May 12, 1995

REPORT AND SET OF INTERDEPENDENT PRINCIPLES
TO THE RHODE ISLAND PUBLIC UTILITIES COMMISSION
from the
ELECTRIC INDUSTRY RESTRUCTURING COLLABORATIVE

On June 27, 1994, The Energy Council of Rhode Island ("TEC-RI") and, individually, several of its members (General Dynamics, Hasbro, and Raytheon) filed with the Division of Public Utilities and Carriers a petition requesting "an investigation into the various issues surrounding retail competition." The petition further asked the Division to "investigate the propriety of the current bundled electric rates of the Utilities...and determine that the Utilities should adopt unbundled rates which facilitate competitive access and allow for retail competition."

A Division hearing officer was appointed on July 24, 1995 and a docket (D-94-9) established. Intervening parties are as follows: The Narragansett Electric Company, Blackstone Valley Electric Company, Newport Electric Corporation, Pascoag Fire District, the Governor's Policy Office, the Conservation Law Foundation, the Coalition for Consumer Justice (with Direct Action for Right and Equality and Parents for Progress) ("Low Income Consumers"), the Smaller Business Association of New England, Enron Power
Marketing,\(^1\) May Department Stores Company,\(^2\) and the New England Cogeneration Association.

At a pre-hearing conference held on September 12, 1994, a schedule was set for submission of initial comments on November 18 and reply comments on December 16 to a comprehensive list of issues developed by the hearing officer with the assistance of the parties. Public comments were elicited and a public hearing held on October 20, 1995. Comments were received from a number of TEC-RI members, Business for Social Responsibility, and the Coalition for Consumer Justice. The list of issues, initial and reply comments of the parties, and public comments are on file in the docket. Many of the comments addressed a broad restructuring of the electric utility industry. When the parties met again on January 9, 1995, they decided that TEC-RI's proposal for a "cooperative collaborative process," including the Division as a party, rather than a litigated proceeding before the Division hearing officer, was appropriate. The parties agreed to submit a report to the Commission on May 12, 1995. The report would include consensus recommendations, if such were achieved, for the Commission's use in furthering competition in Rhode Island and participating in regional restructuring efforts. Lacking consensus, the report would provide a record to the Commission of the views of the parties.

\(^1\) Enron Power Marketing intervened but took no further role in the proceeding.

\(^2\) May Department Stores Company participated in discussions but is not a signatory.
At the first meeting of the Collaborative on February 7, 1995 Mark Drazen, a consultant to TEC-RI, made a presentation based on his paper "Sparks and Wires," and David Moskovitz of the Regulatory Assistance Project discussed his "grand bargain" concept. The meeting was open, and well attended by interested persons representing a wide variety of views.

The next meeting on March 15 (also open, and well attended) focused on how generally recognized public policy objectives incorporated into the current structure could be accommodated in a restructured system. These include environmental enhancement, efficiency, and affordable rates for low income households. Speakers at this session were Stephen Connors from the MIT Energy Laboratory's Analysis Group for Regional Electricity Alternatives, Stephen Brick of MSB Associates, Nancy Seidman from EPA, Sue Coakley from CLF, and Nancy Brockway of the National Consumer Law Center.

Settlement discussions amongst the parties commenced on April 6, with meetings continuing on April 13, 25, May 5, 9 and 12, culminating in the report and recommended principles filed today.

While to date little action has actually occurred nationally regarding electric industry restructuring, much analysis has been done and vast quantities written on this complex subject in the past year. We have seen and will continue to see ongoing development as issues are explored in detail and parties gain exposure to the concerns of others and refine their positions more fully.
Issuance of the Notice of Proposed Rulemaking ("NOPR") from the Federal Energy Regulatory Commission ("FERC") on March 29, 1995 has greatly furthered the impetus toward competitive wholesale bulk power markets. The NOPR proposes to require all public utilities owning or controlling transmission facilities to file open access transmission tariffs and to provide service, prices and information to others comparable to that used for their own wholesale sales and purchases. The NOPR does not require corporate restructuring, but relies on "functional unbundling" to provide non-discriminatory access. It continues to support the establishment of regional transmission groups.

FERC also issued a proposed rule to permit recovery of "legitimate and verifiable" stranded costs associated with the development of competitive wholesale service. It generally leaves to state authorities responsibility for stranded costs occasioned by retail wheeling. Recovery of retail stranded costs through transmission tariffs will be allowed in limited circumstances only. Retail stranded costs must more typically be recovered through local distribution rates or other retail rate mechanisms. We believe that the restructuring principles that we are proposing for adoption in Rhode Island are consonant with the direction FERC has taken. There remain many jurisdictional issues to be resolved between state and federal authorities.

This report does not purport to discuss in depth the many issues that have been raised. It is intended rather to be a succinct statement of the consensus position of the Rhode Island
Collaborative on the principles that we believe should underlie any restructuring proposal. The Collaborative is representative of the diverse interest groups that have a stake in this proceeding. The parties support the principles as part of a balanced and comprehensive package even though they would not necessarily support each principle apart from the total package. Parties have negotiated these principles based on a shared belief that consensus and settlements are more likely than litigation to move restructuring forward, given numerous potential interstate, state-federal, state-utility, and interparty substantive and jurisdictional conflicts.

The Collaborative respectfully requests that the Commission promptly adopt the settlement principles we recommend for Rhode Island. The extent to which Rhode Island by itself could actually implement a new competitive structure, particularly given the presence here of utility holding companies that also have Massachusetts and New Hampshire affiliates, is probably limited. However, we see great value in having the Rhode Island Commission determining independently the general course it believes restructuring should take. It can then set policy for Rhode Island in areas where the state can act alone, and at the same time, perhaps even more importantly, play a strong role in formulating a regional consensus based on these principles or similar tenets.

We also request prompt adoption because we feel a sense of urgency in that, absent Commission direction, ad hoc efforts toward restructuring through legislation or other means that are not based
on carefully derived principles could proceed with less regard for efficiency and equity than our principles would provide.

As a first step, we propose that the Commission establish a docket, and hold, as quickly as feasible, a legislative-type hearing or record conference to explore the Interdependent Principles. The parties further recommend that the Commission issue an order (1) indicating whether the Interdependent Principles provide a suitable basis for further detailed negotiation by the parties, or in what respects they require modification; and (2) setting a six-month deadline for submittal of a more detailed proposal for restructuring to the Commission which conforms to the Interdependent Principles. During that six-month period, the parties would meet to negotiate and quantify specific issues involving competition and open access, as well as other issues presented in the Interdependent Principles.
The Rhode Island Division of Public Utilities and Carriers, the Energy Council of Rhode Island, The Narragansett Electric Company, Blackstone Valley Electric Company, Newport Electric Corporation, Pascoag Fire District, the Governor's Policy Office, the Conservation Law Foundation, the Smaller Business Association of New England, Low Income Consumers, and the New England Cogeneration Association support the following principles as a balanced and comprehensive package to be taken as a whole.

The principles represent compromises made by the parties. They are submitted on the condition that they be approved in full by the Commission. If not accepted by the Commission (or amended by the Commission with the acquiescence of the parties), the parties expressly retain their right to make any contention in any future proceeding or investigation. If not approved in their entirety, they shall be deemed withdrawn and shall not constitute a part of the record in this or any other proceeding or used for any purpose.

RHODE ISLAND ELECTRIC INDUSTRY RESTRUCTURING COLLABORATIVE

SET OF INTERDEPENDENT PRINCIPLES TO GUIDE THE TRANSITION TO INCREASED COMPETITION IN THE ELECTRIC UTILITY INDUSTRY

1. Reliability. Reliable and safe electric service should be maintained. Customers should have the option to specify different levels of firmness and power quality to reflect their individual preferences, and should be held accountable for these specifications.
2. **Fairness and consistency.** The rules going forward should be fair and consistent for all sellers and purchasers.

3. **Benefits to all customer classes.** All customers should have the opportunity to share in the benefits of increased competition.

4. **Honoring of existing commitments.** Existing commitments of utilities arising from past decisions made pursuant to the regulatory compact should be honored. Commitments made with independent power producers, qualifying facilities and utilities are valid, enforceable and legally protected agreements.

5. **Recovery of stranded costs.** Utilities should recover legitimate and verifiable costs incurred pursuant to the regulatory compact. Utilities have an obligation to take all reasonable measures to mitigate the cost of their existing commitments. During the next phase of the negotiations, the parties should work to identify and quantify such transition costs for recovery in a non-bypassable, non-discriminatory, appropriately structured charge. The amount of above-market costs should be determined on a net basis that takes into account both the above-market and below-market resources that are currently in rates. Charges to recover stranded costs should apply to customers within a utility's retail franchise territory only. The charges should not apply to wheeling-through transactions.
6. **Provision of near-term rate relief.** Restructuring of existing rates should aim to make available near-term rate relief to all customers.

7. **Unbundling of services.** The existing vertically integrated structure of the industry should change. Generation should be subject to increased competition and must be functionally separated from transmission and distribution, which are natural monopolies. Companies providing transmission should file comparable service transmission tariffs at FERC that provide open access for all competitors. Companies providing both transmission and distribution should be reviewed in order to determine whether other mechanisms are necessary to avoid the potential to favor affiliates when offering and pricing their services.

8. **Choice at the retail level.** Retail customer choice can provide benefits beyond those provided by a competitive wholesale market. Individual customers (or groups of customers) differ in the quality of electric service they require and in the risks they are willing to take. By purchasing themselves, they can commit to an electricity supply based on short- or long-term projections of their own needs, rather than on the necessarily long-term projections of the utility and its regulators for the system as a whole. Load management activities such as reducing usage during expensive peak periods can be of direct benefit. The timing and
sequence of customers' access to the utilities' wires for the purpose of purchasing electricity from alternate suppliers should be subject to those customers paying stranded costs and other appropriate charges that reflect environmental, energy efficiency, and other social considerations. Distribution utilities should continue to have their current obligation to connect all customers in their franchise area to the distribution system.

9. **Spot market.** A spot market for electricity should be developed. The spot market should enable sellers to sell and purchasers to purchase at market clearing prices.

10. **Streamlining administrative processes.** Regulators should streamline administrative processes so as not to delay competitors' ability to adapt to changes in the market. The market framework for electric services should, to the extent possible, maximize reliance on ordinary business transactions and minimize reliance on administrative process. Traditional planning mechanisms ultimately should be replaced by market-driven choice as the means of supplying resource needs.

11. **Regionalism.** NEPOOL should be reformed and a regional transmission group created to enhance competition and to complement and support industry restructuring on a regional basis.

12. **Environmental improvement.** As generation becomes deregulated,
the emissions profile of each competitor's existing fossil-fueled power plants which currently do not meet today's emissions performance standards for new units should be reduced on an overall basis through retirements, replacements, controls, or offsets toward the emissions performance standards for new units in effect as of the date of this agreement.

13. **Cost-effective DSM.** The impact of direct access and associated pricing arrangements on markets for energy efficiency is uncertain. At least during the transition period to full direct access, utility energy efficiency investments will continue to play a valuable role in reducing market barriers in certain market segments, reducing customer costs, and mitigating power system environmental impacts. Programs that are cost-effective and approved by regulators should be available to all customers using the distribution system. The costs associated with these programs should be included in a non-bypassable, non-discriminatory, appropriately structured charge.

14. **Fuel and technology diversity.** Clean and renewable energy sources can play a valuable role in providing fuel diversity, managing risks and reducing environmental impacts. However, some renewable and low emissions technologies may need transitional support to achieve commercialization and ultimately compete in wholesale and direct access power markets. Where this is true, the costs of such support which are approved by regulators should be
included in a non-bypassable, non-discriminatory, appropriately structured charge.

15. **Provision of universal service.** Electricity is an essential product which must be available to all customers. Existing special rates, payment programs and protections regarding customer service and shut-offs for low income customers should be included in any restructuring proposal and funded through a non-bypassable, non-discriminatory, appropriately structured charge. Further development of such rates, programs and protections to address the goals of universal service should continue under restructuring.

16. **Performance based regulation.** Performance based ratemaking should be considered as an option for regulating all of the remaining monopoly segments of the industry.

17. **Capital attraction.** Any new industry structure should create the opportunity for financially sound and profitable entities that can attract capital at a reasonable cost.
Dated this 12th day of May, 1995.

Respectfully submitted:

DIVISION OF PUBLIC UTILITIES AND CARRIERS
By: Mary V. Kilmarx

THE ENERGY COUNCIL OF RHODE ISLAND (TEC-RI)
By: ______________________

NARRAGANSETT ELECTRIC COMPANY
By: Peter S. Flynn

BLACKSTONE VALLEY ELECTRIC COMPANY AND NEWPORT ELECTRIC CORPORATION
By: Theresa A. Fragone, P.C.

