STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S 2016 STANDARD OFFER SERVICE PROCUREMENT PLAN AND 2016 RENEWABLE ENERGY STANDARD PROCUREMENT PLAN	:	DOCKET NO. 4556

REPORT AND ORDER

On March 2, 2015, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed with the Public Utilities Commission (PUC) its proposed 2016 Standard Offer Service (SOS) Procurement Plan to guide its purchasing of energy supply for customers who do not choose a competitive energy supplier. After conducting discovery on the matter, holding hearings to take public comment and hear evidence presented by National Grid, intervenors, and the Division of Public Utilities and Carriers (Division), on July 1, 2016, the PUC approved the proposed SOS Procurement Plan with modifications. On the same day, the PUC approved the Company's uncontested Renewable Energy Standard (RES) Procurement Plan, also filed on March 2, 2015. The RES Procurement Plan guides the Company in its procurement of renewable energy certificates to meet the State of Rhode Island's Renewable Energy Standard.

I. National Grid's 2016 Proposed SOS Procurement Plan

In the proposed SOS Procurement Plan, National Grid proposed to continue procurement of energy for residential and commercial customers through a series of load following full requirement service contracts. These combined procurements would satisfy 90% of the load with the Company utilizing 10% of spot market purchases during the delivery period to meet the needs of SOS customers.[1] Energy for industrial customers would be contracted for three months prior to the delivery period and the rate would vary monthly.[2]

National Grid proposed several revisions to its prior year's plan, all of which pertained to the Residential and Commercial Groups. First, National Grid proposed to solicit flat bids and thereby eliminate the billing adjustment.[3] This means the Company would require suppliers to submit the same bid price for each month of the applicable contract. Flat bids differ from shaped bids which may change monthly for the duration of the contract. The Company argued that the render unnecessary implementation of flat bids would render unnecessary a retail billing adjustment for customers who leave SOS prior to the end of the rate period. With shaped bids, the resulting retail rate is a six-month averaged rate where, in some months, customers pay more than the underlying rate and in others, they pay less. Conversely, with flat bids, the customer pays the same rate as the supplier's contract rate.[4] Where the retail SOS rate is always, in every billing period, exactly the same as the underlying contract rate, there is no need for a billing adjustment. The elimination of the billing adjustment would occur gradually over time, as shaped bids are replaced by flat bids, with total elimination of the billing adjustment occurring in December of 2016.[5]

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[1] The Utility Restructuring Act of 1996 required electric distribution companies, including National Grid, to provide SOS to all customers in an electric distribution company's service area who do not elect to purchase their power supply from a nonregulated, competitive supplier. The Act further provided that the rates for SOS could recover no more than the company's actual costs to provide SOS. On March 1 of each year, the National Grid is required to file a SOS procurement plan. R.I. Gen. Laws §§ 39-1-27.3, 39-1-27.8.

[2] Test. of Margaret M. Janzen at 9; http://www.ripuc.org/eventsactions/docket/4556-NGrid-2016-SOS-RES-Plan(3-2-15).pdf.

[3] *Id*. at 16.

[4] *Id*. at 17-18. The billing adjustment reconciles any differences in the retail SOS rate paid by the customer during a rate period versus the underlying contract rate paid by the Company to provide standard offer service to that customer.

[5] *Id*. at 18.

The Company proposed keeping the same contract durations for the Residential Group, but changing the times of procurement. Currently, 90% of the residential load is procured through six, twelve-, eighteen-, and twenty-four-month contracts in a repeating procurement schedule consisting of quarterly solicitations for four different durations and percentages of load.[6] As part of the 2016 SOS Procurement Plan, the Company proposed shifting the timing of the various contracts. The Company's stated purpose for changing the timing of the contracts was to include a more recent transaction in the July to December rate period.[7]

For the Commercial Group, the Company proposed to change the contract durations and frequency of price points to match the Residential Group.[8] If the Company's proposals were approved, both the Commercial and Residential Groups would have six price points, as opposed to the current four price points for the Commercial Group and six price points for the Residential Group.[9] The Company maintained that the varying contract lengths for the Commercial Group in this manner would mitigate price volatility by increasing the number of price points included in the blended retail rate.[10] For the Residential and Commercial Groups, the Company proposed procurement schedules transitioning gradually from the current repeating schedule to the proposed repeating schedule.

