STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S	:	
DISTRIBUTION ADJUSTMENT CLAUSE	:	**DOCKET NO. 3977**

REPORT AND ORDER

I. NATIONAL GRID'S FILING

On August 1, 2008, National Grid ("NGrid") filed with the Rhode Island Public Utilities Commission ("Commission") its annual Distribution Adjustment Clause ("DAC") for effect November 1, 2008.[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/penalty provisions. The DAC filing results in a factor that is applied to firm sales and firm transportation customers. NGrid's proposed DAC rate is a credit of $0.0030 per therm for firm service customers.[2]

The actual DAC factor results from nine components, which are filed with a specific factor 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

[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 table listing the nine components of the DAC indicating the current factor, the factor as proposed by NGrid and the Division's recommendation is attached hereto as Appendix A.

costs, and supplier demand costs are allocated to maintain system pressures in NGrid's distribution system;

(2) an Advanced Gas Technology (AGT") factor, which includes $300,000 annually in base distribution rates;

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

(4) an Environmental Response Cost ("ERC") factor, which collects $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. Ratepayers receive 75 percent of non-firm margins exceeding $1.6 million, while NGrid retains the remaining 25 percent;

(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 Earnings Sharing Mechanism ("ESM") factor, which provides for the sharing and refunding of NGrid's excess 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 a 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 nine DAC component factors approved by the Commission for the prior period; and

(9) a Service Quality Plan Penalty, which is for any penalty assessed against NGrid service quality as measured through the Service Quality Plan approved by the Commission in Docket 3476.[3]

In support of its filing, NGrid submitted the pre-filed testimony of Peter Czekanski, Manager of Pricing for NGrid - Gas. Mr. Czekanski's testimony described the DAC and the changes to the various components of the DAC. He presented factors for seven of the nine components omitting the ESM factor and the Service Quality Plan Penalty. Mr. Czekanski noted that the proposed DAC rate of ($0.0030) 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 ($0.0025) per therm.[4]

As for the System Pressure factor, NGrid proposed a 33% increase in the factor from $0.0042 per therm to $0.0056 per therm. The factor is based on the projected 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 2008 through October 2009. Mr. Czekanski noted that in Docket No. 3943,

[3] 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.
[4] NGrid Exhibit No. 1, Pre-filed Testimony of Peter Czekanski and attachments filed August 1, 2008 at 1-3.

NGrid proposed an updated system balancing percentage of 16.1 percent of LNG commodity related costs as opposed to the current 20.39 percent. He pointed out that when this filing is supplemented with updated LNG costs, NGrid will include calculations using both the current and proposed system balancing percentages so that the Commission-approved DAC rate will include the appropriate costs.[5]

Mr. Czekanski explained that the AGT program[6] was established in Docket No. 2025 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. 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 a balance of $701,326 remaining at the end of FY2008. Mr. Czekanski stated that NGrid is not proposing to change the current level of funding provided by the LIAP 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.[7]

Regarding the ERC factor, NGrid proposed a decrease in the credit factor from ($0.0021) to ($0.0020) per therm. This factor reflects a 10-year amortization of environmental response costs. The proposed ERC factor reflects annual amortization of

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[5] *Id.* at 3-5, Attachments PCC-1, PCC-2.
[6] NGrid refers 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.
[7] *Id.* at 5-7, Attachment PCC-3.

expenses totaling $579,331. Since there is $1,310,000 of ERC funding embedded in base rates, there will be a net refund to ratepayers of $730,669.[8]

In the area of on-system (non-firm) margins, NGrid proposed a credit factor of ($0.0076) per therm. Mr. Czekanski calculated that NGrid recorded $5,922,065 of non-firm margins, or $3,829,797 more than the imbedded $1.6 million threshold, which results in 75%, or $2,872,348, to be credited to customers and 25%, or $957,449, to be retained by shareholders. He noted that since the hearing in Docket No. 3859, NGrid has completed a detailed customer bill level review of the reported non-firm margins as recommended by the Division's expert Bruce Oliver. This review shows a $191,624 decrease in non-firm revenues, primarily related to adjustments to gas costs associated with the non-firm sales service.[9]

As to weather normalization, NGrid did not propose any adjustment to this factor. Mr. Czekanski noted that during the winter period of November 2007 through April 2008, the weather was 70 degree days warmer than normal. Because this is within the 2 percent warmer than normal deadband, there is no weather normalization adjustment.[10]

Mr. Czekanski explained that the earnings sharing calculation ("ESM") had not been completed, because NGrid financial data for the fiscal year ending June 30, 2008 had not been completed. NGrid will supplement this filing and provide that calculation no later than September 1, 2008. Also, Mr. Czekanski stated that NGrid incurred no service quality penalties for fiscal year 2008. As for the reconciliation factor for fiscal

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[8] Id. at 7-9, Attachment PCC-4.
[9] *Id.* at 9-10, Attachment PCC-5.
[10] *Id.* at 11, Attachment PCC-6. While the weather normalization clause provides for crediting/debiting customers when weather is warmer/colder than normal, it provides that in order to qualify for the $9,000 per day rate, the weather must be more than 2 percent warmer or colder than normal.

year 2007, NGrid proposed a factor of \$0.0011 per therm to recover an under-collection of the DAC in 2008 of \$380,810.[11]

II. NGRID'S SEPTEMBER 2, 2008 FILING

On September 2, 2008, NGrid filed the supplemental testimony of Peter Czekanski to incorporate updates to the DAC components included in the August 1 filing, as well as the earnings sharing component, and to show the calculation of the proposed DAC. His updates resulted in a DAC rate of \$0.0040 per therm for firm service customers, or an annual decrease of \$1.37 for residential heating customers. Mr. Czekanski updated the system pressure calculation, the on-system margin credit and the DAC reconciliation component. With regard to the system pressure calculation, he noted that the LNG costs are being updated to correspond with those included in NGrid's GCR filing, resulting in a decrease from \$0.0056 to \$0.0051 per therm. Mr. Czekanski updated his attachment on non-firm margins to include June 2008 figures which were not available at the time of the initial filing. For the twelve months ending June 2008, he noted that the total non-firm margin was \$4,037,874 more than the \$1.6 million threshold.[12]

Mr. Czekanski also updated the reconciliation component of the August 1 DAC filing to incorporate actual throughput for July 2008, resulting in a decrease in the ending balance from \$380,810 to \$372,689 or \$0.0010 per therm. He stated that NGrid's earnings calculation is being reviewed and will be filed with supporting testimony at a later date. Finally, he discussed the impact of the proposed DAC charge incorporating

[11] *Id.* at 11-13, Attachment PCC-7.
[12] NGrid Exhibit No. 2, Pre-filed Supplemental Testimony of Peter Czekanski and attachments filed September 2, 2008 at 1-3.

his updates, noting that it is a credit of $0.0040 per therm for firm service customers. This change represents an increase to the current credit provided to customers of $0.0015 per therm, from $0.0025 to $0.0040, resulting in an annual decrease on an average residential customer's bill of approximately one and a half dollars.[13]

III. NATIONAL GRID'S SEPTEMBER 29, 2008 FILING

On September 29, 2008, NGrid filed the testimony of Michael D. LaFlamme. Mr. Laflamme provided the calculation of NGrid's earnings subject to the ESM factor for the fiscal year ending June 30, 2008. He determined that for the fiscal year ending June 30, 2008, earning were $1,087,726 resulting in an ROE of .95 percent. Ratepayers were not entitled to receive a credit because these earnings did not exceed the 11.25% ROE threshold.[14]

Earnings were based on various adjustments to NGrid's operating revenues and expenses. First, during the period November 2007 through April 2008, the weather was seventy degree days warmer than normal winter, which is within the 2 percent warmer than normal deadband. Therefore, there is no weather adjustment. Second, NGrid's 25 percent portion of non-firm margins in the amount of $912,671, was excluded from fiscal year 2008 earnings. Third, NGrid excluded unbilled revenues from the ESM, decreasing operating revenues by $9,935,500 consistent with the methodology applied in Docket No. 3401. Fourth, NGrid removed $3,145,384 of stored gas inventory from rate base to eliminate carrying costs on stored gas inventory from revenues, which decreased operating revenue.[15]

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[13] *Id.* at 3-4.
[14] NGrid Exhibit No. 2, Pre-filed Testimony of Michael Laflamme and attachments filed September 29, 2008 at 1-3.
[15] *Id.* at 5-7, Attachments MDL-1 at 2.

The Company also made adjustments to seven expense and interest accounts. First, NGrid increased operating expenses for gas procurement incentives by a total of \$364,389, because the Company did not earn an asset management incentive. Second, operating expenses were decreased by \$181,462 for service contract labor overheads. These expenses were transferred to NGrid Energy Service pursuant to Commission Order No. 19395 dated August 29, 2008. Third, NGrid reduced operating expenses by \$8,511,571 to reflect unbilled gas costs. Fourth, \$2,049,000 was included in operating expenses in accordance with the Settlement Agreement, in Docket No. 3401, as the investors' share of annual net merger savings. Fifth, NGrid eliminated \$2,929,631 in costs to achieve merger synergies recorded during fiscal year 2008 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 is before the Commission for its consideration in Docket No. 3943. The sixth adjustment was to exclude lobbying-related expenses as non-operating expenses and thus exclude it from the ESM calculation. Finally, NGrid included interest expense of \$189,858 related to customer deposits. Other charges not considered a normal part of the gas distribution business were recorded below the line and not included in the ESM calculation.[16]

Mr. Laflamme explained that, in order to account for the purchase by NGrid of the regulated Rhode Island assets of Southern Union, the pre-acquisition New England Gas Company's book/tax timing differences were transferred to the books of Southern Union. NGrid began recording its own deferred tax liabilities following the acquisition.

[16] *Id.* at 7-10, Attachment MDL-1 at 2.

For the ESM federal income tax calculation, NGrid used the statutory rate of 35 percent for a total expense of $851,747.[17]

Mr. Laflamme utilized an imputed capital structure as specified in the Settlement Agreement of Docket No. 3401 to calculate the average cost of capital: 8.8 percent short-term debt, 45.7 percent long-term debt, 1.9 percent preferred stock, and 43.6 percent common equity. NGrid computed the cost of long-term debt by multiplying the base applicable to long-term debt times NGrid's actual long-term debt rate for 2008 of 7.99 percent. The Company calculated short-term debt by multiplying the rate base applicable to dhort-term debt times 4.14 percent which is the twelve month average cost of short-term debt. Finally, preferred dividends were calculated by multiplying rate base applicable to preferred stock by 9.93 percent per the Docket No. 3401 Settlement Agreement. Also, NGrid included funds associated with the allowance for funds used during construction in calculating operating income.[18]

In calculating the rate base, NGrid used a five-quarter average for the year ending June 30, 2008. Mr. Laflamme excluded environmental response costs and prepaid taxes from rate base per the Docket No. 3401 Settlement Agreement. 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. He excluded the costs associated with legacy customer-information systems, stored gas inventory and customer deposits. Finally, NGrid included a hold harmless rate base credit as a reduction to rate base. Mr. Laflamme noted that earnings were below the

[17] *Id.* at 9-10, Attachment MDL-1 at 3.
[18] *Id.* at 11, Attachment MDL-1 at 4.

11.25 percent ROE threshold for any earnings sharing, and therefore, no earnings sharing amount would be returned to ratepayers.[19]

Also attached to Mr. Laflamme's testimony were two corrected attachments to Mr. Czekanski's testimony, PCC-1 Updated Summary of DAC and PCC-5 On-System Margin Credit which were modified to correct an error in the previously filed attachment. These modified attachments result in a credit of $0.0036 per therm.[20]

IV. NATIONAL GRID'S OCTOBER 31, 2008 FILING

On October 31, 2008, NGrid filed an updated System Pressure Component, reducing it from $0.0051 per therm to $0.0044 per therm. This revision resulted in a change in the overall DAC factor to ($0.0043) per therm, versus the ($0.0040) per therm factor as originally proposed.

V. DIVISION'S DIRECT TESTIMONY

On November 13, 2008, the Division of Public Utilities and Carriers ("Division") filed the direct testimony of its consultant, Bruce R. Oliver, President of Revilo Hill Associates, Inc. Mr. Oliver discussed all elements of the DAC except the ESM, which was reviewed by David Effron. The Division represented that Mr. Effron's review concluded that no modification to the calculation of earnings to be shared was necessary, because there was no reasonable possibility that any potential adjustments would approach the approximate $18 million threshholdneeded for the Company to be in an earnings sharing situation.[21]

For the System Pressure factor, Mr. Oliver found no mathematical or data problems in NGrid's updated calculations. He noted that the Division believes that

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[19] *Id.* at 12-13, MDL-1 at 5,6.
[20] *Id.* at PCC-1, PCC-5.
[21] Division Exhibit No. 1, Pre-Filed Testimony of Bruce R. Oliver and schedules filed November 13, 2008.

NGrid's proposal to replace the current 0.239 System Balancing Factor that was established in Docket No. 3401 with a new factor of 0.1610[22] is reasonable and should be implemented in this proceeding. He recommended that the Commission accept NGrid's System Pressure calculation using the new factor for a total of $0.0035 per therm.[23]

For the AGT factor, Mr. Oliver noted that a balance of $701,326 remains unexpended and uncommitted from fiscal year 2008. Mr. Oliver noted that this amount, in addition to the $300,000 in expected funding from base rates, will provide $1,001,326 in available funds for new projects. Mr.Oliver recommended that the AGT Program Factor for the coming year be set at ($0.0008) per therm to offset the amount of AGT program funding that would otherwise be collected through base rates over the next year. For the LIAP factor, Mr. Oliver stated that the LIAP funding is $1,785,000 per year, not including the working capital allowance of $8307. The funding consists of $1,585,000 for LIHEAP and $200,000 for Low Income Weatherization Program activities.[24]

Regarding the ERC factor designed to recover reasonable and prudently incurred environmental response costs, Mr. Oliver noted that NGrid is seeking approval of a net recovery to it of ($730,669). 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

[22] Mr. Oliver's testimony identified this factor as 0.1610; however, he corrected this during the November 21, 2008 hearing to 0.1680.
[23] Division Exhibit No. 1 at 1-7. This calculation does not take into account the correction of the factor from 0.1610 to 0.1680.
[24] *Id.* at 7-12.

costs for fiscal year 2007; a 10-year amortization of ($45,755) 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 2008 was $1,430,281. He noted the proposed ERC credit factor ($0.0020) per therm represents a net credit to firm customers. He stated that for fiscal year 2008 NGrid claimed a net ERC cost of ($185,419). Two projects accounted for almost 86% of the total new ERC.[25]

Mr. Oliver indicated he generally finds NGrid's environmental costs to be reasonable. However, he offered three caveats to the general assessment of NGrid's environmental costs. First, he noted that the reliability and accuracy of NGrid's accounting for costs by project appears somewhat questionable. Second he noted that the cost for removing and replacing mercury seal regulators (MSRs) has risen significantly, raising questions about their reasonableness. Finally, he pointed out that NGrid did not properly recognize the timing of the receipt of approximately $1.1 million of environmental insurance settlement proceeds, and ratepayers have been inappropriately denied the benefit of interest on those funds over the past year. Mr. Oliver noted that assuming the claimed 2007 costs were prudently incurred, the fact that NGrid delayed its request for recognition of these costs should not impede its ability to recover them as the DAC is a reconciling mechanism intended to provide the Company with a mechanism for cost recovery.[26]

In the area of on-system margin credits,[27] Mr. Oliver pointed out the increase in non-firm gas sales was due to high fuel oil prices. He noted that the Division had not had

[25] Id. at 12-16.
[26] *Id.* at 16-21.
[27] On-system margin credits represent the margins calculated as the difference between non-firm sales and transportation revenues and non-firm gas costs.

the opportunity to perform a detailed review of the Company's information, and recommended that the Commission accept NGrid's calculations subject to further review and the possibility of future recommendations for revisions. He also recommended the Commission deny the proposed adjustments to the FY 2007 Non-Firm margin calculations based on NGrid's failure to provide adequate supporting explanations and data for the "updated" information provided by NGrid. Mr. Oliver recommended an On-System Margin Credit Factor of ($0.0080) per therm.[28]

As for the Weather Normalization factor, Mr. Oliver found NGrid's proposed factor of $0.0000 to be accurate since the 2007-2008 winter season was not sufficiently warmer or colder than normal to trigger the computation of a non-zero weather normalization factor for NGrid. He adjusted the reconciliation factor to reflect the environmental insurance proceeds that should have been reflected in the development of the Company's reconciliation factor, by revising the Company's $0.0010 factor to $0.0009. Mr. Oliver noted that his adjustments resulted in a DAC adjusted for uncollectibles of ($0.0066) per therm.[29]

VI. HEARING

Following published notice, a public hearing was conducted on November 21, 2008 at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island.[30] The following appearances were entered:

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[28] Division Exhibit No. 1 at 21-31.

[29] *Id.* at 31-38. This testimony was corrected during hearing to reflect the corrected System Pressure Factor of 16.8%.

[30] It is important to note that prior to the commencement of the hearing, NGrid, on October 15, 2008, filed an amendment to its original filing requesting that the effective date of its proposal be extended from November 1, 2008 to December 1, 2008.

FOR NGRID	:	Thomas Teehan, 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 as its witness. Mr. Czekanski testified that he had no problem with Mr. Oliver's recommendation that the Commission adopt the 16.8 system balancing factor that was recommended in Docket No. 3943.

In response to Mr. Oliver's recommendation that AGT funding be discontinued, Mr. Czekanski noted that NGrid currently has three customers working on projects that could result in the funds in the AGT account being expended. He also noted that NGrid is currently gathering documentation to address Mr. Oliver's concerns regarding the non-firm margin sharing calculation pointing out, as Mr. Oliver did, that any adjustment required could be made as part of next year's filing.[31]

Mr. Czekanski did not agree with Mr. Oliver's recommendation that interest on the $1.1 million insurance settlement be credited to ratepayers. He justified his disagreement by noting that the entire environmental account is underfunded. On cross examination regarding continued funding of the AGT fund, Mr. Czekanski was unable to provide information as to what the specific projects were, what they would cost, what type of payouts would be requested and when those payouts would be made. He was also asked questions regarding the significant increase in the cost to replace mercury sealed regulators. He testified that with regard to mercury there have been numerous procedural

[31] Transcript of Hearing ("Tr."), November 21, 2008, at 8-15.

changes in the last few years and the increase in expenses because of the types of testing NGrid performs.[32]

Mr. Oliver also testified at the hearing. He reiterated that the funding proposed for AGT by the Division was sufficient to cover expected expenditures for the next year, especially in light of the fact that it was unclear whether any project would be completed within the next year, partially because of the current economic environment. Furthermore, he noted that NGrid only spent $12,000 in the last year, and currently there is in excess of $700,000 in the fund. He did not recommend that the Commission disallow the Company's proposed environmental factor, but did recommend that NGrid provide more documentation regarding the increased costs of the mercury sealed regulators and explain what if anything is being done to contain those costs. Additionally, he recommended that NGrid provide the Commission with information as to how many more mercury regulators still exist.

COMMISSION FINDINGS

At an open meeting on November 24, 2008, the Commission reviewed the evidence and adopted a DAC factor of ($0.0063) per therm for effect December 1, 2008. The approved DAC factor should credit approximately $3.27 to residential ratepayers over the eleven-month period starting December 1, 2008. The Commission is satisfied that the evidence presented by NGrid supports the approved DAC factor.

Specifically, the DAC is composed of nine factors: System Pressure, ERC, AGT, LIAP, Weather Normalization, On-System Margins, Reconciliation, a Service Quality Plan Penalty and the ESM. With regard to the System Pressure factor, LNG commodity costs are projected to decrease to $0.0037 per therm. With this

[32] Tr. at 15-29.

calculation the Commission approved a change to the System Balancing Factor from 20.39 percent of LNG commodity costs to 16.8 percent as proposed by NGrid.

Also, the Commission approved an ERC credit factor of (\$0.0020) per therm, but ordered NGrid to provide more documentation: 1) to show why costs for mercury seal regulators have risen so significantly, 2) regarding the status of the replacement program, and 3) to show that the funding for this program is being used efficiently.

Although there was testimony about three customers NGrid believed would be eligible to take part in the AGT program, there was no testimony as to the specifics of any of these projects, i.e., anticipated completion of the projects or how much of the \$701,326 carry-forward or \$301,496 funding embedded in rates for the coming year would be required to satisfy any request for rebates. Therefore, the Commission will approve the Division's recommendation to disallow the AGT funding and allow for a credit of (\$0.0008).

As for the On-System Margins factor, NGrid filed a credit of (\$0.0076) per therm to return \$2,922,564 to ratepayers, while the Division proposed a credit of (\$0.0080) to return \$3,842,307 to ratepayers, because of NGrid's failure to provide an adequate explanation of its proposed adjustments to its FY 2007 non-firm margin calculations. The Commission accepted the Division's recommendation.

Regarding the reconciliation factor, the Division testified at the hearing that it was satisfied with the 0.0010 factor proposed by NGrid. Therefore, the Commission approved this factor. As for the ESM factor, NGrid did not earn a ROE above 11.25% for fiscal year 2008. Thus, no adjustments the Commission could have made would have brought the ROE above 11.25%. Accordingly, the Commission approved NGrid's proposed ESM credit factor of ($0.0000) per therm. The other components of the DAC, Low Income Assistance Program and Weather Normalization, remain unchanged.

On December 1, 2008, the Commission approved NGrid's compliance filing which reflected the Commission's decision in Docket No. 3943. In that docket, the Commission approved NGrid's request to increase the uncollectible percentage from 2.10 to 2.46. Additionally, the Commission approved a lost revenue adjustment of $0.0031 per therm to allow for recovery of the estimated lost revenue associated with the one month delay in implementation of Docket No. 3943. These two adjustments result in the DAC being reduced from ($0.0063) as approved at the November 24, 2008 open meeting to ($0.0032).

Accordingly, it is

(19562) ORDERED:

1. The System Pressure factor of $0.0037 per therm recommended by the Division is approved for effect December 1, 2008.
2. The Environmental Response Cost credit factor of ($0.0020) per therm filed on filed on August 1, 2008 by National Grid is approved for effect December 1, 2008.
3. The Reconciliation factor of $0.0010 per therm filed on September 29, 2008 by National Grid is approved for effect December 1, 2008.
4. The On-System Margin credit factor of ($0.0080) per therm recommended by the Division is approved for effect December 1, 2008.

5. The overall Distribution Adjustment Charge credit of ($0.0032) per therm is approved for effect December 1, 2008.

6. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE DECEMBER 1, 2008 AT WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETINGS ON NOVEMBER 24, 2008 and DECEMBER 1, 2008. WRITTEN ORDER ISSUED JANUARY 28, 2009.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner

Attachment A

National Grid - RI Gas

Docket No. 3977

Division Revised DAC Summary & Comparison to National Grid's Udpated DAC

Line No.	Current	As Proposed By NGrid	Division Position
1 System Pressure (SP) Factor	$ 0.0042	$ 0.0044	$ 0 .0037
2 Advanced Gas Technology (AGT) Factor	$ -	$ -	$ (0.0008)
3 Low Income Assistance Program (LIAP) Factor	$ -	$ -	$ -
4 Environmental Response Cost (ERC) Factor	$ (0.0021)	$ (0.0020)	$ (0.0020)
5 On-System Margin Credit (MC) Factor	$ (0.0084)	$ (0.0076)	$ (0.0080)
6 Weather Normalization (WN) Factor	$ 0.0025	$ -	$ -
7 Earnings Sharing Mechanism (ESM)	$ -	$ -	$ -
8 Reconciliation (R) Factor	$ 0.0014	$ 0.0010	$ 0.0010
9 Subtotal	**$ (0.0024)**	**$ (0.0042)**	**$ (0.0061)**
10 Uncollectible Percentage	2.10%	2.10%	2.46%
11 **DAC Adjusted for Uncollectibles**	**$(0.0025)**	**$ (0.0043)**	**$ (0.0063)**