNS”) is the service provided over these facilities. The costs for RNS rates are calculated in accordance with a FERC approved formula. This rate will continue until 2008 when the transmission rates will change from being zonal rates to a single rate in New England where all PTF costs will be recovered on a regional basis.<sup>23</sup> Ms. Haines explained that there are expected changes to the RNS Rate during 2007 that will reflect plant additions as well as adjustments to rates based on the existing methodologies. Ms. Haines also described the Black Start, Reactive Power and Scheduling, System Control and Dispatch Services that are included in the ISO/RTO Tariff.<sup>24</sup>

Ms. Haines reported that she forecast NGrid’s transmission and ISO expenses for 2007 to be \$61.6 million. In estimating the 2007 RNS charges, Ms. Haines indicated that she used the currently effective rates and adjusted them, divided them by twelve and then multiplied them by NGrid’s monthly network load. These forecasted charges also include estimated charges for Black Start, Scheduling, Dispatch, Load Response and Reactive Power. The estimated cost for Black Start Service is based on the January 1, 2007 rate which resulted in \$525,765 being allocated by NGrid for this service. She

---

<sup>23</sup> Id. at pp. 1-5. The April 7, 1999 NEPOOL Settlement is incorporated into the ISO/RTO Tariff. The transition from the current RNS rate to the single rate is scheduled to be complete in 2008. The NEPOOL transition provides for the transmission owner’s rate to be determined by looking separately at the costs associated with PTF assets in-service at December 1996 and placed in-service subsequent to January 1, 1997.

<sup>24</sup> Id. at 6-7. In the event of a system-wide blackout, ISO-NE Black Start Service allows for the designation of generators capable of supplying load and the ability to start without outside electrical supply to re-energize the transmission system. Transmission voltages on the system are maintained within acceptable limits and generation facilities are required to be operated to produce or absorb reactive power by the Reactive Power Service. Finally, Scheduling, System Control and Dispatch Service operates to schedule



calculated the Reactive Power cost by using the actual costs for the period August 2005 through July 2006, the forecast rate being \$3.8576 or a total expense of \$5.185 million. She also based the costs associated with Scheduling and Dispatch Service on the currently effective rate, for a total charge of \$1.454 million. All rates are further based on Narragansett's network load. Since there have been no Reliability Must Run ("RMR") contracts for the Rhode Island reliability region in the past year, Ms. Haines did not forecast any RMR contract charges. Ms. Haines also included costs for the Load Response Program of \$1.3 million. The total estimated ISO charges for 2007, including PTF charges of \$35.7 million, are \$44.1 million. Also included in the ISO charges is an estimate of NGrid's portion of the total estimated amount of ISO/RTO Tariff charges for the region. For 2007 Ms. Haines estimated NGrid's allocation to be approximately \$1.4 million.<sup>25</sup>

Ms. Haines also forecast charges under Schedule 21 of the ISO/RTO Tariff. She noted total expenses of approximately \$16 million which represents a net increase in total revenue requirement of NEP allocated to NGrid of approximately \$1.3 million. The net increase in the revenue requirement is based in part on two factors, capital additions of approximately \$4.4 million and an accounting adjustment of approximately \$1.5 million. Ms. Haines based metering, transformation and ancillary service charges on current rates.<sup>26</sup>

Finally, Ms. Haines provided an explanation of the primary changes causing the net increase of \$8.8 million from the 2006 forecasted expenses, the increase is primarily

---

the movement of power through, out of, within, or into the ISO-NE Control Area over the PTF and to maintain System Control.

<sup>25</sup> *Id.* at pp. 12-17, Schedule MPH-1.

<sup>26</sup> *Id.* at p. 18; Schedule MPH-1.

attributable to additional transmission plant investment of \$8.5 million forecast for 2007 for all of New England, less \$2.2 million reduction in ISO charges for reactive power, plus \$1.3 million Load Response Program Costs. With the exception of \$1.3 million, all of the increase comes from ISO-NE charges.<sup>27</sup> She indicated that the increase to the 2007 forecast of the ISO Pool Transmission Facilities expenses is primarily attributable to a significant number of capital additions to the regional system. Two major projects are the Northwest Reliability Interconnect Project and the NWVT Reliability Project.<sup>28</sup>

On December 6, 2006, the Company filed Responses to the First Set of Data Requests issued by the Commission. In those responses, NGrid addressed the issue of its proposed increase to transmission base rates. In the response to Data Request 1-4, Ms. Lloyd stated that should the Commission decide to address the proposed increase in a separate docket, the Company proposes that the transmission adjustment factor be increased to 0.474 cents per kWh.<sup>29</sup>

### III. DIVISION'S TESTIMONY

In response to NGrid's filing, the Division filed Testimony of Dr. John Stutz, its consultant, on December 8, 2006. Dr. Stutz recommended that the Commission approve the Company's proposals to decrease the SOS rate from 9.4 cents to 8.3 cents per kWh, decrease the transition charge from 0.575 to 0.559 cents per kWh, and to extend the low-income credit by applying \$2 million in 2007. Dr. Stutz recommended that the Commission defer NGrid's proposal to change the allocation of transmission costs to a

---

<sup>27</sup> Id. at pp. 12, 19.

<sup>28</sup> Id. at pp. 19-21.

<sup>29</sup> Commission Exhibit 1, Request 1-4.

separate docket and that the Commission approve a transmission adjustment factor of 0.474 cents per kWh.<sup>30</sup>

In supporting NGrid's proposal to reduce the SOS rate by approximately 12%, Dr. Stutz described the importance of rate stability. Dr. Stutz noted the Company's average cost to provide SOS service during 2007 is 7.9 cents per kWh. However, the proposed rate of 8.3 cents per kWh will provide customers a significant reduction in their monthly bills, and at the same time take into account the possibility that fuel prices can change dramatically in the winter months. Lowering the rate to 7.9 cents per kWh would make it more difficult to achieve rate stability because fuel prices can increase significantly in winter months. There are clear benefits to stable rates. They include promotion of efficiency and consumer preference to stability, as opposed to consumer aversion to loss which is greater than a positive reaction to an equal gain.<sup>31</sup>

Dr. Stutz also testified to his three concerns regarding the proposed changes in the transmission cost allocation. He noted that transmission and distribution costs should be allocated on the basis of energy and usage and class peak demands. He also noted that NGrid's proposal results in a significantly different pattern of increases by rate class than does the current approach. Finally, he concluded that the proposed allocation produces abrupt changes which may be confusing and compromise customer efforts to increase efficiency.

Based on these concerns, Dr. Stutz recommended that a separate docket be established to address the allocation of transmission costs and that in the interim, a transmission adjustment factor of 0.474 cents per kWh be approved as calculated by

---

<sup>30</sup> Division Exhibit 1, pp. 1-2.

<sup>31</sup> Id. at pp. 4-7.

NGrid. Finally, Dr. Stutz's testified in support of the continuation of the \$2 million low income credit, noting the significant monthly savings to the low income customer as opposed to the miniscule monthly savings to the typical residential customer.<sup>32</sup>

#### IV. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 14, 2006. The following appearances were entered:

|                    |   |
|--------------------|---|
| FOR NATIONAL GRID: | Laura S. Olton, Esq.                                |
| FOR DIVISON:       | Paul J. Roberti, Esq.<br>Assistant Attorney General |
| FOR COMMISSION:    | Patricia S. Lucarelli, Esq.<br>Chief Legal Counsel  |

##### A. Public Comment

On December 14, 2006, the Commission allowed members of the public to provide comment regarding the proposed rate change.

##### B. Narragansett's Testimony

At the hearing, Ms. Lloyd, Mr. Hager, and Ms. Haines testified on behalf of NGrid. Ms. Lloyd explained that, assuming approval by the Commission of NGrid's proposed increase in base transmission rates, the 75/25 percent allocation was appropriate because charging 100% to the base would increase charges too much. She testified that she chose the percentages that she did in an attempt to ensure that as few customers as possible would see an increase in their charges.<sup>33</sup> Ms. Lloyd explained that the method of

---

<sup>32</sup> Id. at pp. 8-10.

