

September 22, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

**RE: Docket 4041 - 2010 Standard Offer Supply & Renewable Energy Supply Procurement
National Grid Post-Hearing Brief**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's¹ post-hearing brief in the above-referenced proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosure

cc: Docket 4041 Service List
Steve Scialabba, Division

¹The Narragansett Electric Company d/b/a National Grid ("National Grid" or "Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted to the individuals listed below.



Joanne M. Scanlon
National Grid

September 22, 2009
Date

**Docket No. 4041 National Grid – SOS and RES Procurement Plans
Service List Updated 8/31/09**

Name/Address	E-mail Distribution	Phone/FAX
Thomas R. Teehan, Esq. National Grid. 280 Melrose St. Providence, RI 02907	Thomas.teehan@us.ngrid.com	401-784-7667 401-784-4321
	Joanne.scanlon@us.ngrid.com	
Gerald J. Petros, Esq. (for NGrid) Hinckley, Allen & Snyder LLP 50 Kennedy Plaza, Suite 1500 Providence, RI 02903-2319	gpetros@haslaw.com	401-274-2000 401-277-9600
	dmarquez@haslaw.com	
	jmansolf@haslaw.com	
Leo Wold, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov	401-222-2424 401-222-3016
	Dstearns@ripuc.state.ri.us	
	Sscialabba@ripuc.state.ri.us	
	Mtobin@riag.ri.gov dmacrae@riag.ri.gov	
John R. McDermott, Esq. (for OER) 27 East Street, Unit 2 Providence, RI 02906	JRMcDermott.law@gmail.com	401-269-1198 401-294-4483
Tim Costa, Governor's Office	tcosta@gov.state.ri.us	
Richard A. Sherman Edwards Angell Palmer & Dodge LLP 2800 Financial Plaza Providence, Rhode Island 02903	RSherman@eapdlaw.com	401-276-6513 888-325-9062
Hugh F. Murray, III, Esq. Murtha Cullina LLP City Place1, 185 Asylum St. Hartford, CT 06103-3469	Hmurray@murthalaw.com	860-240-6077
Dennis J. Duffy, V.P. Energy Management, Inc. 75 Arlington Street, Suite 704 Boston, MA 02116	dduffy@emienergy.com	617-904-3100 617-904-3109
Robert J. Munnely, Esq. Murtha Cullina LLP 99 High Street Boston, MA 02110-2320	Rmunnely@murthalaw.com	617-457-4062

Michael McElroy, Esq. Schacht & McElroy PO Box 6721 Providence RI 02940-6721	McElroyMik@aol.com	401-351-4100 401-421-5696
Joseph E. Donovan, Senior Counsel Constellation Energy Resources, LLC 111 Market Place, Suite 500C Baltimore, Maryland 21202	Joseph.donovan@constellation.com	410-470-3582
	Daniel.Allegretti@constellation.com	410-470-2600
	Timothy.daniels@constellation.com	
Richard Hahn LaCapra Associates One Washington Mall, 9 th floor Boston, MA 02108	rhahn@lacapra.com	617-778-2467 617 778-2481
	apereira@lacapra.com	
	afreitas@lacapra.com	
File an original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02889	Lmassaro@puc.state.ri.us	401-780-2017 401-941-1691
	Cwilson@puc.state.ri.us	
	Nucci@puc.state.ri.us	
	Anault@puc.state.ri.us	

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

)	
National Grid)	
Standard Offer Service)	
Procurement Plan)	Docket No. 4041
)	
)	

NATIONAL GRID’S POST-HEARING MEMORANDUM

National Grid ¹ submits this post-hearing memorandum in support of its 2010 Standard Offer Service procurement plan proposal and in order to address outstanding questions that have been raised in the course of this docket.

I. Introduction

Under the Company’s 2010 Standard Offer Procurement Plan, supply will be procured for two customer classes: Small Customer class (comprised of residential and small commercial and industrial customers) and Large Customer class (comprised essentially of large commercial and industrial customers). The Rhode Island Public Utilities Commission’s (“Commission”) approval of the Accelerated Procurement Plan (“APP”) has, in effect, established the procurement classes for 2010 and has accomplished much of the energy supply procurement for the Small Customer class. The Company’s procurement proposal for the Large Customer class is essentially purchasing four FRS contracts in three-month intervals. This approach is the same as the previous procurement plan for Last Resort Service except that the terms of the procurement are

¹ The Narragansett Electric Company d/b/a National Grid hereinafter referred to as “National Grid” or “Company.”

three-month rather than six-month periods. There does not appear to be any dispute among the parties that the Company's procurement proposal for 2010 should be approved.

