STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S DISTRIBUTION ADJUSTMENT CLAUSE : DOCKET NO. 3859

REPORT AND ORDER

I. NATIONAL GRID'S FILING

On August 1, 2007, the National Grid ("NGrid") filed with the Rhode Island Public Utilities Commission ("Commission") its annual Distribution Adjustment Clause ("DAC") for effect November 1, 2007.[1] The DAC is filed annually to establish a factor that returns or recovers funds from ratepayers to reconcile actual costs to estimated costs included in rates over the twelve-month period starting November 1st. The DAC provides for funding, or the reconciliation and refund of amounts associated with nine specific programs and facilitates the timely rate recognition of incentive provisions. The DAC filing results in a factor that is applied to firm sales and firm transportation customers.

The actual DAC factor results from nine components, which are filed with a specific factor that is incorporated into the overall DAC factor. The component factors are: (1) a System Pressure factor, in which 20.39 percent of LNG commodity costs, financing costs, and supplier demand costs are allocated and used to maintain system pressures in NGrid's distribution system;

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[1] In Docket No. 3401, February 28, 2003, the Commission ordered New England Gas Company to establish a Distribution Adjustment Charge for the purposes of crediting customers with any amounts associated with the earnings-sharing provisions of the Amended Settlement; refunding or recovering the amount by which non-firm margins deviate from $1.6 million; recovering LNG commodity costs associated with maintaining system pressures; crediting or collecting of any weather normalization adjustment revenues, and any other reconciliation of revenues or expenses approved by this Commission. On August 24, 2006, Narragansett Electric Company, doing business as National Grid, acquired the assets and gas business of Southern Union Company in Rhode Island, doing business as New England Gas Company.

(2) a Demand Side Management ("DSM") factor, now referred to as Advanced Gas Technology (AGT"), which includes $300,000 annually in base distribution rates, (and therefore the DSM factor is zero unless Commission changes the amount for DSM funding);

(3) a Low Income Assistance Program ("LIAP") factor, which has $1,785,000 annually in the base distribution rates; $1,585,000 in supplements to the Federal Low Income Home Energy Assistance Program ("LIHEAP") and $200,000 for a Low Income Weatherization Program, (and therefore the LIAP factor is zero unless the Commission changes the amount for LIAP funding);

(4) an Environmental Response Cost ("ERC") factor, which has $1,310,000 annually in base distribution rates, but allows annual adjustments for incremental environmental costs or credits, such as insurance recoveries, which are amortized over a 10-year period through this factor;

(5) an On-System Margin Credit factor, which provides for the sharing of non-firm sales and transportation margins, whereby ratepayers receive 75 percent of non-firm margins exceeding $1.6 million, while NGrid retains the remaining 25 percent of margins;

(6) a Weather Normalization factor, which represents an adjustment to NGrid's revenues to account for the impact of weather that varies by more than 2 percent from normal degree days during the preceding winter period of November through April;

(7) an Earning Sharing Mechanism ("ESM") factor, which provides for the sharing and refunding of NGrid's earnings, whereby ratepayers receive 50 percent of earnings between an 11.25 percent and 12.25 percent return on equity("ROE"), and

ratepayers receive 75 percent of earnings over 12.25 percent ROE while NGrid retains the remaining share of earnings;

(8) a Reconciliation factor for the current DAC, which represents a true-up of the amount currently being collected for the DAC component factors approved by the Commission for the prior period; and

(9) a Service Quality Plan Penalty, which is for any penalty assessed to NGrid service quality as measured through the Service Quality Plan approved by the Commission in Docket 3476.[2]

In support of its filing, NGrid submitted the pre-filed testimony of Peter Czekanski, Principal Analyst for NGrid. Mr. Czekanski's testimony described the DAC and the changes to the various components of the DAC. He presented factors for all components except for the ESM factor and the Service Quality Plan Penalty. Mr. Czekanski noted that the proposed DAC rate of ($0.0021) per therm was not finalized because necessary data was not available at the time of the filing. A supplemental filing will include the updated DAC rate and a bill impact analysis. The current DAC rate is $0.0003 per therm.[3]

As for the System Pressure factor, NGrid proposed a decrease in the factor from $0.0054 per therm to $0.0042 per therm. The factor is based on the commodity related portion of LNG costs, including non-economic dispatch LNG costs and the percentage of local storage used to maintain system pressure projected from November 2007 through October 2008. In regards to DSM, Mr. Czekanski explained that the DSM program was

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[2] In Docket 3476, the Commission found that the general purpose of a service quality plan is to ensure that customers receive a reasonable level of service and identified five key aspects of any service quality plan as service measures, benchmark standards, the amount of the penalty, the penalty weight for each measure, and the time period for measuring performance to assess a penalty.

[3] NGrid Exhibit No. 1, Pre-filed Testimony of Peter Czekanski and attachments filed August 1, 2007 at 1-4.

established in Docket No. 2025, September 5, 1991, to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. He noted that increased off-peak usage reduces the unit cost of gas for all customers by generating distribution revenues to support fixed costs associated with resources needed during peak periods. Mr. Czekanski noted that NGrid will refer to the DSM program as the Advanced Gas Technology Program ("AGT") so as to avoid any confusion with the Energy Efficiency Programs recently implemented by NGrid and that are sometimes referred to as DSM programs. He explained that NGrid is not proposing any change to the existing level of funding in the base rate, which is $300,000 annually, thus this component of the DAC remains at zero. He noted that the AGT account had $389,113 remaining at the end of FY2007. Mr. Czekanski stated that NGrid is not proposing to change the current level of funding provided by the LIHEAP factor, which provides additional funding to LIHEAP, and to a low income weatherization program. He noted that annual funding in distribution rates for LIHEAP and weatherization are $1,585,000 and $200,000, respectively. There is also $24,000 carried over from fiscal year ending June 30, 2007.[4]

In relation to the ERC factor, NGrid proposed a decrease in the factor from ($0.0019) to ($0.0021) per therm. This factor reflects a 10 year amortization of environmental response costs. The proposed ERC factor reflects annual amortization of expenses totaling $583,906. Since there is $1,310,000 of ERC funding embedded in base rates, there will be a net refund to ratepayers of $726,094. In the area of on-system (non-firm) margins, NGrid proposed a credit factor of ($0.0095) per therm. Mr. Czekanski calculated that NGrid recorded $5,922,065 of non-firm margins, or $4,322,065 more than

[4] *Id.* at 5-8

the $1.6 million threshold, which results in 75%, or $3,241,549 to be credited to customers and 25%, or $1,080,516 to be retained by shareholders. As to weather normalization, NGrid proposed a factor of $0.0025 per therm. Mr. Czekanski noted that during the winter period of November 2006 through April 2007, the weather was warmer than normal and there were 98 degree days in excess of the threshold. As a result, $882,000 will be charged to customers.[5]

Mr. Czekanski explained that the earning sharing calculation had not been completed because NGrid financial data for the fiscal year ending June 30, 2007 had not been completed, but NGrid will supplement this filing and provide the calculation no later than September 1, 2007. Also, Mr. Czekanski stated that NGrid incurred no service quality penalties for fiscal year 2007. As for the reconciliation factor for fiscal year 2007, NGrid proposed a factor of $0.0015 per therm to recover an undercollection of $517,514.[6]

II. NGRID'S SEPTEMBER 4, 2007 FILING

On September 4, 2007, NGrid submitted the direct testimony of Michael Laflamme, Manager of Regulatory Support for National Grid USA Service Company, Inc., and the supplemental testimony of Peter Czekanski. Mr. Laflamme provided the calculation of NGrid's earnings subject to the ESM factor for the fiscal year ending June 30, 2007. He determined that for the fiscal year ending June 30, 2007, the ROE was 0.36 percent, and ratepayers were not entitled to receive a credit because the earnings did not exceed the 11.25% ROE threshold.[7]

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[5] *Id.* at 9-12, Attachments PCC-4, PCC-5 and PCC-6.
[6] *Id.* at 11-16, Attachment PCC-7.
[7] NGrid Exhibit No. 2, Pre-filed Testimony of Michael Laflamme and attachments filed September 4, 2007 at 1-4.

