

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

IN THE MATTER OF

**The National Grid 2010
Distribution Adjustment
Charge Filing**

)
)
)

Docket No. 4196

**DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Division of Public Utilities and Carriers

October 1, 2010

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I manage the firm's business and consulting activities, and I direct its preparation and presentation of economic, utility planning, and policy analyses for our clients.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. My testimony in this proceeding is presented on behalf of the Division of Public Utilities and Carriers (hereinafter "the Division").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. This testimony addresses the request of National Grid (hereinafter "National Grid" or "the Company") for a change in its Distribution Adjustment Charge ("DAC") which is set forth in Direct Testimony filed on August 2, 2010, Supplemental Testimony dated September 1, 2010, and Updated Supplemental Testimony filed September 27, 2010 by witness John F. Nestor on behalf of the Company. More specifically, this testimony discusses all elements of the Company's DAC calculations with the

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1 exception of the Earnings Sharing Mechanism (ESM), Pension and Post-Retirement
2 Benefits (PBOP), and the Capital Expenditures Tracker (CAPX). Issues associated
3 with the Company's ESM, PBOP, and CAPX adjustments to the DAC will be
4 discussed in separate testimony to be filed on behalf of the Division by Mr. David
5 Effron.

6
7 **II. DISCUSSION OF ISSUES**

8
9 **Q. WHAT IS THE DAC RATE THAT THE COMPANY PROPOSES IN THIS**
10 **PROCEEDING?**

11 A. Attachment NG-JFN-1 to the Company's August 2, 2010 filing computed a **net**
12 **charge of \$0.0138** per therm. The Company's September 1, 2010 Supplemental
13 Testimony updated the calculations underlying the Company's proposed DAC in
14 Attachment JFN-1S to reflect a **net charge of \$0.0123 per therm.** National Grid
15 filed a further update Attachment JFN-1S on September 27, 2010. That second
16 DAC rate update supports a **net charge of \$0.0099 per therm.** The most recent
17 update captures the effects of net increases in Environmental Response costs as
18 well as Pension and Post-Retirement Benefits costs. By comparison, the Com-
19 pany's present DAC rate reflects a **net credit of (\$0.0116) per therm.** Thus, the
20 Company's proposed DAC rate represents an **increase of \$0.0215 per therm** from
21 its currently effective DAC rate.

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1 **Q. WHAT ARE THE MAJOR COMPONENTS OF THE COMPANY'S DISTRIBUTION**
2 **ADJUSTMENT CHARGE (DAC) CALCULATIONS?**

3 A. National Grid's DAC calculations comprise twelve (12) components. The
4 components of the Company's Distribution Adjustment Charge calculations include:

- 5
- 6 1. A System Pressure (SP) Factor
- 7 2. An Advanced Gas Technology Program (AGT) Factor
- 8 3. A Low Income Assistance Program (LIAP) Factor
- 9 4. An Environmental Response Cost (ERC) Factor
- 10 5. A Pension Costs and Post-Retirement Benefits (PBOP) Factor
- 11 6. A Capital Expenditures (CAPX) Factor
- 12 7. An On-System Margin Credits (MC) Factor
- 13 8. A Service Quality Performance (SQI) Factor
- 14 9. A Weather Normalization (WN) Factor
- 15 10. An Earnings Sharing Mechanism (ESM)
- 16 11. A Reconciliation (R) Factor
- 17 12. An Allowance for Uncollectibles
- 18

19 **Q. HOW IS YOUR DISCUSSION OF THE ABOVE REFERENCED FACTORS**
20 **ORGANIZED?**

21 A. In Sections A through G below, each of the factors identified above will be discussed
22 in the order listed, with the exception of the PBOP, CAPX, and ESM factors which
23 will be addressed in the testimony of witness David Efron. In each section the data
24 and calculations upon which the Company relies to compute its proposed DAC
25 factors are reviewed and evaluated. The last component of the DAC is the
26 Allowance for Uncollectibles. That allowance was last established by the
27 Commission in its January 29, 2009 Decision and Order in Docket No. 3943.
28 Section H addresses the composite effects of all of the DAC adjustments that

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1 National Grid proposes in this proceeding as reflected in its September 27, 2010
2 Update filing.

3
4 **A. System Pressure Factor**

5
6 **Q. WHAT IS THE PURPOSE OF THE SYSTEM PRESSURE ADJUSTMENT?**

7 A. Since the beginning of rate unbundling for firm service customers, this Commission
8 has recognized that a portion of the Company's use of its LNG facilities is for
9 maintaining adequate operating pressures on the gas distribution system. Given
10 that both sales service and transportation service customers benefit from the
11 maintenance of system operating pressures, it is appropriate that such costs be
12 recovered from customers in both of those service classifications. In the absence of
13 the System Pressure Adjustment, all of the Company's LNG costs would be
14 recovered through its Gas Cost Recovery (GCR) charges and paid for by only sales
15 service customers. Thus, it is necessary for the Company to allocate a portion of its
16 LNG costs to system pressure maintenance, and collect those costs through
17 charges that are applied to both firm sales service and firm transportation service
18 customers. The System Pressure factor within the DAC mechanism accomplishes
19 this objective.

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1 **Q. HOW IS THE SYSTEM PRESSURE FACTOR DETERMINED?**

2 A. In Docket No. 3943 the System Pressure factor was established through a
3 Commission-approved settlement at 0.1680. The 0.1680 factor was developed to
4 reflect the assessment that 16.80% of LNG commodity-related costs were used for
5 System Pressure purposes. Those costs should therefore be borne by all
6 customers (i.e., sales and transportation service customers) who utilize the
7 Company's distribution system, as opposed to being treated as gas costs and
8 assigned only to gas sales service customers. Multiplying Total LNG Commodity
9 Related Costs by the System Balancing Factor (.1680) and dividing by projected,
10 weather-normalized, annual Firm Throughput yields a System Pressure Factor (SP)
11 in dollars per therm.

12

13 **Q. WHAT IS THE LEVEL OF THE SYSTEM PRESSURE FACTOR THAT NATIONAL**
14 **GRID PROPOSES IN THIS PROCEEDING?**

15 A. As shown in Attachment NG-JFN-2, filed on August 2, 2010, the computed System
16 Pressure (SP) Factor for the November 1, 2010 to October 31, 2011 DAC period
17 was **\$0.0048 per therm**. That factor was updated in conjunction with the Com-
18 pany's filing of the September 1, 2010 Supplemental Testimony of witness Nestor to
19 reflect a charge of **\$0.0033 per therm**. National Grid's updated SP Factor
20 calculations represent a small decrease from the \$0.0037 per therm factor presently
21 included in the Company's DAC.

22

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1 **Q. WHAT CAUSES THE CHANGE IN THE COMPANY'S SYSTEM PRESSURE**
2 **FACTOR BETWEEN ITS INITIAL AND SUPPLEMENTAL TESTIMONY?**

3 A. Three factors have significant impact on National Grid's initial and supplemental
4 System Pressure Factor calculations in this proceeding. Those factors include:

5
6 ➤ A dramatic reduction in the Company's estimated Withdrawal
7 Commodity Costs from \$7,124,868 in the Company's initial filing to
8 \$2,080,662 in its Supplemental testimony (Attachment NG-JFN-
9 2S). That represents a decline of \$5,044,206 or 71% from
10 National Grid's earlier filed estimate in this proceeding of
11 Withdrawal Commodity Costs for the 2010-2011 DAC year (as
12 shown in Attachment NG-JFN-2).

13
14 ➤ Roughly a doubling of the Company's estimated Demand Costs for
15 the 2010-2011 DAC year from **\$1.96 million** in its initial filing to
16 nearly **\$3.93 million** in its supplemental filing.

17
18 ➤ A further 4.2% downward revision of the Company's throughput
19 forecast.

20
21 **Q. HAS THE COMPANY ADEQUATELY EXPLAINED THE REASONS FOR THESE**
22 **SUBSTANTIAL CHANGES IN THE COST ESTIMATES USED IN ITS SYSTEM**

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1 **PRESSURE FACTOR CALCULATIONS BETWEEN ITS INITIAL AND**
2 **SUPPLEMENTAL FILINGS IN THIS PROCEEDING?**

3 A. No, it has not. Clearly, National Grid's expectations regarding LNG use for the
4 coming winter of 2010-2011 have changed substantially. However, the basis for
5 those changed expectations remains somewhat unclear. For example, the increase
6 in the demand-related component of the Company's System Pressure costs
7 between its initial and supplemental filings appears, at best, somewhat speculative
8 given that National Grid has yet to execute a contract for LNG supply for the coming
9 winter. In addition, the Company's throughput forecasts reflect substantial year-to-
10 year declines in expected gas use, but the impacts of those forecast changes on
11 National Grid's operations and planning are not well developed in either its DAC or
12 GCR filings.

13 As demonstrated graphically in **Exhibit BRO-1, page 1 of 2**, and numerically
14 in **Exhibit BRO-1, page 2 of 2**, the Withdrawal Commodity Costs reflected in
15 National Grid's September 1, 2010 Attachment NG-JFN-2S and the subsequent
16 revision of that attachment (i.e., Attachment NG-JFN-2US) show both greatly
17 reduced LNG Commodity requirements and a significantly altered monthly
18 distribution of those requirements. Although the Company's past forecasts have
19 generally portrayed monthly distributions of LNG use that were more heavily
20 weighted to the months of January, February, and March, its September 1, 2010
21 Supplemental filing in this proceeding depicts a limited December peak with

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1 essentially nothing more than boil-off throughout the other 11 months of the
2 November 2010 to October 2011 period.

3
4 **Q. IS THE COMPANY'S UPDATED SYSTEM PRESSURE FACTOR APPROPRI-**
5 **ATELY COMPUTED?**

6 A. I find no mathematical or data problems in the Company's September 1, 2010
7 Updated System Pressure Factor calculations. However, I find reason to question
8 the on-going appropriateness of the fixed percentage of LNG costs that is used to
9 determine System Pressure Costs for DAC purposes. As presently structured,
10 system pressure costs are viewed as a fixed percentage of LNG costs based on
11 historic experience as determined in the Company's last base rate case. That
12 percentage, as established in Docket No. 3943, is 16.8%. Yet, substantial changes
13 in the Company's normal winter and design winter throughput forecasts, coupled
14 with the startup of service from the Algonquin East to West Project, have altered
15 National Grid's planned use of LNG in a manner that calls into question the
16 reasonableness of continued reliance on historic LNG use relationships. These
17 recent changes in the Company's operations and forecasts erode the confidence
18 that the Commission can place in the reasonableness of continuing its reliance on
19 historic determinations.

20 When the practice of determining System Pressure Costs as a percentage of
21 LNG costs was first established the relationship between LNG use and system
22 pressure requirements was relatively stable. But that is no longer the case, and this
23 Commission may need to reconsider the procedures it uses to determine System

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1 Pressure Costs and the on-going appropriateness of establishing System Pressure
2 costs as a fixed percentage of LNG costs.

3
4 **Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE COMPANY'S FILED**
5 **SYSTEM PRESSURE FACTOR CALCULATIONS?**

6 A. Yes. I have two further concerns:

7 First, I must question the usefulness of the Company's estimation of its
8 System Pressure Factor in its initial DAC filings when (a) no substantial basis
9 appears to exist for the System Pressure cost estimates used until the GCR filing
10 has been completed and (b) noticeable differences have been found between the
11 data used in the Company's initial and supplemental System Pressure Factor
12 calculations. This renders unproductive the Division's investigation of the
13 Company's initial System Pressure Factor calculations. Rather than presenting data
14 which has no meaningful foundation or may be substantially misleading, National
15 Grid should refrain from providing System Pressure Factor calculations until the
16 GCR data, upon which those estimates are more properly based, are available.

17 Second, my review of the Company's filings finds that insufficient data is
18 provided to: (a) verify actual System Pressure Costs and (b) assess the
19 reasonableness and accuracy of System Pressure Costs estimates. Although the
20 Company's forward looking Commodity Related LNG Costs as presented in its
21 Supplemental filing, can be tied directly to cost projections in its September 1, 2010
22 GCR filing in Docket No. 4199, no similar detail is provided regarding actual costs
23 incurred during the reconciliation period for this proceeding. As a result, I am unable

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1 to verify the accuracy of the actual costs incurred during the reconciliation period,
2 and that, in turn, impedes the Commission's ability to assess the reasonableness of
3 System Pressure Cost projections for future periods.
4

5 **Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S COMPUTED SYSTEM**
6 **PRESSURE FACTOR?**

7 A. No, it should not. In the absence of a contract for LNG supply for the coming winter
8 season and a clear plan for how the Company intends to utilize LNG for pressure
9 stabilization purposes in the winter of 2010-2011, it is not possible to assess either
10 the amount of LNG use that can be reasonably anticipated or the portion of National
11 Grid's LNG use that will actually serve System Pressure requirements. Moreover,
12 the Company has indicated that it is possible that it will utilize a pipeline supply
13 alternative to displace some or all its needs for LNG to serve peaking requirements
14 for the coming winter if an acceptable LNG pricing arrangement cannot be
15 negotiated. In this context, the most appropriate course of action for the Commis-
16 sion is to assume that the Company's requirements for LNG to maintain system
17 pressures during the winter of 2010-2011 will be zero. If and when National Grid
18 enters into an LNG supply contract for the coming winter and demonstrates the
19 economics of its planned use of LNG under that supply arrangement, then the
20 Company may petition the Commission for a revision of its System Pressure Factor.
21

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1 **B. Advanced Gas Technology Program Factor**

2
3 **Q. WHAT IS THE PURPOSE OF THE ADVANCED GAS TECHNOLOGY PROGRAM**
4 **FACTOR?**

5 A. The Advanced Gas Technology (AGT) Program Factor reflects the Company's
6 renaming of its Demand Side Management (DSM) Factor. The AGT Factor provides
7 the Commission a mechanism for reflecting differences between actual expenditures
8 for AGT program rebates and the amount of funding provided annually through base
9 rates. The goal of the AGT program is to promote the installation of gas
10 technologies that increase utilization of natural gas during periods of low demand.
11

12 **Q. WHAT IS THE LEVEL OF FUNDING CURRENTLY PROVIDED FOR THE**
13 **COMPANY'S AGT PROGRAM THROUGH THE BASE RATES?**

14 A. As set forth in National Grid's tariff, Section 3, Distribution Adjustment Charge,
15 Schedule A, Sheet 3, paragraph 3.2, the level of funding presently embedded in
16 base rates for the AGT program is **\$300,000** per year. However, due to inactivity in
17 the AGT program and lack of specific information on anticipated projects, the
18 incremental funding provided through base rates during the 2008-2009 DAC period
19 was offset by a \$0.0008 per therm **credit** to the DAC. For the 2009-2010 DAC
20 year, no adjustment, either upward or downward to AGT recoveries was made.
21 However, once again, no AGT Rebates or other disbursements of AGT funds were
22 made. Attachment NG-JFN-3 shows that as of the end of June 2010 the amount of

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1 funding available for AGT projects was \$975,602. With no adjustment to current
2 AGT program cost recoveries for the 2010-2011 DAC year, National Grid will have
3 nearly \$1.3 million available for AGT program expenditures during the coming year.
4

5 **Q. IS THE COMPANY PROPOSING ANY CHANGE IN FUNDING FOR AGT**
6 **PROJECTS FOR FY 2008?**

7 A. No. National Grid's filings in this proceeding presume that the AGT Program Factor
8 will remain at **\$0.0000 per therm** for the 2010-2011 DAC year, and that it will
9 therefore collect an additional \$300,000 of funds for the AGT program over the
10 period from November 1, 2010 through October 31, 2011.
11

12 **Q. WHAT NEW AGT PROJECTS ARE ANTICIPATED DURING THE COMING**
13 **YEAR?**

14 A. National Grid indicates that on March 25, 2010 it initiated discussion with a major
15 financial institution regarding the possible development of a 1.2 MW cogeneration
16 plant at the financial institution's operations center in Rhode Island. To date (i.e.,
17 roughly six months following the initial meeting with that customer) no formal
18 application for funding assistance has been submitted. However, the Company
19 appears optimistic that the project will move forward within the 2010-2011 DAC year.
20 This is the only new project that National Grid has identified.
21

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1 **Q. ARE THERE OTHER PROJECTS THAT COULD REQUIRE AGT FUNDING**
2 **DURING THE 2010-2011 DAC YEAR?**

3 A. National Grid noted in its last DAC filing that it was in discussions with a major
4 educational institution that had completed a design study and was evaluating
5 alternatives for a \$15-\$25 million dollar project with an expected May 2011 in-
6 service date. However, due to the economic recession National Grid now indicates
7 that the educational institution has decided not to move forward with the project at
8 this time.

9
10 **Q. IF THE EDUCATIONAL INSTITUTION SEEKS TO REVIVE ITS PROJECT, WHAT**
11 **LEVEL OF AGT FUNDING WOULD THAT PROJECT REQUIRE?**

12 A. A year ago National Grid anticipated the project being considered by the educational
13 institution would require a one-time AGT rebate in the range of **\$1.5 to \$3.0**
14 **million.**¹ If that project were to be revived, its assistance requirements could
15 exceed the total amount of funding expected to be available to the AGT program
16 during the coming year.

17

1

See National Grid's responses to Division Data Requests 2-2 and 3-7 Docket No. 4077.

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1 **Q. DOES THE DIVISION SUPPORT NATIONAL GRID'S PROPOSAL TO MAINTAIN**
2 **THE PRESENT LEVEL OF ANNUAL FUNDING PROVIDED FOR AGT**
3 **PROJECTS?**

4 A. The Division does not oppose Company's position. However, it is open to
5 increasing the amount of annual funding provided for such programs as a means of
6 encouraging new large energy efficiency projects and stimulating economic activity
7 in the state. The existing level of AGT program funding has been in place for a
8 number of years without any increase. Given that history, the current state of Rhode
9 Island's economy, and National Grid's recently proposed reductions in GCR
10 charges, consideration of an upward adjustment to AGT program funding may be
11 appropriate.

12
13 **Q. DO YOU HAVE A RECOMMENDATION REGARDING THE LEVEL OF ADDI-**
14 **TIONAL ANNUAL AGT FUNDING THAT MAY BE APPROPRIATE?**

15 A. Yes, I do. National Grid's past suggestion that the potential rebate amount for a
16 single customer could be in the range of **\$1.5 to \$3.0 million** raises concern that a
17 commitment to fund such a large project could impede, if not eliminate, the
18 availability of AGT funds for other potential projects. Furthermore, if a single rebate
19 is in that range, year-to-year fluctuations in the AGT factor could be significant. By
20 increasing the level of funding at this time, the Commission could provide greater
21 opportunities for the Company to fund new AGT projects without imposing large
22 annual rate adjustments through the AGT Factor.

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1 The amount of annual funding provided through the AGT Factor is, by its very
2 nature, a somewhat judgmental determination since the size and timing of funding
3 requests is difficult to predict. However, given the size of the proposed projects that
4 National Grid has been presented in recent years, I believe that an increase in the
5 annual funding for that program to the \$500,000 to \$600,000 range would provide
6 the Company greater flexibility to address the needs of larger projects. At \$600,000
7 per year, the AGT factor would need to be set at \$0.0009 per therm (i.e., an
8 incremental \$300,000 per year divided by 32,083,572 Dth of estimated annual
9 throughput equals \$0.0093 per dekatherm or \$0.0009 per therm). Such an increase
10 in the AGT Factor would add approximately \$0.86 per year to the average
11 residential heating customer's annual bill. It also equates to less than 1.0% of the
12 overall rate reduction that National Grid would implement for Residential Heating
13 customers if its proposed GCR reduction is approved as filed.

14 I also recommend that for any project that requires a rebate of greater than
15 \$500,000 the payment of such rebate should be spread over multiple years such
16 that the impact of the project on available AGT funds and on the required AGT factor
17 will be limited. In no instance should the rebate paid in any given DAC year for a
18 single project exceed \$500,000 without specific prior authorization from the
19 Commission after a careful review of the costs and benefits associated with the
20 project.²

² For large projects consideration could be given to spreading payments over two or more years which may in total more than \$500,000 as long as not more than \$500,000 is paid in any given year.

C. Low Income Assistance Program Factor

Q. WHAT IS THE PURPOSE OF THE LOW INCOME ASSISTANCE PROGRAM (LIAP) FACTOR?

A. The Low Income Assistance Program (LIAP) Factor performs a function similar to that of the AGT (or DSM) Factor. It provides a mechanism for the Commission to adjust the funding of the Company's Low Income Heating Assistance Program (LIHEAP) and Low Income Weatherization Program activities outside the context of a base rate proceeding.

Q. WHAT IS THE LEVEL OF FUNDING PROVIDED FOR NATIONAL GRID'S LOW INCOME ASSISTANCE PROGRAMS THROUGH ITS BASE RATE CHARGES?

A. As set forth in the Company's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 4, paragraph 3.3, the LIAP funding presently embedded in base rates for National Grid is **\$1,785,000** per year. That amount includes \$1,585,000 for LIHEAP and \$200,000 for Low Income Weatherization Program activities.

Q. DOES NATIONAL GRID SEEK ADDITIONAL LIAP FUNDING THROUGH ITS PROPOSED LIAP FACTOR IN THIS PROCEEDING?

A. No, it does not. Therefore, the LIAP factor in the Company's DAC calculations remains at \$0.0000 per therm.

1 **Q. IS CONTINUATION OF THE CURRENT LEVEL OF FUNDING SUPPORT FOR**
2 **LIAP PROGRAMS REASONABLE?**

3 A. Yes. Therefore, the LIAP factor in the Company's DAC calculations should remain
4 at \$0.0000 per therm.

5
6 **D. Environment Response Cost Factor**

7
8 **Q. PLEASE DESCRIBE THE PURPOSE OF THE ENVIRONMENTAL RESPONSE**
9 **COST (ERC) FACTOR?**

10 A. The primary function of the ERC Factor is to provide the Company a means of
11 recovering "reasonable and prudently incurred" environmental response costs while
12 limiting impacts on customers' bills. Costs subject to recovery through the ERC
13 Factor include:

14
15 (1) Costs for evaluation, remediation and clean-up of sites associated
16 with National Grid's ownership and operation of manufactured gas
17 plants, manufactured gas storage facilities, and manufactured gas
18 plant-related off-site waste disposal locations;

19
20 (2) Costs for removal and disposal of mercury regulators and meters;
21

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(3) Costs for acquiring property associated with the clean up of such sites; and

(4) Litigation costs, claims, judgments, and settlements associated with environmental clean up activities.

Q. HOW ARE REASONABLE AND PRUDENTLY INCURRED ENVIRONMENTAL RESPONSE COSTS RECOVERED THROUGH THE ERC FACTOR?

A. According to the terms of the settlement approved by this Commission in Docket No. 3401, Environmental Response Costs shall be recovered through a 10-year straight-line amortization, subject to the restriction that the ERC Factor shall be limited to an increase of no more than \$0.10 per dekatherm (i.e., \$0.01 per therm) in any annual DAC filing. Moreover, the ERC Factor is computed to reflect an adjustment to the \$1,310,000 of Environmental Response Costs that is presently included in National Grid's base rate charges. Thus, the dollar amount subject to recovery through the ERC Factor in any year reflects the sum of all applicable 10-year ERC amortizations less the \$1,310,000 of budgeted base rate recoveries, and the ERC Factor reflects that net dollar amount divided by forecasted firm throughput.

Q. IN THIS PROCEEDING, WHAT IS THE NET DOLLAR AMOUNT THAT NATIONAL GRID PROPOSES FOR RECOVERY THROUGH ITS ERC FACTOR?

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1 A. As originally filed on August 2, 2010, in Attachment NG-JFN-4, National Grid seeks
2 net recovery of a net of **(\$425,268)**. This net dollar amount reflects:

3
4 1. A 10-year amortization of \$12,510,252 of net ERC costs incurred
5 through the end of FY 2002;

6
7 2. A 10-year amortization of (\$6,012,673) of net ERC costs for FY 2003;

8
9 3. A 10-year amortization of (\$472,960) of net ERC costs for FY 2004;

10
11 4. A 10-year amortization of \$136,707 of net ERC costs for FY 2005;

12
13 5. A 10-year amortization of \$436,020 of net ERC costs for FY 2006;

14
15 6. A 10-year amortization of (\$758,291) of net ERC costs for FY 2007;

16
17 7. A 10-year amortization of (\$45,755) of net ERC costs for FY 2008 and
18 adjustment for FY 2007;

19
20 8. A 10-year amortization of \$1,844,698 of net ERC costs for FY 2009;

21
22 9. 10-year amortization of \$2,088,264 of net ERC costs for FY 2010; and

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10. An annual deduction of \$1,310,000 for ERC costs embedded in base rates.

Q. WHAT IS THE NET BALANCE OF THE ENVIRONMENTAL REMEDIATION COSTS THAT REMAIN TO BE RECOVERED THROUGH THE COMPANY'S ERC FACTOR?

A. In its August 3 filing, the Company reported a net balance of unrecovered Environmental Response Costs at the end of FY 2010 of **\$3,229,062**. That represents an increase of more than \$1.2 million or 78% from the net balance of **\$1,816,704** reported at the end of FY 2009.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2010?

A. In the Company's August 2, 2010 DAC filing, National Grid claimed a net Environment Response Cost for FY 2010 of \$2,088,264. That amount represented \$3,983,088 of new environmental expenditures less \$1,894,824 of Insurance Settlement proceeds. National Grid had eight (8) active projects for which expenditures were reported, and as shown below, two of those projects accounted for over 81% of the total new Environmental Response Costs incurred by National Grid during FY 2010. Those projects and their associated costs are as follows:

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1	➤	Project 700	18 & 21 Holders COR	\$ 2,395,179	60.1%
2	➤	Project --	Thames & Wellington	\$ 839,384	21.1%
3	➤	All Other Projects		\$ <u>748,525</u>	<u>18.8%</u>
4		Total		\$ 3,983,088	100.0%
5					

6 **Q. AT PAGE 10, LINES 3-5, OF WITNESS NESTOR'S AUGUST 2, 2010 TESTI-**
7 **MONY, HE STATES THAT "...THE 2010 [ENVIRONMENTAL RESPONSE COST]**
8 **DATA IS CONSIDERED PRELIMINARY AND IF THERE ARE ANY CHANGES**
9 **WHEN THE COMPANY'S BOOKS ARE FINALIZED FOR THE FISCAL YEAR,**
10 **THE COMPANY WILL FILE AN UPDATED CALCULATION." HAS NATIONAL**
11 **GRID SUBSEQUENTLY UPDATED THAT DATA?**

12 A. Yes, an update of Attachment NG-JFN-4 was filed on September 27, 2010.
13 However, the only change is found in the throughput number that is used. No
14 changes in the Company's Environment Response Costs were made in that filing.
15 National Grid's September 27, 2010 Update filing proposes an ERC Factor of
16 **(\$0.0013)** per therm which, with the benefit of rounding, is the same factor the
17 Company had previously presented in its initial and supplemental filings in this
18 proceeding. .

19
20 **Q. IS THE DOLLAR AMOUNT THAT NATIONAL GRID NOW PRESENTS AS ITS**
21 **NET ENVIRONMENTAL RESPONSE COSTS FOR FY 2010 REASONABLE?**

22 A. Yes. I have reviewed the testimony and supporting materials that witness Nestor
23 presents on behalf of National Grid regarding the Company's FY 2010 Environ-
24 mental Response Costs. I have also reviewed National Grid's Annual Environ-

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1 mental Report for FY 2010, and the Company's responses to data requests relating
2 to the determination of its filed ERC Factor in this proceeding. Based on that
3 review, I find that National Grid has provided reasonable detail to support the nature
4 of the FY 2010 environmental response cost for which it seeks recovery through the
5 DAC.

6
7 **Q. DO YOU FIND ANY BASIS FOR CHALLENGING THE ACCURACY AND**
8 **RELIABILITY OF THE COMPANY'S UPDATED ERC FACTOR COMPUTATIONS?**

9 A. I can state that the updated ERC Factor computations are mathematically accurate
10 and appear to be performed in a manner consistent with the tariff and this
11 Commission's prior determinations relating to rate treatment of such costs. Further
12 the claimed costs are supported by documentation such as environmental reports,
13 studies, and invoices, which were provided in response to discovery requests.

14
15 **Q. DO YOU HAVE ANY FURTHER OBSERVATIONS REGARDING NATIONAL**
16 **GRID'S ENVIRONMENTAL RESPONSE COSTS?**

17 A. Yes. In response to Division Data Request 2-6, the Company indicates that its
18 payments from Southern Union for insurance settlements to date total to
19 \$3,944,585. Under the terms of the Purchase and Sale Agreement ("PSA") between
20 National Grid and Southern Union, Southern Union's obligations to pay environ-
21 mental insurance settlement funds to National Grid were capped at a total of
22 \$4,000,000. Thus, at most, National Grid can anticipate only \$55,415 of additional

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insurance settlement payments from Southern Union. Thus, remediation costs incurred for the coming year and beyond will generally be borne by National Grid's RI ratepayers without expectation of insurance offsets.

E. On-System Margin Credits

Q. WHAT IS THE ROLE OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR?

A. The current On-System Margin Credit (MC) factor is designed to distribute to firm customers revenue margins collected from sixty-four (64) Dual Fuel customers in excess of the annual margin target for such customers of \$2,816,000 that was established in the Company's last base rate case (Docket No. 3943).

Q. DID NATIONAL GRID ACHIEVE REVENUE MARGINS DURING FY 2010 THAT EXCEEDED THE \$2,816,000 THRESHOLD?

A. Yes. Attachment NG-JFN-7US shows a total margin to be distributed to National Grid's RI customers through the On-System Margin Factor of \$592,566.

Q. HAVE YOU ASSESSED THE REASONABLENESS OF NATIONAL GRID'S FY 2010 MARGIN REVENUE DETERMINATIONS?

A. Yes. I have reviewed in detail the margin revenue calculations that National Grid has presented in Attachment NG-JFN-7US for both Firm and Non-Firm Dual Fuel customers. Based on that review, I find the Company's margin revenue deter-

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1 minations to be mathematically correct and free of significant analytic or data short-
2 comings. I also note that the detail National Grid provided in support of its revenue
3 margin determinations has been particularly helpful in facilitating my review of the
4 Company's On-System Margin Factor for the Division.

5
6 **F. Service Quality Performance (SQI) Factor**

7
8 **Q. DESCRIBE THE PURPOSE OF THE SERVICE QUALITY PERFORMANCE**
9 **FACTOR?**

10 A. The Service Quality Performance factor is used to credit customers any penalties
11 reflected in the Company's annual Service Quality Report.

12
13 **Q. WHAT PENALTY AMOUNTS WERE APPLICABLE TO THE COMPANY BASED**
14 **ON ITS PERFORMANCE DURING FY 2010?**

15 A. No penalties are reflected in the Company's FY 2010 Annual Report on Service
16 Quality. Therefore, the SQI Factor is set at **\$0.0000 per therm.**

17
18 **G. Weather Normalization Factor**

19
20 **Q. WHAT IS THE INTENDED ROLE OF NATIONAL GRID'S WEATHER NORMAL-**
21 **IZATION FACTOR?**

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1 A. The Weather Normalization (WN) Factor provides a mechanism for moderating the
2 impacts of weather on the Company's base revenue. When winter weather, as
3 measured in Heating Degree Days (HDDs), is warmer than normal, National Grid's
4 collection of fixed costs through its charges for distribution service declines below
5 the level anticipated under normal weather conditions. If the resulting decline in
6 heating degree days is significant, a positive Weather Normalization Factor is
7 computed for the subsequent DAC period to compensate the Company for a portion
8 of the revenue foregone due to reduced system throughput. On the other hand,
9 colder than normal winter weather causes system throughput and distribution charge
10 revenue to increase relative to expected revenue levels under normal weather
11 conditions. If recorded HDDs are greater than anticipated normal degree day levels,
12 a negative Weather Normalization Factor (credit) returns a measure of excess
13 revenue collections to customers during the subsequent DAC period.

14 However, the Weather Normalization Factor only addresses heating degree
15 days recorded for each year that are more than 2% above or below normal heating
16 degree day levels when accumulated over the defined winter season (i.e., the
17 months of November through April). If recorded actual HDDs are within plus or
18 minus 2% of normal levels for the winter season, no adjustment to revenue is
19 permitted and the Weather Normalization Factor for the subsequent DAC period is
20 zero. On the other hand, if total HDDs for the winter season are beyond the range
21 defined by normal HDD expectations plus or minus 2%, each heating degree day
22 beyond that range is multiplied by \$9,000 per degree day to obtain the total dollar

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1 amount to be recovered from, or credited to, customers through the Weather
2 Normalization Factor.

3
4 **Q. WAS THE 2009-2010 WINTER SEASON SUFFICIENTLY WARMER OR COLDER**
5 **THAN NORMAL TO TRIGGER THE COMPUTATION OF A NON-ZERO**
6 **WEATHER NORMALIZATION FACTOR FOR NATIONAL GRID?**

7 A. Yes. As shown in Attachment NG-JFN-8 filed with Mr. Nestor's September 27, 2010
8 revised exhibits in this docket, the actual number of heating degree days (HDDs) for
9 the months of November 2009 through April 2010 was **4,401**. That was 396 HDDs
10 below normal and **274 HDDs** below the 2% warmer than normal threshold for
11 revenue adjustments.

12
13 **Q. WHAT IS THE MAGNITUDE OF THE REVENUE ADJUSTMENT THAT NATIONAL**
14 **GRID COMPUTES ON THE BASIS OF THE REPORTED LOWER THAN NORMAL**
15 **HEATING DEGREE DAYS FOR THE 2009-2010 WINTER SEASON?**

16 A. Based on 274 HDDs in excess of the warmer than normal threshold for revenue
17 adjustments, the Company seeks to collect an additional \$2,466,000 from its RI
18 customers. The \$2,466,000 amount equates to 274 HDD degree day deficiency
19 (below the 2% threshold) multiplied by the established revenue mitigation amount of
20 \$9,000 per HDD. Using the revised throughput forecast reflected in Attachment NG-
21 JFN-8US, dated on September 27, 2010, I have verified that the \$2,466,000
22 revenue adjustment requires a WN Factor of **\$0.0077 per therm**.

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2 **Q. DO YOU FIND ANY BASIS FOR QUESTIONING THE COMPANY'S DEGREE**
3 **DAY CALCULATIONS FOR THE WINTER OF 2009-10?**

4 A. No, I do not. I have independently verified the heating degree day measures used
5 by National Grid, as well as the mathematical accuracy of the calculations the
6 Company presents in support of its proposed WN Factor.

7

8 **H. Reconciliation Factor**

9

10 **Q. HOW IS THE RECONCILIATION (R) FACTOR COMPUTED?**

11 A. The Reconciliation (R) Factor component of the Company's DAC adjusts for
12 differences between revenue collections associated with each component of DAC
13 and either actual costs or budgeted revenue by component, adjusted for interest on
14 deferred balances. In this proceeding, the R Factor computations include recon-
15 ciling adjustments for Advanced Gas Technology, Low Income Assistance,
16 Environmental Response Costs, System Pressure Costs, On-System Margin
17 Credits, Weather Normalization, Earnings Sharing, and the previous Reconciliation
18 Factor. It also includes a one-time adjustment for Lost Revenue associated with the
19 timing of the rate increase implemented at the conclusion of Docket No. 3943.

20

21 **Q. WHAT IS THE RESULT OF NATIONAL GRID'S "R" FACTOR COMPUTATIONS?**

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1 A. Updated Attachment NG-JFN-9US, page 1 of 1, indicates that in aggregate the
2 Company's reconciliations reflect an over-collection of \$248,449. That over-
3 collected balance results in a computed Reconciliation Factor **credit** of **(\$0.0008)**
4 **per therm** for application during the Company's 2010-2011 DAC period.

5
6 **Q. HAVE YOU REVIEWED THE COMPANY'S SUPPORT FOR ITS RECON-**
7 **CILIATION FACTOR COMPUTATIONS?**

8 A. Yes, I have reviewed the full detail of the computations provided in Attachment NG-
9 JFN-9US filed on September 27, 2010.

10
11 **Q. DO YOU QUESTION THE REASONABLENESS OF ANY ELEMENT OF THE**
12 **COMPANY'S COMPUTED RECONCILIATION ADJUSTMENTS?**

13 A. Yes. I do. Most elements of National Grid's reconciliation adjustment calculations
14 offer little if any basis for concern. However, in my review of the Company's
15 reconciliations I have found it impossible to verify the accuracy of the "Actual Costs"
16 that are included in National Grid's reconciliation adjustment calculations for System
17 Pressure. The cost estimates used to establish the System Pressure Factor for the
18 next DAC period are detailed in three components (i.e., Commodity Withdrawal
19 costs, Inventory Costs, and Demand Costs for the GCR), and each of those
20 components can be tied directly to the Company's Annual GCR filing. Yet, when I
21 discussed the matter of supporting detail for its "Actual" System Pressure costs for
22 the reconciliation period, I was advised that National Grid does not maintain

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1 information regarding actual costs for those categories of expenditures. That
2 response is somewhat surprising given that for GCR purposes the Company
3 generally tracks both demand and commodity costs by source of supply. Moreover,
4 in my experience actual LNG inventory balances by month should be readily
5 identifiable. I submit that the ability to track "actual" System Pressure costs is
6 essential for:

- 7
- 8 ➤ Cost verification purposes;
 - 9
 - 10 ➤ Understanding the manner in which such costs varied from forecasted levels
11 with fluctuations in actual LNG requirements; and
 - 12
 - 13 ➤ Assessing the reasonableness and prudence of the Company's actual LNG-
14 related expenditures.
 - 15

16 **Q. HOW SHOULD THE COMMISSION ADDRESS YOUR CONCERNS REGARDING**
17 **VERIFICATION OF NATIONAL GRID'S ACTUAL SYSTEM PRESSURE COSTS**
18 **FOR THE RECONCILIATION PERIOD?**

19 A. The Commission should approve the Company's System Pressure reconciliation
20 adjustment on an interim basis as it was filed subject to a requirement that the
21 Company provide within 60 days actual System Pressure cost data by month for
22 each of the three categories of costs presented in Exhibit NG-JFN-2US and with

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1 documented ties to the Company's actual gas costs for the same monthly periods.
2 Once that information is provided, the Commission may either affirm the
3 reasonableness of the reconciliations that were approved on an interim basis or
4 order adjustments to the Company's System Pressure reconciliation results as
5 appropriate.

6
7 **I. Distribution Adjustment Charge Summary**

8
9 **Q. PLEASE SUMMARIZE THE CHANGES THAT YOU PROPOSE TO THE**
10 **COMPANY'S FILED DAC?**

11 A. This testimony discusses two changes to National Grid's DAC calculations.

12 First, I propose to eliminate, or set at zero, the System Pressure factor in the
13 Company's updated DAC calculations for this proceeding. As I have previously
14 explained herein, the commencement of service from the Algonquin East to West
15 Project, coupled with dramatic reductions in the Company's forecasted throughput
16 volumes under both Normal Winter and Design Winter conditions, have resulted in
17 significant changes in National Grid's planned use of LNG for the coming winter
18 period. But, at this point National Grid has no contract in place for the supply of
19 LNG, and it has indicated that it may replace some or all of its potential LNG use
20 with a pipeline peaking supply service. In the absence of an executed contract for
21 LNG supply and more substantial evidence regarding the Company's expected
22 usage of LNG and/or peaking supply alternatives, it is impossible to assess the

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1 reasonableness of the cost inputs that National Grid has used in its System
2 Pressure Factor calculations. For this reason, I recommend that the System
3 Pressure Factor be set at zero until such time that the Company enters into a
4 contract for either LNG liquid supply or an alternative peaking service contract and
5 conveys to the Commission a more clear and comprehensive plan for meeting its
6 peaking service and system pressure requirements for the coming winter.

7 With the System Pressure Factor reduced to zero, the overall DAC rate falls
8 to **\$0.0066 per therm**. That rate reflects net of the Company's updated DAC rate
9 prior to adjustment for uncollectibles less the Company's proposed System Pressure
10 Factor multiplied by the Uncollectible percentage:

11
12 $(\$0.0099 - \$0.0035) * 1.0246 = \textbf{\$0.0066 per therm}$

13
14 Second, I have suggested that the Commission might increase the annual
15 funding provided for National Grid's AGT program. As explained earlier in this
16 testimony, a doubling of the annual AGT program funding would require collection of
17 an additional \$300,000 for the next DAC year, and based on the Company's
18 projected throughput for that period, such a funding increase would require an AGT
19 charge of \$0.0009 per therm. If that increase is combined with the implementation
20 of a zero System Pressure Factor, the resulting DAC rate would be:

21
22 $(\$0.0099 - \$0.0035 + \$0.0009) * 1.0246 = \textbf{\$0.0075 per therm}$

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1

2 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

3 A. Yes, it does.

4

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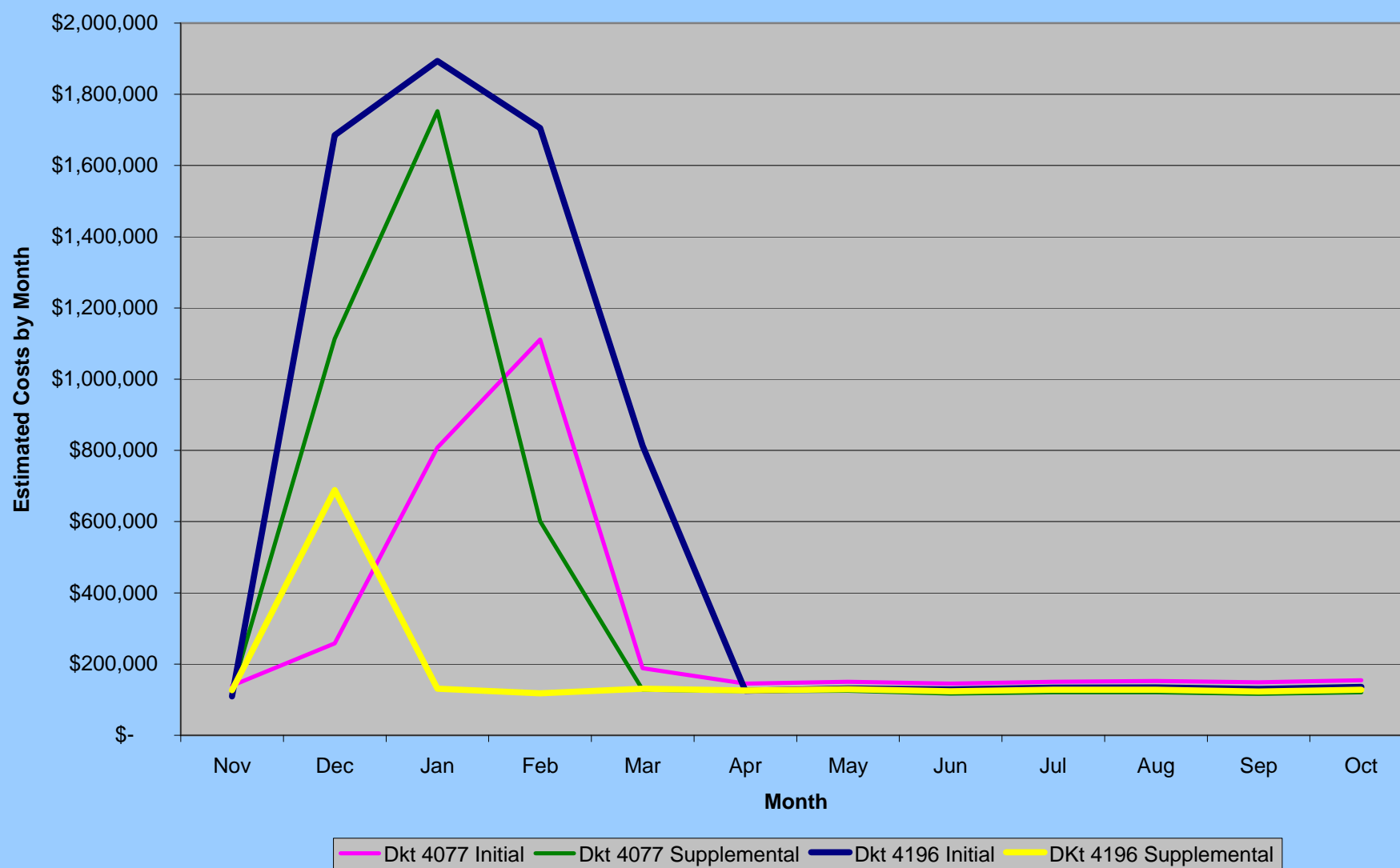
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National Grid Withdrawal Commodity Cost Estimates*Docket Nos. 4077 and 4196*

National Grid - Gas

Docket No. 4196

Changes In LNG Commodity Related Cost Estimates

Month	Withdrawal Commodity Costs			
	Docket No. 4077		Docket No. 4196	
	Initial Testimony 8/3/09	Supplemental Testimony 9/1/09	Initial Testimony 8/2/10	Supplemental Testimony 9/1/10 *
Nov	\$ 139,725	\$ 125,258	\$ 109,301	\$ 126,411
Dec	\$ 257,984	\$ 1,113,318	\$ 1,685,376	\$ 688,360
Jan	\$ 807,917	\$ 1,752,499	\$ 1,893,925	\$ 130,829
Feb	\$ 1,111,707	\$ 600,929	\$ 1,705,409	\$ 118,081
Mar	\$ 188,244	\$ 127,954	\$ 812,818	\$ 130,829
Apr	\$ 145,300	\$ 123,357	\$ 124,906	\$ 126,132
May	\$ 150,161	\$ 125,005	\$ 131,209	\$ 129,483
Jun	\$ 145,396	\$ 116,858	\$ 128,451	\$ 123,770
Jul	\$ 150,452	\$ 121,004	\$ 133,369	\$ 128,056
Aug	\$ 152,249	\$ 120,836	\$ 134,251	\$ 127,897
Sep	\$ 148,976	\$ 116,371	\$ 130,175	\$ 123,174
Oct	\$ 154,847	\$ 120,611	\$ 135,679	\$ 127,640
Total	\$ 3,552,958	\$ 4,564,000	\$ 7,124,869	\$ 2,080,662
Forecasted Throughput	36,073,744	35,258,936	33,475,482	32,083,572

Month	Inventory Costs			
	Docket No. 4077		Docket No. 4196	
	Initial Testimony 8/3/09	Supplemental Testimony 9/1/09	Initial Testimony 8/2/10	Supplemental Testimony 9/1/10 *
Nov	\$ 84,323	\$ 63,463	\$ 56,896	\$ 51,481
Dec	\$ 81,009	\$ 55,027	\$ 47,829	\$ 45,651
Jan	\$ 70,298	\$ 41,401	\$ 36,561	\$ 44,543
Feb	\$ 55,528	\$ 37,810	\$ 27,467	\$ 43,543
Mar	\$ 53,032	\$ 36,624	\$ 27,273	\$ 42,435
Apr	\$ 58,658	\$ 40,908	\$ 33,003	\$ 46,003
May	\$ 64,462	\$ 51,227	\$ 38,915	\$ 49,709
Jun	\$ 70,155	\$ 51,145	\$ 44,659	\$ 50,390
Jul	\$ 76,125	\$ 51,075	\$ 50,641	\$ 50,328
Aug	\$ 82,149	\$ 51,020	\$ 56,652	\$ 50,274
Sep	\$ 84,961	\$ 50,986	\$ 62,493	\$ 50,226
Oct	\$ 85,028	\$ 50,963	\$ 68,590	\$ 50,192
Total	\$ 865,728	\$ 581,649	\$ 550,979	\$ 574,775

Month	Demand Costs from GCR			
	Docket No. 4077		Docket No. 4196	
	Initial Testimony 8/3/09	Supplemental Testimony 9/1/09	Initial Testimony 8/2/10	Supplemental Testimony 9/1/10
Nov	\$ 231,180	\$ 157,500	\$ 163,740	\$ 327,990
Dec	\$ 218,263	\$ 202,500	\$ 163,740	\$ 327,990
Jan	\$ 214,250	\$ 202,500	\$ 163,740	\$ 327,990
Feb	\$ 214,250	\$ 202,500	\$ 163,740	\$ 327,990
Mar	\$ 214,250	\$ 202,500	\$ 163,740	\$ 327,990
Apr	\$ 264,826	\$ 373,500	\$ 163,740	\$ 327,990
May	\$ 286,380	\$ 609,900	\$ 163,740	\$ 327,990
Jun	\$ 279,900	\$ 196,380	\$ 163,740	\$ 327,990
Jul	\$ 286,380	\$ 197,580	\$ 163,740	\$ 327,990
Aug	\$ 286,380	\$ 197,580	\$ 163,740	\$ 327,990
Sep	\$ 276,106	\$ 196,380	\$ 163,740	\$ 327,990
Oct	\$ 208,836	\$ 197,580	\$ 163,740	\$ 327,990
Total	\$ 2,981,001	\$ 2,936,400	\$ 1,964,880	\$ 3,935,880

Month	Total Commodity Related Costs			
	Docket No. 4077		Docket No. 4196	
	Initial Testimony 8/3/09	Supplemental Testimony 9/1/09	Initial Testimony 8/2/10	Supplemental Testimony 9/1/10 *
Nov	\$ 455,228	\$ 346,221	\$ 329,937	\$ 505,882
Dec	\$ 557,256	\$ 1,370,845	\$ 1,896,945	\$ 1,062,001
Jan	\$ 1,092,465	\$ 1,996,400	\$ 2,094,226	\$ 503,362
Feb	\$ 1,381,485	\$ 841,239	\$ 1,896,616	\$ 489,614
Mar	\$ 455,526	\$ 367,078	\$ 1,003,831	\$ 501,254
Apr	\$ 468,784	\$ 537,765	\$ 321,649	\$ 500,125
May	\$ 501,003	\$ 786,132	\$ 333,864	\$ 507,182
Jun	\$ 495,451	\$ 364,383	\$ 336,850	\$ 502,150
Jul	\$ 512,957	\$ 369,659	\$ 347,750	\$ 506,374
Aug	\$ 520,778	\$ 369,436	\$ 354,643	\$ 506,161
Sep	\$ 510,043	\$ 363,737	\$ 356,408	\$ 501,390
Oct	\$ 448,711	\$ 369,154	\$ 368,009	\$ 505,822
Total	\$ 7,399,687	\$ 8,082,049	\$ 9,640,728	\$ 6,591,317

* Forecasted throughput from corrected Attachement NG-JFN-2US filed 9/27/10.