

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

IN RE: NARRAGANSETT ELECTRIC COMPANY :  
STANDARD OFFER SERVICE RATE : DOCKET NO. 3287

REPORT AND ORDER

I. BACKGROUND

The Utility Restructuring Act of 1996 (“URA”) requires each electric distribution company to arrange with wholesale power suppliers for a standard power supply offer to sell electricity to all customers at a stipulated rate. Pursuant to the URA, Narragansett Electric Company (“Narragansett”) entered into wholesale Standard Offer supply contracts with the following prices:

<u>Calendar Year</u>	<u>Price per kWh</u>
1999	3.5 cents
2000	3.8 cents
2001	3.8 cents
2002	4.2 cents

The wholesale Standard Offer supply contracts also provide for increases in the price per kilowatt-hour (“kWh”) of wholesale power supplied to Narragansett in the event fuel prices increase above certain levels. To the extent that the total cost of the wholesale power supply to Narragansett, including fuel charges, exceeds retail Standard Offer Service (“SOS”) and Last Resort Service (“LRS”) revenues, the under-collection is recoverable from Narragansett’s customers through the annual reconciliation provisions of the Narragansett’s Standard Offer Adjustment Provision.

II. NARRAGANSETT

On March 1, 2001, Narragansett filed with the Rhode Island Public Utilities Commission (“Commission”) a request to increase the retail SOS rate from the present rate of 5.905 cents per kWh to 6.302 cents per kWh. In

support of the proposed rate increase, Narragansett presented the pre-filed testimony of Jeanne A. Lloyd, Principal Financial Analyst from National Grid USA Service Company, and Michael J. Hager, Standard Offer Portfolio Manager from National Grid USA Service Company. Ms. Lloyd noted that Narragansett's proposed increase is based on an estimate of the average cost of SOS for the period April through December 2001.<sup>1</sup> Ms. Lloyd explained that Narragansett based its proposed SOS rate upon fuel price estimates over a nine-month period because the projected fuel index payments indicate that these payments are expected to increase through July 2001, and then decrease through the end of the year.<sup>2</sup> Also, Ms. Lloyd stated that as of March 31, 2001, there is a projected under-recovery in SOS revenues of \$2.3 million because Narragansett underestimated gas and oil prices in Docket 3243.<sup>3</sup> At this time, however, Narragansett is not proposing to increase its Standard Offer Adjustment Factor ("SOAF") to collect the \$2.3 million under-collection because there is a reasonable probability that the under-recovery can be collected by the end of 2001, without an additional rate increase, and, if necessary, the under-collection could be recovered by extending the current SOAF of 0.232 cents per kWh an additional two months after September 30, 2001.<sup>4</sup> Without the proposed increase in the SOS rate, however, Narragansett projects an under-collection of SOS revenues of \$19.6 million by December 31, 2001.<sup>5</sup>

Narragansett is also required to reconcile annually transition revenues and contract termination charges ("CTC") under its Non-By Passable Transition

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<sup>1</sup> Narr. Ex. 1A (Lloyd's pre-filed testimony), p. 4.

<sup>2</sup> Id.

<sup>3</sup> Id., pp. 5-6.

<sup>4</sup> Id., pp. 6-7.

<sup>5</sup> Id., pp. 7-8.

Adjustment Provision.<sup>6</sup> Ms. Lloyd noted that Narragansett's total transition reconciliation account balance as of December 31, 2000 is an under-recovery of \$215,432 and therefore, Narragansett will defer recovery of this relatively small amount until the next reconciliation.<sup>7</sup> In addition, Narragansett proposed simplifying changes to its tariff cover sheets that should have been made when the Settlement Agreement from Docket No. 2930 was implemented.<sup>8</sup> As a result, Narragansett requests that the specific reference to the prior FAS 106 and two prior PBR adjustments be deleted from the footnote in its tariff cover sheets and replaced with the term "base distribution charge".<sup>9</sup> In conclusion, Ms. Lloyd noted that the impact of the proposed SOS rate increase on the average residential customer using 500 kWh per month will be \$2.06 or 3.2 percent, resulting in a monthly bill increasing from \$64.34 to \$66.40.<sup>10</sup>

In his pre-filed testimony, Michael Hager estimated the fuel index adjustment contained in Narragansett's Standard Offer supply contracts for the period April 2001 through December 2001.<sup>11</sup> Mr. Hager based Narragansett's expected costs under the fuel index adjustment provisions on the future gas and crude oil prices reported in the Wall Street Journal on February 21-23, 2001.<sup>12</sup> As a result, Mr. Hager estimated that Narragansett will pay an arithmetic average fuel index adjustment payment for April through December 2001 of 2.53 cents per kWh for the Narragansett zone and 2.44 cents per kWh

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<sup>6</sup> Id., p. 8.

<sup>7</sup> Id., p. 9.

<sup>8</sup> Id., p. 10.

<sup>9</sup> Id.

<sup>10</sup> Id., p. 9.

<sup>11</sup> Narr. Ex. 1B (Hager's pre-filed testimony), p. 3.

<sup>12</sup> Id.

for the EUA zone.<sup>13</sup> Lastly, Mr. Hager noted that 6.302 cents per kWh is below electric market prices as shown by Last Resort Services prices for the period of February 2001 through April 2001.<sup>14</sup>

### III. DIVISION

In response, on March 22, 2001, the Division of Public Utilities and Carriers (“Division”) submitted the pre-filed testimony of Stephen Scialabba, the Division’s Chief Accountant. In his pre-filed testimony, Mr. Scialabba concurred that an increase in SOS is necessary to avoid a large under-recovery balance at the end of December 2001, caused by increased power costs driven by the fuel adjustment provisions of the Standard Offer supply contract.<sup>15</sup> Mr. Scialabba indicated that the basis of the fuel adjustment provisions in the Standard Offer supply contracts is the average of Narragansett and EUA Fuel Values. Mr. Scialabba noted that the Narragansett Fuel Value increased because it is based on a rolling twelve-month average period, which includes an increase in the market price of natural gas.<sup>16</sup> On the other hand, the EUA Fuel Value decreased because it is based on a rolling six-month average period.<sup>17</sup> Mr. Scialabba also noted that the SOS rate has increased since July 1, 2000, by 2.502 cents per kWh, or 66%, but that Fuel Values for the remainder of 2001 appear to be trending downward and therefore, an “adjustment for fuel would not need to be increased” for “2002” and that “possibly there could be a decrease” in the “adjustment”.<sup>18</sup> Furthermore, Mr. Scialabba emphasized that the Fuel Trigger Point in the Standard Offer supply contracts will increase from

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<sup>13</sup> Id., p. 4.

<sup>14</sup> Id.

<sup>15</sup> Div. Ex. 1 (Scialabba’s pre-filed testimony), p. 2.

<sup>16</sup> Id. p. 3.

<sup>17</sup> Id., pp. 3-4.

\$5.35 in 2001 to \$6.09 in 2002, and to \$7.01 in 2003.<sup>19</sup> As a result, Mr. Scialabba speculated that this will reduce the likelihood and significance of fuel adjustment increases in the future.<sup>20</sup> Mr. Scialabba also encouraged Narragansett to evaluate the use of natural gas hedging and risk management tools to determine if any such tools would be a cost-effective way to achieve rate stability in a volatile fuel market.<sup>21</sup> Lastly, Mr. Scialabba supported Narragansett's proposed revisions to its tariff cover sheets regarding the FAS 106 factor and Performance Based Rate ("PBR") factors.<sup>22</sup>

#### IV. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on March 26, 2001. The following appearances were entered:

FOR NARRAGANSETT:	Ronald T. Gerwatowski, Esq.
FOR DIVISON:	Paul J. Roberti, Esq. Assistant Attorney General
FOR COMMISSION:	Steven Frias, Esq. Senior Legal Counsel

At the hearing, Mr. Hager and Ms. Lloyd testified on behalf of Narragansett. Ms. Lloyd estimated that the under-collection in the SOS account will be less than \$1,000,000 as of March 1, 2001.<sup>23</sup> Mr. Hager explained that if, during the upcoming nine-month period, Narragansett was to "over-collect significantly" in its SOS account then Narragansett would refile.<sup>24</sup>

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<sup>18</sup> Id., p. 4.

<sup>19</sup> Id.

<sup>20</sup> Id., pp. 4-5.

<sup>21</sup> Id., p.5

<sup>22</sup> Id., p. 6.

<sup>23</sup> Tr., 3/26/01, pp. 69-70.

<sup>24</sup> Id., p. 84.

Also, Mr. Hager discussed the difficulties Narragansett has experienced pursuing opportunities to hedge or mitigate cost exposure caused by the fuel triggers in the Standard Offer supply contracts.<sup>25</sup>

The Division presented Mr. Scialabba as a witness. Mr. Scialabba requested that in future Narragansett SOS filings an exhibit be attached that would include the mathematical formula used to determine the amount Narragansett must pay under the fuel adjustment provisions of the Standard Offer supply contracts.<sup>26</sup> Mr. Scialabba noted that if gas and oil prices remain at current levels there would be a decrease in the SOS rate of approximately 0.7 cents per kWh next year due to an increase in the fuel trigger point as provided in the Standard Offer supply contracts.<sup>27</sup> However, Mr. Scialabba noted that, because the underlying Standard Offer rate is scheduled to increase from 3.8 cents to 4.2 cents per kWh in 2002, there would be only a decrease of 0.4 cents per kWh next year.<sup>28</sup> Lastly, Mr. Scialabba stated that if the over- or under-collection in the SOS revenue account reached \$10 million, Narragansett should consider filing a new SOS rate.<sup>29</sup>

#### COMMISSION FINDINGS

For the fifth time in less than twelve months, the Commission is presented with a proposal to increase the SOS rate due to extraordinary fuel costs. From July 2000 to April 2001, the average 500 kWh residential

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<sup>25</sup> Id., pp. 76-77.

<sup>26</sup> Id., p. 97.

<sup>27</sup> Id., p. 100.

<sup>28</sup> Id., pp. 101-102.

<sup>29</sup> Id., p. 102.

customer's monthly bill has increased by 27.4 percent from \$52.10 to \$66.40.<sup>30</sup> The Commission is hopeful that this is not only the last SOS rate increase this year, but also the last one for some time. With wholesale natural gas prices in decline and the fuel trigger point increasing each year, it is hoped that ratepayers will now enjoy a period of rate stability.

The Commission emphasizes that the SOS rate increases since July 2000 are due to higher fuel costs, especially the price of wholesale natural gas, which is not subject to regulation by the Commission. To avoid a projected under-collection of approximately \$19.6 million in SOS revenues by the end of 2001, the Commission will maintain the course it has followed in Dockets Nos. 3138 and 3243 and approve the proposed increase in this docket.

At an open meeting held on March 29, 2001, the Commission considered the evidence presented in the case and found Narragansett's proposal to be just and reasonable and in the best interest of the ratepayers.

Accordingly, it is hereby

(16651) ORDERED:

1. Narragansett Electric Company's proposed retail Standard Offer Service Rate of 6.302 cents per kWh is approved to become effective for service on and after April 1, 2001.
2. Narragansett Electric Company's proposed revisions to the tariff cover sheets deleting any reference to prior FAS 106 and two prior PBR adjustments are approved.

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<sup>30</sup> The Commission notes that since December 1997 the average residential customer's monthly electric bill has increased from \$61.92 to \$66.40 or a 7.2% increase over the last four years, which is below the rate of inflation over this period of time.

3. Narragansett Electric Company is directed to provide the formula for the fuel cost adjustment provision in its Standard Offer supply contracts when Narragansett Electric Company files for a change in the rate for Standard Offer Service.
  
4. Narragansett Electric Company shall comply with all other findings and instructions as contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON MARCH 29, 2001. WRITTEN ORDER ISSUED JULY 10, 2001.

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