<sup>33</sup> T. at pp. 34-35.

allocating transmission costs is consistent with the way they are allocated in New Hampshire and Massachusetts.<sup>34</sup>

Ms. Lloyd testified that following a review of Dr. Stutz's written recommendation and receiving data requests from Commission staff that raised similar issues, the Company revised its schedules to reflect 1) no change in the base transmission rate and 2) a recalculation of the transmission adjustment factor to 0.474 cents per kWh.<sup>35</sup> The effect of the changes would result in a decrease of \$5.28, or 6.8%, for the 500-kilowatt hour per month residential customer.<sup>36</sup>

She also testified that of the \$2 million allocated to the A-60 class last year, \$1.7 million had been utilized as of November 1, 2006 in addition to other subsidies received by that class. She pointed out that with NGrid's current proposal, if the \$2 million applied only to the A-60 class, the ratepayer in that class would receive a credit of approximately \$6 per month, as opposed to the approximate 13 cent credit that would result if the \$2 million were to be applied to all ratepayers.<sup>37</sup>

Mr. Hager adopted his prefiled testimony. He testified that NGrid consumes 25% of New England Power Company's overall network load for transmission purposes. Rhode Island accounts for about 7 or 8 percent of that 25 percent.<sup>38</sup> Mr. Hager noted that he is not aware of any concerns about growing congestion in the New England region, and stated specifically that pricing in Rhode Island is not impacted by congestion issues.

---

<sup>34</sup> T. at pp. 34-36.

<sup>35</sup> Transcript of December 14, 2006 Hearing ("T.") at pp.20-21, NGrid Exhibit 3.

<sup>36</sup> NGrid Exhibit 3, Schedule JAL-15 revised, p.25.

<sup>37</sup> T. at 36-40. Commission Exhibit 2 prepared by Ms. Lloyd show the current monthly bill of the 500 kWh A-60 customer to be \$60.54. Under the rates proposed by NGrid, with the \$2 million refund only to the A-60 rate class, the monthly bill is reduced to \$55.63. That same monthly bill for a 500 kWh customer in the A16 rate class is reduced from \$77.82 to \$72.71. If the \$2 million was refunded to all ratepayers, the A-16 class would see an additional 13 cent savings while the A-60 class would see an increase in their current monthly bill of more than 1 dollar per month.

He noted that more generation is needed because of increasing loads.<sup>39</sup> Ms. Haines reiterated during her testimony that NGrid forecast an \$8.8 million increase in transmission expenses from last year due primarily to significant plant investment occurring in the region.

C. Division's Testimony

The Division presented Dr. John Stutz of the Tellus Institute in Boston as an expert witness in support of its position. Dr. Stutz testified that designing rates is more than just assigning costs to those ratepayers who cause them in as much that determining who is the cause can be both complicated and sometimes controversial. He testified that dealing with low income customers has always been of concern. He testified about the significant reduction in the projected over-collection, from approximately \$28 million to about \$8 million, based on revised fuel prices as of November 24<sup>th</sup>, November 27<sup>th</sup>, and November 28<sup>th</sup> as presented in NGrid Exhibit 2 assuming that the Commission approves the Company's proposed 8.3 cents standard offer rate. He noted that these numbers can change abruptly based on particular events, i.e., rise in gas prices. He testified further that in his opinion an over or under collection of \$23-\$25 million would be a reasonable benchmark to prompt the Company to consider filing for a rate change.<sup>40</sup> Dr. Stutz reiterated that his views have not changed regarding opening a separate docket on the issue of the base transmission charge.

---

<sup>38</sup> T. at p. 29.

<sup>39</sup> T. at pp. 42-43.

<sup>40</sup> T. at pp. 53-56.

## V. COMMISSION FINDINGS

After considering the evidence presented, the Commission unanimously approved NGrid's proposed SOS rate of 8.3 cents per kWh and transition rate of 0.559 cents per kWh based on the calculations provided by the Company. The Commission deferred the proposal to change the base transmission charges to a later date in a separate docket. In light of the deferral, the Commission unanimously approved the transmission adjustment factor of 0.474 cents per kWh.

The Commission voted 2-1, Commissioner Holbrook dissenting, to return an additional \$2 million of CTC settlement funds to the A-60 rate class through an additional per kWh reduction to the already reduced distribution charge on the first 450 kWh of use, effective on bills rendered on and after January 1, 2007.

The goal of ratemaking is to balance the need for revenues sufficient to cover costs with the desire for rate stability over time. The Company provided sufficient evidence to support the proposed reduction in the rates charged to customers. The Commission is required by law to allow NGrid to collect its costs associated with SOS, transition, and transmission. The Company has provided the Commission with reasonable estimates of its projected costs for all three charges in 2007, including fuel adjustment costs on those SOS contracts which contain such clauses.

Accordingly, it is hereby

(18878) ORDERED:

1. National Grid's proposed retail Standard Offer Service Rate of 8.3 cents per kWh is approved for service on and after January 1, 2007.

2. National Grid's proposed Transition Rate of 0.559 cents per kWh is approved to become effective for service on and after January 1, 2007.
3. National Grid's proposed Transmission Adjustment Factor of 0.474 cents per kWh is approved to become effective for service on and after January 1, 2007, with the issue of a change in Transmission Base Rates to be deferred to a later date in a separate docket.
4. National Grid shall return an additional \$2 million of CTC settlement funds to the A-60 rate class through an additional per kWh reduction to the already reduced distribution charge on the first 450 kWh of use, effective on bills rendered on and after January 1, 2007.
5. National Grid shall maintain the remaining \$4 million of CTC settlement funds in an interest bearing account for the benefit of ratepayers until further action of the Commission.
6. National Grid 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. The Company shall file monthly updates with the Commission on the projected SOS over/under collection.
7. National Grid shall comply with all other findings and instructions as contained in this Report and Order.



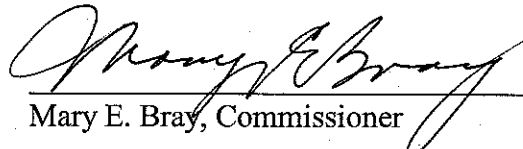
EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 19, 2006. WRITTEN ORDER ISSUED FEBRUARY 22, 2007.

PUBLIC UTILITIES COMMISSION



  
\_\_\_\_\_  
Elia Germani, Chairman

\_\_\_\_\_  
Robert B. Holbrook, Commissioner\*

  
\_\_\_\_\_  
Mary E. Bray, Commissioner

\*Commissioner Holbrook concurred with the decision setting the SOS charge at 8.3 cents per kWh, the Transmission Adjustment Factor at 0.474 cents per kWh and the Transition Charge at 0.559 cents per kWh, but dissented from the decision to return \$2 million of the CTC Settlement Funds to the A-60 rate class. His reasoning is attached hereto in a separate opinion.

Commissioner Holbrook, dissenting.

I must respectfully dissent once again from taking \$2 million which would otherwise be refunded to all ratepayers and giving it to only low-income consumers. Although my position was well articulated the first time in my dissent to Order No. 18510, I feel the need to explain why the Commission's decision this year is even less justifiable.

In 2006, the Rhode Island General Assembly enacted more legislation to assist low-income consumers with energy costs through discount plans and debt forgiveness, which will cost millions of more dollars.<sup>41</sup> In one provision of this legislation, the Rhode Island General Assembly requires very low-income households to receive "up to a fifty percent (50%) reduction in the distribution and customer charges for ... gas and electricity".<sup>42</sup> However, with this additional \$2 million, low-income consumers will receive a discount equal to 80 percent of distribution charges on electric service.<sup>43</sup> Clearly, this Commission has gone well beyond what the legislature mandated was the maximum discount level in electric service distribution charges for very low-income consumers. Furthermore, this Commission has lowered electric rates twice in 2006. There is no need to continue providing such a large discount to low-income consumers since the electric bills of all ratepayers have been reduced. Thus, the new legislation benefiting low-income consumers coupled with the recent rate decreases renders this \$2 million donation to low-income consumers even more unnecessary and less justifiable than when it occurred the prior year.

---

<sup>41</sup> The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006 enacted as P.L. 2006 ch. 236 and 237. See Docket No. 3804, National Grid's Affordable Energy Plan, pp. 11-12.

<sup>42</sup> R.I.G.L. Section 42-141-5(d)(1)(ii).

We must not forget that electricity is not free. To give the few near free electricity causes the many to pay more than they should. In addition, to being unfair, this policy has the potential to eventually result in dire economic consequences. Nearly two millennia ago, Tacitus, the ancient Roman historian, provided a somber warning for those of us entrusted with public funds by recording this admonition: “If all poor men begin to come here to beg for money ... individuals will never be satisfied and the State will go bankrupt.”<sup>44</sup> We in Rhode Island today would be wise not to ignore this ancient admonition.

A handwritten signature in black ink, appearing to read "Robert B. Holbrook". The signature is written in a cursive style with a large, sweeping initial "R".

Robert B. Holbrook, Commissioner

---

<sup>43</sup> See Docket No. 3804, National Grid's Affordable Energy Plan, p. 5.

<sup>44</sup> Tacitus, The Annals, Book II, p. 63 (116 A.D.)