II. National Grid's Proposed 2016 Renewable Energy Standard Procurement Plan

For 2016, the Company is subject to a 10% Renewable Energy Standard (RES) obligation.[11] The Company proposed to continue its practice of procuring renewable energy certificates (REC) through a combination of long-term contracts, RES requests for proposals, SOS

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[6] *Id*. at 11.
[7] *Id*. at 11-12.
[8] *Id*. at 9-10.
[9] *Id*.
[10] *Id*.
[11] R.I. Gen. Laws § 39-26-4; Janzen Schedule 7 at 1. The PUC delayed implantation of the incremental 1.5% increase in the RES obligation scheduled for 2015. PUC Order No. 21353 (Docket No. 4404) (Feb.10, 2014).

requests for proposals, or brokers.[12] The procurement of RECs is currently linked to the Company's procurement of SOS. Thus, when the Company solicits bids for SOS it simultaneously requests separate pricing from full requirement service bidders including the RES obligation for the period served by the full requirement service contract.[13] The Company proposed to continue this practice of requesting separate pricing from full requirement service bidders including the RES obligation for the period served by the full requirement service contract. If the RES price provided by the winning SOS supplier is equal to or less than the market price of RECs, the Company will purchase those RECs from the supplier. If the market price of RECs is lower than the RES price offered by the SOS supplier, or if the market price is unavailable, the Company would not purchase the RECs from the SOS supplier.[14] The Company indicated that it planned to issue two or more standalone renewable energy certificate requests for proposals in 2016.[15]

The Company projected that the number of new RECs obtained from long-term contracts will exceed the RES obligation in 2018.[16] In 2018, if the number of new RECs purchased from long-term contracts exceeds the RES obligation, the Company will sell the excess RECs and credit the sale proceeds to distribution customers through the Long-Term Contracting Standard reconciliation factor.[17]

III. Intervenor Positions

Lieutenant Governor Daniel J. McKee; Attorney General Peter F. Kilmartin; and NextEra Energy Power marketing, LLC were granted intervenor status. NextEra and Lieutenant Governor McKee filed written testimony or comments summarizing their positions regarding National Grid's

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[12] Test. of Janzen at 23.
[13] *Id*. at Schedule 7 at 2.
[14] *Id*. at 25.
[15] *Id. at 23-25*
[16] *Id*. at 27; Janzen Schedule 7 at 3.
[17] *Id*. at 27.

2016 Standard Offer Procurement Plan. Nextera advocated for the continued use of shaped bids in National Grid's procurement process. NextEra neither supported nor opposed the elimination of the billing adjustment.[18]

Lieutenant Governor McKee intervened on behalf of small businesses in Rhode Island. Lieutenant Governor McKee submitted the testimony of John Farley. Mr. Farley supported eliminating the billing adjustment. He also recommended the Company track the cost of eliminating the billing adjustment.[19] Mr. Farley also requested that the PUC order National Grid to issue a credit to all customers who had received billing adjustment charges in 2015.[20]

Mr. Farley argued that the billing adjustment operates as a barrier to competition in the retail electricity market. He maintained that because the billing adjustment cannot be accurately calculated in advance of the customer leaving standard offer service, it poses an obstacle for both the customer and the competitive supplier. He asserted that the customer, therefore, is unable to make an informed decision about whether or not to switch. He indicated that when the billing adjustment is finally assessed, it often exceeds the amount of any savings anticipated from moving to the competitive supplier.[21] Finally, he asserted that many customers perceived the billing adjustment as a penalty for leaving standard offer service.[22]

Comparing the bill impact of eliminating the billing adjustment and spreading it across all customers against the benefits of encouraging competition and lessening customer dissatisfaction, Mr. Farley concluded that the benefits of eliminating the billing adjustment exceed the costs.[23]

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[18] Letter from Robert Munnelly, Jr., Attorney for NextEra Energy Power Marketing, LLC, to PUC (May 29, 2015).
[19] Test. of John Farley at 3 (Apr. 17, 2015); http://www.ripuc.org/eventsactions/docket/4556-McKee-Farley_4-17-15.pdf.
[20] *Id*; *see also* Surrebuttal Test. of John Farley (May 29, 2015); http://www.ripuc.org/eventsactions/docket/4556-McKee-Farley_5-29-15.pdf.
[21] *Id*.
[22] *Id*. at 14.
[23] *Id*. at 17.

Based on his calculations, Mr. Farley estimated that the bill impact on all SOS customers of eliminating the billing adjustment and refunding customers already assessed would be between $0.13 and $0.22 per month for a typical residential customer and $0.17 to $0.26 per month for a small commercial customer.[24] Mr. Farley estimated that the bill impact would reduce to zero after December 2016 if National Grid transitioned to fixed, six month pricing.[25] Mr. Farley noted that to avoid customer confusion and remove an obstacle to promoting the retail competitive supply market, regulatory commissions in Massachusetts and New Hampshire had recently eliminated provisions similar to the billing adjustment.[26]

Next, Mr. Farley opined that most, if not all, of the impact of eliminating the billing adjustment could be removed by setting rates for a six-month period commencing in October when the retail rate is typically higher than the underlying contract rate.[27] According to Mr. Farley, an over-collection would accrue to offset the losses in the higher-cost months when the retail rates are typically lower than the contract rates.[28]

IV. Public Comment

The PUC received public comment from National Grid customers and individuals representing competitive suppliers. All of the commenters opposed the billing adjustment. Some claimed that National Grid gave customers no advance notice of the billing adjustment charges and no explanation of the charge that appeared on their bill. Many characterized the billing adjustment as a penalty imposed upon customers for electing to receive their electricity from a competitive supplier.[29]

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[24] *Id*. at 18.
[25] *Id*.
[26] *Id*. at 15, 21-22.
[27] *Id*.
[28] *Id*. at 9-10.
[29] Hr'g Tr. at 7-16 (Jun. 4, 2015).

V. Memoranda Filed by the Division of Public Utilities and Carriers

Richard S. Hahn, of LaCapra Associates, submitted two memoranda on behalf of the Division. In the first memorandum, Mr. Hahn provided an overview of current trends in the electric industry which are contributing to recent increases in retail electricity rates. He presented several options for the Commission to consider in its review of the Company's proposed 2016 SOS Procurement Plan. He offered a number of recommendations regarding the fixed portfolio approach, or the process by which the Company procures standard offer service on a fixed schedule at various times throughout the year.[30] Those recommendations included:

1. Move the November procurements, which provide delivery in January, to October in order to provide seventy-five days' notice of impending rate change.
2. Revise the SOS price year to be consistent with the ISO-NE power year. This would effectively change the current rate periods of January-June and July-December to June-November and December-May. This change would make June, a month associated with lower standard offer prices, the first month of the rate period.[31]
3. Evaluate and compare flat bids to the monthly pricing for the residential and commercial classes.
4. Change the commercial procurement schedule to mirror the residential procurement schedule.

[30] Mem. of Richard Hahn at 13 (Apr. 17, 2015); http://www.ripuc.org/eventsactions/docket/4556-DPU-Memo-Hahn_4_17_15.pdf.
[31] The new procurement period could also begin with a different lower price month such as April. *Id*. at 3.

5. Require National Grid to estimate the risk premium in each winning bid and decide whether to accept or reject bids based on the results.
6. Add more layering and laddering into the six-month SOS procurement periods in order to mitigate price cliffs.
7. Simultaneously solicit bids for fixed price, full requirements contracts as well as block and spot products.[32]

Mr. Hahn analyzed National Grid's SOS procurement approach in terms of its effectiveness at hedging future SOS prices and compared the same to Pascoag Utility District's SOS managed portfolio approach. A managed portfolio approach allows the utility discretion in deciding when and how to procure SOS. With a managed portfolio approach, the utility would be permitted to enter into longer term contracts, require winning bidders to have a firm fuel supply, pursue creative procurements of renewable energy resources, and/or reap financial incentives based on procurement results.[33] Although an advocate of the managed portfolio approach, Mr. Hahn ultimately concluded that while both procurement methods are effective at hedging against short-term market price volatility, both methods are also vulnerable to price cliffs at the end of the procurement periods.[34]

Mr. Hahn supported National Grid's elimination of the billing adjustment. However, he also recommended that the Company track the impact of this change, solicit both flat and monthly bids from SOS suppliers, and evaluate the risk premiums associated with every bid and decide whether to accept or reject a bid based on the size of the risk premium.[35] In a surrebuttal

[32] *Id*. at 15.
[33] *Id.* at 13.
[34] *Id*. at 11-12. Mr. Hahn subsequently testified that when gas prices increase by 300%, no mechanisms can fully protect against that. Hr'g Tr. at 225-26 (Jun. 4, 2015).
[35] Mem. of Richard Hahn at 13 (Apr. 17, 2015).

memorandum, filed May 29, 2015, Mr. Hahn reiterated his support for flat bids, stating that flat bids forced suppliers to absorb some of the costs associated with market volatility.[36] Without flat bids, Mr. Hahn argued, the cost associated with the loss of the billing adjustment would fall on the Company which in turn would recover the loss from ratepayers.[37]

VI. National Grid's Rebuttal Testimony

On May 8, 2015, National Grid proposed to eliminate the billing adjustment immediately and to recover from all distribution customers, through the SOS Cost Adjustment Provision any deferred balances resulting from the elimination of the billing adjustment.[38] The Company's decision to immediately eliminate the billing adjustment came amid growing controversy surrounding the billing adjustment, which had gotten much larger recently due to a number of factors.[39] The Company indicated that it would report on the amount of the SOS billing adjustment incurred during 2015 and might seek to modify its cost recovery method in the February 2016 retail rate filing.[40]

Addressing the recommendations of Mr. Farley, the Company would not agree to issue a refund to customers who paid billing adjustment charges in 2015. Ms. Janzen argued that such a refund would be inappropriate given that all billing adjustment charges were paid pursuant to PUC-approved tariffs.[41] Ms. Janzen predicted that such a ruling would trigger further requests for refunds relating to billing adjustments made in prior years which would be inappropriate for the same reason.[42]

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[36] Mem. of Richard Hahn at 1 (May 29, 2015); http://www.ripuc.org/eventsactions/docket/4556-DPU-Surrebuttal-Comments_5-29-15.pdf.
[37] *Id.*
[38] Rebuttal Test. of Margaret M. Janzen at 2-3 (May 8, 2015); http://www.ripuc.org/eventsactions/docket/4556-NGrid-Rebuttal(5-8-15).pdf.
[39] *Id*. at 5.
[40] *Id*.
[41] *Id*. at 11.
[42] *Id*.

According to Ms. Janzen, National Grid's laddered, full requirement service approach, compared to the managed approach, shifts more migration and load risk to suppliers.[43] She noted that the Company's rates include capacity and ancillary services, which further insulate customers from price shocks, whereas Pascoag Utility District customers are exposed to these market components due to the types of power purchase agreements included in its managed portfolio.[44] She also noted that National Grid's procurement process shifts more risk to the suppliers than Pascoag Utility District's does. Referring to the PUC's prior endorsement of the existing procurement approach, the Company argued that the current laddered portfolio of full requirement service contracts is the best approach for SOS customers in terms of its ability to mitigate market price volatility and migration risk.[45] Regardless, Ms. Janzen stated, the commodity rates of both Pascoag Utility District and National Grid have been very similar over the last three years if one were to compare the sum of standard offer and transmission.[46]

Ms. Janzen agreed to adopt the Division's recommendation to provide an additional month's notice for SOS rate changes for the residential and commercial customers.[47] However, addressing Mr. Hahn's recommendation to use estimates of risk premiums to evaluate bids, Ms. Janzen stated that National Grid already estimates risk premiums but explained those estimates are not appropriate for evaluating the competitiveness of multiple bids because the analysis does not incorporate all future market conditions.[48] Suppliers have market experts who develop their bids

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[43] *Id*. at 18.
[44] *Id*. at 18-19.
[45] *Id*. at 12, referring to PUC Order No. 20125 (Docket 4149) (Sept. 23, 2010); http://www.ripuc.org/eventsactions/docket/4149-NGrid-Ord20125(9-23-10).pdf.
[46] Janzen Rebuttal at 12-13, 18-19.
[47] *Id*. at 19-20.
[48] *Id*. at 21-22.

and likely incorporate the latest market information in formulating bids. In this context, it would be inefficient for the Company to try to replicate suppliers' bid processes.[49]

The Company disagreed with the Division's recommendation to modify the procurement schedule to add more layering and laddering, arguing that all seasonal rates will experience price cliffs, regardless of the particular procurement schedule chosen. Finally, Ms. Janzen did not accept Mr. Hahn's recommendation for block and spot transactions which she characterized as an endorsement for a managed portfolio approach. According to Ms. Janzen, this approach would lead to more volatility and higher costs for SOS customers.[50]

VII. Hearing

The Commission held an evidentiary hearing on June 4, 2015. National Grid presented Ms. Janzen, Director of Wholesale Energy, Scott McCabe, Manager of New England Electric Pricing, and Jeffrey Martin, Director of Billing Operations, in support of the amended proposed 2016 SOS Procurement Plan. Lieutenant Governor McKee presented Mr. Farley. The Division presented Mr. Hahn. All witnesses argued in favor of eliminating the billing adjustment and voiced general agreement that the public perceives the billing adjustment as a penalty for choosing to receive electric supply from the competitive retail market. Mr. Hahn noted that the Division had received approximately 500 complaints about the billing adjustment.[51] Mr. Farley argued elimination would remove a barrier to competition.[52] The parties acknowledged that the competitive retail market in Rhode Island is less vibrant than that of neighboring states, such as Massachusetts, New Hampshire, and Pennsylvania.[53] Mr. Hahn noted that these states have

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[49] *Id*. at 22.
[50] *Id*. at 23.
[51] Hr'g Tr. at 257.
[52] *Id.* at 275.
[53] An estimated 6% of residential customers in Rhode Island have switched to competitive supply. An estimated 16.9% have switched in Massachusetts, 37.7% in Pennsylvania, 43.5% in Connecticut, and 100% in Texas. Hr'g Tr. at 280.

eliminated the billing adjustment.[54] According to Mr. Hahn, it does not necessarily follow, however, that customers in these states, who switched to competitive supply, enjoyed lower rates.[55]

Ms. Janzen clarified that the Company's proposal was to continue accepting both flat and shaped bids during SOS solicitations, consistent with existing practice.[56] She reiterated the Company's intention to continue estimating bid premiums; however, the Company's decision of whether to accept a bid is based on the lowest all-in price and not the risk premium.[57] On the topic of managed portfolios, she stated that the Company had not performed any specific calculations regarding the incremental cost of implementing a managed portfolio.[58]

Regarding the revenue impact of eliminating the billing adjustment, Ms. Janzen testified that it would be more equitable to recover the cost of eliminating the billing adjustment from all distribution customers to avoid penalizing those customers remaining on SOS.[59] Spreading this cost over the entire customer base would also have a smaller bill impact.[60] Again rejecting the proposal to refund prior billing charges, Ms. Janzen stated that it is best to make tariff changes on a prospective basis so that customers can make decisions going forward based on what the rules would be going forward.[61] She added that if refunds were issued to customers who were previously charged billing adjustments, then, in all fairness, customers who had received credits should be billed.[62] The Company further pointed out that this review of previously-issued billing

[54] *Id*. at 28, 258.
[55] *Id*. at 255.
[56] *Id*. at 36.
[57] *Id*. at 38.
[58] *Id*. at 40.
[59] *Id*. at 49.
[60] *Id*.
[61] *Id*.
[62] *Id*. at 173.

adjustment credits and charges should or could potentially reach back to the inception of the billing adjustment provision in 2010.[63]

In response to a question from the Bench, Mr. Martin testified that the Company could include a price to compare, consisting of the currently effective SOS rate plus the RES charge. He agreed that having this all-in price appear prominently on customers' bills could arguably facilitate customers' decisions about whether or not to switch to a competitive supplier.[64]

Ms. Janzen disagreed that a rate period of November to March would mitigate rate shock because it would include the additional, higher-priced winter month of December and could yield higher billing adjustments.[65] Ms. Janzen conceded, however, that the Company had not performed any qualitative analyses to determine what the price differential would be if the Company were to change from the current calendar year rate period (beginning January 1) to some other rate period.[66] Mr. McCabe testified that an April to October period would mitigate the costs related to a billing adjustment.[67] Ms. Janzen testified that while it would be feasible for the Company to procure contracts according to the calendar year but still devise an October-April rate period, this would instantly create the potential for larger deferrals.[68] The Company's goal in aligning the procurement plan with the rate periods was to mitigate rate and reconciliation volatility.[69]

Responding to prior testimony, Mr. Hahn stated that sending price signals is ideally a good thing; but, in reality, most residential customers are not inclined to react to such price signals.[70] In

[63] *Id*. at 172-73.
[64] *Id*. at 58.
[65] *Id*. at 90, 92.
[66] *Id*. at 98.
[67] *Id*. at 94-95.
[68] Id. at 100.
[69] *Id*. at 100-01.
[70] *Id*. at 193-94.

setting rates, he testified that it is important to balance the need for sending price signals with achieving stability and mitigating volatility.[71]

Mr. Hahn testified in favor of changing the rate period to April-October, stating that it should serve to mitigate the size of the billing adjustment because customers would be building up credit at the time most customers would be switching to a competitive supplier.[72] Mr. Hahn was asked to comment on the practice of placing restrictions on customers to remain on standard offer service for a specified period of time in order to mitigate gaming. Mr. Hahn stated he had not discussed the matter with the Division but felt that this sort of restriction goes against the spirit of customer choice.[73] Neither did Mr. Hahn support a requirement that residential customers be placed on a variable rate when returning to standard offer service. He noted that this would serve as a source of confusion to people trying to decide whether to switch or not.[74] Similarly, saw no reason to eliminate the commercial customer's variable pricing option.[75] Mr. Hahn suggested, along with Ms. Janzen, that it might be a good idea to update the Northbridge Study which supported the initial implementation of the dull requirement service structured portfolio in 2010.[76] Mr. Hahn acknowledged that flat bids may result in higher contract prices, due to embedded risk premiums, which ultimately would be borne by SOS ratepayers.[77]

Mr. Hahn supported recovering the costs associated with the billing adjustment through the SOS reconciliation process.[78] He agreed with Ms. Janzen that there would be no basis for refunding the billing adjustment to customers in 2015, since there was no error in the assessment

[71] *Id*. at 194.
[72] *Id*. at 216, 246.
[73] *Id*. at 217.
[74] *Id*. at 218.
[75] *Id*. at 219-20.
[76] *Id*. at 232.
[77] *Id*. at 189-90, 263.
[78] *Id*. at 243-44

of the billing adjustment charges, and that any refund would necessarily provoke the question of how far back in time should the refunds be awarded.[79]

Mr. Farley agreed with National Grid that the cost of eliminating the billing adjustment should be recovered from all distribution customers.[80] On cross-examination, Mr. Farley was less adamant than in his prefiled testimony on the subject of issuing a refund to customers who had paid billing adjustment charges in 2015. He could not state for certain whether or not such customers had in fact been harmed. This uncertainty stemmed from the inability to determine whether customers had actually paid less to a competitive supplier and, if so, by how much. When asked whether customers who paid billing adjustment charges had been hurt, Mr. Farley replied, "It's possible. I just don't know the answer to that."[81]

Special Assistant Attorney General Christy Hetherington argued, on behalf of Attorney General Peter Kilmartin, in favor of eliminating the billing adjustment. In support, she offered numerous consumer complaints received by the Attorney General's Office.[82]

VIII. Commission Findings

At an Open Meeting held on July 1, 2015, the PUC approved National Grid's 2016 Renewable Energy Standard Procurement Plan as filed, finding it to be consistent with the policy and provisions of the Renewable Energy Standard. The PUC discussed the record regarding National Grid's 2016 SOS Procurement Plan and made the following findings.

National Grid should immediately eliminate the billing adjustment for customers who leave SOS prior to the end of the rate period. The PUC found that the customer confusion, evidenced by the public comment, had been overwhelming. The PUC further found that the billing

[79] *Id*. at 246-48.
[80] *Id*. at 297.
[81] *Id*. at 299.
[82] *Id*. at 267-68.

adjustment was not consistent with the legislative policy in favor of promoting retail electric competition.

The over- or under-collections resulting from the elimination of the billing adjustment should be recovered or credited from or to all distribution customers, as proposed by the Company, and agreed to by all parties. The PUC recognized that there may be differing levels of equity to consider in allowing recovery of these costs from all distribution customers as opposed to recovery from only standard offer customers. However, the PUC was persuaded by Mr. Hahn's testimony that rates are not designed for individual customers but for customer classes. The PUC further relied on Ms. Janzen's argument that SOS customers who do not choose to engage in competitive supply should not bear the full burden of an under-collection. Neither, the PUC found, should those customers who do choose to engage in competitive supply be denied the benefit of over-collections related to the billing adjustment. Therefore, the PUC determined that the most equitable solution was the one which would reach all customers. All customers are distribution customers. Thus it is just and reasonable to assess the impacts of the elimination of the billing adjustment, whether positive or negative, on all distribution customers through the SOS reconciliation process. Furthermore, spreading the cost of eliminating the billing adjustment among all distribution customers mitigates further whatever slight impact exists.