NGrid determined that its net income available for common equity for the fiscal year ending June 30, 2007 was $430,848. This was based on various adjustments to NGrid's operating revenues and expenses. First, fiscal year 2007 had a warmer than normal winter resulting in $882,000 to be recovered from ratepayers through the Weather Normalization Clause. As a result, operating income for purposes of the ESM was increased by $882,000. Second, NGrid's portion of non-firm margins in the amount of $1,103,169 was excluded from fiscal year 2007. Third, NGrid removed stored gas inventory from rate base to eliminate carrying costs on stored gas inventory from revenues, which decreased operating revenues by $3,302,599. Fourth, NGrid excluded unbilled revenues from the ESM, decreasing operating revenues by $2,012,377. Fifth, NGrid included a proposed customer hold harmless credit of $2,033,118 in the ESM associated with a change in rate base as a result of NGrid's asset purchase from New England Gas ("NEGas").[8]

The Company also made adjustments to ten expense and interest accounts. First, NGrid noted that it no longer requires an adjustment for corporate allocation of overhead expenses, since NGrid's income statement includes corporate allocations. Second, operating expenses were increased by $191,500 representing the final year of the three year amortization of the cost for the Health, Safety and Environmental Study. Third, NGrid reduced operating expenses by $252,889 that were related to incentive payments made to employees of Southern Union, because post acquisition corporate level incentive compensation payments are recorded below the line as other income and deductions. Fourth, NGrid increased operating expenses for asset management and gas procurement incentives by a total of $349,431. Fifth, NGrid reduced operating expenses by

[8] *Id.* at 5-9, Attachments MDL-1 at 2, MDL-2 at 1.

$1,695,427 to reflect unbilled gas costs. Sixth, $2,049,000 was included in operating expenses in accordance with the Settlement Agreement as the investors' share of annual net merger savings. Seventh, NGrid eliminated $3,766,721 in costs to achieve merger synergies recorded during fiscal year 2007 associated with its acquisition of NEGas and its merger with KeySpan. The rate treatment of the costs to achieve merger synergies and their resulting synergy savings will be presented to the Commission for its consideration when NGrid files its future rate plan. The eighth adjustment was to exclude lobbying-related expenses as non-operating expenses and thus exclude it from the ESM calculation. Ninth, NGrid did not include any expenses related to the Pawtucket mercury-release incident because Southern Union Company assumed all liabilities related to this incident, thereby excluding these costs for purposes of the ESM calculation. Tenth, for interest expense, NGrid included only those costs associated with customer deposits.[9]

Mr. Laflamme explained that NGrid's purchase of New England Gas Company resulted in a stepped-up tax basis for the assets acquired, and elimination of the deferred tax liability on the Company's balance sheet. He stated that NGrid began recording deferred tax liabilities after the acquisition and will continue to do so. In order to keep customers economically indifferent to the effects of the asset basis step-up, NGrid proposed a separate hold harmless credit. The credit would be approximately $2.9 million credited to income annually over a 20 year period. For the 2007 fiscal year, a credit of $1,466,559, equal to one-half of the annual amount was recorded in income. The Company deferred the immediate recognition of $64.9 million of unrecognized losses and prior service costs associated with New England Gas' pension plans and post-

[9] *Id.* at 9-12, Attachment MDL-1 at 2.

retirement benefits. Mr. Laflamme explained that the amounts would be amortized over the average remaining service period of active employees, and the Company was not proposing to include a regulatory asset established for the unrecognized losses and prior service costs in rate base. For the ESM federal income tax calculation, NGrid used the statutory rate of 35 percent.[10]

Mr. Laflamme utilized an imputed capital structure as specified in the Settlement Agreement of Docket No. 3401: 8.8 percent short-term debt, 45.7 percent long-term debt, 1.9 percent preferred stock, and 43.6 percent common equity. He also utilized the following cost of capital rates: 9.93 percent for preferred stock, 7.82 percent for long-term debt, which is NGrid's actual long term debt rate, and 5.30 percent for short-term debt, which is based on the recent 12 month average cost of short-term debt. Also, NGrid included funds associated with the allowance for funds used during construction in calculating operating income.[11]

In calculating the rate base, NGrid used a five-quarter average for the year ending June 30, 2007. Mr. Laflamme excluded environmental response costs and prepaid taxes from rate base. He did include construction work in progress in the rate base and computed the working capital allowance pursuant to the method approved in Docket No. 2286. Also, the deferred debits in the rate base included Y2K costs, to be amortized at the rate of $240,000 per year, and excluded the costs associated with legacy customer-information systems, stored gas inventory and customer deposits. Finally, NGrid included accumulated deferred income taxes ("ADIT") and ITCs related to activity prior

