

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: NATIONAL GRID :
REQUEST FOR CHANGE OF : Docket No. 3943
GAS DISTRIBUTION RATES :

MOTION FOR INTERIM/EMERGENCY RELIEF

Pursuant to Rule of Practice and Procedure 1.17(f), SilentSherpa Energy Consulting and Professional Services, Inc. (“SilentSherpa” or “Petitioner”), on behalf of its non-firm clients, hereby moves the Rhode Island Public Utilities Commission (“Commission”) for emergency relief pending its final disposition of the above-captioned rate case. Specifically, SilentSherpa respectfully requests that the Commission order National Grid (“NGrid”) to utilize the floor tariff rate (best-known actual cost of service) as its natural gas pricing to non-firm customers.

To support its request for emergency relief, SilentSherpa avers the following:

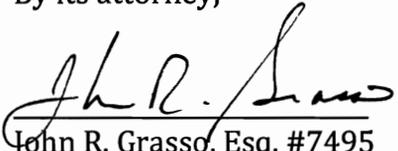
1. On August 14, 2007, SilentSherpa filed a petition with the Division of Public Utilities and Carriers (“Division”) seeking to amend Section 5 of RIPUC NG No. 101.
2. SilentSherpa warned that in light of the unprecedented volatility in the fossil fuel marketplace, the existing non-firm sales tariff substantially and unfairly disadvantaged non-firm ratepayers.
3. In response to the Division’s assertion that it lacked jurisdiction to provide the relief SilentSherpa prayed for, SilentSherpa filed its petition with the Commission on September 11, 2007.
4. The Commission requested that NGrid respond to SilentSherpa’s petition. On September 28, 2007, NGrid filed its response with the Commission.
5. In its response, NGrid suggested that any consideration of restructuring the tariff be addressed during the general rate case which must be filed no later than October 1, 2008.

6. On October 11, 2007, the Commission considered SilentSherpa's petition at an Open Meeting, Docket No. 3887, and denied SilentSherpa's request noting that SilentSherpa may move to participate in the rate case as an intervener.
7. The Commission also ordered NGrid at its next general rate case to file with the Commission as part of its fully allocated cost of service study, and in addition to its value of service based non-firm rates, an alternative cost of service based rate design for non-firm service customers. Order 19115 dated October 30, 2007.
8. NGrid filed its proposed Request for Change of Gas Distribution Rates without complying with the Commission's Order.
9. SilentSherpa, by motion, is an intervenor in the rate case and has contemporaneous with this Motion For Interim Relief, filed its Direct Testimony in that case.
10. Due to the volatile fossil fuel marketplace and NGrid's pricing scheme which takes full advantage of that volatility, non-firm natural gas consumers are in the middle of a crisis that demands immediate repair. This is the crisis that SilentSherpa warned about twelve months ago.
11. NGrid just recently released its non-firm Natural Gas Pricing for August 2008. Although its natural gas pricing is variable, the average non-firm consumer will pay two to three hundred percent more for non-firm natural gas distribution service than the average firm consumer.
12. A typical large non-firm consumer operating in the health care industry using 700,000 Therms during the month of August alone will pay NGrid on average \$150,000 more to deliver its natural gas than it would if NGrid was compelled to charge only the cost associated with its transportation service (or floor tariff rate) for that same one month period.
13. NGrid's recent responses to the Division's Data Requests 11-1, 11-2, and 11-3, provide sufficient evidence that NGrid's pricing scheme is random, discretionary, and at times based on pricing practices not sanctioned by the Commission.
14. Pursuant to the NFS Rate 60 Tariff, the customer must notify the Company by 9:00 a.m. two business days prior to the commencement of that month of the intention to take NFS service. Accordingly, SilentSherpa's non-firm customers are required to notify NGrid of their intent to accept NFS service no later than Tuesday, July 29, 2008 at 9:00 a.m.

Whereas, there is no end in sight for the volatility in the fossil fuel marketplace, the pending rate case will clearly proceed without resolution for months, and non-firm consumers – many of whom for prudent logistical reasons would be ill-advised to convert to a single source of fuel (i.e., health care providers) – will continue to pay two and three hundred percent more for arguably a lesser quality service (interruptible/non-firm versus uninterruptible/firm), the Commission’s failure to provide emergency relief may cause immediate and irreparable harm.

For the foregoing reasons, SilentSherpa, on behalf of its non-firm rate paying clients, respectfully requests that this Commission exercise its discretion by ordering NGrid to temporarily amend its natural gas pricing scheme for non-firm ratepayers by charging the company’s cost of service (floor tariff rate) as its transportation price effective August 1, 2008 pending the Commission’s final decision in the rate case presently before it.

Respectfully submitted,
SilentSherpa ECPS, Inc.
By its attorney,



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CERTIFICATION

I hereby certify that, pursuant to PUC Rule of Practice and Procedure 1.7(a), an original and nine copies of the within Motion were hand-delivered to Luly Massaro, Commission Clerk, Public Utilities Commission, at 99 Jefferson Blvd., Warwick, RI 02888 with an additional copy hand-delivered to Mr. Thomas F. Ahern, Administrator, Division of Public Utilities, at the same address.

Copies of the within Motion were sent via first-class mail, postage prepaid to:

Thomas R. Teehan, Esq.
National Grid
280 Melrose Street
Providence, RI 02907

Cheryl M. Kimball, Esq.
Keegan Werlin LLP
265 Franklin Street
Boston, MA 02110

Paul Roberti, Esq.
Department of Attorney General
150 South Main Street
Providence, RI 02903

Copies of the within Testimony were sent electronically to:

National Grid (NGrid) – Request for Change in Gas Distribution Rates Docket No. 3943 -
Service List as of 7/7/08

A handwritten signature in cursive script, appearing to read "J. R. Suro", is written over a horizontal line.

BEFORE THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

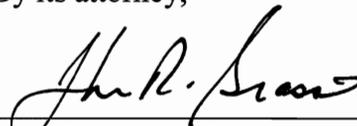
In Re: NATIONAL GRID GAS - :
APPLICATION TO IMPLEMENT :
NEW RATES :

Docket No. 3943

PRE-FILED TESTIMONY OF
JAMES M. GRASSO ON BEHALF OF
SILENTSHERPA ENERGY CONSULTING AND
PROFESSIONAL SERVICES, INC.

Pursuant to Public Utilities Commission Rules of Practice and Procedure 1.20(e)(1),
SilentSherpa Energy Consulting and Professional Services, Inc. ("SilentSherpa") submits the
following pre-filed direct testimony of its expert witness, James M. Grasso.

Respectfully submitted,
SilentSherpa ECPS, Inc.
By its attorney,



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CERTIFICATION

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Service List as of 7/7/08

OATH AND AFFIRMATION

I, James M. Grasso, do hereby verify and swear under penalty of perjury that the following testimony is true and accurate.



James M. Grasso, President
SilentSherpa ECPS, Inc.

1 **Introduction**

2 **Q. What is your name, position, and office address.**

3 A. My name is James M. Grasso. I am President of SilentSherpa ECPS. My office address
4 is 35C Meadow Tree Farm Road, Saunderstown, Rhode Island, 02874.

5 **Q. What is your educational background?**

6 A. I am a 1990 graduate of Bishop Hendricken High School in Warwick, RI and 1995
7 graduate of Providence College. I have additional post-graduate studies at Salve Regina
8 University in Newport, RI.

9 **Q. What is your professional experience within the energy business?**

10 A. Starting in 1997 and for a period of two years I was a founding member of Providence-
11 Southern [Providence Energy Services], wherein I designed and administered all pricing
12 models for natural gas and electricity retail sales. I later became the Marketing Program
13 Manager, wherein I designed and implemented strategies for marketing retail energy
14 products and services to the commercial and industrial consumer markets of New
15 England. In 1999 I became a founding member of Enermetrix.com, creator of the first B-
16 2-B online retail energy exchange. While Business Development Manager at
17 Enermetrix.com, I managed various client relationships overseeing the deployment of our
18 web-based applications and private-label marketing programs to many of our utility
19 licensees. I later became the Commercialization Manager, wherein I oversaw the
20 planning, development, and implementation of various software releases. In late 2000 I
21 founded SilentSherpa Energy Consulting and Professional Services, where I continue to
22 serve as President and owner.

23 **Q. What are your major responsibilities as President of SilentSherpa ECPS?**

24 A. I oversee and direct the management of all commercial client energy portfolios, which
25 includes active management of the electricity, natural gas, and fuel oil supply-side and
26 demand-side energy requirements of our clients. This includes planning, implementation,
27 and reporting of all advisory, procurement, audit, and online solutions delivered by our
28 employees and contractors.

29 **Q. What role does SilentSherpa play relative to the Rhode Island retail energy**
30 **marketplace?**

31 A. SilentSherpa is the largest multi-fuel retail portfolio management services firm in Rhode
32 Island. We represent the interests of a variety of commercial, industrial, and institutional
33 organizations [both for-profit and not-for-profit]...all of which are customers of National
34 Grid. The diversity of our clientele ranges from for-profit corporations such as Textron
35 and GTECH, to healthcare systems such as Lifespan and Care New England and smaller
36 not-for-profit organizations such as Amos House and Meeting Street Center.

37 **Q. What is the main purpose of your testimony?**

38 A. My testimony serves the following three purposes:

39 (i) Confirm National Grid's non-compliance with the Commission Order from
40 Docket 3887 dated October 11, 2007, wherein the Commission ordered "In its
41 next general rate case, NGRID shall file with the Commission as part of its fully
42 allocated cost of service study, and in addition to its value of service based non-

43 firm rates, an alternative cost of service based rate design for non-firm service
44 customers,”

45 (ii) Present the purpose, value, and inadequacies of non-firm service as currently
46 structured,

47 (iii) Identify NGRID’s manipulation of the Rate 60 Non-Firm Sales (NFS) Service
48 tariff [most notably NGRID’s discretionary use of pricing practices which fall
49 outside of the current tariff], and

50 (iv) Propose the requisite changes to the NFS Rate 60 that would remedy items (ii)
51 and (iii).

52 **Q. What is your specific experience with Non-Firm Service and related tariff issues?**

53 A. I have extensive experience with non-firm service and related tariff issues that spans
54 more than a decade, starting with my time at Providence-Southern. Throughout the past
55 ten years, I have interfaced with most large commercial non-firm natural gas consumers
56 within the State of RI. More recently, I personally manage the non-firm gas requirements
57 for clients such as Rhode Island Hospital, Kent Hospital, Roger Williams Medical
58 Center, Microfibres, and Stanley. Accordingly, I am intimately aware of the supply and
59 distribution rate structure of non-firm service, its impact on the both the non-firm and
60 firm customer, as well as the fashion through which NGRID can and does manipulate this
61 rate structure under the current tariff.

62 **Basis of Testimony**

63 **Q. Please explain how National Grid did not comply with Commission Order from**
64 **Docket 3887.**

65 A. Based on the pre-filed direct Testimony of Peter C. Czekanski dated April 1, 2008,
66 specifically P. 20 lines 1-11, NGRID elected to “rely on the cost of service based rate
67 established for firm-service customers” rather than develop a cost of service based rate
68 design for its non-firm service customers as specified by the order. Firm service and non-
69 firm service are distinctly different services, with different attributes and qualities for
70 both the utility and its customers. Accordingly, using a cost of service study based
71 exclusively on firm rates renders NGRID’s response inadequate and clearly non-
72 compliant.

73 **Q. What is Non-Firm Service [NFS], and how is it different than Firm Service [FS]?**

74 A. NFS is “interruptible” distribution of natural gas to consumers who maintain the ability to
75 displace natural gas with an alternative fuel such as, but not limited to, fuel oil or
76 propane. Accordingly, the utility reserves the right to interrupt service as defined by the
77 tariff. FS, on the other hand, cannot, except in the case of a qualified emergency, be
78 interrupted by the utility. NFS is a less reliable and lower quality service than FS.

79 **Q. What is the purpose of NFS?**

80 A. NFS allows the utility to maximize the value of their excess system capacity, otherwise
81 not utilized by its firm customers outside of peak demand periods [i.e. non-interruption
82 events].

83 **Q. What does NFS cost the utility?**

84 A. Because capacity offered under the NFS Tariff can be interrupted [presumably during
85 periods of highest demand, city gate maintenance, etc.], the capacity is not available

86 during periods of highest demand when such capacity commands its greatest value.
87 Inversely, the capacity is made available when there is no other anticipated system
88 demand for such capacity [i.e. no anticipated interruption]. Accordingly, NFS is of lesser
89 value than FS and any capacity utilized under NFS is already paid for by the firm service
90 customer. If the non-firm customer either did not exist or did not choose to consume the
91 NFS capacity then the capacity would go unused and be of no value to the utility. In this
92 regard, the cost of the NFS is marginal at best [i.e. reasonable costs associated with
93 service installation, account setup, billing administration, periodic maintenance, etc.] as
94 the cost of the capacity has already been assumed by the firm service customer.

95 **Q. What is the value of NFS to the consumer?**

96 A. Distribution of natural gas provides a certain value to the consumer. Because the utility
97 is regulated and guaranteed a return on their investment in lieu of having to compete for
98 business [i.e. franchised monopoly], the value of service must be directly related to the
99 cost of service plus allowable ROI. Until such cost of NFS is properly identified through
100 a marginal cost of service study, there is no way to determine what the value of such
101 service is to the consumer as there is no other comparable distribution service/capacity
102 available to the consumer for purchase.

103 **Q. Why is the current NFS rate structure inadequate?**

104 A. The current NFS rate structure is inadequate for two primary reasons:

105 (i) The NFS rate is not in line with a traditional, regulated cost of service rate
106 structure which is designed to restrict the utility from manipulating the rate in a
107 non-competitive environment as the consumer has no choice of natural gas

108 distributor. Rather, the NFS rate is based on a value of service that is valued
109 differently for consumers of different size demand and different alternative fuel;
110 neither of which has any direct bearing on the utility's capacity cost and/or cost of
111 service as previously discussed. The utility is providing monopolized
112 distribution, yet using the value of alternative fuels subject to competitive forces
113 to determine the value of its distribution. If this methodology were appropriate,
114 then NGRID also should be allowed to adjust their firm distribution rates in a
115 similar fashion because any consumer has the option to consume an alternative
116 fuel if they wish to invest in an oil or propane tank. It is an "apples" and
117 "oranges" comparison of value which makes no logical sense in a regulated
118 environment.

119 (ii) The NFS rate allows the utility "discretion [to] enter into contracts to provide
120 NFS service...where, in the Company's determination, such contracts are
121 necessary to maximize benefits to the Company and its customers." This
122 "discretion" allows the utility to apply preferential quotation and/or price
123 treatment as confirmed by NGRID's response to Division Data Request Div
124 11-1, wherein NGRID regularly offered the minimum "floor" NFS rate to certain
125 customers while offering the same service to other similarly situated customers at
126 higher rates [e.g. #6 oil consumers]. Furthermore, in their response to Division
127 Data Request Div 11-3, NGRID confirmed that no such allowable practice of
128 defining alternative fuel rates via a customer-provided third-party quote is listed
129 in the Tariff. In other words, the Tariff does not authorize NGRID's practice.
130 Nevertheless, NGRID assumes that rather than the Tariff, unauthorized and

131 unsanctioned past practice governs their behavior. NGRID's bold assumption is
132 entirely improper in a regulated marketplace. Moreover, it is insulting to the
133 customers who fund the company's existence and rely upon it to conduct its
134 business according to fair standards. Discretion has no place in a regulated arena
135 as it can be, has been, and will continue to be abused. Accordingly, the
136 Commission is obligated to enforce its Tariff, penalize the utility for practices
137 conducted outside of the Tariff, make whole those customers who have been
138 unfairly treated as a result of this "fast and loose" pricing scheme, and restructure
139 the NFS rate to prevent such abuse from occurring in the future.

140 **Q. How would you propose to change the NFS Rate?**

141 A. I propose bringing the NFS rate in line with a cost of service structure to render the
142 following benefits:

- 143 (i) Ensuring consumer protection against utility rate and/or quote manipulation as
144 referenced. Examples of improper practice include:
- 145 a. Preferential pricing [providing similarly situated consumers with different
146 pricing either because of personal favor, extortion of confidential alternative
147 vendor pricing, etc.]
 - 148 b. Delayed notification of pricing [i.e. later than the tariff-stipulated 10:30 AM
149 five (5) business days prior to the commencement of that month].
- 150 (ii) Guaranteeing the utility a known and fair ROI for use of their capacity at its
151 actual marginal cost, not some irrelevant proxy such as firm service. A known
152 and fair ROI is in line with NGRID's argument for Revenue Decoupling.

153 **Q. What additional issues do you have with the current NFS Rate and/or non-firm**
154 **service?**

155 A. Other issues include:

156 (i) NGRID offers the consumer very little advanced notification [5 business days
157 prior to month end], and even less time to respond to their quoted offer [2
158 business days prior to month end]. This unreasonably small window provides the
159 consumer with little, if any, opportunity to assess market options and properly
160 plan their procurement let alone audit the utility's monthly calculation for
161 accuracy. By providing no practical opportunity to explore its options, the
162 process as it stands is anti-competitive.

163 (ii) NGRID will increase the quoted rate of distribution service after their initial quote
164 and/or consumer acceptance should commodity markets allow. However, it will
165 not apply a discount to the quoted rates should the market allow. In this respect,
166 the process is unfair and anti-competitive as often the price increase transpires
167 after the consumer is committed to the utility for service and when it is too late to
168 procure an alternative solution. Interestingly enough, the same issue applies to
169 Transitional Sales Service wherein NGRID posts the monthly price (i) after the
170 start of the affected month, and (ii) they do not apply a market credit to the sales
171 service "base rate" should the utility's adjusted cost of gas fall below that of the
172 published rate for sales service.

173 (iii) NGRID uses the Journal of Commerce [JOC] to benchmark spot fuel oil rates
174 used in calculating its value of service rates. While the JOC is an industry
175 accepted standard for #2 oil, the publication has never been an accepted standard

176 for #4 or #6 oil. The JOC is known as a low-cost service, rendering over-inflated
177 proxy for #4 and #6 fuel oil prices, not to mention its pricing is typically stale and
178 not reflective of the actual liquidity found in the marketplace [i.e. same price is
179 posted for days straight rather than adjusted daily as the real market transacts].
180 Accordingly, NGRID is basing its rates on inaccurate industry information. Platts
181 Oilgram is the industry standard for spot #4 and #6 fuel oil prices in the
182 northeastern US.

183 **Q. What other issues would you like to address in your testimony?**

184 A. In closing I would like to address the quality of NGRID's service being delivered under
185 the tariff and associated proposed changes we are reviewing. Over the past decade, I
186 have never witnessed an investor-owned utility operate with such disregard and
187 disrespect for the needs of their customers as has NGRID. In my opinion, NGRID is a
188 foreign company that views its US based utility divisions as an opportunity to reap the
189 guarantees and securities of a monopoly without having to perform the basic quality of
190 service required to survive in the competitive environment. Accordingly, the rate payer
191 is not treated as a customer, but rather a mule to serve at the leisure of the shareholder.
192 Even a quick glance through this rate case will reveal a prevalent theme of policies and
193 rate structures that are presented as a benefit to NGRID [e.g. protection of revenues
194 against market risk]. Clearly absent are themes that identify how these proposed changes
195 will directly benefit the rate payer. A more thorough examination reveals a story of a
196 deteriorated utility [New England Gas] with very poor financial performance and
197 shrinking market base. If the condition of the utility were as poor as alleged and the
198 market outlook so grim, why would NGRID invest its shareholder funds in such a

199 troubled business and troubled marketplace? Something is out of balance. I suggest
200 based on my experience that either the utility is not as troubled and/or the market outlook
201 as poor as indicated or these conditions are in fact true and the Commission was asleep at
202 the wheel while it allowed Providence Gas and New England Gas to abuse their
203 respective privileges to operate as a franchised monopoly in the State of Rhode Island.
204 The basis of regulation is to ensure consumer satisfaction and protection, while delivering
205 the service provider a reasonable and guaranteed return on their investment. The
206 regulation, operation, and results must be fully transparent. As a contracted
207 representative of many of Rhode Island's commercial consumers, I hope the Commission
208 hears the message these consumers asked me to deliver – they, the consumer, is neither
209 satisfied nor adequately protected. The fact that this rate case is based on NGRID
210 supplied data that has not been audited by an indifferent and objective third-party
211 troubles the consumer and should trouble those responsible for overseeing a regulated
212 monopoly.

213 SilentSherpa has made every effort to work with NGRID on a variety of issues including
214 billing and metering processes, technology deficiencies, customer service and account
215 management deficiencies, data access deficiencies, and many other areas unique to its
216 operation. On every occasion our clients have received the same result of lip service and
217 empty promises of solutions to come with no material improvements to mention in this
218 testimony. Meanwhile, NGRID continues to publish claims that its quality of service has
219 improved while it strips down the quantity and capability of their account management
220 staff, continues to add middle management (aka "Business Solutions Managers"), makes
221 no material improvements to technologies which benefit the consumer (e.g. consolidate

222 outdated billing systems and eBill systems not adequately designed for the deregulated or
223 multi-fuel marketplace), and continues to operate with impunity given its protection as a
224 monopoly. These are troubling circumstances that require stricter scrutiny by the
225 Commission. After all, in light of what appears to be the Division's apparent lack of
226 jurisdiction as documented several times in the past by Mr. Spirito, the Commission is the
227 consumer's last harbor of refuge. In my professional opinion, the consolidation of Rhode
228 Island's major electric and gas utilities continues to benefit the NGRID shareholder much
229 more than it benefits the Rhode Island consumer. This very dangerous situation has the
230 potential to get much worse if it is not immediately corrected and more closely audited.

231 **Q. Are you available to address the issues you have identified in your testimony further**
232 **with the Commission?**

233 A. Yes. At the Commission's request, SilentSherpa stands ready to provide the Commission
234 with more detailed and documented evidence to support statements and representations
235 testified to hereto.

236 **Q. Does this complete your direct testimony?**

237 A. Yes