STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S PROPOSED	:	
2010 STANDARD OFFER SUPPLY PROCUREMENT	:	DOCKET NO. 4041
PLAN AND 2010 RENEWABLE ENERGY SUPPLY	:	
PROCUREMENT PLAN	:	

REPORT AND ORDER

I. Background

On May 7, 2009, the Public Utilities Commission ("Commission") reviewed an Accelerated Procurement Plan ("APP") filed by Narragansett Electric Company d/b/a National Grid ("NGrid" or "Company") to commence purchasing Standard Offer Service ("SOS") for the periods January 1, 2010 through September 30, 2010 and October 1, 2010 through March 31, 2011. After its review, the Commission directed NGrid to issue simultaneous solicitations for financial swaps as filed and full requirements services ("FRS") contracts for the same percentages of load for the same time period. As a result of these solicitations, NGrid entered into FRS contracts for 95 percent of SOS for the period January 1, 2010 through September 30, 2010 and 50 percent of SOS for the period October 1, 2010 through March 31, 2011 for the Small Customer Group.[1] In its Order approving the APP, the Commission noted that further review of NGrid's Amended SOS and Renewable Energy Standard ("RES") Procurement Plans would be undertaken as a separate proceeding within this docket. This Order addresses the remaining unprocured SOS requirements for all SOS customers for the period January 1, 2010 through March 31, 2011.

II. National Grid's Proposed Procurement Plan

[1] The Small Customer Group is comprised of residential customers and small to medium commercial customers.

In this case, NGrid submitted pre-filed testimony of Jeanne Lloyd, Manager of Electric Pricing, Madison Milhous, Director of Wholesale Market Relations for the Energy Portfolio Management organization, and Alan Smithling, Manager of Electric Supply.[2] NGrid proposed to obtain SOS for all customers not currently taking competitive supply. All customers currently on LRS would be transitioned to SOS on January 1, 2010, eliminating the need for a separate LRS tariff.[3] Under the Procurement Plan, all SOS contracts would be chosen through competitive bidding and the winning supplier would be chosen from those bidders that have demonstrated the ability to provide service, meet financial assurance requirements and have executed a Master Power Agreement. There was no long-term contract procurement proposal as part of the Company's SOS Procurement Plan.[4]

NGrid proposes to obtain SOS for two separate classes of service: Large C&I (G-62, G-32) and Small Customers (Residential plus small and medium commercial). Through the APP previously approved by the Commission, the Company has already contracted for 95% of the load for the Small Customers through the use of FRS contracts for the period January 1, 2010 through September 30, 2010 and 50% for the period October 1, 2010 through March 31, 2011. Under NGrid's proposal, the Company will conduct a solicitation in October 2009 to procure the remaining 5% for the period January 2010 through September 2010 and 25% of the remaining 50% for the period October 2010 through March 2011, if pricing is attractive. If that 25% is procured, the

[2] As a result of prior decisions of this Commission in Docket No. 4041 and an intervening change of law, NGrid's witnesses submitted revised testimony. The following versions are summarized in this Order: NGrid Exhibit 2: Revised Direct Testimony and Schedules of Jeanne Lloyd (4/29/09); NGrid Exhibit 1: Pre-Filed Testimony and Attachments of Madison Milhous (Commission Date Stamped 7/13/09); NGrid Exhibit 3: Pre-Filed Testimony of Alan Smithling (dated July 10, 2009) with April 29, 2009 Schedules and NGrid Exhibit 4: Rebuttal Testimony and Exhibit of Alan Smithling (dated August 14, 2009).
[3] NGrid Exhibit 2, pp. 3-5.
[4] NGrid Exhibit 3, pp. 4, 11-13, 15.

final 25% would be procured through a solicitation in mid-2010. If the 25% is not procured in the Fall of 2009, the Company will conduct two solicitations to procure 50% of the Small Customer load for the period October 2010 through March 31, 2011. The Company proposes to continue a "laddering" of contracts to result in a blended rate in order to avoid significant rate volatility. As part of its proposal, NGrid proposed to enter into financial swap arrangements as a hedge against the energy portion of the FRS contracts.[5]

The rate charged to the small customers will be based on the weighted average of the monthly prices for the initial nine-month period and then will be set every six months based on the six-month weighted average of the FRS contracts plus any applicable credits or charges resulting from the Company's financial hedging activities plus any additional RES charges. NGrid indicated that the combination of financial swaps and FRS contracts would comprise its managed portfolio. After 2010, rates for small customers would change in April and October of each year. NGrid indicated through discovery that it could adjust the annual reconciliation period for transmission and transition charges to coincide with the April 1st rate change. Small customers terminating SOS to take competitive supply will be subject to a billing adjustment based on the difference between the SOS rate in effect for the current pricing period and the actual monthly contract rates for the same period multiplied by the customer's kWh usage during the same period.[6]

For the Large C&I customers, NGrid proposes to conduct four separate procurements for three-month FRS contracts. Procurements would occur every February,

[5] *Id.* at 4-8. NGrid Exhibit 4, pp. 8-9.
[6] *Id.* at 8-9, NGrid Exhibit 2, pp. 5-10,

May, August and November. Rates would change monthly based on the contract price. Pricing would be requested to include the RES obligation and to exclude the RES obligation. NGrid would compare the pricing to its projection of the cost to fulfill its RES obligation and then choose the lower cost option. NGrid's proposal is just like previous LRS procurement plans except that the terms of the procurement are three month periods rather than six month periods.[7]

To meet the 2010 RES obligation relative to the SOS load already procured, NGrid proposes to conduct stand-alone procurements through a competitive bidding process. To meet the RES obligation for the SOS load not yet procured the Company will request pricing from energy suppliers that include the cost of NGrid's obligation under the RES and pricing that does not include the RES obligation. Where the inclusive pricing is below that which NGrid projects to meet its obligation, NGrid will accept the inclusive pricing and the supplier will be responsible for providing the Renewable Energy Certificates ("RECs"). Otherwise, NGrid will procure the RECs through stand-alone procurements.[8]

In Rebuttal, in response to the Division's testimony, the Company indicated that it would be willing to consider the use of spot-market pricing for Large C&I customers and to consider redefining the procurement classes in subsequent annual procurement filings.[9] However, NGrid did note that "the C06 class is more similar to residential customers than to larger customers with respect to their ability to migrate to competitive suppliers." The Company also noted that there would be communications, data and bill management and

[7] NGrid Exhibit 3, pp. 5-7, NGrid Exhibit 2, pp. 5-10.
[8] NGrid Exhibit 1, pp. 6-8.
[9] NGrid Exhibit 4, pp. 4-9.

tariff design issues that must be addressed in the event the Commission adopts spot market pricing.[10]

III. Constellation's Testimony

On June 25, 2009, Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc., (collectively "Constellation") submitted the pre-filed testimony of Timothy Daniels, Vice President of Energy Policy.[11] Constellation recommended that the Commission approve the proposed 2010 procurement plan based upon the proposed FRS procurement structure without any determination of moving to a managed portfolio approach. Constellation characterized a managed portfolio as one in which the utility creates a portfolio from different physical and financial products and actively monitors the market and attempts to time the procurement to achieve the lowest possible costs while maintaining a level of price stability.[12]

Constellation indicated that under a model where the utility enters into only FRS contracts, the competitive wholesale supplier creates the portfolio underlying the FRS contracts. Constellation indicated that the FRS model proposed in NGrid's March 3, 2009 filing would result in prices that are reflective of the market while still insulating customers from excessive volatility. Constellation argued that it would not be cost effective for NGrid to manage the portfolio because the Company would have to hire outside consultants. Constellation maintained that a diverse pool of wholesale suppliers

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[10] *Id.* at 5-8.
[11] Constellation Energy Commodities Group, Inc. is a power marketer authorized to sell energy and capacity and certain ancillary services at market-based rates. Constellation NewEnergy is a retail electricity supplier to commercial and industrial customers. Constellation Exhibit 1, pp. 1-2.
[12] *Id.* at 4-6.

provides the most cost-effective method of SOS supply management because they have more experience and greater resources than the utility.[13]

Constellation warned that the Commission would be required to conduct a prudence review of NGrid's activities after every procurement if it approves a managed portfolio approach which means NGrid may be too conservative in its approach and may avoid opportunities that would benefit retail consumers. According to Constellation, under the FRS model, wholesale suppliers assume all risk of cost and migration whereas a managed portfolio model could leave a small number of customers bearing above-market costs. Constellation argued that the FRS model is consistent with competitive markets because it provides one fixed retail price against which to compete while the managed portfolio model requires a true-up of the actual costs to the retail rates that were charged.[14]

