

SCHEDULE JDW – 2

Default Service Procurement Summary

**NATIONAL GRID
DEFAULT SERVICE PROCUREMENT SUMMARY
FOR THE PERIOD
NOVEMBER 2008 – OCTOBER 2009**

RFP Issued

National Grid issued its Request for Power Supply Proposals (“RFP”) on August 8, 2008 directly to over [REDACTED] suppliers for the service period November 2008 through October 2009.

The RFP was also distributed to all members of the NEPOOL Markets Committee and posted on National Grid’s energy supply web site. As a result, the RFP had wide distribution throughout the New England energy supply marketplace.

The procurement was conducted in accordance with applicable New Hampshire rules and regulations including Granite State Electric Company’s Second Amended Restructuring Settlement Agreement (“Restructuring Settlement”), RSA 374-F (“New Hampshire Act”) and Granite State Electric Company Post-Transition Service Default Service Proposal Settlement Agreement (“New Hampshire Settlement Agreement”) approved by the New Hampshire Public Utilities Commission on January 13, 2006 in Order No. 24,577.

This procurement was conducted in accordance with the Last Resort Service Acquisition Plan (“Plan”) approved by the Rhode Island Public Utilities Commission in Docket 3605 (Order No. 19368, August 8, 2008; see also Order Nos. 18699, 18122, 17903, 18250, 18495 and 18882) and was consistent with prior procurements conducted by National Grid.

This procurement was also conducted in accordance with applicable Massachusetts rules and regulations including the various orders in D.T.E. Dockets 99-60A, 99-60B, 99-60C, 02-40A, 02-40B and 02-40C and was consistent with prior procurements conducted by National Grid.

The RFP sought:

- 100% of the New Hampshire Large Customer Group Default Service requirements for the period November 2008 through January 2009;
- 100% of the New Hampshire Small Customer Group Default Service requirements for the period November 2008 through April 2009;
- 100% of the Rhode Island Residential Customer Group and Commercial & Industrial Customer Group Last Resort Service requirements for the November 2008 through April 2009;
- 100% of the Massachusetts Industrial Customer Group Default

Service requirements for the period November 2008 through January 2009;

- 50% of the Massachusetts Residential and Commercial Customer Groups Default Service requirements for the period November 2008 through October 2009;

National Grid requested all-inclusive pricing for all blocks and also pass-through (of capacity costs) pricing for only the New Hampshire blocks. Pass-through pricing would have National Grid compensate a supplier at its actual capacity costs subject to appropriate price caps.

These requirements were divided into 19 distinct load blocks. A description of each load block is provided in Attachment 1.

**Key RFP
Dates**

The RFP was issued on August 8, 2008.

Supplier information and contract comments were received on August 25, 2008.

Indicative bids were received on September 10, 2008.

Final bids were received on September 17, 2008.

**Contract
Submissions**

One potential bidder submitted contract comments to National Grid in the form of revisions to the proposed Master Power Agreements. The remaining potential bidders had previously executed Master Power Agreements with National Grid and so contract revisions were unnecessary.

National Grid was able to resolve all outstanding issues with the winning bidders prior to receipt of final bids and executed agreements that did not shift risks or obligations to its customers from those contained in its proposed agreements

**Indicative
Bids**

Indicative bids were received on September 10, 2008 from [REDACTED] bidders.

The indicative bids were evaluated and ranked (see Attachments 2 and 3). Indicative pricing was used only to determine current market price, to prepare an initial ranking of bids and to identify any bidding anomalies. The retail prices in Attachment 3 were calculated by adjusting the wholesale prices in Attachment 2 by the ratio of wholesale purchases to retail deliveries over the twelve-month period ending August 31, 2008.

The lowest indicative bids for each load block were compared to National Grid's estimate of expected indicative bids based on two methodologies.

One method estimates expected bid prices based on [REDACTED]

The second method estimates expected bid prices based on [REDACTED]

In evaluating the bid prices, National Grid compared the average expected bid prices for each block from the two methods above to the lowest average indicative bid price for the block. [REDACTED]

In addition to evaluating the bid price and ability to meet credit requirements, National Grid also performed a qualitative review of each bidder's ability to provide Default Service during the service period based on the following:

- The bidder's past experience in providing similar services to National Grid or its affiliates;
- The bidder's past experience in providing similar services to other companies in New England;
- The bidder's past experience in providing similar services to other companies in other regions;
- The bidder's demonstrated understanding of the market rules related to the provision of Default Service;
- The bidder's demonstrated understanding of its obligations under the proposed Purchase Power Agreement; and
- Whether there have been any past or are any present events that

are known that may adversely affect the bidder's ability to provide Default Service.

National Grid concluded that all bidders were qualified to provide Default Service and would be capable of providing any required contract security.

Regulatory Communication

The results of the New Hampshire indicative bids were shared with staff of the New Hampshire Public Utilities Commission ("NHPUC") on September 11, 2008.

The results of the Rhode Island indicative bids were shared with the Rhode Island Division of Public Utilities and Carriers ("Division") on September 11, 2008.

The results of the Massachusetts indicative bids were shared with staff of the Massachusetts Department of Public Utilities ("MADPU") on September 16, 2008.

Final Bids

Final bids were received on September 17, 2008 from ■ bidders. One bidder dropped out because its offices were in Houston, Texas and were not functioning as a result of Hurricane Ike. During the review and analysis of the final bids, ■ bidders retracted their bids and did not want to be considered for any award blocks. It should be noted that these ■ bidders were not among the lowest bids being evaluated.

The final bids were evaluated and ranked (see Attachments 6 and 7) The retail prices in Attachment 7 were calculated by adjusting the wholesale prices in Attachment 6 by the ratio of wholesale purchases to retail deliveries over the twelve-month period ending August 31, 2008.

A summary of the number of conforming bids per block is provided in the following table:

Block - # Bids	Block - # Bids	Block - # Bids
■	■	■
■	■	■
■	■	■
■	■	■
■	■	■
■	■	■
■	■	■
■	■	■

Capacity Cost Treatment

On March 6, 2006 ISO-NE filed a settlement agreement with FERC in the LICAP proceeding which provides for a forward capacity market beginning in 2010. As an interim measure, ISO-NE has instituted a transitional market beginning in December 2006. On June 15, 2006 the FERC approved the filing with no changes. On November 1, 2006 the FERC issued an Order denying all requests for rehearing and upheld its original conclusions that the settlement agreement represents a just and reasonable outcome consistent with the public interest. Since then a number of parties have filed appeals of the FERC ruling in federal court. Due to the pending appeals, National Grid required all suppliers to agree to provide to National Grid any refunds or reduced capacity payments incurred if the pending appeals result in refunds or reduced transition payments during the period of this RFP.

As a result of the pending appeals in Federal Court regarding the forward capacity market, the staff of the New Hampshire Public Utilities Commission recommended that National Grid abide by the terms of the New Hampshire Settlement Agreement and continue to request bidders to (i) submit a price that includes the cost of all market products in an as-delivered energy rate ("All Inclusive Bid Price") and (ii) submit a second price that includes all market products on an as-delivered energy basis except the capacity market costs which would be paid as an additional cost on a pass through basis of actual costs ("Pass Through Bid Price") for the November 2008 - April 2009 period.

An analysis of the indicative bids showed that the value bidders placed on capacity was less than National Grid's forecast of capacity costs. A summary of the New Hampshire indicative bids can be found in Attachment 8. National Grid calculated capacity values based on a transition payment of \$3.75/kW-month through April 2009 in the approved capacity market settlement and available market data. A summary of this calculation can be found in Attachment 9.

As required by the New Hampshire Settlement Agreement, National Grid shared the indicative bids with the staff of the New Hampshire Public Utilities Commission and indicated that it would accept final bids on an all-inclusive basis if the capacity costs in the final bids were consistent with those received in the indicative bids. The staff agreed with this recommendation.

Although the capacity value provided by the lowest bidder in the Small Customer Group was slightly greater than National Grid's expected values, National Grid awarded the New Hampshire supply on an all-inclusive basis. Locking in the capacity costs eliminates the actual load risk that would be associated with the cost of the pass-

through option. A summary of the New Hampshire final bids can be found in Attachment 10.

Analysis and Award

The lowest final bids for each load block were compared to National Grid's estimate of expected bids based on the two methodologies described above (see Indicative Bids). The calculations of these expected prices can be found in Attachments 11 and 12.

The final bids had only eight blocks where the prices received were

[REDACTED]

[REDACTED]

[REDACTED]

Due to the competitive nature of the bids received for these blocks (more than one bid received in response to an open, competitive solicitation and the bids falling within the expected cost range when adjusted for current capacity costs), National Grid awarded supply for each block based on the lowest bid price.

Attachment 13 provides a summary of the winning supplier for each block as well as the basis for the award. Attachment 14 provides a bidder key to help identify bidders.

Renewable Portfolio Standard

The Massachusetts load covered by this RFP is subject to a 3.5% Renewable Portfolio Standard ("RPS") requirement in calendar year 2008 and a 4.0% requirement in calendar year 2009.

National Grid evaluated the cost of obtaining the RPS certificates

**Renewable
Energy
Standard**

associated with the load requirements from the bidders versus its most recent solicitation for RPS certificates [REDACTED] and the 2008 Alternative Compliance Payment ("ACP") rate of \$58.58 per certificate and an estimated 2009 ACP rate of \$60.08 per certificate. National Grid decided to include RPS requirements for those winning bidders that were at or below [REDACTED] per REC. Attachment 16 provides an analysis of the proposed RPS cost adders contained in the final bids. These range from [REDACTED].

For the winning Bidder's RPS cost adders that were lower than National Grid's target, National Grid agreed to include the RPS adder in the purchase price. Consistent with its RPS Compliance Plan that was filed with the Department on November 1, 2002, National Grid will attempt to procure these requirements through separate solicitations or by payment of the ACP.

The Rhode Island load covered by this RFP is subject to a 3.5% Renewable Energy Standard ("RES") requirement in calendar year 2008 and a 4.0% requirement in calendar year 2009.

National Grid evaluated the cost of obtaining the RES certificates associated with the load requirements from the bidders versus the average cost of RES certificates purchased in the last two RES procurements. For the 2008 obligation, the average compliance cost was [REDACTED].

[REDACTED]. Attachment 16 provides a summary of the proposed RES cost adders contained in the final bids. These range from [REDACTED].

**New
Hampshire
Renewable
Energy
Portfolio
Standard**

National Grid procured RES requirements from Bidders C and I, the winning Rhode Island bidders, because the RES adders provided by the bidders were lower than the average cost of RES certificates purchased in the last two RES procurement.

The New Hampshire load covered by this RFP is subject to a 4.0% Renewable Energy Portfolio Standard ("NH-RPS") requirement in calendar year 2008 and a 6.0% requirement in calendar year 2009.

National Grid evaluated the cost of obtaining the NH-RPS certificates associated with the load requirements from the bidders versus making an ACP for the load. As shown in Attachment 16, the winning bidder's NH-RPS value was slightly lower than ACP. National Grid believes that these prices are too close to ACP and will instead purchase NH-RPS certificates through a separate solicitation at a later date.

Retail Rate

The expected retail rates, excluding administrative cost adders, were based on the wholesale bids that were awarded supply. For the Massachusetts residential and commercial customers, the rates reflect a blending of two procurements. For the Massachusetts Industrial Customer Group, the New Hampshire Large Customer group, the Rhode Island Residential Customer Group and the Rhode Island Commercial & Industrial Customer Group, the rates reflect the costs of the current procurement and are not blended with costs incurred in other procurements.

All retail rates were calculated by adjusting the wholesale prices using the ratio of wholesale kWh purchases to retail kWh deliveries over the twelve-month period ending August 31, 2008.

For Massachusetts Default Service retail rates, the retail rates were adjusted to include the average cost of RPS certificates purchased as part of this RFP.

A summary of the final retail rates for each block is provided in Attachment 17.

ATTACHMENT 1
LOAD BLOCK DESCRIPTIONS

Load Block	Customer Group	SMD Load Zone	Load Share	Type of Service	Period
A	Industrial	SEMA	100%	MA Default Service	11/01/08 – 01/31/09
B	Industrial	WCMA	100%	MA Default Service	11/01/08 – 01/31/09
C	Industrial	NEMA	100%	MA Default Service	11/01/08 – 01/31/09
D	Commercial	SEMA	50%	MA Default Service	11/01/08 – 04/30/09
E	Commercial	WCMA	50%	MA Default Service	11/01/08 – 04/30/09
F	Commercial	NEMA	50%	MA Default Service	11/01/08 – 04/30/09
G	Residential	SEMA	50%	MA Default Service	11/01/08 – 04/30/09
H	Residential	WCMA	50%	MA Default Service	11/01/08 – 04/30/09
I	Residential	NEMA	50%	MA Default Service	11/01/08 – 04/30/09
J	Commercial	SEMA	50%	MA Default Service	05/01/09 – 10/31/09
K	Commercial	WCMA	50%	MA Default Service	05/01/09 – 10/31/09
L	Commercial	NEMA	50%	MA Default Service	05/01/09 – 10/31/09
M	Residential	SEMA	50%	MA Default Service	05/01/09 – 10/31/09
N	Residential	WCMA	50%	MA Default Service	05/01/09 – 10/31/09
O	Residential	NEMA	50%	MA Default Service	05/01/09 – 10/31/09
P	Large	NH	100%	NH Default Service	11/01/08 – 01/31/09
Q	Small	NH	100%	NH Default Service	11/01/08 – 04/30/09
R	Residential	RI	100%	RI Last Resort Service	11/01/08 – 04/30/09
S	Commercial & Industrial	RI	100%	RI Last Resort Service	11/01/08 – 04/30/09

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ATTACHMENTS 2-8 REDACTED

ATTACHMENT 9
NGRID CALCULATED VALUE OF CAPACITY COSTS

		FORECAST					
		Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09
(a)	Seasonal Claimed Capability	33,013	33,013	33,013	33,013	33,013	33,013
(b)	not used						
(c)	Pool Generation UCAP	33,013	33,013	33,013	33,013	33,013	33,013
(d)	Load Response & ODR	1,854	2,081	2,244	2,293	2,368	2,141
(e)	ICAP Credits (HQICC, NYPA, other)						
(f)	ICAP Import Contracts						
(g)	ICAP Imports contracts & credits	2,471	2,471	2,471	2,471	2,471	2,471
(h)	ICAP Import Rights exercised & granted						
(i)	Actual Imports as % of Import Rights						
(j)	Pool Total Supply UCAP	37,338	37,566	37,729	37,778	37,852	37,625
							RFP Period Average
(k)	Granite Large UCAP Obligation (#11437)	91,498	92,057	92,456			
(l)	UCAP %	0.25%	0.25%	0.25%			
(m)	UCAP Cost	\$343,119	\$345,212	\$346,711			
(n)	Granite Large RT Load	21,669	19,368	21,213			
(o)	UCAP Rate - \$/MWh	\$15.83	\$17.82	\$16.34			\$16.67
(k)	Granite Small UCAP Obligation (#11436)	130,423	131,218	131,788	131,959	132,218	131,427
(l)	UCAP %	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%
(m)	UCAP Cost	\$489,085	\$492,069	\$494,205	\$494,845	\$495,818	\$492,850
(n)	Granite Small RT Load	34,692	37,748	38,966	35,578	36,347	30,748
(o)	UCAP Rate - \$/MWh	\$14.10	\$13.04	\$12.68	\$13.91	\$13.64	\$16.03
							\$13.90

Notes	12/01/2006	06/01/2008	06/01/2009
Transition Payment	\$3,050	\$3,750	\$4,100
(a)	From ISO-NE SCC Report issued February 1, 2008		
(b)	not used		
(c)	Either: (X) From ICAP monthly settlement SR_MTHSTLICAP report (Actual) or (Y) ISO-NE SCC Report		
(d)	From ICAP monthly settlement SR_MTHSTLICAP report		
(e)	From ICAP monthly settlement SR_MTHSTLICAP report		
(f)	From ICAP monthly settlement SR_MTHSTLICAP report		
(g)	Either: (X) Sum of rows (c) through (f) (actual) or previous year's ICAP imports		
(h)	Either: (X) From most recent ICAP monthly settlement SR_MTHSTLICAP report, or (Y) sum of grandfathered rights exercised and		
(i)	Row (g) Divided by Row (h) (actual) or last actual monthly value (forecast)		
(j)	Either: (X) sum of rows (c) through (f) (actual) or (Y) sum of rows (c) through (g) (forecast)		
(k)	Either: (X) From most recent SD_MTHSTLICAPLAOWNER monthly settlement report, or (Y) product of row (g) times row (i)		
(l)	Either: (X) row (h) divided by row (g) or (Y) last actual % calculated		
(m)	Row (h) times Transition Payment		
(n)	Either: (X) sum of hourly load reported to the ISO during the month or (Y) forecast of hourly load using NGRID system forecast		

Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	
21,669	19,368	21,213				
34,692	37,748	38,966	35,578	36,347	30,748	

(o) Row (j) divided by row (k)

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