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[10] *Id.* at 12-15, Attachment MDL-1 at 3.
[11] *Id.* at 15-16, Attachment MDL-1 at 4.

to the acquisition. Mr. Laflamme noted that earnings were below 11.25 percent ROE, and therefore, no amount would be returned to ratepayers.[12]

Mr. Czekanski provided supplemental testimony to update certain of the DAC components, to incorporate the Earnings Sharing calculation for the fiscal year ending June 30, 2007 and to show the calculation of the proposed DAC. He updated the LNG commodity costs by reducing them from $1,899,061 to $1,443,315, for a revised System Pressure factor of $0.0042 per therm. Mr. Czekanski provided more updated figures for the reconciliation component of the DAC by including actual throughput through July, 2007, resulting in a decrease from $517,514 to $511,530 for the reconciliation component. This did not result in a change of the reconciliation factor of $0.0015 per therm. Accordingly, there is a proposed DAC credit of ($0.0035) per therm for firm service customers. This represents a decrease of $0.0038 per therm from the previous year. The impact of the proposed DAC on the annual bill for a typical residential heating customer is a decrease of two-tenths of a percent or $4.[13]

III. NGRID'S OCTOBER 15, 2007 FILING

[12] *Id.* at 16-18, MDL-1 at 5,6. On September 10, 2007, NGrid filed Attachment MDL-3 to Mr. Laflamme's Prefiled Testimony which was marked at the hearing as NGrid Exhibit No. 4. This exhibit provided the calculations which were the basis of Mr. Laflamme's testimony regarding the earnings share mechanism.

[13] NGrid Exhibit No. 3, Supplemental Testimony of Peter Czekanski and Attachments filed September 4, 2007 at 1-4. The components of the proposed DAC are shown as compared to the prior year's factors:

Description of Component	Current Factor per therm	Proposed Factor per therm
System Pressure	$0.0054	$0.0042
Advanced Gas Technology ("AGT")	-0-	-0-
Low Income Assistance ("LIHEAP")	-0-	-0-
Environmental Response Cost ("ERC")	($0.0019)	($0.0021)
On-System Margins	($0.0041)	($0.0095)
Weather Normalization	$0.0027	$0.0025
Earnings Sharing ("ESM")	($0.0009)	-0-
Reconciliation Factor	($0.0009)	$0.0015
DAC FACTOR	$0.0003	($0.0035)

On October 15, 2007, NGrid filed an adjustment to its DAC Reconciliation component which reflected actual results for August and September 2007. Unlike the nine month July 2007 results, the actual data from these additional two months caused a reduction of $16,670, or $0.00005 per therm, to the Reconciliation Component. The updated Reconciliation factor is $0.0014 versus the original proposed factor of $0.0015.[14]

IV. DIVISION'S DIRECT TESTIMONY

On October 18, 2007, the Division of Public Utilities and Carriers ("Division") filed the direct testimonies of Bruce R. Oliver, President of Revilo Hill Associates, Inc., and David Effron, a consultant specializing in utility regulation. Mr. Oliver discussed all elements of the DAC except the ESM, which was discussed by Mr. Effron. For the System Pressure factor, Mr. Oliver determined that what minor mathematical inconsistencies he found could most probably be explained by rounding and that those inconsistencies had no material impact on NGrid's proposed factor. Also, Mr. Oliver indicated that NGrid's forecasted LNG requirements assume that no LNG will be used for economic dispatch this winter. He recommended that the Commission accept NGrid's computed system pressure factor.[15]

For the AGT factor, previously named the DSM factor, Mr. Oliver noted that $389,113 remains unexpended and uncommitted from fiscal year 2007. Mr. Oliver noted that this amount, in addition to the $300,000 in expected funding from base rates, will provide $689,113 in available funds for new projects. Mr.Oliver recommended no change in the AGT factor. For the LIAP factor, Mr. Oliver stated that the LIAP funding is $1,785,000 per year, not including the working capital allowance. The funding

