nationalgrid

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Senior Counsel

March 2, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 3982 – Gas Cost Recovery (GCR)
Deviation from the Gas Purchase Incentive Plan

Dear Ms. Massaro:

The purpose of this letter is to inform the Commission of the Company's plan to deviate from the existing Gas Purchase Incentive Plan ("Plan") and to make additional purchases that effectively would accelerate a portion of the mandatory purchases under the Plan for the period November 2009 through February 2011.

The recent drop in gas prices has taken them to levels significantly below those embedded in hedging purchases and the current GCR rates. For example, prices for next winter are now over 30% below the prices of the hedges embedded in current gas costs. The Company has been engaged in discussions with the Division of Public Utilities and Carriers ("Division") and its consultant, Bruce Oliver, to determine if any actions should be taken to accelerate mandatory purchases that would effectively act as an additional hedge for future gas purchases.

While the Company already has in place very substantial hedge positions for the upcoming year, as it has completed a significant portion of the mandatory buying, including a previous group of accelerated hedges done in October 2008, and made significant discretionary purchases, the Company and the Division have agreed that it makes sense at this time for the Company to fully complete the mandatory hedging for the November 2009 through April 2010 period and that the Company should also accelerate approximately one-half of all remaining mandatory purchases for the period May 2010 through February 2011 by making those purchases as soon as possible. Like any hedge, these purchases will not guarantee that commodity prices to customers in the future will be lower than if the Company simply continued the mandatory plan. However, in the judgment of the Division's consultant and the Company, locking in more commodity purchases at the prevailing prices being seen today is a reasonable hedging strategy at this time and an action that will create the potential for future reductions in the gas cost recovery rate over that time period.

The Company and the Division also have agreed to exclude these purchases from the calculation of the benchmark used to determine the incentive or penalty under the Plan. As such, the actions taken would have no impact on the incentive/penalty results for these months.

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Because of the exceptional volatility evident in natural gas prices, this opportunity to lock in the prices prevailing today may be short lived. Given the Commission's prior Orders and precedent, it is the Company's understanding that it is unnecessary to obtain formal Commission approval of this transaction. Thus, unless the Company hears otherwise from the Commission by close of business Wednesday, March 4^{th} , the Company will proceed to accelerate mandatory purchases as described above.

If you have any questions, please feel free to contact me at (401) 784-7667 or Gary Beland at (401) 784-7156.

Very truly yours,

Thomas R. Teehan

cc: Paul Roberti, Esq.
Steve Scialabba, Division

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted to the individuals listed below on March 2, 2009. The hard copies to be mailed via US Mail on March 3, 2009.

____
Joanne M. Scanlon

March 2, 2009
Date

Docket No. 3982 – National Grid – Annual Gas Cost Recovery Filing ("GCR") - Service List as of 9/10/08

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