During the course of this docket, the Commission has prompted, and the parties have begun to engage in, a discussion regarding the advisability of a transition to a fully managed portfolio approach to procuring energy supply. This is an issue that does not impact the procurement of supply for 2010. Nevertheless it is an issue that will become very important to procurement efforts for 2011 and beyond. Indeed, the proposed 2010 procurement plan is designed to and has the effect of preserving the Commission's options for 2011.² The Company has indicated that it is conducting a review and analysis of its procurement measures not only in Rhode Island, but in other jurisdictions as well. The Company believes that given the importance of the issue for its customers, it is best to make a deliberate, balanced review and to provide the Commission with specific recommendations. Accordingly, the Company recommends that, in order to determine the best procurement strategy for its Rhode Island customers, this issue be decided in the upcoming Standard Offer procurement filing that will be made no later than March 1, 2010.

Finally, the Commission has asked whether spot market purchases should be used to procure the remaining five percent of supply for the January through September 2010 time period that was not procured through the APP. Given administrative and pricing considerations, the Company is not recommending that approach at this time.

² The proposal does provide for the procurement of some energy supply into the beginning of 2011 for the Small Customer class.

II. Procedural Background

On March 2, 2009, in accordance with its obligations under R.I. Gen. Laws § 39-1-27.8, National Grid filed its SOS Procurement Plan with the Commission. Also on March 2, 2009, in compliance with the Renewable Energy Standards and the Commission's Order 19580 in Docket No. 4012, National Grid submitted its Renewable Energy Procurement Plan. On March 16, 2009, the Commission voted to reject National Grid's SOS Procurement Plan and Renewable Energy Procurement Plan and directed National Grid to re-file both plans on or before April 16, 2009. (Order 19602, Docket No. 4041). The Company petitioned the Rhode Island Supreme Court to review the March 16 order and also moved for clarification of that order. On April 7, 2009, the Commission clarified its order.

In compliance with the Commission's clarified order, on April 29, 2009 the Company submitted an amended SOS Procurement Plan. That plan covers the procurement of the projected electric supply for all of the Company's Standard Offer customer classes for the year 2010. The Company also submitted an amended Renewable Energy Procurement Plan under the provisions of the Renewable Energy Standards Act. Under the Act, the Company is obligated to procure minimum, periodically escalating, amounts of electricity from eligible renewable resources ("Renewable Energy Obligations"). For 2010, that amount is set at 4.5 percent of the electricity it provides to its retail customers. R.I. Gen. Laws § 39-26-4(a).

On April 9, 2009, the Company submitted an Accelerated Procurement Plan ("APP") in order to take advantage of then-prevailing energy prices and procure energy for the Small Customer Group. On May 7, 2009, the Commission directed the Company

to conduct simultaneous RFPs of full requirements service (“FRS”) contracts and financial swaps. After reviewing results from those requests with the Division of Public Utilities and Carriers (“Division”), the Company entered into FRS contracts to procure 95 percent of electric load for the period January 2010 through September 2010 and another 50 percent of the electric load for the period from September 2010 through April 2011.

While this docket was pending, Rhode Island enacted legislation controlling long-term contracting for renewable energy supplies. R.I.G.L. §39-26.1-1 et seq. In response to the newly enacted legislation, the Commission opened Docket No. 4069 to establish rules and regulations governing long-term contracting for renewable energy resources. Likewise, in light of that legislation, the Company filed amendments to its previous filing in this docket to remove long-term contracting from its 2010 SOS Procurement filing. Relative to the 95 percent of the Small Customer load that has already been procured pursuant to the APP, the Company intends to go out for multiple solicitations for RECs. With respect to the power supply that remains to be procured for 2010, when the Company goes out for remaining supply procurements it will request pricing that includes RECs and pricing that does not include RECs. Depending on the response, the Company may also conduct separate solicitations for RECs. There is no dispute among the parties as to the Company’s RES procurement plan for 2011, and it should be approved.

On August 27, 2009, the Commission conducted a hearing on the Company’s proposed Standard Offer Service procurement plan. Based on the testimony of the parties, there seems to be no disagreement with the Company’s proposal relative to electric supply procurement for the remainder of 2010. The parties did, however, express differing positions relative to the methods the Company should pursue in procurement of

SOS supplies for 2011 and into the future. The Division has recommended that the Company procure through a managed portfolio approach. Intervenor Constellation, on the other hand, promoted the procurement of energy solely through FRS contracts. The Company indicated that it was conducting a comprehensive review of its procurement practices and submitted that the issue of changing to a managed portfolio approach in Rhode Island be fully considered during the Company's upcoming Standard Offer filing, which will be filed no later than March 1, 2010.

III. National Grid's 2010 SOS Procurement Proposal Remaining for Commission Approval

The Company's 2010 SOS Procurement Plan provides that beginning January 1, 2010, all customers will be eligible for SOS, including new customers, customers currently receiving SOS, customers currently receiving Last Resort Service, and customers taking service from a competitive provider who stop obtaining service from that provider. There appears to be no dispute among the parties relative to this part of the Company's plan.

a. Customer Classes

The Company's 2010 plan also establishes two service classes: (1) Large Commercial and Industrial ("Large C&I") and (2) Residential and small Commercial and Industrial ("Small Customer"). The Commission's approval of the APP effectively establishes these two procurement classes for the period January 2010 through March 2011. Once again, no party to this proceeding opposes this approach for the 2010 supply procurement.

The Division's consultant, Richard Hahn has suggested that, going forward, for the remainder of 2011 the Residential rate class should be separated from the small commercial and industrial classes. Under his proposal the G02 rate class should be removed from the Large Customer group and be combined with the C06 and S10/S14 classes to create a third class referred to as Small Commercial group. (Hahn pre-filed testimony, p. 20). The Company's initial reaction has been that the small business class and the residential class both have similar likelihoods of migrating to third-party marketers, a major consideration in combining these two groups for purposes of supply procurement. Additionally, based on the load profiles of the C06 Small Commercial rate class it is less likely to receive offers from competitive suppliers, and is thus more appropriately combined with the Residential class. Nevertheless, the Company has indicated that it would consider Mr. Hahn's proposal as it creates its procurement plan for 2011. (Smithling, p.4, ll. 7-11) In any event, it is apparent that Mr. Hahn does not recommend that change for the 2010 procurement plan (Hahn, p. 22, ll. 15-18).

b. Large Customer Class

For large C&I customers, the Company is proposing to procure supply through a three-month FRS contract procured on a quarterly basis. The parties seem to agree that for 2010 this is the recommended approach.³

c. Small Customer Class

For the Small Customer class, the Company had originally proposed procuring supply on a six-month basis. In light of the procurements already made pursuant to the APP, however, the remaining electric supply to be procured for 2010 consists of the five

³ For 2011 the Division's consultant recommends that consideration be given to spot market pricing for that customer group. The Company agrees to consider that approach for this group when it makes its 2011 SOS Plan filing, but only for after March 31, 2011. (Smithling Rebuttal, p. 7. ll. 1-6)

percent balance for January through September 2010 and the outstanding 50 percent of load for the period October 2010 through March 2011. The Company has proposed procuring those amounts through FRS contracts. Under its proposal, in October 2009 the Company would procure the remaining 5 percent balance for the January through September 2010 time frame. At that time, it would also obtain pricing for one-half of the remaining 50 percent balance for the period October 2010 through March 2011. The Company would conduct the procurement for the remaining one-half of that load in mid-2010. Depending on market pricing in October 2009, the Company, in consultation with the Division, would reserve the flexibility to procure the entire remaining load for the period October 2010 through March 2011 until its procurement activities later in mid-2010.

As indicated above, there is no opposition to this approach and it should be approved.

d. Cost Recovery

The SOS rate charged for the Small Customer class will be based on the weighted average of the monthly prices for the January 2010 through September 2010 time period. From September 2010 forward, the rate for the Small Customer class will be fixed every six months thereafter. The rates will reflect the weighted average of the FRS contracts for the applicable period. After 2010, the rates for this customer class would change in April and October.⁴ The Company has also proposed a billing adjustment to deal with Small Customers who switch to competitive supply mid-period to reflect the actual

⁴ The Company could adjust the annual reconciliation period for transmission and transition charges, which currently occurs effective January 1, to an April 1 date to line up with the April SOS rate change.

monthly contract rates that would apply to their usage, rather than the weighted average rate.

As referenced above, for the Large Customer class, the Company would conduct four procurements to obtain three-month FRS contracts. Rates for this customer class would change monthly based on the contract prices received.

The Company intends to continue its current process of filing its annual reconciliation. In each annual filing, the Company will propose the specific method of cost recovery for both classes.

Again no party has voiced any opposition to this cost recovery proposal.

e. Spot Market Purchases for 2010

At its September 2, 2009 Open Meeting, the Commission asked the parties to address whether the Company should procure the remaining 5% supply for the period January 1, 2010 through September 30, 2010 from the spot market rather than through FRS contracts. The Company does not recommend this approach at this time for several reasons; primarily the implementation of administrative changes. In recommending the most efficient approach to procuring Standard Offer Service in 2010, there is lead time that should ideally occur for the Company to move to spot prices for this small amount of supply. The Company would be prepared to fully discuss transitioning to spot market purchases as part of the discussion on a transition to a managed portfolio approach within its March 2010 filing.

Because in Rhode Island the Company currently uses FRS contracts to meet its Standard Offer Service load, the Company is not participating in the ISO-NE spot market

as a wholesale load serving entity. Although the Company does participate as a wholesale load serving entity in the NYISO (for Niagara Mohawk Power Company), the Company will need to develop specific procedures for Narragansett and the ISO-NE. These include analyst training and the development of proper protocols and software to interface with the ISO-NE load and capacity markets. In addition, the Company will need to develop systems to accurately forecast Narragansett hourly loads on a daily basis, a function that ended when the Company was restructured in 1998. Also the Company will need to evaluate the ISO-NE credit and security requirements to allow its participation in the ISO-NE energy markets. Finally, the Company believes that it would incur additional costs that are not currently recovered in distribution rates nor are they proposed for recovery in the currently pending distribution rate case. Thus, if the Company is required to implement the procurement of 5 percent supply from the spot market it would seek to recover incremental costs associated with this additional activity through Standard Offer rates.

Although these modifications to its current practices are certainly not insurmountable, the Company would prefer to postpone making these changes at this time.

IV. Managed Portfolio Approach

In this docket, National Grid is not seeking Commission approval for a managed portfolio approach. A managed portfolio approach would be a significant change from the way that National Grid has in the past procured electric supply in Rhode Island and in its other New England jurisdictions. Given the importance of the decision, the Company

is undertaking a comprehensive study of various procurement approaches and the interrelated regulatory and market issues that would impact that decision. This includes consideration of the various implementation hurdles that would impact the movement to a managed portfolio, including technology, reporting metrics, regulatory recovery, and customer education. As part of its analysis the Company also will be considering the balance between the competing goals of price stability and low price.

As things stand, there is sufficient time to consider a decision on the appropriate supply procurement approach for the future. Although the Division's consultant is a proponent of the managed portfolio approach, the earliest date that he proposes to begin migrating to that approach is June 2011. (Hahn, p. 29, ll 4-5) Even under his analysis, then, there is adequate time for the Commission to go about reaching this decision in a reasoned and thorough manner. Additionally, the case record on this issue does not include the level of specificity necessary to construct a workable managed portfolio procurement plan. It is the Company's expectation that as the 2011 Standard Offer Service docket unfolds that level of specificity will be available to assist the Commission as it considers its options for the future.

V. Conclusion

In light of the current state of electric supply procurement for 2010 and the agreement of the parties relative to the Company's remaining procurement proposals for 2010, the Company respectfully requests that Commission approve the pending 2010

Standard Offer and RES procurement plans and defer ancillary issues raised in this docket for full review and consideration in the upcoming 2011 Standard Offer filing which will be made no later than March 1, 2010.

The Narragansett Electric Company
d/b/a National Grid
By its attorney



Thomas R. Teehan

Date: September 22, 2009