[14] NGrid Exhibit No. 5, Updated Calculation of DAC Reconciliation component filed on October 15, 2007.
[15] Division Exhibit No. 1, Pre-Filed Testimony of Bruce R. Oliver and schedules filed October 18, 2007 at 1-7.

consists of $1,585,000 for LIHEAP and $200,000 for Low Income Weatherization Program activities. Combined with the $24,000 of carryover from fiscal year 2007, total funds available for Low Income Assistance Programs for fiscal year 2008 will be $1,809,000.[16]

Regarding the ERC factor, Mr. Oliver noted that NGrid is seeking approval of a net recovery to it of ($726,094). This negative amount reflects: a 10-year amortization of $12,510,252 of net ERC costs incurred through the end of fiscal year 2002; a 10-year amortization of ($6,012,673) of net ERC costs for fiscal year 2003; a 10-year amortization of ($472,960) of net ERC costs for fiscal year 2004; a 10-year amortization of $136,707 of net ERC rates for fiscal year 2005; a 10-year amortization of $436,020 of net ERC costs for fiscal year 2006; a 10-year amortization of ($758,291) of net ERC costs for fiscal year 2007; and a deduction of $1,310,000 for budgeted base rate recovery of ERC costs. As a result, the net balance of un-recovered ERC at the end of the fiscal year 2007 was $2,059,943. He noted the proposed ERC credit factor ($0.0021) per therm represents a net credit to firm customers. He stated that for fiscal year 2007 NGrid claimed a net ERC cost of ($758,291) of which two projects accounted for almost 75% of the total new ERC. Mr. Oliver indicated that NGrid's claimed ERC for fiscal year 2007 appeared reasonable and the proposed ERC factor was appropriately computed from the data NGrid presented. However, he offered two caveats. First, he noted that NGrid's average cost per unit for removing and replacing mercury seal regulators (MSRs) was more than seven times greater than the Company's average costs for all replacements prior to fiscal year 2007. Second, he pointed out that while NGrid received $1,225,824 of additional environmental insurance settlement proceeds, its Annual Environmental

[16] *Id.* at 7-11.

Report for the period July 1, 2006 through June 30, 2007 provides no details about these proceeds.[17]

In the area of on-system margin credits,[18] Mr. Oliver noted the increase in non-firm gas sales was due to high fuel oil prices. He noted that he had not had the opportunity to perform a detailed review of the Company's information, and recommended that the Commission reserve any final determinations regarding the appropriateness of the calculations until such time as he can perform a full audit of the data. He pointed out that approximately 60%, or $2.5 million of NGrid's non-firm margins, were collected from one individual account. Mr. Oliver suggested that this account could have saved approximately $880,000 in total gas service charges if it had shifted to firm gas sales service and that but for this one account, NGrid may not exceeded the $1.6 million of on-system margin credits factored into the calculation of base rates. Any shortfall in achieving this level of margins is recovered from ratepayers through the DAC.[19]

As for the Weather Normalization factor, Mr. Oliver found NGrid's proposed factor to be accurate. He found the proposed DAC reconciliation adjustments to be accurately computed. Mr. Oliver noted that he found no basis for recommending any changes in the proposed DAC credit of ($0.0035) per therm for all firm customers. He did find that further adjustment of the non-firm margins for fiscal year 2007 may be necessary. He also found the forecasted sales and throughput data upon which NGrid based its DAC charge computations to be reasonable. Mr. Oliver indicated that the bill

[17] *Id.* at 11-17.
[18] On-system margin credits represent the margins calculated as the difference between non-firm sales and transportation revenues and non-firm gas costs. An assumed margin level of $1.6 million was factored into the calculation of the gas company's base rates.
[19] *Id.* at 18-26.

comparisons provided by NGrid indicate that customers for all classes would receive an overall rate decrease of between 0.2% to 0.3%. NGrid adjusted its usage data in the current docket by replacing measures of "typical" use with measures of "average customer" use for all rate classes. This resulted in significant reductions from usage data provided by NGrid in Docket No. 3760, i.e., average annual use per customer declines of between 21% and 23%.[20]

