

September 28, 2007

**VIA HAND DELIVERY AND ELECTRONIC MAIL**

Luly E. Massaro, Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**RE: Petition regarding the Non-Firm Sales Service Rate of RIPUC NG No. 101**

Dear Ms. Massaro:

This letter contains National Grid's<sup>1</sup> response to the Commission's request to respond to the September 11, 2007 petition to remedy the Non-Firm Sales Service Rate of RIPUC NG No. 101 ("Petition") filed with the Commission on behalf of SilentSherpa Energy Consulting and Professional Services, Inc. ("SilentSherpa").<sup>2</sup> National Grid has reviewed the Petition as well as the August 13, 2007 original petition filed with the Division of Public Utilities and Carriers ("Division"), and the Division's August 30, 2007 response.

In general, SilentSherpa claims that the existing Commission-approved Non-Firm Sales ("NFS") Service tariff is patently unfair as it "requires National Grid to price its cost of distribution to non-firm accounts on a discretionary value of service basis rather than an objective cost of service basis as is in effect with firm distribution rates."<sup>3</sup> It further claims that the pricing scheme should be amended because "it is inconsistent with the standard for regulated utilities with franchised monopolies and unfair to consumers who must rely on National Grid for natural gas delivery." It also states that "unprotected ratepayers are left with a rate structure based on the random value of an unrelated variable."

In response to these claims, the Company offers the following comments. First, National Grid fully concurs with the Division's response regarding the legitimacy and rationale of the existing NFS Service tariff. As the Division explains, the NFS Service is priced on a value of service basis rather than on a cost of service basis. This pricing is not based on discretionary pricing. Rather, the price of NFS Service is based on published prices for the type of alternative fuel used by the customer, with specific discounts, per tariff, based on the potential volume of consumption. Page 3 of the Division's response thoroughly describes value of service pricing, its goals, and the history of this pricing regime. This approach is a long standing ratemaking concept and the existing tariff along with its predecessors, have been approved by the Commission following review under established regulatory procedures. Moreover, customers who use NFS

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<sup>1</sup> The Narragansett Electric Company, d/b/a National Grid ("National Grid" or the "Company").

<sup>2</sup> The Petition was filed by John R. Grasso, Esq. on behalf of SilentSherpa, Rhode Island Hospital, Roger Williams Medical Center, Kent Hospital, Stanley-Bostich, Microfibres, and SilentSherpa's other non-firm clients.

<sup>3</sup> SilentSherpa's August 13, 2007 petition filed with the Division.

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Service are not captive customers and may at any time substitute alternative fuels for National Grid service. Additionally, the majority of the NFS customers have the option of subscribing to National Grid's firm service with fixed distribution rates.

Notwithstanding the above, National Grid suggests that any consideration of restructuring the NFS Service tariff be addressed as part of a general rate case. In a general rate case, all of the Company's rates and costs are reviewed along with fully allocated cost of service studies that can provide the proper foundation for establishing cost of service based rates. This is a particularly important consideration given the Petition's recommendation that NFS Service be based on the cost of providing the service.

As indicated in National Grid's Gas Rate Plan Extension Request filed in Docket D-06-13 on June 19, 2007, National Grid will be filing a gas rate design case with the Commission in the near future (no later than October 1, 2008 or sooner if requested by the Division). That Commission docket would be the appropriate forum to review the NFS Service offering, evaluate alternatives in conjunction with a review of the cost of service studies and provide the Petitioner the opportunity to present and support any specific proposal they would like to put forth.

Accordingly, the Company believes it is not appropriate to investigate the NFS Service tariff at this time and respectfully requests the Commission to deny the SilentSherpa Petition until such time as a general rate case is filed.

Thank you for your attention to this filing. If you have any questions, please do not hesitate to contact me at (401) 784-7667.

Very truly yours,



Laura S. Olton

cc: John Grasso, Esq.  
Paul Roberti, Esq.  
Steve Scialabba  
John Spirito, Esq.