

April 27, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4041 - Accelerated Procurement Plan
Responses to Commission Data Requests – Set 2**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's responses to the Commission's second set of data requests issued on April 24, 2009 in the above-captioned proceeding.

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

**Docket No. 4041 National Grid – SOS and RES Procurement Plans
Service List Updated 4/27/09**

Name/Address	E-mail Distribution	Phone/FAX
Thomas R. Teehan, Esq. National Grid. 280 Melrose St. Providence, RI 02907	Thomas.teehan@us.ngrid.com	401-784-7667 401-784-4321
	Joanne.scanlon@us.ngrid.com	
Gerald J. Petros, Esq. (for NGrid) Hinckley, Allen & Snyder LLP 50 Kennedy Plaza, Suite 1500 Providence, RI 02903-2319	gpetros@haslaw.com	401-274-2000 401-277-9600
	dmarquez@haslaw.com	
	jmansolf@haslaw.com	
Paul Roberti, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Proberti@riag.ri.gov	401-222-2424 401-222-3016
	Dstearns@ripuc.state.ri.us	
	Sscialabba@ripuc.state.ri.us	
	Acontente@ripuc.state.ri.us	
Leo Wold, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov	401-222-2424 401-222-3016
	Mtobin@riag.ri.gov	
	dmacrae@riag.ri.gov	
Andrew C. Dzykewicz, Commissioner RI Office of Energy Resources One Capitol Hill Providence, RI 02908-5850	adzykewicz@energy.ri.gov	401-574-9123
John R. McDermott, Esq. (for OER) 27 East Street, Unit 2 Providence, RI 02906	JRMcDermott.law@gmail.com	401-269-1198 401-294-4483
Jerry Elmer, Esq. Conservation Law Foundation 55 Dorrance Street Providence, RI 02903	Jelmer@clf.org	401-351-1102 401-351-1130
Richard A. Sherman Edwards Angell Palmer & Dodge LLP 2800 Financial Plaza Providence, Rhode Island 02903	RSherman@eapdlaw.com	401-276-6513 888-325-9062
Hugh F. Murray, III, Esq. Murtha Cullina LLP City Place1, 185 Asylum St. Hartford, CT 06103-3469	Hmurray@murthalaw.com	860-240-6077
Robert J. Munnely, Esq. Murtha Cullina LLP 99 High Street Boston, MA 02110-2320	Rmunnely@murthalaw.com	617-457-4062
Michael McElroy, Esq. Schacht & McElroy PO Box 6721 Providence RI 02940-6721	McElroyMik@aol.com	401-351-4100 401-421-5696
Joseph E. Donovan, Senior Counsel Constellation Energy Resources, LLC	Joseph.donovan@constellation.com	410-470-3582 410-470-2600
	Michael.smith@constellation.com	

111 Market Place, Suite 500C Baltimore, Maryland 21202	Timothy.daniels@constellation.com	
Richard Hahn LaCapra Associates One Washington Mall, 9 th floor Boston, MA 02108	rhahn@lacapra.com	617-778-2467 617 778-2481
	apereira@lacapra.com	
	afreitas@lacapra.com	
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	401-780-2017 401-941-1691
	Cwilson@puc.state.ri.us	
	Nucci@puc.state.ri.us	
	Anault@puc.state.ri.us	

Commission 2-1

Request:

Please provide the total number of residential customers and the number of those taking competitive supply.

Response:

As of March 31, 2009, there are 287 residential customers out of a total of 430,305 residential customers receiving electricity from competitive suppliers.

Prepared by or under the supervision of: Jeanne A. Lloyd

Commission 2-2

Request:

For each of the residential customers taking competitive supply, please indicate the number of those accounts that are associated with non-residential or church accounts billed at the residential rate.

Response:

There are 287 customers taking competitive supply billed at the residential rate. Of this amount, 101 accounts are churches (or other houses of worship)

Prepared by or under the supervision of: Jeanne A. Lloyd

Commission 2-3

Request:

Please explain how mark-to-market analysis works as it relates to this transaction.

Response:

Mark-to-market (MTM) is an industry term used to determine the current value of a transaction when compared to the value at the time the transaction was initially entered into. In this proposed financial swap transaction, the forward market prices of the ISO-NE Internal Hub are used as the pricing point and can change over the duration of the transaction. As the forward market prices change on a daily basis from the date the transaction is executed until the settlement date, a MTM change can be calculated. The MTM analysis is then used in this transaction to monitor the credit risk of the supplier to National Grid. Monitoring credit risk should ensure that National Grid's customers receive reliable supply if the supplier fails to meet its obligations as defined in the transaction. By requiring the supplier to post security, National Grid has a source of funds to offset any failure by the supplier. If the MTM change exceeds the credit limit (threshold) as stipulated in the ISDA contract and Confirmation, then the supplier must post additional security for that MTM change to National Grid. Monitoring the MTM of the transaction reduces the overall exposure of National Grid to the supplier to only the threshold amount and not for the full market price movement of the transaction.

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

Commission 2-4

Request:

Referencing Division Data Request 1-7, please provide a detailed analysis of the Company's risk analysis to ratepayers as a result of the Company's proposed transaction. What does the Company perceive are the risks of this transaction to ratepayers? Please consider both financial and regulatory risks.

Response:

In answering this data request, the term financial risk is being interpreted as market price risk or credit risk. This transaction limits the impact of energy price movements by locking in the energy component of commodity prices. Any loss or gains resulting from the settlement of the swap contract would be received by the Company and then credited to or recovered from customers through rates. Additionally, with respect to the risk of default by the counterparty on the financial swap instrument, the Company believes that that risk should be limited to the threshold credit amount.

In terms of regulatory risk, since all hedging and credit risk management is done on behalf of customers under a Commission-approved plan and in coordination with the Division staff, any loss or gains would be borne by the ratepayer.

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

Commission 2-5

Request:

Has the Company prepared an analysis of its position that a FRS contract would have a higher premium than the proposed transaction? If so, please provide. If not, be prepared to fully discuss the Company's analysis of its position at the hearing.

Response:

The financial swap transaction is expected to have little or no premium associated with the fixed price. The bid-ask spread in the market for the forward prices should be small. For example, National Grid expects the fixed price swap to be priced near the current forward prices as listed on the NYMEX, for the ISO-NE Internal Hub. Additionally, since the swap contract is for a specified notional quantity each month, there should be no risk associated with loads.

In comparison, there will be an expected premium in the FRS contract because of the following supplier risks associated with the contract:

1. Actual load volume uncertainty that is served by the Supplier due to weather & migration;
2. Day Ahead and Real Time price imbalances on the actual loads versus the Day Ahead bid loads;
3. Actual Capacity requirements and imbalances;
4. Ancillary service cost uncertainty.

The Company believes that the premiums associated with FRS contracts awarded closer to the delivery period would be smaller than those associated with FRS contracts that are awarded for time periods that do not start delivery for over a year. By entering into the financial swap contract now the Company in effect is delaying entering into the FRS contract by approximately 6 months with very limited price risk to the customer.

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

Commission 2-6

Request:

Referencing Commission Data Response 1-10 (Supplemental), the Company stated, “The current at-the-money premium could be approximately 25% over current energy prices.” Please indicate whether there is a range of premiums and provide support for the 25% figure.

Response:

The 25% figure was an indicative price received directly from a marketer in the commodity business. In order to supplement this information and to obtain a range of premiums, the Company would need to contact other marketers to get additional estimates.

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

Commission 2-7

Request:

Referencing Commission Data Response 1-10 (Supplemental), please provide justification/support for the statement that “It would take an additional three weeks to issue and award an option contract as compared to a swap contract.”

Response:

It would take an additional three weeks for the Company to be in a position to issue and award an option contract. During this three week period, the Company would have to complete the following:

- Develop the solicitation document and the corresponding transaction confirmation which would contain the proposed structure of the call option. This activity would take the majority of the three week period because of two major constraints: (1) the limited amount of energy that can be transacted within any single call option due the illiquid nature of the option market and (2) the availability of only on-peak power for a call option, in which case the Company would have to find another hedging instrument to lock in off-peak power prices for the Small Customer group.
- internal market and credit risk review of the transaction
- appropriate departmental and senior management approvals
- contact several brokers to review structuring alternatives for the transaction
- obtain indicative pricing for the transaction.

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