In his pre-filed testimony, Mr. David Effron discussed the ESM calculation. Mr. Effron recommended that the company's calculation of zero credit to ratepayers for earnings sharing in fiscal year 2007 should not be modified. He did, however, recommend that NGrid's proposed "hold harmless" mechanism related to the effect of the acquisition on the balance of accumulated deferred income taxes as reflected in the calculation of rate base be modified. He attributed the 0.36% return on equity, which is a significant decrease from the returns reported in fiscal year 2005 and fiscal year 2006, to be the result of a substantial increase in operation and maintenance expenses during those years. From fiscal year 2005 to fiscal year 2006, NGrid's distribution maintenance increased by $1.9 million and expenses related to customer accounts increased by $5.6 million. From fiscal year 2006 to fiscal year 2007, the distribution maintenance increase was $7.9 million which was partially offset by a net decrease in other expenses. Mr. Effron indicated that NGrid stated that the increase in distribution maintenance was due to an increase in security services and a change in the method of allocating supervisory labor time, while the increase in customer accounts was due to the cost of increased collection efforts and an increase in uncollected accounts expense. Mr. Effron did not

[20] *Id.* at 27-33. The reductions result in lower annual billing amounts for a "typical use" customer in each rate class.

propose any adjustments to operation and maintenance expenses or gross earnings tax for the purpose of the ESM calculation even though he does not believe that the explanation for the increases in operation and maintenance to be adequate. He noted that even if the operation and maintenance expense reflected in fiscal year 2007 was reduced to the fiscal year 2005 level, and corrections were made to the gross earnings tax, the ROE would not exceed the 11.25% sharing threshold. He stated that the increased level of expenses should be investigated and addressed when NGrid files its new rate plan.[21]

While Mr. Effron agreed in principle that a hold harmless credit, which is explained at page 7, is appropriate, he recommended that it be modified so that the credit to ratepayers better track what the ADIT balance would have been had the acquisition not occurred. He recommended that the hold harmless credit not be included in revenues, but that the ADIT balance be deducted from the rate base. He noted three advantages to this approach: tracking more closely of the actual revenue requirement effect of the lost ADIT; capturing the effect of a change in the authorized rate of return; and avoiding the necessity of having to make an arbitrary assumption regarding the appropriate period over which to normalize the present value of the savings. His schedule proposed that rate base deductions for the ADIT Merger Adjustment end in 2022, because in years subsequent to 2022 the present value of the return on the ADIT differential is relatively small and becomes negative by 2025.[22]

V. NGRID'S OCTOBER 26, 2007 FILING

On October 26, 2007, NGrid filed updated and revised attachments to Mr. Czekanski's previously filed testimony. These attachments further updated the

[21] Division Exhibit No. 2, Pre-Filed Testimony of David J. Effron and schedules filed October 18, 2007 at 1-8.
[22] *Id.* at 9-11.

calculations supporting the DAC. Specifically, NGrid revised its On-System Margin Credit from ($0.0095) per therm to ($0.0084) per therm and revised its Reconciliation factor from $0.0015 to $0.0014. This revision resulted in a change in the overall DAC factor to ($0.0025) per therm versus the ($0.0035) factor as originally proposed. NGrid also provided a revised bill impact analysis.[23]

VI. HEARING

Following published notice, a public hearing was conducted on October 29, 2007 at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

FOR NGRID	:	Laura Olton, Esq.
FOR THE DIVISION	:	Paul Roberti, Esq. Assistant Attorney General
FOR THE COMMISSION:		Patricia S. Lucarelli, Esq. Chief of Legal Services

At the hearing, NGrid presented Mr. Czekanski and Mr. Laflamme as its witnesses. Mr. Laflamme testified that he reviewed Mr. Effron's testimony and schedules and agreed with his proposal regarding the hold harmless mechanism. He testified that Mr. Effron's proposals caused the same result as Mr. Laflamme's method. Both of the methods will provide the same economic benefit to customers over a period of time. Mr. Laflamme updated Exhibit MDL-2 to update certain of his calculations which resulted in greater customer benefit.[24]

[23] NGrid Exhibit No. 6, Updated and Revised Attachments PCC-1, PCC-5 and PCC-8 filed October 26, 2007.
[24] Transcript of Hearing, Docket 3859 ("Tr."), October 29, 2007 at 4-10.

Under cross-examination by Mr. Roberti, Mr. Czekanski explained the decrease in the reconciliation factor from $0.0015 on September 4, 2007 to $0.0014 on October 26, 2007 as the result of actual reconciliation numbers for August and September being substituted for the estimates that were used to calculate the September 4, 2007 figure.[25] Mr. Czekanski was questioned on the effect that system improvements for pressure support might have on the 20.39% of LNG expenses allocated for system pressure. Mr. Czekanski explained that the 20.39% for system pressure is still appropriate because of the need for less LNG, coupled with the need for less for system pressure. Mr. Laflamme explained the decrease in main replacements as most likely being because of the timing of the merger and the transition period.[26]

Mr. Effron and Mr. Oliver testified on behalf of the Division. Mr. Effron noted that Mr. Laflamme agreed with his proposed method of calculating the hold harmless mechanism. He also noted that Mr. Laflamme prepared a revised version of his schedule, with a correction to the amount of the rate base adjustment year by year in the earlier years, that he would adopt. Mr. Oliver indicated that he had not had an opportunity to review sufficient supporting detail for the company's determination of non-firm margins, and would withhold comment on them until he is able to verify the numbers.[27]

COMMISSION FINDINGS

At an open meeting on October 30, 2007, the Commission reviewed the evidence and adopted a DAC factor of ($0.0025) per therm on an interim basis for effect November 1, 2007. This factor is subject to further review of the non-firm margin information by the parties. The approved DAC factor should credit approximately

[25] *Id.* at 11-12.
[26] *Id.* at 13-21.
[27] *Id.* at 24-28.

$854,000 to ratepayers over the twelve-month period starting November 1, 2007. The Commission is satisfied that the evidence presented by NGrid supports the approved DAC factor.

Specifically, the DAC is composed of various factors: System Pressure, ERC, AGT, LIAP, Weather Normalization, On-System Margins, Reconciliation, and the ESM. With regard to the System Pressure factor, LNG commodity costs are projected to decrease to a level requiring $0.0042 per therm. The Commission approved the decrease in this factor. Also, the Commission approved an ERC credit factor of ($0.0021) per therm. In addition, NGrid proposed a Weather Normalization factor of $0.0025 to recover $882,000 reflecting the warmer than normal winter of 2006 to 2007. The Commission found that this factor was appropriately calculated. As for the On-System Margins factor, NGrid filed a credit of ($0.0084) per therm to return $2,922,564 to ratepayers. The Commission approved this factor. Regarding the reconciliation factor, NGrid proposed a factor of $0.0014 per therm due largely to LNG commodity costs being lower than projected for fiscal year 2007 and a warmer than normal winter which reduced the total through-put. The under-collection should be collected. Therefore, the Commission approved this factor. As for the ESM factor, NGrid did not earn a ROE above 11.25% for fiscal year 2007. Thus, no adjustments the Commission could have made would have brought the ROE above 11.25%. Furthermore, any adjustments made in this proceeding related to NGrid's acquisition of NEGas will be reviewed anew in the NGrid rate filing to establish new distribution rates. Accordingly, the Commission approved NGrid's proposed ESM credit factor of ($0.0000) per therm. The other components of the DAC, LIAP and AGT, remain unchanged.

Accordingly, it is

(19152) ORDERED:

1. The System Pressure factor of $0.0042 per therm filed on September 4, 2007 by National Grid is approved for effect November 1, 2007.
2. The Environmental Response Cost credit factor of ($0.0021) per therm filed on August 1, 2007 by National Grid is approved for effect November 1, 2007.
3. The Weather Normalization factor of $0.0025 per therm filed on August 1, 2007 by National Grid is approved for effect November 1, 2007.
4. The Reconciliation factor of $0.0014 per therm filed on October 15, 2007 by National Grid is approved for effect November 1, 2007.
5. The On-System Margin credit factor of ($0.0084) per therm filed on October 26, 2007 by National Grid is approved for effect November 1, 2007.
6. The overall Distribution Adjustment Charge credit of ($0.0025) per therm is approved for effect November 1, 2007 on an interim basis subject to further review of the non-firm margin information.
7. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE NOVEMBER 1, 2007 AT WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING ON OCTOBER 30, 2007. WRITTEN ORDER ISSUED DECEMBER 18, 2007.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner