



State of Rhode Island and Providence Plantations

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Patrick C. Lynch, Attorney General

May 19, 2009

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: Docket No. 4056 – Tariff Advice to Amend R.I.P.U.C. NG-GAS No. 101 To Eliminate Non-Firm Sales Service and Update Transportation Service Agreement

Dear Ms. Massaro:

The Division of Public Utilities and Carriers (“Division”) has reviewed the tariff advice filing for Elimination of Non-Firm Gas Sales Service and Update of the Transportation Service Agreement that National Grid (hereinafter “National Grid” or “the Company”) filed with the Commission May 1, 2009. This correspondence summarizes the Division’s assessment of the Company’s filing and issues associated with the Company’s request for elimination of Non-Firm Gas Sales Service.

Background

For more than a decade Non-Firm gas service customers in Rhode Island have had access to competitive marketers for both natural gas supply and fuel oil. The majority of Non-Firm customers are now utilizing competitive marketers for the supply of natural gas and fuel oil requirements. Most Non-Firm gas service customers have found that use of third-party competitive suppliers of natural gas has been advantageous, generally providing lower and more predictable pricing of natural gas supply service than National Grid can offer.

In the Company’s most recent base rate case (Docket No. 3943), National Grid proposed the elimination of its Non-Firm Gas Sales Service. The Division supported that proposal. However, based on a concern raised by TEC-RI regarding possible impacts of the elimination of that rate on existing Non-Firm Gas Sales service customers, the

Commission decided not to terminate the Company's offering of Non-Firm Sales service at that time. By the conclusion of the Company's last base rate case, the number of customers remaining on Non-Firm Gas Sales service was approximately 17. As of March 2009, that number had declined to 9.

For a number of years, the Division has raised concerns regarding the operation of, and accounting for, revenue and costs associated with the Company's Non-Firm gas sales service. For National Grid's FY 2007 and FY 2008 DAC and GCR reconciliations, the Division performed detailed reviews of the gas costs and revenue margins associated with the Company's Non-Firm Services. In Docket Nos. 3977 and 3982, the Division identified problems in the Company's data and cost reconciliations regarding the costs of gas assigned to its Firm Sales Service and Non-Firm Sales service as part of (1) the determination of margins available for sharing as part of annual DAC rate determinations¹ and (2) the annual reconciliation of projected and actual gas costs for its GCR.² With the Commission's decision in Docket No. 3943 to terminate value of service pricing for Non-Firm service customers, the first of those problems has been resolved. Elimination of the Company's Non-Firm Gas Sales service would resolve the potential for further problems with respect to the determination of appropriate gas costs for Non-Firm Gas Sales service and the avoidance of possible subsidies of Non-Firm gas costs by Firm Service customers.

Issues

The primary concern that has been voiced with respect to the Company's proposed elimination of Non-Firm Gas Sales service relates to the ability of the remaining Non-Firm Sales Gas service customers to obtain competitively priced gas supplies from third party gas suppliers. The Division finds such concerns to be unfounded. The majority of National Grid's Non-Firm gas service customers have been utilizing competitive gas supply services for most of this decade, and the Division is aware of no circumstance in which a Non-Firm customer has been unable to obtain competitive gas supply offers when requested. At present, at least four competitive suppliers are providing gas supply to Non-Firm Transportation Service customers. All have indicated that they are willing to provide gas supply for National Grid's few remaining Non-Firm Gas Sales service customers subject to the standard credit worthiness considerations and the signing of standard gas supply contracts. In addition, all of those customers continue to have the options to utilize competitively provided alternate fuels for some or all of their requirements.

The Division has queried National Grid regarding potential credit problems among those customers who presently remain on the Company's Non-Firm Gas Sales

¹ See the Direct Testimony of Division witness Bruce R. Oliver, filed November 12, 2008 in Docket No. 3977, at pages 24-32.

² See the Direct Testimony of Division witness Bruce R. Oliver, filed November 14, 2008 in Docket No. 3982, at pages 19-20.

service, and National Grid has indicated that none have current arrearages or evidence of recent payment problems that would suggest credit worthiness problems. Moreover, if credit worthiness should become an issue for any of those customers, the resolution of such problems would most likely be the same regardless of whether the customer is served by the utility or by a competitive natural gas supplier (*i.e.*, the customer would be required to either provide a deposit or a letter of credit to protect the supplier against a payment default). In these times of particular sensitivity to credit issues, such requirements have become standard business practice where credit concerns arise.

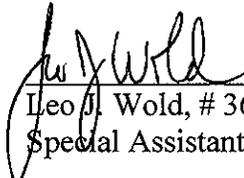
National Grid has offered a reasonable amount of time for existing Non-Firm Gas Sales service customers to obtain supply agreements with competitive suppliers. The time period that the Company offers for customers to evaluate their competitive gas supply options, negotiate contracts, and begin receiving competitively provided natural gas supplies is more than adequate. National Grid plans to alert all active gas marketers regarding this change, and its Marketing Group will contact each of the remaining Non-Firm Gas Sales Service customers to answer any questions they may have.

Recommendations

This is a particularly opportune time for moving forward with the elimination of the Company's Non-Firm Gas Sales service. Current market pricing is generally quite attractive, providing existing Non-Firm Gas Sales service customers the opportunity to lock-in predictable pricing for gas supply at rates which are well below their average cost of supply over the last couple years. Moreover, in the opinion of the Division there is no basis for concerns that current Non-Firm Sales service customers will be unable to obtain competitively priced natural gas from third party suppliers. Credit worthiness is always a factor in these markets, and there is no basis for a finding that credit considerations will be any more of an impediment to a customer's procurement of competitive energy supply services than they would be for utility provided gas supply service. The Division believes the Company's petition is both reasonable and appropriate, and recommends that the proposal for elimination of its Non-Firm Gas Sales service be approved.

If you have any questions or comments concerning this assessment, please do not hesitate to contact me.

Division of Public Utilities and Carriers
By its attorneys,



Leo J. Wold, # 3613
Special Assistant Attorney General

cc: Service List