

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. 3902
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>
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, with interest, from NGrid’s customers through the annual reconciliation provisions of

¹ 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

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 19, 2007, NGrid filed with the Rhode Island Public Utilities Commission ("Commission") its annual reconciliation filing with respect to transition and transmission rates. The filing included: a proposed 10.8% increase in the retail SOS rate from the present rate of 8.3 cents per kWh to 9.2 cents per kWh; a proposed 42.4% decrease in the transition rate from the present rate of 0.559 cents per kWh to 0.322 cents per kWh; and a proposed 14.14% increase in the transmission service adjustment factor from the present rate of 0.474 cents per kWh to 0.541 cents per kWh.³ The result for a typical residential customer using 500 kWh of service would be an increase of 5.2% equal to \$3.80 per month. Therefore, the average monthly residential bill would increase from \$72.86 to \$76.66.⁴ In support of the proposed rates, Narragansett presented the pre-filed testimony of Jeanne A. Lloyd, Manager of Rates, New England in the Regulation

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

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

³ NGrid Ex. 1A, Pre-Filed Testimony of Jeanne A. Lloyd, p. 4, JAL-1.

⁴ NGrid Ex. 1A at JAL-14, p. 1. The bill for a residential customer served by the A-60 rate and using 500 kWh per month would increase from \$55.27 per month to \$59.82 per month. NGrid's filing assumes the Commission will approve the use of \$2 million currently being held by the Company in a CTC Settlement Account to further reduce the distribution charges paid by an A-60 customer. NGrid Ex. 1A, pp. 21-23.

and Pricing – Electricity Distribution and Generation Department of National Grid USA Service Company, Michael J. Hager, Director, Regulated Electric Load & Distributed Generation for National Grid, and Mary P. Haines, Principal Analyst, Transmission Rates Administration & Billing in the Transmission Finance Group for National Grid USA Service 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 some of the 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 2008 is 6.7 cents per kWh.⁶

In order to determine the extent of any fuel index payments for the period January 2008 through December 2008, 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 October 25, 26, and 29,

⁵ NGrid Ex. 1B, (Pre-filed testimony of Michael Hager), p. 3.

⁶ *Id.* at 3-4.

2007. Based on the numbers examined, Mr. Hager determined that Narragansett will have to make fuel index payments of 4.0 cents per kWh in the pre-merger Narragansett zone. There are no payments in the former EUA zone for the period January 2008 through December 2008. This equates to an arithmetic average of 2.96 cents per kWh applicable to both zones.⁷ Comparing the proposed SOS costs including the fuel index payments, where applicable, Mr. Hager noted that in September 2007, the Company procured Last Resort Service (“LRS”) power for the period November 2007 through April 2008 at an arithmetic average of 9.507 cents per kWh for residential customers and 9.554 cents per kWh for Commercial and Industrial (“C&I”) customers.⁸ Mr. Hager also noted that while natural gas prices have recently declined, oil prices have risen and are projected to continue rising. Therefore, he opined that it is unlikely natural gas and oil prices will abate from current levels.⁹

In her pre-filed testimony, Jeanne Lloyd noted that Narragansett’s current SOS rate is 8.3 cents per kWh.¹⁰ According to Ms. Lloyd, Narragansett projected an under-collection of approximately \$64,743,453 as of December 31, 2008 based on the current SOS retail rate and estimated fuel index payments.¹¹ Ms. Lloyd explained that the proposed SOS charge is calculated by adding the estimated expenses for the twelve-month period and subtracting the expected over-collection as of December 31, 2007 and dividing the total by the estimated SOS kWh deliveries for the same twelve-month period. Therefore, utilizing Mr. Hager’s fuel index adjustment provisions, Ms. Lloyd

⁷ Id. at 4-5

⁸ Id. at 5. Mr. Hager also noted that procurements in Massachusetts for similar services resulted in higher costs than the SOS charges proposed by the Company. Id. at 5-6.

⁹ Id. at 6.

¹⁰ NGrid Ex., p. 5.

¹¹ Id.

proposed a SOS rate of 9.2 cents per kWh effective on usage on and after January 1, 2008.¹² The total over-collection in the LRS reconciliation for the period October 2006 through September 2007 is \$577,904 and Ms. Lloyd proposed to apply it to offset the SOS balance as in the past.¹³

B. Renewable Energy Standard Charge

Ms. Lloyd noted that the Company was not seeking to change the current Renewable Energy Standard (“RES”) Charge of 0.062 cents per kWh in this docket, but had proposed a new charge in a related docket. She stated that currently, there is an over-collection in both the SOS and LRS reconciliations, because while NGrid had contracted for Renewable Energy Certificates in 2007, it had not yet taken delivery. Therefore, the Company was not proposing any adjustment to the account at this time. She stated that any over-collection that may be realized after the purchase of all 2007 RECs would be used to offset future RES expenses.¹⁴

C. Transition Charge

In her pre-filed testimony, Ms. Lloyd explained that the transition charge is intended to recover the contract termination charges (“CTC”) that were billed to the Company by its affiliated supplier, New England Power (“NEP”), including charges in effect under the former Montaup Electric Company CTC.¹⁵ The Company reconciles transition revenues on an annual basis in accordance with the requirements of the Non-Bypassable Transition Charge Adjustment Provision, which requires an annual

¹² Id. at 5-7.

¹³ Id. at 9-11. Ms. Lloyd noted that the residential reconciliation resulted in an under-collection of \$89,124 while the C&I reconciliation resulted in an over-collection of \$667,028. The net result was an over-collection of \$577,904 in the LRS account. Id. at 10.

¹⁴ Id. at 11-13.

¹⁵ Id. at 13.

reconciliation of the Company's total CTC expense against the Company'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-collection of approximately \$1,445,649 for the period October 1, 2006 through September 30, 2007.¹⁶

Using this information, Ms. Lloyd indicated that the weighted average base transition charge of 0.340 cents per kWh and a transition charge adjustment factor of 0.018 cents per kWh designed to collect the transition over-collection for the period October 2006 through September 2007 results in a net transition charge of 0.322 cents per kWh.¹⁷

D. 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 0.508 cents per kWh, representing the Company's 2008 forecasted transmission expenses and (2) a factor of 0.033 cents per kWh designed to collect an under-collection of approximately \$2.6 million incurred for the period October 2006 through September 2007. The net result was a proposed increase of 0.067 cents per kWh, increasing the Transmission Adjustment Factor from 0.474 cents per kWh to 0.541 cents per kWh.¹⁸

In her Pre-Filed Testimony, Ms. Haines forecasted total transmission costs for 2008 of approximately \$72.0 million, representing a net increase of \$10.4 million, or

¹⁶ Id. at 15, JAL-8.

¹⁷ Id. at 13, 15.

¹⁸ Id. at 17-18, JAL-1.

16.9% from the 2007 forecast.¹⁹ She indicated that the net increase is primarily the result of the transmission plant investment forecast for 2008 for all of New England.²⁰ The forecasted average transmission costs for 2008 result in an average per unit cost of 0.909 cents per kWh for 2008, or 0.144 cents more than the 2007 average transmission expense of 0.765 cents per kWh.²¹ The forecasted 2008 average base transmission charge revenue results from a per kWh charge of 0.401 cents per kWh. Therefore the forecasted 2008 transmission expense needed to be collected in the TAF is 0.508 cents per kWh. In addition, Ms. Lloyd included a factor of 0.033 cents per kWh to recover the 2007 under-collection of \$2.6 million.²²

In her pre-filed testimony, Ms. Haines discussed the various tariffs under which transmission service is provided to NGrid and how it is priced.²³ Ms. Haines estimated Narragansett's total transmission and ISO-NE Tariff expenses for 2008 to be approximately \$72.0 million and explained that her estimate included charges for Scheduling and Dispatch, Load Response, Black Start and Reactive Power.²⁴ Costs for Pool Transmission Facilities ("PTF"), Scheduling and Dispatch, Load Response, Black Start and Reactive Power total \$51,306,148, with over \$45 million allocated to the PTF demand charge.²⁵ Ms. Haines explained that most of the \$10.4 million net increase in transmission and ISO expenses is primarily the result of additional transmission plant

¹⁹ NGrid Ex. 1C (Pre-Filed Testimony of Mary P. Haines), p. 2; Ex. PUC-1 (NGrid's Response to Commission Data Request 1-4).

²⁰ NGrid Ex. 1C, p. 2.

²¹ NGrid Ex. 3 (Pre-Filed Testimony of Jeanne Lloyd), JAL-9.

²² *Id.* at 18.

²³ NGrid Ex. 1C, pp. 2-12.

²⁴ *Id.* at 13, 21.

²⁵ *Id.* at 16, MPH-3. PTF charges are assessed under the FERC approved ISO/RTO Tariff that provides access over New England's 69kV or greater looped transmission facilities which serve as the electric transmission "highway" in New England. *Id.* at 4.

investment forecasted to go “in service” in 2008. These are considered regional costs spread over all of New England.²⁶

Her estimates for the cost of Black Start Service is based on the costs for the period August 2006 through July 2007 average monthly ISO Black Start cost multiplied by 12 months to derive estimated costs for the entire New England Region. She then calculated a monthly amount and multiplied it by Narragansett’s monthly network load, resulting in an allocated cost of \$641,150 in 2008.²⁷ She performed the same type of calculation for Reactive Power costs, but included an anticipated reduction based on a recent filing made by the New England Power Pool (“NEPOOL”) with the Federal Energy Regulatory Commission (“FERC”).²⁸ She also based the costs associated with Scheduling and Dispatch Service on the currently effective rate and for the Load Response Program on the most recent 12 month period. Ms. Haines explained that no Reliability Must Run (“RMR”) contract charges have been estimated because Narragansett did not incur any RMR contract charges for the Rhode Island reliability region during 2007.²⁹

Ms. Haines estimated the 2008 ISO charges based on the revenue requirement filed with FERC. To estimate Narragansett’s 2008 ISO charges, Ms. Haines adjusted ISO’s actual costs for the period August 2006 through July 2007 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.³⁰ The total estimated amount of ISO/RTO

²⁶ *Id.* at 19-21.

²⁷ *Id.* at 14.

²⁸ *Id.* at 13-15.

²⁹ *Id.* at 15-16.

³⁰ *Id.* at 16-17.

charges for the New England region is estimated to be \$123 million, of which \$1,612,442 million is estimated to be allocated to Narragansett.³¹

Estimating charges under Schedule 21 of the ISO/RTO tariff, Ms. Haines projected an increase of \$3.0 million in 2008, for a total of \$19,086,014 which would be charged by New England Power Company pursuant to the Local Network Service Tariff. Ms. Haines indicated that the increase is mainly driven by two factors: \$4.1 million of capital additions in 2008 and accounting adjustments made to the Reserve for Deferred Income Tax balance and its associated FAS 109 Regulatory Asset on NEP's books.³²

E. Reconciliation of Low Income Credit and Proposed Credit for 2008

In Docket No. 3710, NGrid proposed to utilize \$8 million from the proceeds of a settlement agreement to fund a multi-year enhanced low income credit increasing the distribution credit on the A-60 rate by applying an additional \$2 million per year on a per kWh basis for the first 450 kWh used by each customer taking service under the A-60 rate. The Commission approved the program for the first year only (CY 2006). In 2006, the Commission approved the program for the second year (CY 2007). In this docket, Ms. Lloyd stated that NGrid was requesting approval of the program for the third year (CY 2008). However, because the Company projected more kWh sales under the A-60 rate, application of the \$2 million would result in a reduction of the additional per kWh discount from \$1.306 cents per kWh to \$1.148 cents per kWh.³³ Because the credit is applied on a per kWh basis, Ms. Lloyd stated that if the Commission does not approve

³¹ Id. at 17.

³² Id. at 17-19.