On August 17, 2009, Constellation submitted Rebuttal Testimony of Timothy Daniels and Daniel Allegretti, Vice President of Energy Policy. Constellation's Rebuttal reiterated the points contained in the direct testimony and provided direct responses to the Division's position that NGrid should be engaged in a managed portfolio approach to procuring SOS. In summary, Constellation argued that a managed portfolio as proposed by the Division's witness "would have consumers directly bear the risks and costs associated with (1) being tied with one particular generation resource on a long term basis; (2) being directly subject to the fluctuations of spot market purchases; and (3)

[13] *Id.* at 6-9.
[14] *Id.* at 9-11. *See* Constellation Exhibit 2, pp. 6-45.

being entirely reliant on and subject to the risks of mismanagement by only one portfolio manager – the utility...."[15]

Constellation expressed specific concerns with the level of long-term contracts contained in a managed portfolio as well as the level of spot-market purchases contained in a managed portfolio approach. Constellation maintained that the wholesale energy market is not liquid enough to support energy contracts in excess of five years, causing higher costs.[16] Over-reliance on spot-market purchases, in the alternative, produces volatile pricing.[17] Constellation maintained that the FRS structure will facilitate and encourage retail competition most effectively as a low-risk backstop that will allow customers to choose to manage or assume the risk themselves.[18]

IV. Division's Testimony

On July 24, 2009, the Division submitted the pre-filed testimony of Richard Hahn, Principal Consultant for La Capra Associates and on August 25, 2009, the Division submitted his surrebuttal testimony. Mr. Hahn summarized each of the filings made by the Company and the contents of the procurement plans. Mr. Hahn recommended that the Company separate residential from commercial customers completely when defining its customer groups for procurement purposes. Accordingly, he recommended that the Company create a Residential Class, a Small Commercial Class, and a Large Commercial Class. He maintained that this approach would result in procurement groups which would be large enough to facilitate efficient and economic procurements and would group customers with similar load profiles and switching tendencies. He recommended

[15] Constellation Exhibit 2, pp. 7-8.
[16] *Id.* at 9-12.
[17] *Id.* at 12-13.
[18] *Id.* at 14-15, 16-17, 43-44.

that for deliveries commencing April 2011, NGrid consider spot market pricing for the Large Commercial class instead of three month FRS contracts in order to keep the number of procurements constant with that which was proposed by NGrid. According to Mr. Hahn, such an approach would avoid the high risk premium and rate impact associated with the loss of one very large customer on those remaining on SOS.[19]

He recommended modifications to the procurement plan to include "a prudent mix of (a) long-term contracts, (b) block purchases of peak and off-peak energy with separate purchases of capacity and ancillary services, and (c) spot market purchases... [and] other products such as heat rate index contracts, which are block purchases indexed to natural gas prices..."[20] He was not opposed to the deployment of Financial Swaps, but would not expect significant reliance on the instruments because layering and laddering of block purchases would have the same effect without the risk premiums associated with Financial Swaps as the Company has proposed them.[21]

Addressing Constellation's objection to NGrid's proposal to transition to a managed portfolio, Mr. Hahn stated that "the Company should be allowed to proceed with its managed portfolio approach, as modified according to my testimony, as it will produce better results in terms of lower, more stable prices for those consumers least likely to switch to a competitive supplier."[22] He stated that Constellation has a vested interest in keeping the procurement of SOS power supplies under FRS contracts. He also noted that Constellation has no inherent obligation to serve customers or provide power

[19] Division Exhibit 1, pp. 20-24, Division Exhibit 2, p. 18.
[20] *Id.* at 228.
[21] *Id.* at 29.
[22] *Id.* at 35.

at the lowest costs.[23] Mr. Hahn indicated that it appeared Constellation agreed that laddering in staggered contracts can smooth out price fluctuations.[24] He maintained that long-term contracts beyond five years are necessary to encourage the development of energy resources and could result in cost savings over the long term. He also argued that a review of municipal electric utility costs in Massachusetts supports the position that purchases on the spot market can lead to lower costs.[25]

According to Mr. Hahn, NGrid has demonstrated the ability to manage a portfolio of power supplies through the management of power supplies for its other affiliates outside of RI and thus, management of a portfolio by NGrid would represent an efficient use of its resources.[26] He recommended that NGrid create a relatively simple portfolio comprised of a prudent mix of standard electric products that are obtained through competitive solicitations throughout the year to achieve layered and laddered contracts.[27] Under his model, all products purchased under a managed portfolio approach are obtained via competitive solicitations.[28] According to Mr. Hahn, a managed portfolio approach better facilitates more competition because it allows more bidders to participate.[29] He provided two comparisons of power supply costs from a managed portfolio approach to those from FRS transactions in support of his position that the managed portfolio approach produces superior results.[30] Finally, Mr. Hahn argued that because the purchase of the individual components of a managed portfolio is accomplished through competitive solicitations and the lowest priced products are

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[23] *Id.* at 32.
[24] Division Exhibit 2, p. 8.
[25] *Id.* at 10-11.
[26] Division Exhibit 1, p. 33.
[27] *Id.*
[28] *Id.*
[29] *Id.* at 34, Division Exhibit 2, p. 13-14.
[30] Division Exhibit 2, pp. 3-7.

selected, the review of the utility's compliance is no more involved than under the FRS approach.[31]

V. Hearing

Following public notice, a public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on August 27, 2009 for the purposes of hearing evidence and cross-examining witnesses in the instant matter. The following appearances were entered:

FOR NATIONAL GRID:	Gerald Petros, Esq. Thomas Teehan, Esq.
FOR CONSTELLATION:	Michael R. McElroy, Esq.
FOR THE DIVISION:	Leo Wold, Esq. Assistant Attorney General
FOR THE COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

At the hearing, NGrid presented Madison Milhous, Jeanne Lloyd and Alan Smithling in support of its filing. Mr. Milhous clarified that the Company would most likely be issuing three RFPs for RECs, two during 2010 and one in 2011 to finalize the procurement of necessary RECs for 2010. He indicated that for the 95 percent of the energy already procured for the Small Customer Group for the period January 1, 2010 through September 30, 2010 and the 50 percent already procured for the period October 1, 2010 through March 31, 2011, the Company would conduct stand-alone solicitations for RECs. However, for the remaining load, he explained that the Company proposed to include in its RFPs for energy a request for pricing that includes RECs and that excludes

[31] *Id.* at 16.

RECs. The Company would review the pricing and determine whether to procure the energy bundled with RECs or the energy alone with a separate solicitation for RECs.[32]

Mr. Milhous also testified that occasionally a qualified supplier submits an unsolicited offer for RECs and "if we believe that the unsolicited offer fits within our needs in terms of pricing and volume, we would act on that. If we don't then we would reject that offer."[33] He explained that the Company compares the offer to recent results and published market data.[34] He indicated that the Company's RES Procurement Plan includes the ability to review such unsolicited offers because "we would never want to preclude the possibility that we would get an unsolicited offer that is favorable relative to the other procurement methods that we're using."[35] He indicated that in the last year, the Company had accepted only a couple of unsolicited offers.[36]

Ms. Lloyd provided more explanation regarding the mechanics of the billing adjustment that will appear on small customer bills when they choose a competitive supplier. She indicated that because the SOS price is based on the average cost of the prices contained in the supply contracts for the term, if a customer leaves SOS before the end of the contract term, the customer's load is re-priced for each of the preceding months based on the actual prices contained in the contract. The bill is then adjusted up

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[32] Tr. 8/27/09, pp. 24-26.
[33] *Id.* at 27.
[34] *Id.* at 27, 28-29.
[35] *Id.* at 28.
[36] *Id.* at 30. A response to a Commission record request revealed that the Company receives approximately three to four offers monthly via telephone by brokers. In 2008, NGrid purchased RECs from four suppliers through unsolicited offers in Massachusetts. These offers were priced at or below recently concluded solcitations or as compared to published market prices. Additionally, each offer was below the alternative compliance payment. Response to Record Request 1.

or down, depending on the actual contract price for the periods versus the average price that was charged.[37]

With regard to the timing of rate adjustments, Ms. Lloyd testified that in general, under the Company's proposal, rate changes for small customers taking SOS would occur in April and October of each year. She agreed that the Company would be able to file its annual reconciliation of transmission and transition costs in the Spring of each year rather than in November in order to minimize the number of rate changes the small customers would experience. She testified that for 2010, based on her calculations and assumptions, she did not foresee a significant over- or under-recovery at the end of 2009 that would necessitate filing the annual reconciliation for SOS, transmission and transition in November rather than waiting until the Spring of 2010.[38] However, she testified that because the Large Customers would see monthly rate changes, the Company would propose to change SOS rates for the Large Customer Group effective January 1, 2010.[39] With regard to all of the proposed changes, Ms. Lloyd indicated the Company would engage in customer education through several resources including bill messages, the internet and possibly alerts.[40]

Mr. Smithling addressed NGrid's procurement strategy, noting that the Company is not requesting approval of a managed portfolio approach in this docket. He indicated that NGrid is in the process of determining the best method to procure power for Rhode Island and for its other service territories. He noted that this internal comprehensive review is designed to take a broad view of the best procurement solutions for NGrid's

