

October 20, 2008

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

**RE: Docket 3943 – National Grid Request for Change of Gas Distribution Rates
Responses to Data Requests and Record Requests**

Dear Ms. Massaro:

Enclosed please find eight (8) copies of National Grid's¹ responses to Data Requests COMM 2-9 and COMM 3-9 (Supp. 2), along with the Company's responses to the following outstanding record requests: RR-TECRI-1, RR-COMM-8, RR-COMM-11, RR-COMM-13, RR-DIV-4 and RR-DIV-10. Please note that the revision made in Data Request COMM 3-9 (Supp. 2) also changes information presented in Exhibit NGRID-36. Therefore, the Company is submitting a revised exhibit as Exhibit NGRID-36 (REVISED).

Attached is a listing of the outstanding data/record requests for which the Company has not yet provided a response. The Company is endeavoring to file these responses as soon as possible.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosures

cc: Docket 3943 Service List

¹ The Narragansett Electric Company d/b/a National Grid ("Company").

Outstanding Responses to Data/Record Requests as of October 20, 2008

Record Request DIV-1
Record Request DIV-2
Record Request DIV-5
Record Request DIV-6
Record Request DIV-7
Record Request DIV-8
Record Request DIV-9

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, hand delivered and mailed to the individuals listed below.

 /S/
Linda Samuelian

October 20, 2008
Date

National Grid (NGrid) – Request for Change in Gas Distribution Rates Docket No. 3943 - Service List as of 9/15/08

Name/Address	E-mail Distribution	Phone/FAX
Thomas R. Teehan, Esq. National Grid 280 Melrose St. Providence, RI 02907	Thomas.teehan@us.ngrid.com	401-784-7667
	Peter.Czekanski@us.ngrid.com	401-784-4321
	Joanne.scanlon@us.ngrid.com	
Cheryl M. Kimball, Esq. (for NGrid) Keegan Werlin LLP 265 Franklin Street Boston, MA 02110	ckimball@keeganwerlin.com	617-951-1400
	lindas@keeganwerlin.com	617-951-1354
Paul Roberti, Esq. (Division) Dept. of Attorney General 150 South Main St. Providence, RI 02903	Proberti@riag.ri.gov	401-222-2424
	Steve.scialabba@ripuc.state.ri.us	401-222-3016
	David.stearns@ripuc.state.ri.us	
Leo Wold, Special Assistant AG Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov	401-222-2424
	Mtobin@riag.ri.gov	401-222-3016
	Kzelano@riag.ri.gov	
Jerry Elmer, Esq. Conservation Law Foundation 55 Dorrance Street Providence, RI 02903	Jelmer@clf.org	401-351-1102 401-351-1130
James M. Grasso SilentSherpa Consulting Services, Inc.	jgrasso@silentsherpa.com	401-284-4534
John R. Grasso, Esq. (for SilentSherpa) Law Office of John R. Grasso, Inc.	jrg@johngrassolaw.com	401-272-4001 888-525-2096
John Farley, Executive Director The Energy Council of RI One Richmond Square Suite 340D Providence, RI 02906	jfarley316@hotmail.com	401-621-2240 401-621-2260
Michael McElroy, Esq. (for TEC-RI) Schacht & McElroy PO Box 6721 Providence, RI 02940-6721	McElroyMik@aol.com	401-351-4100 401-421-5696

Jean Rosiello, Esq. (for Wiley Ctr.) MacFadyen Gescheidt & O'Brien 101 Dyer St. Providence, RI 02903	jeanrosiello@cox.net	401-751-5090 401-751-5096
Jeremy C. McDiarmid, Esq. Environment Northeast 6 Beacon St., Suite 415 Boston, MA 02108	jmcdiarmid@env-ne.org	617-742-0054
	rkoontz@env-ne.org	
Glenn R. Friedemann, Esq. Rhode Island Hospital The Coro Building, Suite 2B 167 Point St. Providence, RI 02903	gfriedemann@lifespan.org	401-444-3103 401-444-3302
Andrew O. Kaplan, Esq. (for RIH) Rubin and Rudman LLP 50 Rowes Wharf Boston, MA 02110	akaplan@rubinrudman.com	617-330-7115
	dsharkey@rubinrudman.com	617-330-7550
	RClifford@rubinrudman.com	
John R. McDermott, Esq. (for OER) The Law Office of John R. McDermott 27 East Street, Unit 2 Providence, RI 02906	JRMcDermott.law@gmail.com	401-269-1198 401-294-4483
Andrew C. Dzykewicz Jane Keller RI Office of Energy Resources One Capitol Hill Providence, RI 02908-5850	adzykewicz@energy.ri.gov	401-574-9123 401-574-9126
	jkeller@energy.ri.gov	
Richard M. Peirce, Esq. James A. Musgrave, Esq. Roberts, Carroll, Feldstein, Peirce, Inc. Ten Weybosset St. Providence, RI 02903	rpeirce@rcfp.com	401-521-7000 401-521-1328
	jmusgrave@rcfp.com	
David Effron Berkshire Consulting 12 Pond Path North Hampton, NH 03862-2243	Djeffron@aol.com	603-964-6526
Bruce Oliver Revalo Hill Associates 7103 Laketree Drive Fairfax Station, VA 22039	Boliver.rha@verizon.net	703-569-6480
Jim Rothschild 115 Scarlet Oak Drive Wilton, CT 06897	jimrothschild@rothschildfinancial.com	203-762-0685
Aaron Rothschild 15 Lake Road Ridgefield, CT 06877	alr2103@gmail.com	203-241-7824
Jeffrey H. Gladstone, Esq. Robert K. Taylor, Esq. Partridge Snow & Hahn LLP 180 South Main St. Providence, RI 02903	jhg@psh.com	401-861-8242 401-861-8200
	rkt@psh.com	

File original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02889	Lmassaro@puc.state.ri.us	401-780-2107
	Tmassaro@puc.state.ri.us	401-941-1691
	Anault@puc.state.ri.us	

Data Request COMM 2-9

Request:

The Commission recently opened Docket 3975 to revisit the Termination Rules. The first Commission data request in that Docket requested information relating to customer terminations. Please identify:

- a. The computer system, defined as hardware and/or software, that was used to generate the data used to provide the response.
- b. The physical location of the computer system.
- c. The total cost of the computer system.
- d. The system cost that has been or will be allocated to the Rhode Island gas operation.
- e. How long the system has been in place.

Response:

- (a) The data provided in response to the Commission's first data request in Docket 3975 for the Rhode Island gas operations was generated by the Advantage System software (formerly referred to as the "Banner" system software).

Please note that the data generated for the Company's electric operations and contained in the Company's response to the referenced data request came from a different system (the CSS system). Responses below are limited to the gas operations and are not intended to be responsive from the standpoint of the Company's electric operations.

- (b) The Advantage System software and hardware is physically located in Rhode Island.
- (c) The Advantage System was implemented by Providence Gas Company as the "Banner" system in 1999 at a cost of \$12,709,031. The system was modified in 2003 to accommodate the Valley Gas operations at a cost of \$566,861. Software upgrades totaling \$423,452 were completed in 2005 and 2006. The total capitalized amount is \$13,699,344.

- (d) The Advantage System was put into place to support the Rhode Island gas operations and is currently in use for that specific purpose. Therefore, the cost is allocated entirely to the Rhode Island gas operations.
- (e) Please see the response to item (c), above.

Data Request COMM 3-9 (Supp. 2)

Request:

In Docket 3401, a non-firm margin level of \$1.6 million was allocated to reduce the revenue requirement recovered from distribution rates. Non-firm margins in excess of \$1.6 million are shared 75% to firm rate payers and 25% is retained by the Company.

- (a) In the current rate filing, has the Company proposed any change to the treatment of non-firm margins?
- (b) What amount of non-firm margins has accrued to the benefit of firm ratepayers in each year since Docket 3401 rates became effective? Provide amounts for the twelve months ending June 30 (the period used in the DAC filings).
- (c) What amount of non-firm margins has accrued to the benefit of the Company as its “25% share” in each year since Docket 3401 rates became effective?

Response:

- a) No, in the present rate filing, the Company has not proposed any change to the treatment of non-firm margins.
- b) & c)

12-months ended	Total Non-Firm Margin	Customer Base Rate Threshold	Customer sharing through DAC	Total Firm Customer Benefit	Retained by Company
Jun-2003	\$2,192,365	\$1,600,000	\$444,274	\$2,044,274	\$148,091
Jun-2004	\$1,928,686	\$1,600,000	\$246,515	\$1,846,515	\$82,172
Jun-2005	\$3,152,849	\$1,600,000	\$1,164,637	\$2,764,637	\$388,212
Jun-2006	\$3,496,294	\$1,600,000	\$1,422,221	\$3,022,221	\$474,074
Jun-2007	\$5,496,752	\$1,600,000	\$2,922,564	\$4,522,564	\$974,188
Jun-2008	\$5,250,683	\$1,600,000	\$2,738,012	\$4,338,012	\$912,671

PLEASE NOTE: The Company has revised the data set forth on the line entitled “Jun-2007” to correct the data for consideration of the \$1.6 million revenue imputation to base rates, which is contained in the total margin.

EXHIBIT NGRID-36 (REVISED)
Revenue Impacts Associated with Various Non-Firm Pricing Options
(\$ million)

	Total Margin Assumed in Revenue Requirement Base Rates (a)	Total Non-Firm Margin (b)	Base Rate Non-firm Revenue Threshold (c)	Non-Firm Margin Sharing for Customers 75% (d) =	Non-Firm Margin Sharing for Company 25% (e) =	Non-Firm Benefit to Firm Rates (f) = c+d	Base Rate Revenue from Converted Customers (g)	Total Benefit from Current and Former Non-Firm (h) = f+g	Recovery Needed Thru DAC to Reach \$2.8 (i) = \$2.8 - h	Total Lost Benefit vs Test Year (j) = \$4.4-h+i
				(b-c)*75%	(b-c)*25%					
Historic Non-Firm Margins										
1 Jul 02 - Jun 03	\$1.6	\$2.2	\$1.6	\$0.4	\$0.1	\$2.0		\$2.0		\$2.0
2 Jul 03 - Jun 04	\$1.6	\$1.9	\$1.6	\$0.2	\$0.1	\$1.8		\$1.8		\$1.8
3 Jul 04 - Jun 05	\$1.6	\$3.2	\$1.6	\$1.2	\$0.4	\$2.8		\$2.8		\$2.8
4 Jul 05 - Jun 06	\$1.6	\$3.5	\$1.6	\$1.4	\$0.5	\$3.0		\$3.0		\$3.0
5 Jul 06 - Jun 07	\$1.6	\$5.5	\$1.6	\$2.9	\$1.0	\$4.5		\$4.5		\$4.5
6 Jul 07 - Jun 08	\$1.6	\$5.3	\$1.6	\$2.7	\$0.9	\$4.3		\$4.3		\$4.3
7 Test Year Oct 06 - Sep 07										
8 Non-Firm Customers	\$1.6	\$5.3	\$1.6	\$2.8	\$0.9	\$4.4		\$4.4		\$4.4
Non-Firm Pricing Options										
9 Cap at 150% of Firm Non-Firm and Former Non-Firm Customers (1)	\$2.8	\$2.7	\$1.6	\$0.8	\$0.3	\$2.4		\$1.2		\$3.6
11 Capped at Firm unit rate Non-Firm Customers (2)	\$2.8	\$3.3	\$1.6	\$1.3	\$0.4	\$2.9		\$2.9		\$2.9
13 Approx Embedded COS unit rate Non-Firm Customers (2)	\$2.8	\$3.0	\$1.6	\$1.1	\$0.3	\$2.7		\$2.7		\$2.7
15 20% discount from Firm unit rate Non-Firm Customers (2)	\$2.8	\$2.7	\$1.6	\$0.8	\$0.3	\$2.4		\$2.4		\$2.4
17 30% discount from Firm unit rate Non-Firm Customers (2)	\$2.8	\$2.4	\$1.6	\$0.6	\$0.2	\$2.2		\$2.2		\$2.2
19 40% discount from Firm unit rate Non-Firm Customers (2)	\$2.8	\$2.2	\$1.6	\$0.5	\$0.2	\$2.1		\$2.1		\$2.1
21 50% discount from Firm unit rate Non-Firm Customers (2)	\$2.8	\$2.0	\$1.6	\$0.3	\$0.1	\$1.9		\$1.9		\$1.9

note: 1) With the Company's proposal, the base rate revenue requirement assumes \$1.6 M of non-firm margin and \$1.2 M of base revenue from non-firm customers that converted to firm service between November 2007 and January 2008.

2) For proposals with a cap at or less than the comparable firm unit rate, the assumption is that the former non-firm customers would switch back to non-firm service and hence there needs to be an additional \$1.2 M of non-firm margin or any shortfall will need to be made up through the DAC

TEC-RI Record Request No. 1

Request:

Please provide an alternative allocation of the recovery of dollars associated with the proposed low-income discount.

Response:

Please see Attachment RR-TECRI-1, which contains four alternative allocations of the low income discount. The four alternatives suggested are:

1. Volumes
2. Customers
3. Rate Base
4. RSUM (Relative System Usage)

The Company has no objection or preference to the allocation methodology; there is a rationale that would support any of the above-referenced allocations, as well as the allocation originally proposed by the Company.

National Grid RI
Docket No. 3943
Response to Record Request TECRI-1

<u>Line No.</u>	<u>Rate Class (A)</u>	<u>Volumes (B)</u>	<u>Customers (C)</u>	<u>Rate Base (D)</u>	<u>RSUM (E)</u>
1	Residential Non-Heat	571,735	30,190	\$ 14,380,939	1.39%
2	Residential Heat	18,011,881	195,950	\$ 179,276,079	51.57%
3	Small C/I	2,365,191	18,589	\$ 23,381,700	6.97%
4	Medium C/I	5,272,745	4,517	\$ 35,684,543	14.71%
5	Large Low	2,655,646	441	\$ 16,812,565	7.72%
6	Large High	1,034,400	163	\$ 5,332,641	2.52%
7	X-Large Low	1,206,657	38	\$ 2,491,293	3.43%
8	X-Large High	4,947,980	74	\$ 7,881,703	11.68%
9	Total	36,066,234	249,962	\$ 285,241,462	100.00%
10					
11	Low Income Discount	\$ 829,337			
12					
13	Allocation of Low Income Discount				
14					
15	Residential Non-Heat	\$ 13,147	\$ 100,166	\$ 41,812	\$ 11,563
16	Residential Heat	\$ 414,180	\$ 650,132	\$ 521,244	\$ 427,723
17	Small C/I	\$ 54,387	\$ 61,676	\$ 67,982	\$ 57,782
18	Medium C/I	\$ 121,246	\$ 14,988	\$ 103,752	\$ 122,012
19	Large Low	\$ 61,066	\$ 1,463	\$ 48,882	\$ 64,041
20	Large High	\$ 23,786	\$ 541	\$ 15,505	\$ 20,883
21	X-Large Low	\$ 27,747	\$ 126	\$ 7,243	\$ 28,459
22	X-Large High	\$ 113,778	\$ 246	\$ 22,916	\$ 96,875
23	Total	\$ 829,337	\$ 829,337	\$ 829,337	\$ 829,337

Commission Record Request No. 8

Request:

Please provide any available data discussing productivity of RI workforce. If available, provide a comparison of workforce productivity between RI workers and other states.

Response:

There is no simple measure that the Company uses to evaluate the productivity of a specific work unit within its overall operations. Generally, it is necessary to have available data over a multi-year period for multiple work activities and cost factors. As a result, the Company is not yet able to perform a Rhode Island-specific productivity analysis or to compare Rhode Island statistics to other operating areas. The Company is currently working to establish the protocols and systems changes necessary to produce this type of analysis in the future.

Commission Record Request No. 11

Request:

Please provide the Company's "wish list" of system projects.

Response:

For the Company, "wish list" items represent projects where the Company has active capital programs in place that comply with federal pipeline safety regulations, but that would benefit from even more spending, if capital was available.

These areas include the following:

- Upgrades at Company-owned take stations (at a rate of one additional station per year);
- Incremental regulator station replacements (at a rate of two additional stations per year).
- Special-project spending on system interconnects (at a rate of four additional cut offs or valve installations per year);
- System up-ratings and installation of additional SCADA monitoring points (at a rate of five additional per year).

The incremental capital required on an annual basis to achieve these targets is estimated at \$1.1 million.

In addition, the Company's "wish list" includes acceleration of system reinforcements to reduce reliance on LNG in the Newport area, which would require approximately \$1.6 million in capital spending on a one-time basis.

Commission Record Request No. 13

Request:

Please provide a breakdown by percentage of the ratio of in-house staff versus outside contractors for past year.

Response:

The Company does not retain data regarding the use of in-house and contractor resources that would enable the Company to provide a clear-cut “percentage breakdown” of the ratio of in-house staff to outside contractors for all work that is performed on the system annually.

The table below shows a general breakdown of the work-plan activities planned for FY2009 involving excavation. Please note that the figures below represent the average number of crews deployed over the year. The actual crew complement will change throughout the year.

By Area:	O&M Activities		Capital Activities	
	Company Crews	Contractor Crews	Company Crews	Contractor Crews
RI - Providence	7	1	5	8
RI - Cumberland	4	0	0	1
Total	11	1	5	9

Division Record Request No. 4

Request:

Please provide any information that the Company has regarding the certification required for the burning of alternative fuels, including waste oil.

Response:

The Company is aware that an Air Quality Permit from the Rhode Island Department of Environmental Management is required before a dual-fuel customer can burn an alternative fuel such as waste oil. For the one National Grid customer that has chosen to burn waste oil, the permitting process took approximately 12-18 months.

Attached please find information from the Rhode Island Department of Environmental Management's website (www.dem.ri.gov) regarding the requirements for burning waste oil. Additional information is available on the website.

15.03 Burning Used Oil for Energy Recovery

This Rule applies to owners and operators of used oil burning equipment as defined in Rule 3.00. Used oil, or any fuel produced by processing used oil, may only be burned at a commercial facility in a space heater, industrial furnace or boiler provided that the used oil burner conducting the burning complies with all of the requirements of this section. Used Oil Processor/re-refiner facilities that burn small amounts of used oil as a result of processing used oil are not subject to the requirements of Rule 15.03.

- A. Used oil burners that utilize used oil burning equipment with heat input capacity of less than or equal to 500,000 BTU/hr to burn either specification used oil or off-specification used oil shall comply with the following requirements:
 - 1. The used oil burner only burns used oil that is generated onsite by routine facility processes; and
 - 2. The emissions produced by the used oil burning equipment are vented to ambient air outside of any building or structure.

- B. Used oil burners that utilize used oil burning equipment with heat input capacity of less than or equal to 500,000 BTU/hr to burn specification used oil that was not generated onsite shall comply with the following requirements:
 - 1. Prior to burning, the used oil burner has the used oil analyzed by a laboratory, or obtains certified copies of analytical test results conducted by a laboratory from the used oil generator, used oil transporter, or used oil processor/re-refiner to verify that it meets the definition of specification used oil;
 - 2. The used oil burner shall maintain copies of the actual analytical testing results at the facility where the burning activity occurs for a period of at least three years and shall provide such records to the DEM upon request;
 - 3. The used oil burner may aggregate off-specification used oil with virgin oil or specification used oil for the purposes of burning used oil onsite provided that the used oil burner first has the mixture of used oil analyzed to ensure that it meets the definition of specification used oil in accordance with this section, but may not aggregate for the purposes of producing specification used oil for off-site shipment;
 - 4. The used oil burner, prior to burning any used oil, shall notify the Department's Office of Air Resources of his/her intent to burn specification used oil in accordance with Rule 15.00 of the Hazardous Waste Management Regulations. Used oil burners subject to the requirements of Rule 15.03(B) shall obtain an EPA Identification Number by submitting a completed EPA Form 8700-12 to the Department.

- C. Used oil burners that utilize used oil burning equipment with heat inputs of greater than 500,000 BTUs/hr but less than 1,000,000 BTUs/hr to burn used oil shall comply with the following requirements:
1. The used oil burner only burns used oil that meets the definition of specification used oil contained in Rule 15.03;
 2. Prior to burning, the used oil burner has the used oil analyzed by a laboratory, or obtains certified copies of analytical test results conducted by a laboratory from the used oil generator, used oil transporter, or used oil processor/re-refiner to verify that it meets the definition of specification used oil;
 3. The used oil burner shall maintain records of analytical testing at the facility where the burning activity occurs for a period of at least three years and shall provide such records to the DEM upon request;
 4. The used oil burner may aggregate off-specification used oil with virgin oil or specification used oil for the purposes of burning used oil onsite provided that the used oil burner first has the mixture of used oil analyzed to ensure that it meets the definition of specification used oil in accordance with this section, but may not aggregate for the purposes of producing specification used oil for off-site shipment;
 5. The used oil burner, prior to burning any used oil, shall notify the Department's Office of Air Resources of his/her intent to burn specification used oil in accordance with Rule 15.00 of the Hazardous Waste Management Regulations. Used oil burners subject to the requirements of Rule 15.03(C) shall obtain an EPA Identification Number by submitting a completed EPA Form 8700-12 to the Department.
- D. Used oil burners that utilize used oil burning equipment with heat inputs of greater than or equal to 1,000,000 BTUs/hr to burn used oil shall comply with the following requirements:
1. The used oil burner only burns used oil that meets the definition of specification used oil contained in these regulations;
 2. Prior to burning the used oil burner has the used oil analyzed by a laboratory, or obtains certified copies of analytical test results conducted by a laboratory from the generator, transporter or processor, to verify that it meets the definition of specification used oil;
 3. The used oil burner shall maintain records of analytical testing at the facility where the burning activity occurs for a period of at least three years and shall provide such records to the Department upon request;

4. The used oil burner may aggregate off-specification used oil with virgin oil or specification used oil for the purposes of burning used oil onsite provided that the used oil burner first has the mixture of used oil analyzed to ensure that it meets the definition of specification used oil in accordance with this section, but may not aggregate for the purposes of producing specification used oil for off-site shipment;
 5. The used oil burner shall obtain written approval for such activity from the Department's Office of Air Resources pursuant to its Air Pollution Control Regulations prior to burning used oil. Used oil burners subject to the requirements of Rule 15.03(B) shall obtain an EPA Identification Number by submitting a completed EPA Form 8700-12 to the Department.
- E. Specification used oil shall meet the limits established in Table 1 below.* Used oil burners, used oil generators, used oil transporters, used oil collection centers, used oil aggregation points, used oil processor/re-refiners and used oil marketers shall conduct the analytical test methods listed in Table I below in order to demonstrate that their used oil meets the definition of specification used oil. Alternate test methods may be used provided the person, prior to testing, documents in writing that the test method to be used is approved by the EPA .

Table 1

A Constituent/property	B Allowable levels (using Column C test methods)	C Test Methods
Arsenic	5 ppm maximum	EPA Methods 7060A, 7061A, 7062, 6010B or 6020
Cadmium	2 ppm maximum	EPA Methods 7130, 7131A, 6010B, or 6020
Chromium	10 ppm maximum	EPA Methods 7190, 7191, 6010B, or 6020
Lead	100 ppm maximum	EPA Methods 7420, 7421, 6010B, or 6020
Polychlorinated biphenyls (PCBs)	<2 ppm	ASTM Method 608/8081 (see section 15.03(E)(3))
Flash Point	100 Degrees F minimum	EPA Methods 1010 or 1020A
Total Halogens	1,000 ppm maximum (see section 15.03(E)(1))	EPA Methods 9075, 9076, 9077, 5050/9056, 5050/9253, or ASTM Method D808-95

Division Record Request No. 10

Request:

Please provide an explanation of the history of the non-firm rate cap that is applied in New York.

Response:

For non-firm service, the New York Public Service Commission has typically supported a value-of-service approach subject to a rate cap, although the design and application of the rate cap varies among gas companies. As a result, the Company's non-firm rates in New York are value-of-service, subject to a cap. However, the calculation of the cap is different for the downstate and upstate operations.

Downstate Non-Firm Rate Structure

In the Company's "downstate" gas operations (KEDNY in New York City and KEDLI in Long Island), non-firm rates are capped at 100% of the price that non-firm customers would pay as firm commercial (heating) *sales* customers. The cap is calculated based on annual revenue and is applied at the end of the year. There is no monthly cap. Specifically, the cap is calculated to equal the average firm sales price for the year, including all surcharges, plus the cost of gas that non-firm customers would have paid if they were firm commercial heating-sales customers. The annual cap is intended to give the Company more flexibility in pricing in any given month.

Non-firm transportation rates are derived by subtracting "non-firm" gas costs from the firm sales rate. Non-firm gas costs are calculated as (1) the commodity cost of gas paid by firm sales customers (less any hedging results), plus (2) a \$0.46/dth demand charge. The transportation rate itself is not capped. Thus, the implication is that, while the overall non-firm *sales* rate is capped at 100% of the price that would be paid as a commercial firm (heating) sales customer, the "cap" on the transportation rate varies from period to period and exceeds 100%. For example, from January 1, 2008 – October 31, 2008, the non-firm transportation charges for KEDNY have averaged \$4.40/dth, or 157% of the average rate that non-firm customers would have paid for firm transportation service (\$2.80/dth) as commercial (heating) customers.

Moreover, over 80% of non-firm customers in the downstate region are multi-family units, which would pay firm multi-family rates if they took service as firm customers. However, the non-firm sales cap is based on the *commercial heating* rate. Thus, the average non-firm transportation rate for the period January 1, 2008 through

October 31, 2008 was \$4.40/dth, which is 191% of the average multi-family firm transportation rate of \$2.30/dth.

Under the non-firm pricing structure, the Company is allowed the flexibility to lower its price to the incremental cost of gas, and correspondingly, to reduce the non-firm transportation rates to equal the incremental cost of gas less the non-firm cost of gas, as defined above. This provides the Company with the ability to maximize non-firm throughput for the benefit of firm customers when oil prices decrease relative to natural gas.

The calculation for the non-firm rate cap was implemented as of January 1, 2008 as part of the Company's 2006 rate case. For many years prior to that date, the cap was calculated differently; however the overall structure was the same in that non-firm customers paid value-of-service pricing capped by the prices paid by firm sales customer. In the 2006, the Company proposed to remove the caps in order to maximize the revenue benefits firm customers would realize from non-firm customers. The NYPSC Staff's testimony supported maintaining the value of service pricing but with a firm cap based on customer's annual payments. In settlement, the Company agreed to Staff's annual cap proposal, which put in place a slightly different cap calculation than was previously utilized.

Upstate Non-Firm Rate Structure

The calculation of the cap is slightly different in the Company's upstate service area (formerly Niagara Mohawk). There, the Company the transportation rate for non-firm service is capped at 100% of the firm transportation rate that would apply to the customer if the customers took service as a firm-service customer. Similarly, the non-firm sales prices are capped at firm sales prices.

The Company has the ability to reduce the non-firm rate based on the individual customer's alternate fuel price in order to maintain non-firm throughput when oil prices fall below natural gas. The framework in place for the Company's upstate New York service area has been in place for over 20 years.