³³ NGrid Ex. 1A, pp. 21-22.

the program for 2009 that it allow the Company to reconcile the account fully to determine how much will remain in the account for disbursement to ratepayers.³⁴

III. TESTIMONY AND POSITION STATEMENT OF WILEY CENTER

On December 10, 2007, the Wiley Center filed its Position requesting the Commission deny the rate increase and rather than reducing the proposed low income credit, the Commission increase it by ordering the Company to apply all of the interest that has accrued in the account to enhance the credit. The Wiley Center argued that NGrid should absorb a portion of the increased costs of providing electricity. In support of its request to use the interest to increase the credit, the Wiley Center maintained that while it recognized NGrid's concern that the funds in the account not be exceeded, low income Rhode Islanders are suffering from an extreme situation of facing increasing energy costs, that termination of service for non-payment is at an all-time high, that \$570,000 of interest is unreasonable to maintain in an account, that NGrid has a history of accurate usage projections, and that the \$2 million which will remain in the account will continue to accrue interest for the purposes of protecting against any over-credit.³⁵

IV. POSITION OF THE ENERGY COUNCIL OF RHODE ISLAND

On December 10, 2007, The Energy Council of Rhode Island ("TEC-RI") submitted the Pre-Filed Testimony of John Farley, its Executive Director. Mr. Farley limited his testimony to NGrid's proposal to apply the LRS net over-collection to offset SOS expenses in 2008, arguing that the over-collection is derived entirely from non-residential customers who have gone out to the competitive supply market and can not benefit from SOS. He noted that there has been this type of over-collection for several

³⁴ Id. at 23.

³⁵ WC Ex. 1, (Position of the Wiley Center), pp. 1-4.

years and requested the Commission open an investigation to determine the reason and then allocate the over-collection in a more equitable manner for those who were on LRS during 2007 or, in the alternative, to apply the over-collection to offset 2008 LRS costs.³⁶

V. DIVISION'S TESTIMONY

On December 10, 2007, the Division submitted the Pre-Filed Testimony of John Stutz, its consultant. Dr. Stutz recommended the Commission approve NGrid's proposed SOS rate of 9.2 cents per kWh, transmission rate increase of 0.067 cents per kWh and transition rate of 0.322 cents per kWh. Dr. Stutz recommended consideration for adjusting the SOS rate should occur if NGrid projects an over- or under-collection in excess of \$25 million.³⁷ However, Dr. Stutz expressed concern that there did not appear to be sufficient limits on ISO-NE's ability to approve transmission investment without analyzing the costs on retail customers.³⁸ He also advised that discussions related to the procurement of SOS beyond 2008 should focus on rate stabilization and should commence as soon as possible.³⁹

VI. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on December 14, 2007. The following appearances were entered:

FOR NATIONAL GRID:	Laura S. Olton, Esq.
FOR TEC-RI:	Michael McElroy, Esq. Special Assistant Attorney General
FOR DIVISON:	Paul J. Roberti, Esq.

³⁶ TEC-RI Ex. 1 (Pre-Filed Testimony of John Farley), pp. 3-10.

³⁷ Division Ex. 1 (Pre-Filed Testimony of John Stutz), pp. 2-7.

³⁸ *Id.* at 8.

³⁹ *Id.* at 9-10.

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 at the hearing. Seven members of the public provided comment in opposition to the rate increase, several arguing that NGrid should absorb the increased costs. The Commission also marked three written comments submitted by customers prior to the hearing. One large commercial customer did not comment on the rate increase, but on the proposal to apply the LRS over-collection to offset SOS costs in 2008. The customer argued it should be reimbursed directly for its costs.

B. Narragansett's Testimony

At the hearing, Mr. Hager, Ms. Lloyd and Ms. Haines testified on behalf of Narragansett. Mr. Hager testified on direct that NGrid does not make a profit on the costs related to providing SOS, but rather, collects the costs charged to it by suppliers under the wholesale SOS contracts. He explained that these costs include a fixed component and a fuel index adjustment if oil and natural gas prices exceed pre-established trigger points.⁴⁰

Ms. Lloyd testified on direct that NGrid was in the process of investigating the reason for consistent over-collections in non-residential LRS over the past several years. She indicated that the Company had not yet reached a conclusion and was "committed to finding out if there is a systematic problem" and to determine what the reason is.⁴¹ She did not believe a separate investigation was needed because the Company was investigating and would provide its determination to the Commission and the parties. In

⁴⁰ Tr. 12/14/07, pp. 36-37.

the meantime, Ms. Lloyd stated that rather than applying the net LRS over collection to offset 2008 SOS costs as originally proposed, she would recommend the Company retain the funds pending the outcome of its investigation.⁴² She also agreed to work with the Division and TEC-RI in resolving the issue, with notification to the Commission regarding the results of the investigation and proposed further action.⁴³

On further cross-examination, Ms. Lloyd agreed that the Commission had addressed the issue of over-collection in the non-residential LRS account in prior reconciliation hearings. She explained that in the past, she had opined that the cause was due, at least in part, to a timing issue. She noted that because of the ISO-NE settlement process, NGrid estimates its load, but that load is not reconciled for up to 90 days. The reconciliation could affect the costs NGrid pays on behalf of its LRS customers. Additionally, because retail meter reads may span more than one month, while the wholesale usage is tabulated on a calendar basis, there may be timing differences in revenues versus costs.⁴⁴ Ms. Lloyd confirmed that the Company was not proposing any additional increase in the proposed SOS rate as a result of the proposal to retain the LRS over-collection because the effect would be de minimus.⁴⁵

On cross-examination, Ms. Lloyd testified that with regard to the A-60 credit, NGrid would have no objection to a proposal by a party to use a portion of the interest in the Settlement account to maintain the same per kWh charge as was applied in 2007. She

⁴¹ Id. at 45-46.

⁴² Id. at 46-47.

⁴³ Id. at 91,93-95. Ms. Lloyd noted that the Company does not typically seek to locate actual customers when performing a reconciliation that would result in a refund, but rather, applies it to an appropriate customer class. She noted that Walmart, one of the public commenters, proposed a calculation of their refund and she agreed that their calculation did not take into account certain months where there may have been no over-collection or in fact, there could have been an under-collection. Id. at 109-11.

⁴⁴ Id. at 102-03.

⁴⁵ Id. at 104.

stated that the interest is available for the benefit of customers and the Company would distribute it in accordance with Commission directive.⁴⁶ On cross-examination, she noted that the Settlement funds came from all ratepayers and the portion allocated to A-60 customers was an example of funds that were paid by all ratepayers and used in part to benefit a specific class of ratepayers.⁴⁷

Clarifying two of her schedules that appeared to be in conflict with one another, Ms. Lloyd explained that page one of Schedule JAL-6, matches RES revenues with deliveries and page two of Schedule JAL-6 matches the revenues with the period when they were billed. Explaining why Ms. Lloyd's retail SOS projections were different from Mr. Hager's SOS projections for purposes of the RES obligation, Mr. Hager explained that the RES obligation is based on wholesale deliveries which include line losses, whereas Ms. Lloyd's projections are based on retail deliveries after line losses.⁴⁸

Mr. Hager also advised the Commission regarding an ongoing dispute with a SOS supplier over fuel index adjustment payments.⁴⁹ NGrid has been making the disputed payments to the supplier under protest since January 2005 pending the outcome of litigation. Through October 2007, the Company has made disputed payments in the amount of \$20,986,830. The Federal District Court for the District of Massachusetts has not yet ruled on Motions for Summary Judgment and a trial is scheduled for May 2008.⁵⁰ Regarding a dispute with a supplier over responsibility for forward capacity payments, Mr. Roberti advised the Commission that the State of Rhode Island has been allowed to

⁴⁶ Id. at 50-51.

⁴⁷ Id. at 108.

⁴⁸ Id. at 105-07, 112-14.

⁴⁹ Id. at 116.

⁵⁰ Id. at 116-17; PUC-1 (NGrid's Response to Commission Data Request 1-3).

intervene in that matter which is being litigated in the Federal District Court for the District of Rhode Island.⁵¹

Addressing the reasons behind transmission expenses, on cross-examination, Ms. Haines explained that a recent increase in NEP local charges correlated to when the Regional Transmission Organization (“RTO”) went into operation in 2005. The next substantial increase from 2007 to 2008 is the result of increased plant investment and by NGrid’s overestimation of the impact of the return on equity (“ROE”) refund ordered by FERC in 2006.⁵²

C. TEC-RI’s Testimony

TEC-RI presented John Farley in support of its position. On cross-examination, Mr. Farley agreed that it was TEC-RI’s position that it is not opposing the proposed treatment of the \$2 million out of the CTC funds that NGrid was making. Furthermore, Mr. Farley testified that he would have no objection to a recommendation to utilize \$274,000 of the accrued interest in the account to maintain the per kWh credit to A-60 customers.⁵³

D. Division’s Testimony

The Division presented Dr. John Stutz of the Tellus Institute in support of its position. Dr. Stutz testified that in light of the statement filed by the Wiley Center and the deteriorating economic conditions, the Division believed it would be appropriate to hold the per kWh credit constant from 2007.⁵⁴

⁵¹ Id. at 31-33.