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[37] Tr. 8/27/09, p. 36.
[38] *Id.* at 38-42.
[39] *Id.* at 42-43.
[40] *Id.* at 43-44.

customers in the four distribution companies. The review will include implementation issues such as "software and technology, automation, reporting metrics, criteria, regulatory recovery," and the balance between pricing and volatility.[41] He testified that the Company would most likely be prepared to present the information gleaned from the comprehensive review to the Commission in January 2010.[42] Mr. Smithling indicated that the review would include the Company's cost of implementation of various strategies.[43] However, Mr. Smithling also testified that he had not seen the goals for the internal comprehensive review.[44]

Addressing issues relative to managed portfolios, Mr. Smithling noted that the Company follows a managed portfolio approach in New York using internal resources. He indicated that the rate recovery mechanism takes into account considerations of load bidding. He agreed that one type of a managed portfolio would contain a prudent mix of products but would not comment on whether this would be the best approach for Rhode Island's ratepayers. He did agree that a standard offer procurement portfolio should be based on a prudent mix of products rather than just FRS contracts.[45] However, he noted that the proposal before the Commission was that the 2010 procurement would only include a mix of a couple of contracts with the underlying pricing that would come from a diverse supply. He opined that this was a prudent approach for the period under review.[46]

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[41] *Id.* at 54-55.
[42] *Id.* at 59.
[43] *Id.* at 73-74.
[44] *Id.* at 84. A subsequent response to a record request indicated that there were no written goals as of September 2, 2009. Response to Record Request 6, submitted 9/2/09.
[45] Tr. 8/27/09, pp. 68-70, 80.
[46] *Id.* at 88-89.

Providing clarification on the Company's proposal for the period January 1, 2010 through March 31, 2011, Mr. Smithling indicated that the Company was no longer proposing financial swaps as part of its procurement strategy. He also confirmed that for the remaining load procurements the Company would include requests for pricing that include RECs and that also exclude RECs to determine whether or not to purchase RECs through the energy contracts or through separate solicitations.[47]

Constellation presented Mr. Daniels and Mr. Allegretti as a panel in support of its position. Mr. Allegretti indicated that Constellation is a full requirements provider.[48] Therefore, Mr. Daniels conceded that if the Commission were to approve spot-market pricing for the Large Customer Group, Constellation would no longer be in the position to bid on that wholesale load.[49] Mr. Allegretti also agreed that "the universe of entities that would be qualified to bid is probably larger" for block products than that for FRS.[50] Mr. Allegretti indicated, however, that a managed portfolio can contain FRS contracts and Mr. Daniels noted that there are opportunities for Constellation to participate in the wholesale market in New York where NGrid manages a portfolio.[51]

On cross-examination, Mr. Allegretti testified that he did not disagree with Mr. Hahn's proposal regarding the classification of customer classes for procurement purposes.[52] Mr. Allegretti agreed that the FRS structure proposed by the Company and the managed portfolio approach utilize staggered procurements which avoid price

[47] *Id.* at 71-72.
[48] *Id.* at 103.
[49] *Id.* at 130-31. Mr. Daniels noted that Constellation could still participate on the retail side with the Large Customer Group. Constellation does not currently market to small retail customers. *Id.* at 186-87.
[50] *Id.* at 135-36, 173.
[51] *Id.* at 135, 140.
[52] *Id.* at 95-96.

volatility.[53] Mr. Allegretti conceded that an FRS does not insulate customers from contractual disputes over responsibility for costs depending on the length of the contract.[54] Mr. Allegretti also indicated that there are times when a managed portfolio approach may be more reasonable than an FRS approach, "to the extent that a company has the resources and the capabilities to effectively manage a portfolio on the same basis as full requirements supply bidders." Both approaches, Mr. Allegretti noted, could be equally effective.[55] Mr. Daniels noted that under either approach, a reconciliation of costs would be necessary.[56] With regard to the effectiveness of capturing the best price for customers, Mr. Allegretti testified that even with broad information over a broad period of time, "it may be difficult to isolate it and make a definitive empirical observation on it."[57]

The Division presented Mr. Hahn in support of its position favoring a managed portfolio approach. Mr. Hahn indicated that he disagreed with the idea that a managed portfolio approach would lead to higher costs to the Company than an FRS approach because NGrid already has staff engaged in managing a portfolio in New York. Addressing TEC-RI's concerns regarding Mr. Hahn's proposal to transfer Large Customers over to spot market pricing in 2010, Mr. Hahn clarified that his proposal was to include a component of spot market pricing for the period commencing June 2011.[58] Mr. Hahn agreed that Large Customers currently have several pricing options available to them from retail competitive suppliers.[59]

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[53] *Id.* at 98.
[54] *See id.*. at 110-17.
[55] *Id.* at 136-37.
[56] *Id.* at 148.
[57] *Id.* at 157-58.
[58] *Id.* at 197-99.
[59] *Id.* at 200-01.

Addressing his proposal to alter the procurement classes, Mr. Hahn agreed that the likelihood of switching to competitive suppliers by the C-06 class and the residential class would be small. However, he maintained that there would be a higher likelihood that the small commercial customers would switch. He indicated that he was not only reviewing sophistication of customers in making choices regarding their electricity, but at the load profile of the class which, he indicated, reflected the larger commercial and industrial classes more than the residential class.[60] His main point, he indicated, was that similar customers should be grouped together and the C-06 customers, in his opinion, are more comparable to the S-10 and S-14 customers than the residential customers. However, there would be no harm in keeping the C-06 customers with the residential class.[61]

Addressing various managed portfolio scenarios, Mr. Hahn noted that one utility in Pennsylvania provided its residential load in a manner where fifty percent was through FRS and fifty percent was through a managed portfolio. He indicated that he would not recommend such an approach because he does not believe that the FRS approach is a superior approach.[62] Therefore, he would not "take half the load and put it in what I believe to be an inferior method."[63] He stated that he would not include any FRS contracts in a managed portfolio.[64]

Mr. Hahn clarified that he had provided an alternative procurement plan of what the portfolio should look like in his Exhibit 8. The proposal includes a two-month transition between April 1, 2011 through May 31, 2011. He stated that "I've proposed

[60] *Id.* at 202-04.
[61] *Id.* at 212-14.
[62] *Id.* at 219-20.
[63] *Id.* at 220.
[64] *Id.*

actual specific plans for residential and small commercial with the assumption that the large commercial...would go to 100 percent spot pricing, so I've tried to give you a specific plan."[65] He agreed that his plan included one long-term contract in excess of five years, blocks of energy, and spot market purchases. He testified that capacity and ancillary services would be purchased separately through competitive solicitations.[66]

Mr. Hahn testified that "to the maximum extent possible," his plan would achieve the goals of achieving the lowest cost possible with stability in pricing. He noted that there is always a tension between low cost and price stability, but he believed that "relative to the other alternative proposed in this proceeding," his plan would better meet those goals.[67] However, he noted that if the Commission were to approve his plan, or any plan, there would be no benchmark against which to measure the plan "because you're only doing one procurement method."[68] He opined that you could measure NGrid's price results with those in other states. He agreed that "in theory you could take half the portfolio or half the load in Rhode Island and do full requirements service and half the load in Rhode Island and do a managed portfolio approach and compare those after five years."[69] He did not recommend the approach, but agreed it could be done.[70] Rather, he stated that the Commission should rely on the two examples that he provided in his testimony relative to Pennsylvania utilities and on decisions made by the Massachusetts

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[65] *Id.* at 227.
[66] *Id.* at 228. Upon further cross-examination, Mr. Hahn rejected the idea of replacing the spot market purchases with an FRS on the basis that the premium associated with such a product would be too high. *Id.* at 234, 248-49.
[67] *Id.* at 229-30.
[68] *Id.* at 230.
[69] *Id.* at 235.
[70] *Id.*

municipal utilities to follow a managed portfolio approach as proof that such an approach is the best approach to procurement of SOS.[71]

VI. Post-Hearing Briefs

On September 23, 2009, NGrid filed its Post-Hearing Memorandum in support of its proposed 2010 SOS Procurement Plan. In its Memorandum, NGrid summarized its proposals and noted that it was not seeking Commission approval of a managed portfolio approach as part of this Procurement Plan. Additionally, the Company noted that while there are differences between the parties regarding the underlying policy approach to SOS procurement, there was no dispute between the Company and the other parties regarding the appropriate approach to procurements for the period January 1, 2010 through March 31, 2011.[72]

Addressing the Commission's question whether the Company should procure the remaining 5% of supply for the period January 1, 2010 through September 30, 2010 from the spot market, the Company did not recommend such an approach. NGrid indicated that it would be administratively burdensome and would require analyst training and the development of proper protocols and software to interface with the ISO-NE load and capacity markets. NGrid noted that it participates as a wholesale load serving entity in the NYISO, but would need to develop specific procedures for Narragansett Electric and ISO-NE. NGrid indicated that it would seek recovery of any incremental costs associated with spot market purchases.[73]

On September 23, 2009, Constellation filed its Post-Hearing Brief reiterating each of the reasons it believed the Commission should approve an FRS approach to SOS

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[71] *Id.* at 237-38.
[72] NGrid's Post-Hearing Memorandum, pp. 5-8, 9-10.
[73] *Id.* at 8-9.

procurement. Constellation summarized its position that the FRS approach is superior to a managed portfolio approach because it provides both "a plain-vanilla product that provides a fixed price to protect customers from volatility if costs of energy soar, and encourages retail shopping if the costs of energy decline; and market and portfolio management risk mitigation."[74] According to Constellation, the FRS approach "takes advantage of the discipline of competitive markets to select the 'best' portfolio of resources for supplying SOS."[75] Constellation also argued that the sole way to optimize a portfolio is to create proper incentives to encourage portfolio managers to serve load at the lowest cost.[76]

Addressing the Commission's question whether the Company should procure the remaining 5% of supply for the period January 1, 2010 through September 30, 2010 from the spot market, Constellation submitted that the Commission should not require such a procurement methodology, noting that no party proposed it. First, Constellation argued that such a decision would result in regulatory uncertainty and would discourage bidding for SOS load for 2011 and beyond. Second, Constellation also argued that it would alter the nature of SOS in such a way that it would not further the goal of retail competition. Third, Constellation argued that it would not be wise to place too much risk of market volatility on smaller SOS customers. Finally, Constellation argued that there is no reason to expect spot market pricing to result in lower SOS supply costs.[77]

On September 22, 2009, the Division submitted its Post-Hearing Brief recommending that the Commission Order NGrid to include the following in its next

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[74] Constellation's Post-Hearing Brief, p. 5.
[75] *Id.* at 5-6.
[76] *Id.* at 21.
[77] *Id.* at 22-25.

SOS Procurement Plan to be filed March 1, 2010: (1) modifications of the customer groups to include three as proposed by Mr. Hahn in his testimony; (2) modification of the proposed delivery schedule to coincide with the capacity year; (3) alternative spot market pricing for Large C&I customers; and (4) implementation of a managed portfolio approach.[78]

The Division argued that the record supported each of its proposals and that NGrid agreed to each of the first three proposals. Further, the Division argued that the evidence showed that only the Managed Portfolio Approach would mitigate the risk of reliance on a single procurement product, would reduce risk premiums associated with FRS products, would provide flexibility with open positions or spot market purchases, and would lead to lower, more stable pricing. Therefore, the Division stated that the Commission should order each of the proposals be included in the next SOS Procurement Plan.[79]

VII. Commission Findings

At an open meeting on September 30, 2009, the Commission reviewed the record and approved NGrid's 2010 RES Procurement Plan as filed, finding that it was designed to meet the requirements of R.I. Gen. Laws § 39-26-4 in a manner that will allow NGrid to procure a sufficient number of RECs at a reasonable cost. The methodologies proposed by NGrid are similar to those which have been approved by the Commission in the past. The stand-alone solicitations and those tied to energy procurement have allowed NGrid to procure RECs below the level of the alterative compliance payment.

[78] Division's Post-Hearing Brief, p. 1.
[79] *Id.* at 2-11.

The Commission specifically approved NGrid's 2010 SOS Procurement Plan as it relates to the Large C&I Group, finding the quarterly procurement approach and changing monthly pricing provides the best balance between price certainty and market pricing. The Commission notes that this proposed methodology is similar to the procurement and pricing methodology for non-residential last resort service customers. While many of the Large C&I customers take competitive supply, NGrid's proposed procurement schedule will allow those who do not enter into competitive supply arrangements the ability to transition into the competitive supply market in a more measured way than a change to spot market pricing on January 1, 2010 would. This decision does not foreclose the possibility of different procurement and pricing structures for a period commencing after March 31, 2011. NGrid shall file its SOS rates for the Large Customer Group on or before December 1, 2009 for effect on usage on and after January 1, 2010. NGrid shall ensure that all rate changes for the Large Customer Group are filed with the Commission and noticed to customers at least thirty (30) days prior to the start of each month.

With regard to the remaining procurement for the Small Customer Group for the period January 1, 2010 through September 30, 2010, the Commission finds that the Company should procure this portion of power through the spot market. This will provide the Commission with the ability to review the volatility of that market and the resulting price impact averaged over the period with minimum risk of exposure to ratepayers. The Commission notes that the Division stated that "such procurement would …potentially enable NGrid to obtain a lower energy cost for that procurement" and would provide the Commission with "some insight relative to that strategy from the results of that procurement without a significant amount of price volatility risk on the small customer group." Furthermore, the Division noted that the implementation costs should be minimal in light of the Company's activities in its other service territories.[80] NGrid should file a new Tariff for review by the Commission to reflect this decision.

With regard to the remaining procurement for the Small Customer Group for the period October 1, 2010 through March 31, 2011, the Commission approves the proposal by the Company. Specifically, in the Fall 2009, the Company will conduct a solicitation to procure one-half of the remaining 50% for the period October 2010 through March 2011. If pricing is attractive, the Company will contract for the 25% at that time and the final 25% would be procured through a solicitation in mid-2010. If the 25% is not procured in the Fall of 2009, the Company will conduct two solicitations to procure 50% of the Small Customer load for the period October 2010 through March 31, 2011.

NGrid shall file its Annual Reconciliation of Standard Offer Service, Transmission and Transition costs on or before January 8, 2010 for effect on usage on and after March 1, 2010. The Commission notes that this will reduce the number of rate changes the Small Customer Group will experience in 2010 and will hopefully reduce customer confusion. The Commission also notes that the Company agreed that this timing would be acceptable and would not result in an unmanageable deferral balance. To be clear, this does not conflict with NGrid's SOS rate change for the Large Customer Group on January 1, 2010 as there may be SOS costs relative to those customers resulting from the current Wholesale SOS contracts to be reconciled. Allowing the Company to file in January with a decision in February should allow NGrid to reconcile the majority of its costs coincident with the end of the current contract period (December 31, 2009).

[80] Division's letter to the Commission dated 9/28/09.

Finally, the Commission is not making a policy determination regarding the goals of NGrid's SOS Procurement Plans for any period beyond March 31, 2011. With regard to the company-wide review of options and strategies for procuring power in 2011 and beyond, the Commission notes that the Company expects to complete its review by January 2010. Accordingly, the Commission directs NGrid to file a report with the Commission no later than January 15, 2010 with the following: (1) an assessment of the comprehensive review, (2) the merits or lack thereof of a managed portfolio approach, (3) an in depth detailed comparison of procurement of natural gas and electricity, reviewing symmetries and differences that might drive different policy approaches for each commodity, (4) empirical proof of savings of the managed portfolio approach or FRS approach, (5) an administrative cost analysis, and (6) any other issues the Division or Constellation provide to the Company within thirty (30) days of the date of issuance of this Order.

Accordingly, it is hereby

(19839) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's 2010 Renewable Energy Standard Procurement Plan is hereby approved.

2. Narragansett Electric Company d/b/a National Grid's 2010 SOS Procurement Plan as it relates to the Large C&I Group is hereby approved.

3. Narragansett Electric Company d/b/a National Grid's 2010 SOS Procurement Plan as it relates to the Small Customer Group for the period October 1, 2010 through March 31, 2011 is hereby approved.

4. Narragansett Electric Company d/b/a National Grid's 2010 SOS Procurement Plan as it relates to the Small Customer Group for the period January 1, 2010 through September 30, 2010 is hereby modified such that the remaining five percent (5%) that has not been procured shall be procured through spot market purchases.

5. Narragansett Electric Company d/b/a National Grid shall file new Tariffs for Standard Offer Service to reflect the Commission's decisions herein.

6. Narragansett Electric Company d/b/a National Grid shall file its Standard Offer Service rates for the Large Customer Group on or before December 1, 2009 for effect on usage on and after January 1, 2010.

7. Narragansett Electric Company d/b/a National Grid shall file its Annual Reconciliation of Standard Offer Service, Transmission and Transition costs on or before January 8, 2010.

8. Narragansett Electric Company d/b/a National Grid shall file a Report regarding its Comprehensive Review of Standard Offer procurement strategies on or before January 15, 2010 in accordance with the instructions contained in this Order.

9. Narragansett Electric Company d/b/a National Grid shall file its proposed 2011 SOS Procurement Plan on or before March 1, 2010.

10. Narragansett Electric Company d/b/a National Grid shall comply with all other instructions contained in this Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON SEPTEMBER 30, 2009 PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED NOVEMBER 24, 2009.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner