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

[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

[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

[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

[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

[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

[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

Exb 17

Public Service Company of New Hampshire
Docket No. DE 10-160

Record Request HD-01
Dated: 11/30/2010
Q-RR-003
Page 1 of 1

ORIGINAL
N.H.P.U.C. Case No. DE 10-160
Exhibit No. # 17 Part 2
Witness Allegretti
DO NOT REMOVE FROM FILE

Witness: No Witness
Request from: New Hampshire Public Utilities Commission Staff

Question:
Please provide a copy of the Rhode Island PUC Order 20125 in 2010 from Docket 4149 to complete Exhibit 17.

Response:
Attached is the requested order.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S PROPOSED 2011 STANDARD OFFER SUPPLY PROCUREMENT PLAN AND 2011 RENEWABLE ENERGY SUPPLY PROCUREMENT PLAN — DOCKET NO. 4149

REPORT AND ORDER

1. Background

On March 1, 2010, Narragansett Electric Company d/b/a National Grid ("National Grid" or "Company") filed with the Public Utilities Commission ("Commission") a 2011 Standard Offer Service ("SOS") Procurement Plan ("2011 SOS Plan") and a 2011 Renewable Energy Standard ("RES") Procurement Plan ("2011 RES Plan") pursuant to R.I.G.L. §39-1-27.8 and 39-26-4 respectively, and the applicable Rules and Regulations of the Commission. The Plans consisted of the Company's specific proposal for procuring standard offer supply for 2011 and its proposed method of compliance with Rhode Island's renewable energy standard. As part of its proposal, the Company sought approval of several accompanying documents. For the 2011 SOS Procurement Plan, the Company submitted to the Commission for approval the proposed Procurement Plan, the Master Power Agreement, and the RFP documents[1]. The Company also sought approval from the Commission of its proposed 2011 RES Procurement Plan, including the Plan document, the Standard Certificate Purchase Agreement, the RES RFP Notice and the RES RFP Summary[2]. At the time of the initial filing on March 1, 2010, National Grid indicated that certain documents submitted in connection with the 2011 SOS and RES Procurement Plans were in draft form and would be re-submitted to the Commission upon completion[3]. On March

[1] Letter from Narragansett Electric Company d/b/a National Grid's to the Commission dated March 1, 2010, p.1
[2] Id., p.1.
[3] Id., p.1.

9, 2010, National Grid re-submitted copies of the 2011 SOS Plan and 2011 RES Plan including complete, finished drafts of all accompanying documents.

II. National Grid's 2011 SOS and RES Proposed Procurement Plans

A. 2011 SOS Procurement Plan

National Grid has proposed dividing the current customer groups (Large and Small Customers) into three categories: an Industrial Group, a Commercial Group and a Residential Group. The SOS procurement plan for the proposed Industrial Group is the same as the approved 2010 SOS procurement plan for the Large Customer Group. Namely, one hundred percent (100%) of the load for the Industrial Group would be procured through full requirement service ("FRS") contracts solicited quarterly for three-month terms with the first RFP occurring in the fourth quarter of 2010[4]. Rates for this customer group would continue to be fixed but would vary monthly based on the FRS supply contract prices[5]. For the Commercial and Residential Groups, National Grid's 2011 SOS Plan calls for a managed portfolio of both FRS contracts and spot market purchases[6]. The plan specifically calls for 90% of the load for these groups to be purchased through FRS contracts and 10% through spot purchases commencing in 2012[7]. National Grid has also requested a modification to the 2010 SOS Plan to procure 5% of the Small Customer Group load for the period October 2010 through March 2011 through spot market purchases[8]. Both the Commercial and Residential groups would receive supply on a laddered schedule meaning deliveries would occur on an alternating or staggered basis according to the contract duration[9]. Commercial customers would receive supply at six and twelve month

[4] National Grid Exhibit 3, p. 10. See also Schedule 3A of National Grid Exhibit 3.
[5] Id., p.16. Also National Grid Exhibit 4, p. 3.
[6] Id., pgs 14-15.
[7] Id., pgs. 14-15.
[8] Id., pgs. 5-6.
[9] Id., pgs 14-15.

intervals[10]. Residential customers would receive supply at six, twelve, eighteen and twenty-four month intervals[11]. In support of its proposed combined portfolio for the Commercial and Residential groups, National Grid submitted an abundance of testimony, including the highly detailed Northbridge Study[12] , citing the overall advantages of this approach in terms of mitigating the negative impact of various market risks on National Grid customers.

According to the 2011 SOS Plan, pricing for the Commercial customers would be variable, unless fixed pricing is selected by the customer prior to implementation[13]. If a customer selects a fixed pricing option, the customer must remain with fixed pricing for the entire duration of the standard offer service[14] contract period. Pricing for Residential customers would be fixed for the entire duration of the FRS contract periods (six months) and would be set according to the weighted average of the contract prices, including a cost estimate for spot market purchases[15]. Rates for the Commercial and Residential groups would be effective on April 1, 2011 and remain in effect until December 31, 2011[16]. Thereafter, rates would be adjusted, with cost reconciliation, every 6 months on January 1 and July 1[17]. In addition to the two rate changes, according to its proposal, the Company would also file two semi-annual reconciliations to settle deferral balances resulting from the procurements[18].

The Company's existing RFP process for soliciting FRS contracts would continue in effect for the 2011 SOS Plan, however the Company has requested approval of its standard Master Power Agreement a full copy of which was provided to the Commission. The Company has also

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[10] Id., p.14.
[11] Id., p. 14.
[12] The Northbridge Study was filed January 22, 2010 as Exhibit A to National Grid's Report Regarding Its Comprehensive Review of Standard Offer Service Procurement Strategies.
[13] National Grid Exhibit 4, pgs. 4-5.
[14] Id., p.5.
[15] Id., pgs. 3-4.
[16] National Grid Exhibit 3, p. 16.
[17] Id., p. 16.
[18] Id., p.17. Also National Grid Exhibit 4, pgs.8-10.

requested the Commission's approval on an on-going basis of the results of each solicitation. According to the proposal, the solicitation results would be submitted to the Commission for approval, and if the Commission takes no action within three business days, the lowest bid would be deemed approved by the Commission. If the Commission rejects the solicitation results within the three day period, the supplier-company agreement would be null and void, and the Company would either purchase the needed supply from the spot market or conduct a replacement RFP. A replacement RFP would require approval of the Commission, with recommendations from the Division, and once approved, would assume the same process stated above, with a three-day default period for Commission approval[19].

B. 2011 RES Procurement Plan

The Company's 2011 RES Plan is the same as the one approved by the Commission last year consisting of a combination of FRS contracts and stand alone RFPs for REC purchases[20]. The Company would continue to purchase REC's from SOS suppliers when pricing is below market[21]. When the SOS suppliers' prices are above market, the Company would purchase RECs through separate RFP's or individual brokers. The Company has also requested approval of the RFP forms used in the solicitation process, namely the Certificate Purchase Agreement ("CPA"), the RFP Notice and the RFP Summary, as well as an on-going approval of the results of each solicitation process, similar to the 2011 SOS Plan, in which the Company's bid selection would be effective after three days absent a rejection or other action taken by the Commission[22].

III. Division's Testimony

[19] National Grid Exhibit 3, pgs. 18-19.
[20] Id., p.22.
[21] Id., pgs. 24-25.
[22] Id., p. 23.

For the Division, Richard Hahn, Principal Consultant for La Capra Associates, submitted pre-filed testimony on May 13, 2010 and surrebuttal testimony on June 23, 2010. After summarizing the Company's proposed 2011 RES and SOS Plans, Mr. Hahn recommended certain modifications. For the Industrial Group, Mr. Hahn recommended a 100% spot market approach as opposed to the FRS contracts proposed by National Grid.[23] Mr. Hahn claimed that National Grid would assume no risk with a full spot market approach because the Company would recoup any under-collections from customers on a monthly basis[24]. He suggested that a transition to full spot pricing would eliminate the Company's costs associated with FRS solicitations and eliminate the rate impact on SOS customers resulting from anticipated migration within this group to competitive suppliers[25].

For the Commercial Group, the Division expressed concern over the lengthy period of transition to the "steady state", or the time it will take to make a complete transition to the proposed procurement approach[26]. The proposed steady state of January 2013 was based on a competitive supplier survey performed by National Grid which linked the transition date to suppliers' preferences for FRS contracts to run on a calendar year basis, a basis which Mr. Hahn found counterintuitive[27]. Mr. Hahn felt the FRS contracts should be based on customer needs as opposed to supplier needs[28]. Mr. Hahn also criticized the one-time option for Commercial customers to choose between a variable and fixed rate[29], suggesting it went too far in terms of addressing the company's legitimate goal of gaming avoidance[30]. He maintained that giving

[23] Division Exhibit 1, p.10-11.
[24] Id., p.11.
[25] Id., pgs. 10-11.
[26] Id., pgs. 13-14.
[27] Id., pgs. 13-14.
[28] Id., p.13. "It is unclear why SOS procurement plans should be based upon supplier preferences. SOS plans should be designed and implemented based upon what is best for customers." Id.
[29] Id. p. 13-14.
[30] Id., p.14.

customers a fixed versus variable rate option every year or two would sufficiently address the Company's gaming concern while also achieving parity with the option plan currently offered to Residential customers[31].