⁵² Id. at 66-67.

⁵³ Id. at 124-25.

⁵⁴ Id. at 126.

With regard to the LRS over-collection, on cross-examination, Dr. Stutz agreed that the Division should be involved in any investigation NGrid undertakes, but he would not agree on an appropriate resolution without first reviewing all of the facts. He testified that as an analytical matter, it would be a good idea to review prior years' collections for purposes of determining the cause of the over-collections, but did not believe it would be appropriate to revisit prior Commission decisions regarding the application of the over-collections.⁵⁵

V. COMMISSION FINDINGS

After considering the evidence presented, the Commission unanimously approved NGrid's proposed SOS, Transmission, and Transition rates and allowed NGrid to retain the non-residential LRS over-collection pending further investigation by the Company with a report to the Commission regarding the outcome. The effect on an average residential customer using 500 kWh per month will be an increase of \$3.91 or 5.4%, increasing the overall bill from \$72.86 to \$76.77, including the increased RES charge.⁵⁶

The Commission also approved the application of \$2,275,000 of the CTC Settlement account to reduce the first 450 kWh block of the A-60 distribution rate by 1.306 cents per kWh in calendar year 2008 by a vote of 2-1, with Commissioner Holbrook dissenting. The distribution rate on the first 450 kWh block for customers taking service under the A-60 rate will be 0.382 cents per kWh, or \$1.72 per month. The effect on an A-60 customer using 500 kWh per month would be an increase of \$3.91 or 7.1%, increasing the overall bill from \$55.27 to \$59.18, including the increased RES charge.

⁵⁵ Id. at 127-28.

The URA requires the Commission to allow NGrid to collect its costs associated with transition, transmission and SOS. With regard to SOS, R.I. Gen. Laws § 39-1-27.3(b) states in part:

(b) Through year 2009, and effective July 1, 2007, through year 2020, each electric distribution company shall arrange for a standard power supply offer ("standard offer") to customers that have not elected to enter into power supply arrangements with other nonregulated power suppliers. The rates that are charged by the electric distribution company to customers for standard offer service shall be approved by the commission and shall be designed to recover the electric distribution company's costs and no more than the electric distribution company's costs; provided, that the commission may establish and/or implement a rate that averages the costs over periods of time. The electric distribution company shall not be entitled to recover any profit margin on the sale of standard offer power, except with approval of the commission as may be necessary to implement fairly and effectively, system reliability and least-cost procurement. The electric distribution company will be entitled to recover its costs incurred from providing the standard offer arising out of: (1) wholesale standard offer supply agreements with power suppliers in effect prior to January 1, 2002; (2) power supply arrangements that are approved by the commission after January 1, 2002....

The Company has filed for an increase in SOS under its wholesale standard offer supply contracts that were entered into prior to 2002. Therefore, in accordance with R.I. Gen. Laws § 39-1-27.3(b), the General Assembly has already found them to be reasonable and has found that the Company is entitled to collect its costs under the terms of those contracts.⁵⁷

⁵⁶ The RES charge for 2008 will be .084 cents per kWh. The total SOS charge will be 0.09284 cents per kWh (0.092 + 0.00084). See Docket No. 3901.

⁵⁷ The courts will determine whether the disputed fuel index payments and forward capacity payments are NGrid's or the suppliers' responsibility according to the terms of the contracts currently the subject of litigation.

