Thomas R. Teehan
Senior Counsel

April 21, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4041 - Accelerated Procurement Plan
Responses to Data Requests

Dear Ms. Massaro:

Enclosed please find the responses of National Grid [1] to the data requests of the Commission, the Division, and the Office of Energy Resources in the above-referenced proceeding.

Pursuant to Commission Rule 1.2(g), the Company is requesting confidential treatment with respect to portions of the following materials: Attachment Division DR 1-4 and Attachment RIPUC 1-7, 1-8a and 1-8b, and Attachment RIPUC 1-12, which is also being provide to the Commission and Division on a CD-Rom. In compliance with Rule 1.2(g), National Grid is providing one complete unredacted copy of the confidential documents as well as the CD-Rom referred to in a sealed envelope marked "Contains Privileged and Confidential Materials – Do Not Release." Copies of the confidential document are also being provided to Steve Scialabba representing the Division of Public Utilities and Carriers. Pursuant to Rule 1.2 (g)(2), National Grid also requests a preliminary finding that this document is exempt from the public disclosure requirements of R.I.G.L. §38-2-1 et. seq.

These redactions contain dates upon which the Company would be issuing solicitations, pricing information, and details of the proposed contracts. The Company believes that disclosure of these details could adversely impact the prices the Company would receive as a result of these solicitations.

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

Enclosure

cc: Docket 4041 Service List
Steve Scialabba, Division

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

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/or mailed to the individuals listed below.

Joanne M. Scanlon — April 21, 2009 Date

Docket No. 4041 National Grid – SOS and RES Procurement Plans
Service List Updated 4/3/09

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File an original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02889	Lmassaro@puc.state.ri.us Cwilson@puc.state.ri.us Nucci@puc.state.ri.us Anault@puc.state.ri.us	401-780-2017 401-941-1691

Division Data Request 1-1

Request:

Please explain why the Company is choosing to settle the swap contract prior to the delivery period rather than holding it through to maturity and settling it financially against actual prices like would be done with a contract for differences.

Response:

The Company is proposing to enter into a fixed price financial swap contract with settlement at the same time that it enters into a Full Requirements Service ("FRS") agreement for the Small Customer Group's Standard Offer Service ("SOS") supply. This combination of hedging tools will provide fixed energy prices for the period January 1, 2010 through September 30, 2010 for most of the load of the Small Customer Group. The fixed price financial swap is like a contract for differences in that it locks in the current market view of future commodity prices and settles against the change of those future market prices. The point of settling the swap on the same date as the FRS contract award is to complement the pricing in the FRS contract which is based on that date's market view of future prices. Settling the swap contract on the same date as the FRS contract award transfers the value of the hedged commodity prices in the financial swap to the Company's customers and limits the risk that the FRS contracts obtained in the autumn of 2009 could result in significantly higher costs to customers. Settling the hedge against actual monthly commodity procurement prices would remove the hedge benefit from the FRS contracts and would not have the aspect of "locking in" energy prices before the FRS contracts are in place. Contracts for differences settling on actual prices, along with other financial and physical tools, could be used to hedge risk once a managed portfolio is established, but the Company has proposed this hedging combination for the start up of the 2010 supply portfolio..

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-2

Request:

Why is it better to specify a specific settlement date and not a settlement date range so as to protect against an unfavorable market outcome on a single day?

Response:

The settlement is predetermined from the FRS contract award date. Settling the financial swap on the same date as awarding the FRS contract in effect transfers the locked-in energy components from the financial swap to the load following FRS contract.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-3

Request:

Why is the Company proposing to only hedge 50% of the October 2010 through March 2011 period? How was this 50% level established? Please explain how National Grid established March 2011 as the end date.

Response:

The Company is proposing to hedge only 50% of the Small Customer Group load as the first hedge to be obtained for the time period Oct 2010 thru March 2011. The Company intends to hedge the remainder of this load at a later date. The March 2011 date was established to correspond to the two pricing periods established for this customer class. This layering of financial swaps or hedges allows for the development of a managed portfolio for SOS supply. Locking in market prices over a longer time frame allows for retail rates to be designed with less volatility. The final hedge percentages and lengths of financial swaps will be designed as part of the transition to a managed portfolio approach in the Standard Offer Filing.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-4

Request:

How will the value of the hedge get included into the final retail rate that customers pay? Please be specific in describing the process that will be used in developing the rate. If National Grid does unwind or settle the financial swap on the date that the full requirements contract is signed, will it receive (or pay) a lump sum payment from (or to) the counterparty to this contract? Will National Grid reduce (or increase) the SOS cost to Small Customers each month, or will it hold these funds (or payment) to the end of the January to September 2010 period and then include these funds in the true-up calculation? If so, will this sum accrue any interest? Please provide a sample calculation of how the benefits and costs from the proposed financial swap will be delivered to customers.

Response:

The settlement of the financial swap will result in a lump sum payment. Since the settlement date is prior to the filing of the retail rate for Small customers, the settlement results will be incorporated in the retail rate calculation. The costs or benefits of any hedging activity will be treated similarly to all expenses and revenues in the Annual Reconciliation Filing, such that interest will be included. See Attachment Division DR 1-4.

Prepared by or under the supervision of: Alan P. Smithling

REDACTED

Example with Reconciliation Calculation

A) Forward Market Prices at time of Awarding Financial Swap Contract

Example has prices as of : April 6 2009

			Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Wgtd Avg
(A)	Electric Futures Price ($/MWh)	On-Peak	72 83	72 83	59.63	59.63	54.80	58 58	67.88	67.88	57.70	
		Off-Peak	61 35	61 35	46.95	46.95	43.00	44 00	49.38	49.38	44.75	
[redacted]												
(H)	Expected FRS Bid Price ($/MWh)	Small	91 09	93 29	76.28	77.04	70.83	76 82	85.05	84.57	75.92	**81.85**
(I)	Estimated Load (MWh)	On-Peak	161,684	161,684	162,695	133,389	121,263	181,558	208,674	218,611	145,011	
		Off-Peak	187,453	155,621	150,400	123,958	142,821	158,821	201,853	193,937	141,474	

B) Forward Market Prices on Settlement Date have Increased by 10% above Award prices

			Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010	Wgtd Avg
(A)	Electric Futures Price ($/MWh)	On-Peak	80.11	80.11	65.59	65.59	60.28	64.44	74.67	74.67	63.47	
		Off-Peak	67.49	67.49	51.65	51.65	47.30	48.40	54.32	54.32	49.23	
[redacted]												
(H)	Expected FRS Bid Price ($/MWh)	Small	98 52	100.78	82.24	83.01	76.23	82 59	91.61	91.15	81.62	**88.22**
(I)	Estimated Load (MWh)	On-Peak	161,684	161,684	162,695	133,389	121,263	181,558	208,674	218,611	145,011	
		Off-Peak	187,453	155,621	150,400	123,958	142,821	158,821	201,853	193,937	141,474	
(J)	Estimated Hedge Settlement ($s)	95% of Estimated Load Hedged	(2,211,190)	(2,025,667)	(1,592,463)	(1,308,515)	(1,214,720)	(1,674,260)	(2,292,564)	(2,319,509)	(1,396,315)	
(K)	Estimated FRS Costs ($s)		34,395,280	31,977,885	25,749,696	21,361,695	20,131,262	28,111,372	37,610,329	37,603,001	23,383,854	
(L)	Total Costs		32,184,091	29,952,218	24,157,233	20,053,181	18,916,542	26,437,112	35,317,765	35,283,492	21,987,539	
(M)	Estimated Monthly FRS Cost ($/MWh)		92.18	94.40	77.16	77.92	71.63	77 67	86.03	85.53	76.75	**82.78**

Hedge % 95%

Reconciliation	Totals	Jan-2010	Feb-2010	Mar-2010	Apr-2010	May-2010	Jun-2010	Jul-2010	Aug-2010	Sep-2010
Wholsale Rate		82.78	82.78	82.78	82.78	82.78	82.78	82.78	82.78	82.78
FRS Contract Rate		98 52	100.78	82.24	83 01	76 23	82.59	91.61	91.15	81 62
Actual Loads Factor		1 02	1.03	0.98	0.95	1 01	0.98	1.05	0.98	1 02
Actual Loads		356,120	326,824	306,833	244,480	266,725	333,571	431,053	404,296	292,214
FRS Supplier Cost	261,623,756	35,083,186	32,937,221	25,234,702	20,293,611	20,332,574	27,549,144	39,490,846	36,850,941	23,851,531
SO Small Revenue	(245,217,264)	(29,481,176)	(27,055,991)	(25,400,999)	(20,239,151)	(22,080,696)	(27,614,534)	(35,684,470)	(33,469,471)	(24,190,777)
Financial Swap	(16,035,202)									
Reconciliation Amt	371,290									

Illustrative Example of the Financial Swap

Award Financial Swap

(Mkt prices, previous day COB)

Month	OnPeak Futures ($/MWh)	OffPeak Futures ($/MWh)	Estimated Load Capacity (MW) OnPeak	Estimated Load Capacity (MW) OffPeak	Financial Swap: Days in Month	Financial Swap: OnPeak Days in Month	Financial Swap: Capacity (MW) OnPeak	Financial Swap: Capacity (MW) OffPeak	Financial Swap: Energy (MWhs) OnPeak	Financial Swap: Energy (MWhs) OffPeak	Contract Value Locked in w/Swap $
Jan-10	72.83	61.35	161,684	187,453	31	20	480	420	153,600	178,080	22,111,896
Feb-10	72.83	61.35	161,684	155,621	28	20	480	420	153,600	147,840	20,256,672
Mar-10	59.63	46.95	162,695	150,400	31	23	420	380	154,560	142,880	15,924,629
Apr-10	59.63	46.95	133,389	123,958	30	22	360	320	126,720	117,760	13,085,146
May-10	54.80	43.00	121,263	142,821	31	20	360	320	115,200	135,680	12,147,200
Jun-10	58.58	44.00	181,558	158,821	30	22	490	410	172,480	150,880	16,742,598
Jul-10	67.88	49.38	208,674	201,853	31	21	590	470	198,240	191,760	22,925,640
Aug-10	67.88	49.38	218,611	193,937	31	22	590	470	207,680	184,240	23,195,090
Sep-10	57.70	44.75	145,011	141,474	30	21	410	350	137,760	134,400	13,963,152
Average	63.53	49.68	1,494,568	1,456,337	Total				1,419,840	1,383,520	**160,352,022**
									95%	95%	

On FRS Bid Award Date

Settle Financial Swap Contract

(Prices as of COB previous day)

Month	OnPeak Futures ($/MWh)	OffPeak Futures ($/MWh)	Estimated Load Capacity (MW) OnPeak	Estimated Load Capacity (MW) OffPeak	Financial Swap: Days in Month	Financial Swap: OnPeak Days in Month	Financial Swap: Capacity (MW) OnPeak	Financial Swap: Capacity (MW) OffPeak	Financial Swap: Energy (MWhs) OnPeak	Financial Swap: Energy (MWhs) OffPeak	Sold Contracd Value $
Jan-10	80.11	67.49	161,684	187,453	31	20	480	420	153,600	178,080	24,323,086
Feb-10	80.11	67.49	161,684	155,621	28	20	480	420	153,600	147,840	22,282,339
Mar-10	65.59	51.65	162,695	150,400	31	23	420	380	154,560	142,880	17,517,092
Apr-10	65.59	51.65	133,389	123,958	30	22	360	320	126,720	117,760	14,393,660
May-10	60.28	47.30	121,263	142,821	31	20	360	320	115,200	135,680	13,361,920
Jun-10	64.44	48.40	181,558	158,821	30	22	490	410	172,480	150,880	18,416,858
Jul-10	74.67	54.32	208,674	201,853	31	21	590	470	198,240	191,760	25,218,204
Aug-10	74.67	54.32	218,611	193,937	31	22	590	470	207,680	184,240	25,514,599
Sep-10	63.47	49.23	145,011	141,474	30	21	410	350	137,760	134,400	15,359,467
Average	69.88	54.65			Total				1,419,840	1,383,520	**176,387,225**

16,035,202

Division Data Request 1-5

Request:

If the counterparty to the hedge transaction defaults on its obligations under the contract please explain in detail how the ratepayers are protected from the counterparty's non-performance.

Response:

All contracts, both FRS and financial hedges, will have a full credit-risk language incorporating a mark-to-market margining clause. If the mark-to-market gains exceed the counterparty's credit threshold limits as defined in the contract, the counterparty must provide security for the amount above their threshold to National Grid in the form of cash or a letter of credit. Thus, at any point in time, if the counterparty defaults, the benefits gained for all market price movements should not be completely lost; rather, only the threshold amount stipulated in each counterparty's ISDA contract should be at risk.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-6

Request:

To the extent that there are costs incurred as a result of a counterparty default, who will bear the burden of those costs, ratepayers or shareholders and why is that appropriate?

Response:

Similar to the existing SOS & LRS service, since all hedging and credit risk management is done on behalf of customers, any loss or gains will be borne by the ratepayer.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-7

Request:

Has the Company done an analysis of the risks of this transaction to either the ratepayers or the shareholders? If so please provide the analysis.

Response:

The Company has provided historical data in its plan that shows that prices are at their lowest point since 2003. The Company cannot, however, predict where the market is headed. See also the Company's response to Request 1-6.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-8

Request:

If the answer to the above question is no, what does the Company perceive are the risks of this transaction to shareholders? Please consider both financial risks and regulatory risks.

Response:

As stated in response to Division Data Request 1-6, since all hedging and credit risk management is done on behalf of customers, any loss or gains will be borne by the ratepayer.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-9

Request:

What does the Company perceive are the risks to shareholders of a transaction where the hedge is not settled prior to the delivery period but rather it is held to maturity? Please explain in detail the perceived risks and consider both financial risks and regulatory risks.

Response:

Settling the financial swaps on maturity (settling on actual ISO-NE Day Ahead prices) would not be appropriate for the interaction between this hedge and the FRS contracts. As stated in response to Division Data Request 1-6, since all hedging and credit risk management is done on behalf of customers, any loss or gains will be borne by the ratepayer.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-10

Request:

National Grid proposes to enter into a fixed price financial swap contract immediately, and on or about _[redacted], enter into a full requirements load following service. Could National Grid solicit and execute a full requirements contract now, as opposed to waiting until [redacted]? If so, please explain in detail why National Grid proposes to wait until [redacted] for the full requirements contract. If not, please explain in detail why not.

Response:

National Grid could solicit and execute a full requirements contract instead of entering into a fixed price financial swap. However, as set out in Section II.D. of the APP, National Grid perceives the following advantages to its proposal:

1. Allows for an expedited solicitation, with a quicker bid turnaround time than FRS contracts, because the ISO-NE Internal Hub is a very liquid and transparent market;

2. Allows for competitive and efficient pricing of energy during both the solicitation process and on the settlement date, due to the liquidity of the futures market for ISO-NE Internal Hub prices;

3. Allows the Company to efficiently lock in energy prices for those time periods starting out more than twelve months from the award date (i.e. Oct 2010 through March 2011). The Company believes obtaining FRS contracts for periods that start more than twelve months into the future may have higher premiums in the fixed price contracts, due to the larger uncertainty in load forecasts, migration impacts, potential ISO market rule changes, and credit requirements;

4. Allows for a broad spectrum of bidders (beyond that of FRS bidders) with potentially better credit ratings that could result in lower prices for customers;

5. Allows the Company to provide energy price stability and effectively lock in commodity costs to customers in a similar manner as a FRS contract. The table in

Division Data Request 1-10 (cont.)

Attachment 2, Example of Hedging Process using Financial Contract, illustrates how a fixed price financial swap effectively achieves the same commodity costs as a FRS contract issued at the same time. Attachment 2 also shows that that the financial contract would hedge approximately 70% of the total commodity cost, locking in the energy component. The remaining components of total commodity costs, such as capacity, have less volatility. Capacity prices have been fixed seasonally through 2011 in the ISO-NE Forward Capacity Market; and

6. Allows for the transition to a managed portfolio for procuring Standard Offer Service to be implemented more efficiently.

Division Data Request 1-11

Request:

How did National Grid establish the peak and off-peak MW for Period #1 and Period #2, as shown on pages 4 and 5 of the filing? Please provide an electronic spreadsheet containing the hourly load data used to establish these values.

Response:

a) The 2008 actual loads for Residential and the Small C&I customers were used as the basis for the total expected load in 2010 (with no assumptions for changes in weather, usage patterns or migration).

b) The Residential load from 2008 (8,784 hours) was used to develop typical days for each month. First the load for each hour was divided by the total load for year to obtain the contribution percentage of each hour of the year to the total calendar year load. A calculation was performed to determine the contribution of the monthly on-peak and off-peak typical day load to total calendar year load. This was performed because of the influence of the number of on-peak days (weekdays) in a specific month varies from year to year. For example, in 2008, January had 22 weekdays, while in 2010, January has only 20 weekdays. From this data, a monthly on-peak and off-peak forecast for 2010 was developed, using the number of actual weekdays associated with 2010& 2011. In addition, certain months were averaged to smooth out the load for similar weather months. The months of January and February, April and May, July and August, and September and October were averaged. Finally, these loads were multiplied by 95% for period #1 and by 50% for period #2. Attachment Division DR1-11 is provided as requested.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-12

Request:

Regarding Attachment 1, are these LMPs for RI all hours, peak, or off-peak prices? Are these Day Ahead or Real Time prices? Please provide the basis for the forecasted values.

Response:

In Attachment 1, the Rhode Island LMPs are All Hours, Day Ahead prices. The forecasted values are based upon the April 6, 2009 NYMEX electric futures for the ISO-NE Internal Hub.

Prepared by or under the supervision of: Alan P. Smithling

Division Data Request 1-13

Request:

Regarding Attachment 2, please provide an electronic spreadsheet with all inputs and formulae intact that produced this document.

a) What do the "Premium Factors of [redacted] and [redacted] represent and how were they derived?

b) What is the value "0.7136845" represent, how it is used in the calculations, and how was it derived?

c) Please explain how the figures in the column labeled "Monthly $/MWH" were calculated.

Response:

13a): Those values are illustrative examples of potentially the low & high range of the Premium Factors, which represent the historical relationship between previous FRS contract prices and market prices at the time of award.

13b): This figure is not used in the calculations and was inadvertently included on the Attachment. It is a remnant of the approximate calculation for the energy component portion of the total FRS contract price.

13c): Refer to Attachment Division DR 1-4 for an example of the calculation of the FRS contract prices.

Prepared by or under the supervision of: Alan P. Smithling