PASCOAG FIRE DISTRICT
By: Frank V. Sumberg

COALITION FOR CONSUMER JUSTICE,
DIRECT ACTION FOR RIGHT AND EQUALITY, AND PARENTS FOR PROGRESS
By: John H. " 

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND
By: ______________________

GOVERNOR'S POLICY OFFICE
By: ______________________

CONSERVATION LAW FOUNDATION
By: ______________________

NEW ENGLAND COGENERATION ASSOCIATION
By: ______________________
Dated this ____ day of May, 1995.

Respectfully submitted:

DIVISION OF PUBLIC UTILITIES AND CARRIERS
By: ____________________________

THE ENERGY COUNCIL OF RHODE ISLAND (TEC-RI)
By: ____________________________

NARRAGANSETT ELECTRIC COMPANY
By: ____________________________

BLACKSTONE VALLEY ELECTRIC COMPANY AND NEWPORT ELECTRIC CORPORATION
By: ____________________________

PASCOAG FIRE DISTRICT
By: ____________________________

COALITION FOR CONSUMER JUSTICE, DIRECT ACTION FOR RIGHT AND EQUALITY, AND PARENTS FOR PROGRESS
By: ____________________________

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND
By: ____________________________

GOVERNOR'S POLICY OFFICE
By: ____________________________

CONSERVATION LAW FOUNDATION
By: ____________________________

NEW ENGLAND COMGENERATION ASSOCIATION
By: ____________________________
Dated this 12th day of May, 1995.

Respectfully submitted:

DIVISION OF PUBLIC UTILITIES AND CARRIERS
By:

THE ENERGY COUNCIL OF RHODE ISLAND (TEC-RI)
By:

NARRAGANSETT ELECTRIC COMPANY
By:

BLACKSTONE VALLEY ELECTRIC COMPANY AND NEWPORT ELECTRIC CORPORATION
By:

PASCOAG FIRE DISTRICT
By:

COALITION FOR CONSUMER JUSTICE, DIRECT ACTION FOR RIGHT AND EQUALITY, AND PARENTS FOR PROGRESS
By:

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND
By: Dayton H. Kelly

GOVERNOR'S POLICY OFFICE
By:

CONSERVATION LAW FOUNDATION
By:

NEW ENGLAND COGENERATION ASSOCIATION
By:
Dated this ____ day of May, 1995.

Respectfully submitted:

DIVISION OF PUBLIC UTILITIES AND CARRIERS

By: ______________________

SMALLER BUSINESS ASSOCIATION OF NEW ENGLAND

By: ______________________

THE ENERGY COUNCIL OF RHODE ISLAND (TEC-RI)

By: ______________________

GOVERNOR'S POLICY OFFICE

By: \[Signature\]

NARRAGANSETT ELECTRIC COMPANY

By: ______________________

CONSERVATION LAW FOUNDATION

By: ______________________

BLACKSTONE VALLEY ELECTRIC COMPANY AND NEWPORT ELECTRIC CORPORATION

By: ______________________

NEW ENGLAND COGENERATION ASSOCIATION

By: ______________________

PASCOAG FIRE DISTRICT

By: ______________________

MAY DEPARTMENT STORES COMPANY

By: ______________________

COALITION FOR CONSUMER JUSTICE, DIRECT ACTION FOR RIGHT AND EQUALITY, AND PARENTS FOR PROGRESS

By: ______________________
Dated this ____ day of May, 1995.

Respectfully submitted:

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By: ________________________

THE ENERGY COUNCIL OF RHODE
ISLAND (TEC-RI)
By: ________________________

NARRAGANSETT ELECTRIC COMPANY
By: ________________________

BLACKSTONE VALLEY ELECTRIC
COMPANY AND NEWPORT ELECTRIC
CORPORATION
By: ________________________

PASCOAG FIRE DISTRICT
By: ________________________

COALITION FOR CONSUMER JUSTICE,
DIRECT ACTION FOR RIGHT AND
EQUALITY, AND PARENTS FOR
PROGRESS
By: ________________________

SMALLER BUSINESS ASSOCIATION
OF NEW ENGLAND
By: ________________________

GOVERNOR'S POLICY OFFICE
By: ________________________

CONSERVATION LAW FOUNDATION
By: ________________________

NEW ENGLAND COGENERATION
ASSOCIATION
By: ________________________