Mr. Hahn was concerned as well about the steady state for Residential customers not being achieved until 2013, claiming this was an unnecessarily long transition period[32]. Given the Residential Group's historically small participation in non-regulated commodity markets, Mr. Hahn strongly endorsed a block product method of procurement for Residential customers rather than the 90% FRS plan proposed by the Company[33]. Mr. Hahn maintained that it would be simple for National Grid to use block products instead of FRS contracts because of the similarities between the methods[34]. He explained that block product procurements are similar to FRS contracts[35] except they are less costly to the Company, resulting in lower rates for the customer, and they are more effective at hedging price and volume risk for Residential customers[36]. Finally, after noting that the Company's 2011 RES Plan contains no change from the 2010 plan, and that it would function effectively with the substitution of block products for FRS contracts, Mr. Hahn recommended approval of the Company's 2011 RES Plan[37].

IV. Constellation's Testimony

Constellation Energy Group, Inc. is a parent company with two subsidiaries engaged in the wholesale and retail electric markets throughout the United States and two Canadian

[31] Id., p. 14. Also Division Exhibit 2, p. 3.
[32] Id., p. 15.
[33] Id., pgs. 15-18.
[34] Id., p. 17.
[35] Id., pgs. 17-18. Mr. Hahn maintained that the contract terms for block purchases and FRS contracts range from six to twenty-four months. Also, both block and FRS contracts are awarded through competitive solicitation with price being the sole criteria for approval. Finally the language of both block and FRS contracts are substantially similar. Id.
[36] Id., p.18.
[37] Id., p. 34.

provinces.[38] On May 13, 2010, Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc. (collectively "Constellation") submitted the pre-filed testimony of Daniel Allegretti, Constellation's Vice President of Energy Policy. Mr. Allegretti reiterated the testimony he submitted in Docket No. 4041 in favor of a procurement plan based largely on FRS contracts. Mr. Allegretti recapped the reasons he supported an FRS based procurement plan in the previous docket, and maintained his continued support for the FRS based procurement plan in this docket with the exception of the Company's current proposal for ten percent spot purchases. Mr. Allegretti felt that that the Company's prior procurement plan comprised entirely of FRS contracts was effective in reducing customers risks associated with load management and disagreed with the Company's justification for adding spot purchases to the current procurement plan[39]. While the Company claimed that it was important to stay engaged in the energy markets for the Rhode Island zone within the ISO-NE, Mr. Allegretti argued that this was no justification for shifting the risk of increased prices onto Grid customers, especially where the standard offer service is designed to meet the needs of customers who have chosen not to obtain service from a competitive supplier in order to minimize their risk of increased volatility. These customers, Mr. Allegretti said, should receive a "plain-vanilla" or low risk product, and therefore spot purchases should not be included in the Company's 2011 SOS Plan[40].

V. Hearing

[38] Constellation Energy Commodities Group, Inc. (CCG) is a wholesale electric power supplier in the New England area, and Constellation NewEnergy, Inc. (CNE) is a retail electric supplier. CNE supplies retail electricity in the state of Rhode Island. Motion to Intervene of Constellation Energy Commodities Group, Inc. And Constellation NewEnergy, Inc. p.1.
[39] Constellation Exhibit 1, pgs. 3-6.
[40] Id., p. 6.

Following public notice, a public hearing was held at the Commission's offices located at 89 Jefferson Boulevard, Warwick, Rhode Island on July 8, 2010 for the purpose of hearing evidence and cross-examining witnesses. The following appearances were entered:

FOR NATIONAL GRID:	Thomas Teehan, Esq.
FOR CONSTELLATION:	Michael R. McElroy, Esq.
FOR THE DIVISION:	Leo Wold, Esq. Assistance Attorney General
FOR THE COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel Amy K. D'Alessandro, Esq. Legal Counsel

At the hearing, Jeanne A. Lloyd[41], Margaret M. Janzen[42] and Scott G. Fisher[43] testified on behalf of National Grid. Mr. Fisher addressed criticisms of Mr. Hahn, including the rate impact of the Company's proposed FRS plan as compared to the block procurement approach. Mr. Hahn calculated the rate impact of the Company's proposed FRS plan to be $4/MWh, or $12 million for the entire Residential Group load.[44] Mr. Fisher, however, testified that Mr. Hahn's analysis was flawed because it failed to take into consideration costs and risks born by customers under a block procurement approach.[45] Mr. Fisher explained that when netting the costs associated with a block approach, the actual difference in SOS rates between the FRS and block approach is only $.72/MWh.[46] According to Mr. Fisher, since Mr. Hahn essentially assumed

[41] Jeanne Lloyd is Manager of Electric Pricing in the Regulation and Pricing Group for National Grid., Transcript of July 8, 2010 hearing, p.12
[42] Margaret M. Janzen is the Director of Electric Supply and Distributed Generation at National Grid, Id. at p. 13.
[43] Scott Fisher is a principal of the NorthBridge Group., Id., p. 15.
[44] Transcript of July 8, 2010 hearing, pgs. 17-30.
[45] Id., pgs. 24-30.
[46] Id., p. 25. See also National Grid's Exhibit 10, Comparison of Expected SOS Rates, prepared by The NorthBridge Group.

there were no costs associated with a block approach, his comparison of rates is inherently flawed[47].

Mr. Fisher addressed Mr. Hahn's criticisms that NorthBridge's testimony previously submitted in other cases contradicts its testimony in this docket.[48] Specifically, Mr. Hahn alleged in pre-filed testimony that the NorthBridge Group had supported Mr. Hahn's analysis of the rate impact of the full requirements approach in a Pennsylvania case[49] in which Mr. Fisher testified that the residual compensation values of the full requirements contracts were in the range of $4/MWh, the same value that Mr. Hahn assigned to the FRS contracts in this docket.[50] At the hearing, Mr. Fisher referred to Mr. Hahn's analogy as an "apples to oranges" comparison[51], noting that the value of residual compensation in the other case was different in that it included the costs of RPS whereas those costs were not included in this docket.[52] Mr. Fisher also distinguished his rate impact analysis in the other case by noting that the FRS contracts in that case were for commercial and industrial customers, not just residential customers, so the residual compensation of those contracts (in the other case) included customer migration costs and risks, whereas the present rate impact analysis proposed by Mr. Hahn does not. Mr. Hahn also criticized the NorthBridge Group for allegedly supporting a block and spot procurement plan on behalf of another utility in Pennsylvania[53]. Mr. Fisher denied that allegation, claiming that his firm supported a full requirement approach in that case and not a block approach as alleged.[54]

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[47] Id., pgs. 22-26.
[48] Id., pgs. 30-34.
[49] PECO Energy's 2008 SOS Procurement Plan filing before the Pennsylvania Public Utilities Commission, Id. pgs.30-33.
[50] Division Exhibit 2, p. 9.
[51] Transcript of July 8, 2010 hearing, p. 32 and p.33
[52] Id., p. 31.
[53] Id., pgs. 33-34.
[54] Id., pgs. 33-34.

Mr. Fisher denied Mr. Hahn's allegation that the Company's plan would not allow residential customers to return to standard offer service after they had chosen to purchase supply from the market. [55] Finally, Mr. Fisher re-emphasized the central flaw of the block procurement approach --exposing customers to unexpected risks- by citing an incident involving a Pennsylvania utility, Wellsboro Electric. Operating under a block procurement approach, Wellsboro's supply rates doubled as a result of a failed transformer, an unexpected circumstance which in turn led to extended cost recovery periods.[56] Responding to Mr. Hahn's rebuttal that Wellsboro "[could not] happen in Rhode Island"[57], Mr. Fisher clarified his original point in citing the Wellsboro example, namely that a block and spot approach exposes customers to costs and risks resulting from unforeseeable circumstances. He reiterated that the point of the Wellsboro example was not in the transformer failure itself, but the increased costs and ultimately increased rates resulting from the purchase of replacement power necessitated by the transformer failure[58].

Mr. Allegretti, on behalf of Constellation, criticized Mr. Hahn for what it considered to be understatements about trends in residential class migration. Mr. Allegretti opined that given a residential class migration rate of approximately 30%, and an even higher rate in neighboring states, it would be inappropriate to assume migration is not a possible consequence of a block procurement approach.[59] The issue of re-migration, a customer's ability to switch back to standard offer service after choosing to purchase competitive supply from the market, was also raised by Mr. Allegretti. Noting that the NorthBridge Study had taken re-migration into

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[55] Id, p. 35. Mr. Fisher: "I don't know where Mr. Hahn thought that our model doesn't account for customers coming back to standard offer service, but it's not true at all."
[56] NorthBridge Study, p. 17; Transcript of July 8, 2010 hearing, pgs. 35-36.
[57] Division Exhibit 2, p. 16
[58] Transcript of July 8, 2010 hearing, pgs. 35-36.
[59] Id., p. 184.

consideration in evaluating procurement approaches, Mr. Allegretti argued this provided further credibility to the Northbridge Study and its ultimate conclusion that an FRS approach provides the best overall value to customers, given the level of risk assumed by full requirements suppliers.[60]

Ms. Janzen and Ms. Lloyd responded to questioning from the Commission and the parties concerning the details of the Company's proposed 2011 SOS Plan. Regarding the Company's proposal to implement a regulatory review process for its FRS solicitations, when questioned about the rationale behind this proposal and specifically whether it was intended to address a problem with the current solicitation process, Ms. Janzen testified that there was no problem per se with the current process.[61] In support of this portion of the Company's plan, Ms. Janzen offered that a similar process occurs in Massachusetts and New Hampshire[62], although it was conceded that this process is carried out pursuant to commission orders, as these states do not require annual procurement plan filings[63]. During questioning, Ms. Janzen explained that the Company's intent is "to achieve a repeating schedule of procurement and to use a standardized set of documents"[64] such that future SOS procurement filings would resemble a compliance filing[65] rather than a full, comprehensive review. Ms. Lloyd responded to questions about the Company's "customary"[66] or default pricing options for the Commercial Group and explained why the Company proposed a variable customary option for these customers with a one-time opportunity to switch pricing options. She explained that assigning a variable customary option to the Commercial class "more closely aligns the prices to the underlying costs and potentially or

[60] Id., p. 185.
[61] Id., pgs. 92- 95.
[62] Id., pgs. 92-95.
[63] Id., p. 95.
[64] Id., p. 97.
[65] Id., p. 98.
[66] Id., p. 69

hopefully will mitigate the deferrals or the reconciliation balance that could result."[67] She also explained that in assigning the variable option to Commercial customers, the Company intended to communicate market prices to customers that are presumably interested in having such information[68]. Ms. Lloyd also responded to questions about the Company's proposal to have a total of four rate changes per year. She testified that the purpose of more frequent rate filings was to minimize deferrals[69] even though the Company expected lower deferrals with the proposed pricing options. [70] Ms. Lloyd testified that the Company would be willing to accept Mr. Hahn's suggestion to allow Commercial customers to switch pricing options once per year[71]. She also testified that the Company could schedule the reconciliation adjustments to coincide with the January and July rate changes to have only two rate changes per year, as opposed to four.[72]

VI. Post-Hearing Briefs

In post-hearing brief filed July 29, 2010, the Company offered support, not previously offered in testimony, for the proposed approval process for the SOS solicitations. The Company claimed that the proposed review process would allow the Commission to better monitor the Company's procurement activities[73]. The Company also contended that the proposed review process resembled a portion of the Company's Gas Purchase Incentive Plan, is standard in most jurisdictions and may lead to more favorable results for SOS customers[74]. The Company reiterated its testimony that servicing a majority of the customer load through FRS contracts provides the best procurement approach for ratepayers in terms of overall rate levels and

67 Id., p. 73.
68 Id., p. 74.
69 Id., p. 78.
70 Id., p. 78.
71 Id., pgs. 68-69.
72 Id., p. 81.
73 Post-hearing Memorandum of The Narragansett Electric Company d/b/a National Grid, p.7
74 Id., pgs. 7-8.

stability[75]. By way of contrast, the Company re-emphasized the potential risks incurred by the ratepayers under a block approach[76]. Addressing Constellation's concern about incorporating spot purchases into the 2011 SOS Plan, the Company maintained that its continued presence in the market would serve to benefit customers by preserving the Company's ability to react quickly to supplier defaults and make day-ahead purchases[77]. Addressing concerns raised by the Commission and the Division about pricing and the number of rate changes, the Company indicated a willingness to assign a fixed customary pricing option for the C-06 rate class and to time the reconciliations to occur simultaneously with the SOS pricing changes in January and July[78].

The Division supported implementation of a block and spot procurement approach for the Residential Group claiming that it is superior to a FRS approach[79]. The Division's brief focused on the increased cost of the FRS approach which it claimed to be $3.92/MWh. The Division referred to Mr. Fisher's criticism of the Division's comparison analysis of a FRS approach versus a block and spot approach as mere semantics and asserted that the higher costs of the FRS approach would result in higher actual costs to ratepayers[80]. Given the prevailing economic conditions of this state, the Division argued that the savings to be achieved from the block and spot approach were critical to ratepayers[81].

In supporting a FRS procurement approach, Constellation cited a number of reasons why a FRS procurement approach is superior to a managed portfolio[82]. Among them were the

[75] Id., pgs. 3-6.
[76] Id., p. 4.
[77] Id., pgs. 6-7.
[78] Id., p. 9.
[79] Post-hearing Brief of the Division of Public Utilities and Carriers, pgs. 2-5
[80] Id., p. 4.
[81] Id., p. 6.
[82] Post-hearing Brief of Intervenors Constellation Energy Commodities Group, Inc. and Constellation NewEnergy, Inc., pgs. 2-3.

effectiveness in providing rate stability and lower costs; advancing the policies of the Electricity Restructuring Act; and the suppliers' assumption of market and portfolio management risk[83]. Constellation was highly critical of the Company's proposal to incorporate ten percent spot purchases in the 2011 SOS Plan, claiming this would lead to substantial risks and costs to small customers[84]. Constellation argued that procurement of ten percent of load from spot purchases would lead to increased supply costs, increased miscalculation and mismanagement of load estimation and bidding and higher costs and deferral balances[85]. Constellation also took issue with each one of the benefits claimed by National Grid to be derived from spot market purchases and concluded that there were no real benefits associated with spot purchases[86].

VII. Commission Findings

At open meeting on August 5, 2010, the Commission approved National Grid's 2011 SOS Procurement Plan in part and rejected it in part. The Commission approved the portions of the 2011 SOS Plan relating to methods of procurement for all of the customer groups, but rejected provisions relating to pricing and rate changes for certain customer groups. The portion of the 2011 SOS Plan that would require the Commission to review all of the Company's SOS solicitations was rejected as to all customer classes[87]. The Commission approved the Company's proposed re-classification of customer groups into three categories-- Industrial, Commercial and Residential- commencing April 1, 2011. The Commission's findings are discussed in the context of each of these customer groups.

For the proposed Industrial Group, the Commission approved the Company's 2011 SOS Procurement Plan; however, the portion of the plan requiring Commission approval of

[83] Id., p. 3.
[84] Id., pgs. 5-7.
[85] Id., p. 6.
[86] Id., pgs. 8-9.
[87] The affected provisions of the SOS RFP Notice are contained in Section 3.2 and Appendix B of the Company's Master Power Agreement ("MPA").

solicitation results was rejected[88]. The Company's proposal with regard to this customer group was, with the exception of the portion of the plan dealing with solicitation approvals and pricing, a continuation of the current plan in effect for the Large Customer Group. Since there was no evidence in the record to suggest that this procurement method is inappropriate for this customer class, the Commission found no reason to deviate from the current procurement method for this class.

As to the proposed regulatory review of the Company's solicitations, National Grid did not provide sufficient grounds for implementing this new approval process that could potentially lead to a conflict with the requirements of R.I.G.L. §39-1-27.8. In its pre-filed testimony, the Company initially offered no reason for the additional approval process. Later, however, during hearing and in post hearing brief, the Company offered a number of tenuous reasons in support of the additional review process[89], none of which were found sufficient to justify modification of the present approval process established in the general laws. The Commission does not find it necessary to implement a new review process for the sole reason that other jurisdictions have done so, nor does the Commission find any direct benefit from this review process to SOS ratepayers, as alleged by the Company. Furthermore, the Commission is not bound by the terms of the Company's Gas Purchase Incentive Plan and is hesitant to rely on another Company proposal, that may rest on an entirely different set of circumstances, as an independent basis for approving this proposal. While the Commission understands the Company's overall intent to establish a "repeating schedule of procurement"[90], the Commission will not accept a tenuous set of reasons fashioned by the Company to facilitate the Company's broader objective to modify

[88] As noted above, the Commission rejected this portion of the 2011 SOS Procurement Plan as to all of the customer classes.
[89] Paragraph VI. , Post-Hearing Briefs
[90] Transcript of July 8, 2010 hearing, p. 97.

the review process prospectively. The Commission is reluctant to read this type of pre-textual review in the language of R.I.G.L. §39-1-27.8. The Commission would accept revisions to the current solicitation process that were demonstrated to improve the current process and/or benefit ratepayers within the statutory parameters established by the legislature. The Commission, however, finds no such basis for implementing this portion of the Company's Plan.

The Commission approved the procurement method proposed for the Commercial and Residential Groups in the Company's 2011 SOS Procurement Plan, with the exception noted above regarding review of solicitations, and with additional exceptions. Specifically, the Commission rejected the Company's proposal to assign a one-time variable "customary" or default pricing option for all rate classes within the Commercial Group. Specifically, the Commission rejected the variable default pricing option for the small customer (C-06) class after finding that the variable pricing option would not necessarily benefit this class. The Commission instead approved a fixed customary option for the C-06 customers, as these customers are least likely, of all customers within the non-residential class, to obtain competitive supply. The variable default option was approved for all other rate classes within the Commercial Group. The Company's proposed fixed pricing for the Residential Group was also approved.

The Commission rejected the portion of the 2011 SOS Plan which allowed the Commercial Group just one opportunity to select a pricing option. The Commission found Mr. Hahn's suggestion to allow customers another opportunity to switch pricing options within a limited time frame reasonable in light of the reasons offered by the Company in support of the one-time option, namely to avoid gaming and minimize deferrals. The Commission found, given the elimination of the fuel adjustment clause and the Company's ability to reconcile deferrals on a semi-annual basis, that allowing Commercial customers to switch only once during their stay would have minimal impact on the Company's ability to mitigate deferrals. Furthermore, while gaming avoidance may be a legitimate concern, the Commission finds that the Company's means of addressing this concern goes too far. Allowing customers to switch pricing options once, after the initial selection, during a twelve month period would adequately address the potential for gaming. Accordingly, the reasons submitted by the Company in support of restricting customers to a one-time pricing option are unpersuasive. Consistent with these findings, the Commission approved for the Commercial Group an option to switch pricing once, after the initial pricing selection, during a twelve month period.

The Commission reviewed the evidence in support of the block and FRS procurement approaches. The perceived benefit of the block approach, as described by Mr. Hahn, is that the overall price of electricity is less given that the contract terms by their nature provide suppliers with substantially greater ability to eliminate the risk of load volatility.[91] On the other hand, with full requirements service, the risk of load volatility translates into higher bids from suppliers attempting to account for projected excess or shortages in supply. This incremental cost has been termed "residual compensation".[92] In theory, by resorting to block purchases, a supplier can avoid some or all of the residual compensation that would arguably be recovered from ratepayers. In evaluating the benefit of the block product approach, the debate focuses on the expected savings relative to other risks and policy considerations. Specifically, the Commission must consider how much money is truly saved by providing suppliers with the opportunity to shed the residual compensation risk by allowing them to bid on block purchases rather than FRS contracts. In considering this issue, the Commission is mindful that allowing suppliers to bid on block purchases does not necessarily translate into full elimination of residual compensation.

[91] Division Exhibit 1, p. 18.
[92] Transcript of July 8, 2010 Hearing, pgs. 30-31.

Thus, the crux of the Commission's policy determination regarding the selected procurement approach on an on going basis must necessarily focus on the evidence quantifying the residual compensation risk. During this proceeding, this issue was strongly debated by the parties.

The NorthBridge study concluded that the overall risk premium was surprisingly low. Conversely, Mr. Hahn of behalf of the Division, maintained that the residual compensation cost translated to $ 3.92/MWh based on his analysis of the NorthBridge study.[93] National Grid's witness, Mr. Fisher, was equally adamant in criticizing Mr. Hahn's conclusion that the rate impact of the FRS approach was as high as $ 3.92/ MWh and ultimately never retreated from his position that the Northbridge Study demonstrated that the FRS approach cost ratepayers approximately $ .72/MWh.[94] During cross-examination, National Grid pressed Mr. Hahn on his interpretation of data submitted by the NorthBridge Group.[95]

In evaluating the evidence presented in this docket which attempts to quantify the residual compensation in real dollars to ratepayers, the Commission finds that on balance, the actual numbers likely reside somewhere between the stated positions of Mr. Hahn and Mr. Fisher. Mr. Fisher provided overwhelming data in support of his recommendations both in rebuttal and throughout these proceedings, and the Commission finds merit in Mr. Fisher's criticism that Mr. Hahn failed to account for residual compensation when calculating the rate impact of the FRS approach, particularly given that Mr. Fisher's data was used in Mr. Hahn's analysis[96]. Mr. Hahn's claim that his results are corroborated by Mr. Fisher's recommendations in other states was equally cloudy given the disparate market conditions and the varying nature of customer classes in different jurisdictions. The evidence in this docket leads the Commission

[93] Division Exhibit 2, p. 7.
[94] National Grid Exhibit 7, pgs. 14-16; Transcript of July 8, 2010 Hearing, pgs. 22-33.
[95] Transcript of July 8, 2010 Hearing, pgs. 170-171.
[96] National Grid Ex.7, p. 3.

to conclude that the actual level of residual compensation is likely closer to Mr. Fisher's number ($.72/MWh) than Mr. Hahn's ($3.93/MWh). This does not mean that Mr. Hahn may not be correct that in other markets outside New England, the residual compensation risk could be higher or as high as Mr. Hahn suggests in this case; however, in the New England wholesale energy markets, the evidence more strongly points to much lower levels based upon the comprehensive analysis contained in the Northbridge Study.

If the residual compensation risks are deemed to be on the low side, then there are other countervailing policy considerations that arguably support a FRS procurement approach. First, Rhode Island remains a retail choice state according to the terms of the Utility Restructuring Act and subsequent amendments[97]. While there currently may be minimal activity in terms of the number of customers served by non-regulated suppliers, it does not necessarily follow that mass migration from Standard Offer service will not occur in the near future. A number of other jurisdictions have experienced an up-tick in the level of supplier activity in residential and small commercial classes.[98] A FRS approach utilizing layered procurements presents minimal migration risk. On the other hand, a managed portfolio approach relying on block purchases could lead to mass migration and substantial costs born by National Grid from unsubscribed "take or pay" electricity, which costs would ultimately be recovered from a smaller class of standard offer ratepayers. This outcome poses a real concern about equity and rate impacts. Like the stranded costs that ratepayers were required to pay at the onset of retail competition, a mass migration from standard offer service would also result in significant incremental costs being passed on to ratepayers. Clearly from this perspective, FRS contracts are more consistent

[97] R.I.G.L. § 39-1-27 et seq.
[98] Id., p. 184.

with the Commission's responsibility to ratepayers[99], particularly given the limited savings that would accrue to customers in a managed portfolio regime.

The Commission rejected the portion of the 2011 SOS Plan which required four rate changes per year for the Commercial and Residential Groups, finding that it would pose an unnecessary administrative burden on all parties potentially leading to further subsidization on the part of ratepayers. Where there is currently one annual reconciliation of SOS revenues and expenses, the Commission will take a measured approach to allowing more frequent rate changes. Furthermore, the expiration of the fuel adjustment clauses contained in the legacy SOS contracts, combined with FRS contract pricing, should lead to less volatility in pricing and smaller deferral balances.

Finally, the Commission approved the Company's request to modify the 2010 SOS Procurement Plan to allow spot purchases for five percent (5%) of the Small Customer Group load for the period October 1, 2010 through March 31, 2011. The Company testified that the remaining load for this customer group is 12.5 percent (87.5 percent having already been procured)[100]. Given that five percent (5%) of this load would be less than the load percentage to be served from spot purchases under the 2011 SOS Plan, the Commission finds this level of spot purchases for the remaining 2010 Small Customer load would pose no significant risk of harm to ratepayers.

The Commission approved National Grid's 2011 RES Procurement Plan, with the exception of the proposed regulatory approval of company solicitations. The 2011 RES Plan is the same, with the exception of the proposal to review solicitations, as that approved for 2010 in Docket 4041. The Commission finds that the 2011 RES Plan continues to satisfy the

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[99] R.I.G.L. § 39-1-1(c).
[100] National Grid Exhibit 3, pgs. 5-6.

requirements of R.I.G.L. §39-26-4. The Company's proposed documents including the standard Certificate Purchase Agreement ("CPA"), the standard RES RFP Notice and the RES RFP Summary are also approved with the exception of those provisions pertaining to regulatory review of solicitations, namely Article 3 of the CPA and Section 3.2 of the RES RFP. The solicitation review process proposed by the Company in the 2011 RES Plan is identical to the solicitation review proposed in the Company's 2011 SOS Procurement Plan. For the reasons provided above in the discussion of the 2011 SOS Procurement Plan, the portion of the 2011 RES Plan requiring Commission review of the Company's solicitations is not approved.

Accordingly, it is hereby

(20125) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's 2011 SOS Procurement Plan as it relates to the Large Industrial Group is approved except that the Company shall eliminate the portion of the Plan which seeks Commission approval of Company solicitations.
2. Narragansett Electric Company d/b/a National Grid shall file a report with the Commission no later than March 1, 2011 regarding an analysis of the implementation issues and investment requirements of transitioning the Industrial Group to 100% spot purchases.
3. Narragansett Electric Company d/b/a National Grid's 2011 SOS Procurement Plan as it relates to the Commercial and Residential Groups is approved except that the Company shall eliminate the following from the Plan:
    a. The portion of the Plan which seeks Commission approval of Company's solicitations shall be eliminated;

b. The portion of the Plan which requires four rates changes per year shall be eliminated. The Company shall schedule its semi-annual reconciliations to occur in January and July to coincide with the SOS pricing changes, so that there will be only two rate changes per year.

c. The portion of the Plan which assigns a variable customary option to the C-06 rate class shall be eliminated. Narragansett Electric Company d/b/a National Grid shall modify the Plan to reflect that the C-06 rate class shall have a fixed customary pricing option.

d. The portion of the Plan which permits a one-time pricing option for the Commercial Group shall be eliminated. Narragansett Electric Company d/b/a National Grid shall modify the Plan to allow customers in the Commercial Group one opportunity, after the initial pricing option, to switch pricing options during a twelve month period.

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 October 1, 2010 through March 31, 2011 shall be modified such that the Company may continue procuring 5% of its load through spot market purchases.

5. Narragansett Electric Company d/b/a National Grid's 2011 Renewable Energy Standard Procurement Plan is approved except that the Company shall eliminate the portion of the Plan which seeks Commission approval of Company solicitations.

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

7. Narragansett Electric Company d/b/a National Grid shall continue filing its Standard Offer Service Reconciliation Report and shall include in those filings a comparison of estimated SOS spot market purchases to actual SOS spot market costs incurred to date.
8. Narragansett Electric Company d/b/a National Grid shall file its Proposed 2012 SOS Procurement Plan and 2012 RES Procurement Plan no later than March 1, 2011.
9. Narragansett Electric Company d/b/a National Grid shall comply with all other findings and instructions contained herein.

EFFECTIVE AT WARWICK, RHODE ISLAND ON AUGUST 5, 2010 PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED SEPTEMBER 23, 2010.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner