nationalgrid

Thomas R. Teehan
Senior Counsel

July 3, 2008

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 3961 – National Grid Interim Gas Cost Recovery Filing
<u>Response to Division's Testimony</u>

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's[1] comments in response to the direct testimony of Bruce Oliver provided on behalf of the Division of Public Utilities and Carrier's in the above-referenced proceeding.

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

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Docket 3961 Service List

[1] The Narragansett Electric Company d/b/a National Grid.

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]STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

NATIONAL GRID
INTERIM ANNUAL GAS COST RECOVERY Docket No. 3961

NATIONAL GRID'S MEMORANDUM IN RESPONSE TO DIVISION TESTIMONY

National Grid[1] submits these comments in response to the recently filed direct testimony of Bruce Oliver, a witness for the Division of Public Utilities and Carriers ("Division").

I. BACKGROUND

On May 23, 2008, the Company filed the currently pending Gas Cost Recovery ("GCR") application seeking to collect sufficient revenues to recover projected gas costs for the sixteen (16) month period July 1, 2008 through October 31, 2009. At the time of the filing, significant increases in the costs of natural gas had created a projected under collection of more than $9 million in the current gas year and a significant increase in gas costs for next winter. Those cost increases have continued to grow. The Company seeks to increase gas rates to recover revenue shortfalls now, instead of delaying until the usual November GCR filing period. Such proactive measures will lessen the size of the required GCR increase that would otherwise occur in November and provide more rate stability for our customers.

Along with its May 23 filing, the Company submitted the direct testimony of both Peter Czekanski and Gary Beland in support of its proposed GCR adjustment. On June 3, 2008, the

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[1] The Narragansett Electric Company d/b/a National Grid ("National Grid or "the Company").

Company filed the supplemental testimony of Gary Beland. On June 20, the Division filed the testimony of Bruce R. Oliver.

National Grid now responds with these comments on Mr. Oliver's testimony in order to narrow the real issues pending before the Commission for decision and to urge the Commission to adopt the GCR adjustment proposed in the Company's filing.

II. SUMMARY OF COMMENTS

As an introductory matter, it is important to note that the Division's witness agrees with the Company that increases to the current GCR rate should be implemented by the Commission at this time and in this proceeding. The Division, however, proposes a rate that is slightly different from that proposed by National Grid in its May filing. Moreover, the Division proposes that the GCR rate adjustment be implemented for the three and one-half months between July 15 and October 31 in order to recover only commodity under-collections occurring during the summer; whereas the Company has proposed a 16-month adjustment period that would now run from July 15 through October 31, 2009.

As described in the testimony of Mr. Oliver, the primary bases for the Division's reluctance to endorse National Grid's proposal are twofold: (1) it has concerns over disparities between the 2007/2008 design usage volumes for certain rate classes as compared to the 2008/2009 design usage volumes for those rate classes that are incorporated into the current gas cost recovery filing and (2) it has a concern over the 16-month time period for the adjustment given the current volatility of gas prices.

The Company has identified the underlying cause for the design usage volume disparity between the current filing and last year's GCR filing, and has confirmed that the figures used in the current filing are the appropriate ones. With respect to the appropriate period for this GCR adjustment, for the reasons stated below, the Company believes that the 16-month period is the most effective approach in terms of reducing the amount of current and projected under-recoveries and in terms of stabilizing customer rates.

II. ANALYSIS

A. The Company Has Reconciled The Disparity Between the Design Weather Usage Forecast for 2008-2009 When Compared to That For 2007-2008.

As a preliminary matter, it should be noted that the design usage forecast does not affect the overall amount of the requested GCR adjustment. Rather, these projected usage volumes are employed to distribute GCR costs among rate classes. After receiving Mr. Oliver's comments, the Company reviewed the design weather usage forecast that it used in its last GCR adjustment filing in 2007 as well as those used in the current filing. It has discovered that in the 2007 GCR filing the Company inadvertently used normal weather usage forecast figures for three of the rate classes instead of the design weather usage figures. This mistakenly entered data in the 2007 filing explains the disparity between the two filings. Once the normal weather usage forecast figures used in the 2007 filing are replaced with the design weather usage forecast figures, the 2007 filing is brought into harmony with the current GCR filing, and the disparity identified by the Division is removed.[2]

Importantly for purposes of the instant proceeding, the current GCR filing utilizes the appropriate design usage forecast figures. Thus, the assignment of GCR costs among

[2] The affect of the error in the 2007 GCR filing was relatively minimal, essentially failing to assign additional costs to the residential class that would have resulted in an increase of less than 1/10 of one percent to a residential heating customer's annual bill. This would amount to approximately $1.30 had this rate continued in effect for the entire year.

the rate classes that the Company has proposed is appropriate. The Company has reviewed its findings on this matter with the Division's consultant.

B. The Company's Recommended Sixteen-Month GCR Adjustment Period More Effectively Addresses Current and Projected Under-Recoveries

As a practical matter, the rates proposed by Mr. Oliver are not significantly different from those proposed by the Company. Nevertheless, the Company continues to support its proposed 16-month GCR period, which includes this past winter's undercollection and the projected summer months' undercollection and spreads the recovery over the longer time period.

The Division's suggested 3 ½ month GCR period presumes that the Company will make another GCR filing on September 1 with a proposed effective date of November 1. The timing of such a filing, prior to the end of hurricane season and before the completion of storage injections, would not allow the Company to receive any significant additional useful data for projecting future gas supply costs than are currently reflected in the Company's GCR. Hurricane season causes inflated commodity prices that are not necessarily reflective of the prices that will be available during the winter months, and national storage levels are the key to winter pricing. To the extent that a further price adjustment is necessary, under the 16-month rate proposed by the Company it is more likely that such a filing would be later in the year, at a time when the Company is in a better position to assess and project future gas costs. In addition, the 16-month rate, although slightly higher, will lead to greater rate stability for customers, reducing the amount of any future adjustment and moderating the impact of possible future rate increases.

In support of its 3 ½ month GCR period, the Division also refers to subsidiary issues involving the March 31, 2009 expiration of the Company's Merrill Lynch asset management agreement and the October 31, 2008 expiration of its LNG supply agreement with Distrigas. In its current filing, the Company has addressed the uncertainties relative to the replacement of these two agreements. It has built into its cost projections the assumption that the Merrill Lynch agreement, or its equivalent, will be available after the March 31 expiration date. Similarly, the Company's filing incorporates costs for its projected LNG requirements based on agreements that are in place with other National Grid operating companies in New England. Re-filing for a GCR adjustment in September under the Division's proposed time period would not remove those uncertainties as it will predate the expiration dates of both those agreements.

In any event, uncertainties generated by these subsidiary issues should not cause concern. The Company updates its cost projections monthly as part of a deferred gas cost account balance calculation. Thus, the impact of gas-price volatility—resulting in either an under-collection or and over-collection — will be continuously tracked and subject to correction by an interim GCR filing. However, having rates in place that persist past November 1, 2008 would enable the Company to file for an appropriate adjustment to rates, should it be necessary, with additional information regarding the LNG storage fill, the pricing of its underground storage fill, the national level of underground storage, the forecasted early winter weather, and the benefit of additional hedges in place that would significantly improve the estimate of supply costs for the upcoming winter.

III. CONCLUSION

Given the foregoing analysis, the Company maintains its belief that the 16-month GCR adjustment contained in its filing best addresses concerns about gas volatility and rate stability and it urges the Commission to implement the Company's proposed GCR cost recovery proposal.

Respectfully submitted,

NATIONAL GRID

By its attorney,

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Dated: July 3, 2008