The PUC declined to order National Grid to issue refunds of billing adjustments paid prior to this decision. The PUC found no legal basis for ordering a refund of billing adjustment charges paid in 2015. Those billing adjustment charges and credits were issued pursuant to the approved Standard Offer Service Provision tariff approved by the PUC in 2010.[83] Moreover, refunding prior

[83] PUC Order No. 19839 (Docket No. 4041)(Nov. 24, 2009); http://www.ripuc.org/eventsactions/docket/4041-NGrid-Ord19839(11-24-09).pdf.

billing adjustment charges would pose difficult practical challenges, such as how far back to extend the refunds and whether billing adjustment credits should be returned. The evidence did not support any findings by the PUC that customers, as a whole, were harmed by the billing adjustment. While some individual customers may have failed to realize the savings they anticipated because of a billing adjustment charge, others may have received a credit, thus increasing their savings. The fact remains that the proponent of refunding the charges could provide no definitive proof that any customers were harmed. The PUC sets just and reasonable rates for all customers, not individuals. The billing adjustment was in place to balance the interests of those customers who remained on SOS with those who chose competitive supply. The PUC's decision in this matter was consistent with those findings. Going forward, the rates will be set differently, but will be designed to meet the same goal. Rates are set on a prospective basis and there is no compelling reason to attempt to engage in retroactive-based refunds or charges.

The PUC directed National Grid to begin monitoring the impacts associated with elimination of the billing adjustment, including the associated costs and extent of any gaming that may occur as a result of this decision. The Company should also file a proposal with the PUC recommending a specific method of monitoring and reporting the impacts of the elimination of the billing adjustment. The Company was instructed to consult with the Division in developing the recommendation for the monitoring and reporting of any gaming which may occur as a result of this decision.

As to the SOS Procurement Plan, he PUC found that there was insufficient evidence provided to warrant ordering the Company to deviate from the current procurement portfolio. Many of Mr. Farley's comparisons with Pascoag Utility District were unpersuasive given the significant differences in these two utilities. Based on Ms. Janzen's testimony, the PUC was concerned with the potential volatility and administrative cost increases that could be associated with a managed portfolio. However, where Ms. Janzen also testified that the Company had not conducted an analysis to quantify her claims, the PUC may consider such an approach in the future if the evidence supports it.

The PUC also found that the record was insufficient to support an order for the Company to transition exclusively to flat bids in its standard offer service solicitations. Although the PUC understood that flat bids would eliminate the cost differential that created the necessity for the Company to charge the controversial billing adjustment, the PUC found that flat bids would include a risk premium that would increase standard offer service costs and ultimately standard offer rates paid by ratepayers. Although flat bids match the Company's contract costs with SOS pricing, the resulting increased standard offer rates paid by customers in the form of risk premiums would offset the benefit derived from eliminating this cost differential. In light of these findings, the Company should continue soliciting either flat or shaped bids.

Additionally, the elimination of the billing adjustment allowed for continuation of the variable price option for the commercial class, since the billing adjustment had no impact on those commercial customers. Similarly, there was no need to offer a variable rate to residential customers for the purpose of offering them appropriate price signals as this class is less inclined than other classes to respond to price signals.[84]

In light of the evidence in the record, the PUC found, based on the recommendation of the Division and Mr. Farley, that implementing October-April rate periods may serve to reduce the differential between the Company's SOS contract costs and SOS pricing and thereby mitigate price volatility and rate shock. Therefore, National Grid's current retail rate periods for the Residential

[84] Hr'g Tr. at 193-94.

and Commercial Groups of January-June and July-December shall be changed to October-March and April-September. This change shall take effect on October 1, 2016. In order to transition to the new retail rate periods, National Grid should file SOS rates for the Residential and Commercial Groups for the period January 1, 2016 through September 30, 2016, providing seventy-five days' notice as directed herein.

The PUC found that National Grid should provide residential and commercial customers with an additional thirty days' notice of impending rate changes. In order to effectuate this, National Grid should conduct its final SOS procurement at least seventy-five days prior to the next retail rate period. National Grid shall file SOS rates each year for effect on October 1 and April 1.

Additionally, the PUC found, based on the testimony of Mr. Hahn, that SOS rates should not be revised to include a different reflection of wholesale market price volatility that more closely aligns the timing of volatility with the charging of that volatility to customers. However, the PUC did find, based on the testimony of National Grid, the Division and Lieutenant Governor McKee, that it might be worthwhile to revisit the appropriateness of the Company's current level of reliance on the spot market in its SOS procurement process. To this end, National Grid should conduct an analysis of whether and to what extent its SOS procurement plan addresses current wholesale electricity market conditions. To be consistent with R.I. Gen. Laws § 39-1-27.8 and least cost procurement, such analysis should include the extent to which current market conditions are conducive to discretionary hedging of the spot market with full requirement service contracts in the SOS procurement process. The analysis should refer to, and expand upon, the Northbridge Study filed by National Grid on January 22, 2010 in Docket 4041. National Grid should file this analysis with the PUC on or before January 29, 2016.

While National Grid's witness testified that the Company could modify the electric bill to include a price to compare, the PUC did not order the Company to do so. Such a price to compare would include the SOS and RES charge combined. Consistent with this, the PUC found that the RES charge may be acting as an impediment to retail competition to the extent that it interferes with customers' ability to compare standard offer service rates to competitive supplier rates. In an effort to promote legislative policy favoring competition in the retail electricity market, National Grid shall no longer display the RES charge as a separate line item on customers' electric bills. The RES charge shall henceforth be included within the SOS charge that is currently displayed on customers' electric bills. Since competitive supplier rates include the RES charge, this change should enhance customers' ability to effectively compare National Grid's standard offer service pricing with competitive suppliers' pricing.

Accordingly, it is hereby

(22444) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid's 2016 RES Procurement Plan is approved as filed.
2. Effective immediately, the Narragansett Electric Company d/b/a National Grid shall no longer charge individual residential and commercial customers a billing adjustment for leaving SOS prior to the end of the rate period. National Grid shall be permitted to recover the cost associated with the elimination of the billing adjustment from all delivery customers.
3. Lieutenant Governor McKee's request to order National Grid to issue refunds of billing adjustments paid prior to the effective date of this decision is denied.

4. The Narragansett Electric Company d/b/a National Grid shall monitor the impacts associated with the elimination of the billing adjustment, including the associated costs and extent of any gaming that may occur as a result of this decision. National Grid shall file a proposal with the PUC recommending a specific method of monitoring and reporting the impacts of the elimination of the billing adjustment. The Company shall consult with the Division in developing a recommendation for the monitoring and reporting of any gaming that may occur as a result of this decision.
5. The Narragansett Electric Company d/b/a National Grid's 2016 SOS Procurement Plan, as amended by the Company's Rebuttal Testimony, is approved filed May 8, 2015, with the following exceptions:
   a) National Grid's current retail rate periods for the Residential and Commercial Groups, January-June and July-December, shall be changed to October-March and April-September. This change shall take effect on October 1, 2016.
   b) In order to provide residential and commercial customers an additional thirty days" notice of impending rate changes, National Grid shall conduct its final SOS request for proposal at least seventy-five days prior to the next retail rate period.
   c) In order to transition to the new retail rate periods, National Grid shall file SOS rates for the Residential and Commercial Groups for the period January 1, 2016 through September 30, 2016, providing seventy-five days' notice pursuant to paragraph (b), above. Thereafter, National Grid shall file standard offer service rates each year for effect on October 1 and April 1.
   d) As soon as practicable, National Grid shall file revised procurement schedules for the Residential and Commercial Groups consistent with the revised retail rate periods

contained in paragraph (a), above, such that full requirement service contracts will be secured for 90% of the residential and commercial load for the upcoming rate period.

e) National Grid shall conduct an analysis of whether and to what extent its SOS procurement plan addresses current wholesale electricity market conditions. To be consistent with R.I. Gen. Laws § 39-1-27.8 and least cost procurement, such analysis shall include the extent to which current market conditions are conducive to discretionary hedging of the spot market with full requirement service contracts in the standard offer service procurement process. The analysis should refer to, and expand upon, the Northbridge Study filed by National Grid on January 22, 2010 in Docket 4041. National Grid shall file this analysis with the PUC on or before January 29, 2016.

f) No changes shall be made to any of the pricing options offered by National Grid to any of its customer classes.

6. Effective immediately, the Narragansett Electric Company d/b/a National Grid shall no longer display the RES charge as a separate line item on customers' electric bills. The RES charge shall henceforth be included within the SOS charge that is currently displayed on customers' electric bills.

7. Unless otherwise modified by subsequent Order of this Commission, all tariffs filed henceforth relating to the Company's SOS Procurement Plan shall be in compliance with this Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2015 PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED JUNE 21, 2016.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

*Paul J. Roberti, Commissioner

Herbert DeSimone, Commissioner

*Commissioner Roberti concurred with the decision but is unavailable for signature.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.