Additionally, in 2003, the Commission approved a contract amendment to a SOS contract in order to address a Settlement between NGrid and a supplier over disputed congestion related charges.⁵⁸

Thus, the role of the Commission with regard to reviewing the SOS rate in this instance is to determine whether the Company has provided evidence of its 2007 costs and its projected 2008 costs under the terms of those wholesale standard offer service contracts. Furthermore, the Commission must review the Company's proposals for treatment of any over- or under-collections incurred by the Company. Under the facts of this case, the statute does not require shareholders of NGrid to absorb increases related to SOS under these SOS contracts in 2008. The Commission finds that the Company has provided reasonable estimates of its projected costs for transmission, transition and SOS in 2008, including projected fuel adjustment costs on those SOS contracts which contain such clauses.

Finally, while the Commission is interested in all of the reasons behind the non-residential LRS over-collection, given the fact that the parties agreed to work together to investigate the matter, the Commission declines to open a formal investigation at this time. However, the Commission expects to be kept apprised of the status, and the parties are expected to provide a report at the conclusion of the investigation. The Commission notes that it has inquired into the reason for the LRS over-collections over the past

⁵⁸ Order No. 17592. The Commission finds that the Company has met its burden of showing that the Amendment is reasonable and in the best interests of the ratepayers. The Amendment provides rate certainty, whereas absent the Amendment, ratepayers would be at a potential risk of paying significantly higher rates. Furthermore, the outcome of an arbitration and/or litigation between Narragansett and the Supplier is uncertain. Therefore, this solution also avoids protracted costs and uncertainty associated with dispute resolution.

The Commission also notes that the Division, as the ratepayer advocate before the Commission, recommended approval of Narragansett's request for recovery of the additional charges under the Amendment. Order No. 17592 (issued October 28, 2003), pp. 11-12.

several years during NGrid's Annual Reconciliation hearings and has ruled on the appropriate treatment of such over-collections in accordance with the evidence presented in each of those matters. Furthermore, while the Commission has much flexibility with regard to the treatment of refunds or the recovery of under-collections, it has, in the past, declined to order the Company to seek the exact customers from which to collect under-collections or to refund over-collections.⁵⁹ NGrid shall make a recommendation regarding the treatment of the 2007 over-collection no later than its 2008 Annual Reconciliation.

Accordingly, it is hereby

(19202) ORDERED:

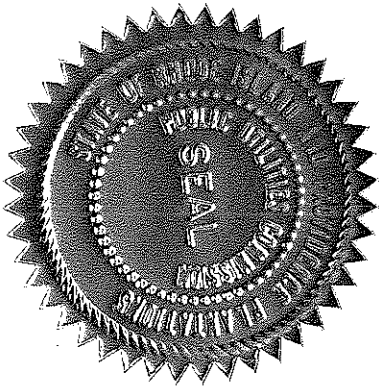
1. National Grid's proposed retail Standard Offer Service Rate of 9.2 cents per kWh is approved for usage on and after January 1, 2008.
2. National Grid's proposed Transition Rate of 0.322 cents per kWh is approved to become effective for usage on and after January 1, 2008.
3. National Grid's proposed Transmission Adjustment Factor of 0.541 per kWh is approved to become effective for usage on and after January 1, 2008.
4. National Grid shall apply \$2,275,000 from the CTC Settlement Account to provide a distribution rate credit of \$1.306 cents per kWh on the first 450 kWh block of the A-60 rate.

⁵⁹ Order No. 3402 (issued February 15, 2002) (finding that large C&I customers who had left LRS for competitive supply should not be required to reimburse the Company for an LRS under-collection incurred while they were on LRS, allowing the Company to collect it from all SOS customers instead); Order No. 18037 (issued November 9, 2004) (approving an allocation of a customer credit accrued over a period of 4 years based on percentage of load, but crediting all customers in a class the same amount, regardless of how long they had been customers of Narragansett Electric Company).

5. 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 20, 2007. WRITTEN ORDER ISSUED FEBRUARY 7, 2008.

PUBLIC UTILITIES COMMISSION



Elia Germani

Elia Germani, Chairman

Robert B. Holbrook

*Robert B. Holbrook, Commissioner

Mary E. Bray

Mary E. Bray, Commissioner

*Commissioner Holbrook dissented from the decision to apply funds from the CTC Settlement account to further reduce the discounted distribution rate charged to customers taking service under the A-60 rate because the funds were collected from all ratepayers and should be returned to all ratepayers.