STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC COMPANY

STANDARD OFFER SERVICE RATE DOCKET NO. 3138

REPORT AND ORDER

On May 26, 2000 Narragansett Electric Company (the "Company" or "Narragansett") filed a proposed 4.1¢ Standard Offer Service Rate to become effective on July 1, 2000, an increase of .3¢ over the present Standard Offer Rate of 3.8¢.[1]

Public hearings were held at the Commission's office on June 20, 2000. The following appearances were entered:

FOR THE COMPANY	Ronald T. Gerwatowski, Esq.
FOR THE DIVISION	Paul J. Roberti, Esq. Chief, Public Utilities Regulatory Unit Assistant Attorney General
FOR THE COMMISSION	Adrienne G. Southgate, Esq. General Counsel
	Lindsay Johnson, Esq. Special Counsel

I. BACKGROUND

The Utility Restructuring Act of 1996, as amended ("URA") requires each electric distribution company to arrange with wholesale power suppliers for a standard power

[1] Because the non-residential Last Resort Service rates for July and August 2000 are indirectly tied to the Standard Offer Rate, the non-residential Last Resort Service rates for both months would be increased by .15¢ per kWh if the Standard Offer Service rate were increased by .3¢. For the details of the Last Resort Service Rate see Order No. 16281 (Docket No. 3005, 3117), dated June 16, 2000.

supply offer to sell electricity to all customers at a stipulated rate.[2] More specifically, the URA provides:

> Within three (3) months after retail access is available to forty percent (40%) or more of the kilowatt-hour sales in New England and extending through year 2009, each electric distribution <u>shall arrange for a standard power supply offer ("Standard Offer") to customers that have not elected to enter into power supply arrangements with other nonregulated power suppliers</u>. The power supply contract required for the standard offer shall be awarded by public competitive bidding to the lowest priced power supplier.[3] (emphasis added)

Pursuant to the URA and the terms of a settlement agreement dated October 17, 1997 amongst Narragansett, New England Power Company, the Division of Public Utilities and Carriers ("Division"), and the Commission[4], a Standard Offer wholesale supply contract was negotiated[5] with the following prices:[6]

Calendar Year	Price per Kilowatthour
1998	3.2¢
1999	3.5¢
2000	3.8¢
2001	3.8¢
2002	4.2¢
2003	4.7¢
2004	5.1¢
2005	5.5¢
2006	5.9¢
2007	6.3¢
2008	6.7¢
2009	7.1¢

The Standard Offer wholesale supply contracts also contain provisions to provide for increases in the price per kilowatthour to Narragansett in the event that fuel prices

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[2] For a more detailed description of the URA and the Settlement Agreement <u>see</u> <u>Order No. 15520</u> (Docket No. 2631) dated July 10, 1998.
[3] R.I.G.L. §39-1-27.3(d).
[4] <u>See</u> <u>Order No. 15520</u> (Docket No. 2631) dated July 10, 1998 at p. 2-6.
[5] <u>See</u> <u>Order No. 15639</u> (Docket No. 2715) dated July 10, 1998 at p. 11.
[6] <u>Id</u>.

increase above certain stipulated levels.[7] To the extent that the total cost of wholesale power to Narragansett, including fuel charges, exceeds the retail Standard Offer revenues, the unrecovered cost is recoverable from retail customers through the annual reconciliation under the provisions of the Standard Offer Adjustment Provision.

II. THE COMPANY'S CASE

The Company presented the testimony of Michael J. Hager, Standard Offer Portfolio Manager for National Grid USA Service Company. Mr. Hager testified that the increase in the Standard Offer rate is being requested to offset additional fuel costs being billed to Narragansett under the wholesale Standard Offer contracts.[8] He testified that the Company has made additional payments to "its suppliers totaling $3,246,526 through May 2000."[9] In addition he testified that "should the June 2000 through December 2000 fuel prices remain at the May 2000 levels, the Company expects to make additional payments to its suppliers of approximately $23,500,000 for the period June 2000 through December 2000, making the potential total under-recovery $26,700,000. Finally, he testified that the proposed Standard Offer rate increase "would collect approximately $10,500,000 thus leaving the potential for a remaining under-recovery of $16,200,000."[10]

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[7] Narr. Ex. 2, Exs. MJH-2, 3.
[8] Id., Hager Testimony, p. 3.
[9] Id.
[10] Tr. 6/20/00, p. 11.

II. THE DIVISION'S CASE

The Division presented the testimony of Mr. Stephen Scialabba, Chief Accountant for the Division of Public Utilities.[11] Mr. Scialabba recommended that the Standard Offer rate be set in the range of 4.3¢ to 4.5¢ and that fuel prices be monitored to determine the need for additional Standard Offer rate increases or decreases.

Mr. Scialabba recommended the higher Standard Offer rate to eliminate the bulk of the potential under-recovery of $16,200,000 presented by Mr. Hager.[12] He gave three reasons for his recommendation. First, a smaller deferred balance would give the Commission more options to address other rate stability issues associated with Last Resort Service and transmission costs.[13] Second, consistent with the Commission's recent decision on Last Resort Service[14], it would strike a balance between rate impact and cost recovery.[15] Third, increasing the Standard Offer rate now may avoid having to increase the rate next winter when customers may be paying higher heating bills due to higher fuel costs.[16]

III. FINDINGS

The problem is that the existing Standard Offer rates are not high enough to recoup the present level of fuel costs. The basic objective is to set Standard Offer rates at a level that will recover fuel prices on an ongoing basis. The difficulty is that there is no

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[11] Id., 71-81.
[12] Id., p. 11.
[13] Id., pp. 76, 77.
[14] Id., p. 77. See Order No. 16281 (Docket Nos. 3005, 3117) dated June 16, 2000.
[15] Id.

way of anticipating what fuel prices will be in the future. In light of this fact, there are a number of changes needed to resolve this problem.

First, gradual but substantial changes in the Standard Offer rates should be made to bring them more in line with fuel prices. The Company's proposed Standard Offer rate increase of .3¢, or $21,000,000, is a reasonable step in that direction and the Commission approves it.

Second, as proposed by the Division, fuel prices must be monitored closely to determine if additional rate adjustments are needed. Accordingly, the Company shall file with the Commission on or about September 15, 2000, a report on current fuel prices together with any Standard Offer rate change that the Company believes is appropriate.

Third, the existing rates do not provide for timely changes in response to volatile fuel prices. Accordingly, each party shall file by September 1, 2000 proposed changes to the Company's rates that are designed to more quickly adjust rates to reflect changes in fuel prices.

Accordingly, it is:

(16xxx) ORDERED:

1. That the proposed Standard Offer rate of 4.1¢ per kWh is approved to become effective for consumption on and after July 1, 2000.

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[16] Id.

2. That the Company shall file with the Commission on or about September 15, 2000 a report on current fuel prices together with any Standard Offer rate change the Company believes is appropriate..

3. That each party shall file by September 1, 2000 proposed changes to the Company's rates designed to adjust rates more quickly to reflect changes in fuel prices.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND PURSUANT TO OPEN MEETING DECISIONS ON JUNE 21, 2000. WRITTEN ORDER ISSUED JUNE XX, 2000.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner