STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S DISTRIBUTION ADJUSTMENT CLAUSE : DOCKET NO. 4196

REPORT AND ORDER

I. NATIONAL GRID'S FILING

On August 2, 2010, National Grid ("NGrid") filed with the Rhode Island Public Utilities Commission ("Commission") its annual Distribution Adjustment Clause ("DAC") for effect November 1, 2010.[1] The DAC is filed annually to establish a factor that returns or recovers funds from ratepayers to reconcile estimated costs to actual costs included in rates over the twelve-month period starting November 1st. The DAC provides for funding, or the reconciliation and refund, of amounts associated with nine specific programs and facilitates the timely rate recognition of incentive/penalty provisions. The DAC filing results in a factor that is applied to firm sales and firm transportation customers. The filing does not propose a specific rate because NGrid has not finalized the data for a number of the components. NGrid represented that it will supplement and update this filing in its September 1, 2010 filing.[2]

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[1] In Docket No. 3401, February 28, 2003, the Commission ordered New England Gas Company to establish a Distribution Adjustment Charge for the purposes of crediting customers with any amounts associated with the earnings-sharing provisions of the Amended Settlement; refunding or recovering the amount by which non-firm margins deviate from $1.6 million; recovering LNG commodity costs associated with maintaining system pressures; crediting or collecting of any weather normalization adjustment revenues, and any other reconciliation of revenues or expenses approved by this Commission. On August 24, 2006, Narragansett Electric Company, doing business as National Grid, acquired the assets and gas business of Southern Union Company in Rhode Island, doing business as New England Gas Company. In Docket No. 3943, two additional factors were added: a Pension and Post-Retirement benefits factor and a Capital Expenditures Tracker factor.

[2] A table listing the eleven components of the DAC indicating the current factor, the factor as proposed by NGrid and the Division's recommendation is attached hereto as Appendix A.

The actual DAC factor results from eleven components, which are filed with a specific factor incorporated into the overall DAC factor. The component factors are:

(1) a System Pressure factor, in which 16.8 percent of LNG commodity costs, financing costs, and supplier demand costs are allocated to maintain system pressures in NGrid's distribution system;

(2) an Advanced Gas Technology (AGT") factor, which includes $300,000 annually in base distribution rates;

(3) a Low Income Assistance Program ("LIAP") factor, which collects $1,785,000 annually in base distribution rates consisting of; $1,585,000 in supplements to the Federal Low Income Home Energy Assistance Program ("LIHEAP") and $200,000 for a Low Income Weatherization Program, (the LIAP factor is zero unless the Commission changes the amount for LIAP funding);

(4) an Environmental Response Cost ("ERC") factor, which collects $1,310,000 annually in base distribution rates, but allows annual adjustments for incremental environmental costs or credits, such as insurance recoveries, which are amortized over a 10-year period through this factor;

(5) a Pension Costs and Post-Retirement Benefits ("PBOP")[3] factor, which reconciles pension and post-retirement benefits other than pensions expenses for the purpose of recovering or refunding the Company's actual expenses that were included in base rates;

[3] The PBOP factor was approved by the Commission in Docket No. 3943. The Commission found that a reconciliation of these expenses was justified because the Company's pension and PBOP expenses were large and unpredictable. Additionally, the Commission noted that the pension program was funded at 97 percent and that the reconciling mechanism would provide ratepayers with the assurance that NGrid was funding its pension and PBOP funds at the same level as amounts collected by customers and that current ratepayers are not shifting these costs to future ratepayers.

(6) a Capital Expenditures Tracker ("CXT")[4], which refunds or collects from customers the revenue requirement impact associated with variations in capital spending including the Accelerated Replacement Program ("ARP");

(7) an On-System Margin Credit factor ("MC"), which provides an offset to some of the distribution system costs. All revenue margins from dual fuel customers (firm and non-firm) as well as revenue margins from non-firm special contracts for the twelve month period ending June 30 that exceed an annual threshold of $2,816,000 exclusive of Rhode Island Gross Earnings Tax are credited 100% to customers through the MC Factor;

(8) a Weather Normalization factor, which represents an adjustment to NGrid's revenues to account for the impact of weather that varies by more than 2 percent from normal degree days during the preceding winter period of November through April;

(9) an Earnings Sharing Mechanism ("ESM") factor, which provides for the sharing and refunding of NGrid's excess earnings, whereby ratepayers receive 50 percent of earnings between an 11.25 percent and 12.25 percent return on equity ("ROE"), and ratepayers receive 75 percent of earnings over a 12.25 percent ROE while NGrid retains the remaining share of earnings;

(10) a Reconciliation factor for the current DAC, which represents a true-up of the amount currently being collected for the nine DAC component factors approved by the Commission for the prior period; and

(11) a Service Quality Plan Penalty, which is for any penalty assessed against NGrid for service deficiencies as measured through the Service Quality Plan approved by the Commission in Docket 3476.[5]

[4] The CXT factor was approved by the Commission in Docket No. 3943.

In support of its filing, NGrid submitted the pre-filed testimony of John F. Nestor, III, Lead Analyst for Gas Regulatory & Pricing for NGrid - Gas. Mr. Nestor's testimony described the DAC and the changes to the various components of the DAC. He presented factors for nine of the eleven components with the exception of the ESM factor and the Service Quality Plan Penalty. Mr. Nestor noted that the preliminary DAC rate of $0.0138 per therm was not finalized because necessary data was not available at the time of the filing. A supplemental filing will include the updated DAC rate and a bill impact analysis.[6] The current DAC rate is ($0.0116) per therm.[7]

NGrid proposed an increase in the System Pressure factor from $0.0038 per therm to $0.0048 per therm. The factor is based on the projected commodity related portion of LNG costs, including non-economic dispatch LNG costs and the percentage of local storage used to maintain system pressure projected from November 1, 2010 through October 31, 2011. Mr. Nestor noted that in Docket No. 3943, the Commission established a system balancing percentage of 16.8 percent which was also used in Docket No. 3977. Mr. Nestor pointed out that the LNG Operating and Maintenance costs are recovered in base rates.[8]

Mr. Nestor explained that the AGT program[9] was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. He noted that increased off-peak

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[5] In Docket 3476, the Commission found that the general purpose of a service quality plan is to ensure that customers receive a reasonable level of service and identified five key aspects of any service quality plan as service measures, benchmark standards, the amount of the penalty, the penalty weight for each measure, and the time period for measuring performance to assess a penalty.
[6] NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III and attachments filed August 2, 2010 at 1-5.
[7] Docket No. 4077, Order No. 19833.
[8] NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III at 5, Attachments JFN-1, JFN-2.
[9] NGrid refers to the DSM program as the Advanced Gas Technology Program ("AGT") so as to avoid any confusion with the Energy Efficiency Programs implemented by NGrid and that are sometimes referred to as DSM programs.

usage reduces the unit cost of gas for all customers by generating distribution revenues to support fixed costs associated with resources needed during peak periods. He explained that NGrid is proposing that the AGT account continue to be funded.[10] He noted that one of the projects discussed last year, development of a cogeneration plant with projected costs between $15-$25 million, was not going to move forward because of economic factors. However, NGrid has engaged in discussions with another institution concerning AGT information, rebates and analysis.[11]

Mr. Nestor stated that NGrid is not proposing to change the current level of funding provided by the LIAP factor, which provides additional funding to LIHEAP and to a low income weatherization program. He noted that annual funding in distribution rates for LIHEAP and weatherization are $1,585,000 and $200,000, respectively. Regarding the ERC factor, NGrid proposed a decrease in the credit factor from ($0.0018) to ($0.0013) per therm. This factor reflects a 10-year amortization of environmental response costs. The proposed ERC factor reflects annual amortization of expenses totaling $884,732. Since there is $1,310,000 of ERC funding embedded in base rates, there will be a net refund to ratepayers of $425,268. Mr. Nestor noted that this calculation is based on preliminary data and will be updated if necessary.[12]

In Docket No. 3943, the Commission approved NGrid's proposal to reconcile pension and PBOP expenses through the DAC. The adjustment factor is based on the difference between the Company's actual expense for the prior twelve month period ending June 30 and the most recently approved base rate expense allowance. The current

[10] In Docket No. 3977, the Commission followed the Division's recommendation to allow for a ($0.0008) credit to ratepayers because NGrid had a carry forward of $701,326. In Docket No. 4077, the Commission allowed recovery of the $300,000 to be reinstated.
[11] NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III at 7-8, Attachments JFN-1, JFN-3.
[12] Id. at 8-10, Attachment JFN-1, JFN-4.

computation is based on an eight month period ending June 30, 2010. NGrid proposed a factor of $0.0102 for pension and PBOP expenses.[13] Also approved by the Commission in Docket No. 3943 was a Capital Expenditures Tracker ("CXT") adjustment mechanism.[14] Mr. Nestor noted that this adjustment was refunding or collecting from customers the revenue requirement impact associated with variations in capital spending, including the ARP. He noted that the Commission approved the Division's recommended formula to adjust the ARP. NGrid proposed an adjustment of ($0.0051) per therm.[15]

In the area of on-system (non-firm) margins, NGrid proposed a credit factor of ($0.0018) per therm. In determining amounts to be returned to customers, NGrid tracks margins exclusive of the gross earnings tax for sixty-four (64) firm and non-firm dual customers at the time of the most recent rate case filing as well as any new non-firm customers and non-firm special contracts. These customers were referred to as "dual-fuel customers." Any amount collected in excess of $2,816,000 is to be returned to customers. Mr. Nestor noted that NGrid collected $3,408,566 and therefore, $592,566 or ($0.0018) per therm is to be returned to customers.[16]

NGrid did not incur any service quality penalties for the fiscal year 2010. Regarding weather normalization, Mr. Nestor noted that during the winter period of November 2009 through April 2010, the weather was 274 degree days outside of the 2

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[13] NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III at 10-11, Attachments JFN-1, JFN-5.
[14] Docket No. 3943, Order No. 19562.
[15] *See* Docket No. 3943, Order No. 19710 where the Commission approved a one-time refund to customers for excess revenues recovered from the effective date of the rates to November 1, 2009 and 2) an ongoing credit to customers equal to the revenue requirement on the difference in the Company's actual average net plant in service and that which was included in NGrid's cost of service in Docket No. 3943. *Id.* at 11-14, Attachments JFN-1, JFN-6.
[16] NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III at 15-16, Attachments JFN-1, JFN-7.

percent warmer than normal deadband. The proposed adjustment is $2,466,000 or $0.0074 per therm to be surcharged to customers.[17]

Mr. Nestor explained that the earnings sharing calculation ("ESM") had not been completed, because NGrid's financial data for the fiscal year ending June 30, 2010 was not yet available. NGrid will supplement this filing and provide that calculation no later than September 1, 2010. As for the reconciliation factor for fiscal year 2010 and the gas year (November 2009 through October 2010), NGrid proposed a factor of ($0.0007) per therm to recover an over-collection of the DAC in 2010 of $239,635.[18]

II. NGRID'S SEPTEMBER 1, 2010 FILING

On September 1, 2010, NGrid filed the supplemental testimonies of John Nestor to incorporate updates to the DAC components included in the August 2, 2010 filing, and William R. Richer to describe the calculation of the earnings sharing component of the proposed DAC. The updates resulted in a proposed DAC rate of $0.0123 per therm for firm service customers. Mr. Nestor updated the system pressure factor calculation and the DAC reconciliation component factor calculation. Mr. Nestor also provided an updated discussion on the calculation of the ESM.[19]

With regard to the system pressure calculation, he noted that the LNG costs are being updated to correspond with those included in NGrid's GCR filing, resulting in a decrease from $0.0048 to $0.0033 per therm. Mr. Nestor also noted that the reconciliation component of the August 2, 2010 DAC filing was updated to incorporate

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[17] *Id.* at 16-17, Attachment JFN-8. While the weather normalization clause provides for crediting/debiting customers when weather is warmer/colder than normal, it provides that in order to qualify for the $9,000 per day rate, the weather must be more than 2 percent warmer or colder than normal.
[18] *Id.* at 18-21, Attachment JFN-9.
[19] NGrid Exhibit No. 2a, Supplemental Testimony of John F. Nestor, III at 1-2, Attachments JFN-1S through JFN-9S.

actual throughput for July 2010, resulting no change to the original $0.0007 per therm originally proposed. He stated that NGrid's earnings calculation is discussed in the testimony of William R. Richer and that because it was below the threshold 10.5%, there was no adjustment included for ESM in the DAC filing. Finally, he noted that the overall impact on the bill of an average residential hearting customer utilizing 922 therms is an annual increase of one and a half percent (1.5%) or $22.03 annually.[20]

Mr. Richer provided the calculation of NGrid's earnings subject to the ESM factor for the fiscal year ending June 30, 2010 and provided updated information and supporting calculations for the Capital Expenditure Tracker and the Pension and PBOP factor discussed in Mr. Nestor's testimony.

Mr. Richer noted that the determination of earnings is based on a 10.5% return on equity excluding non-firm margins. Any amount in excess of the 10.5% up to 11.5% is shared 50 percent with customers and 50 percent with NGrid. Earnings in excess of 11.5% return on equity are shared 75 percent with customers and 25 percent with NGrid. The return on equity is calculated by dividing the net income available for common equity by the common equity applicable to rate base. For FY 2010, NGrid calculated a net loss available for common equity of $6,304,412.[21]

Mr. Richer discussed a number of adjustments made to operating revenues, expenses and interest charges. The adjustments to operating revenue included a $592,566 reduction to reflect that amount returned to customers as that amount was collected from customers in excess of the $2,816,000 threshold established in Docket No. 3943, Order No. 19528. The second adjustment to operating revenues was an increase of $296,246

[20] *Id.* at 3-5.
[21] NGrid Exhibit No. 2b, Direct Testimony of William R. Richer at 1-4, WRR-1.

for FY 2010 to reflect that same amount of a reduction in operating revenues in the FY 2009 ESM filing reflecting a true up from the estimate recorded for the customer portion of non-firm margins. Third, a portion of a reduction for incorrect Gas Cost Deferral charges, $1,348,893 relating to charges that occurred outside of the ESM test period, was added back to operating revenues and the corresponding offsetting adjustment was added back to operating expenses. Fourth, operating revenues were increased by $143,871 to reflect NGrid's exclusion of unbilled revenues from the ESM calculation. Fifth, NGrid removed stored gas inventory from rate base to eliminate carrying costs on stored gas inventory from revenues, which decreased operating revenue by $3,645,121. Sixth, revenue was further reduced by $2,019,423. Mr. Richer noted that amount was over-collected and is being returned to ratepayers. Additionally, he stated that the annual CXT refund of $2,013,339 did not offset revenues for the first four months of FY 2009, and therefore revenues for the earnings sharing calculation were reduced by four twelfths of this refund or $671,113. Finally, the incremental ARP spending for the period October 1, 2009 to March 31, 2010 has been prorated for the ESM to reflect the amount earned in the period April 1, 2010 to June 30, 2010 which is $75,606.[22]

The Company also made adjustments to four expense and interest accounts. First, NGrid increased operating expenses by $71,603 for unbilled gas costs. Second, a corresponding offsetting adjustment of $1,348,893 was made for incorrect Gas Cost Deferral charges. Third, $2,450,000 was included in operating expenses in accordance with the Commission's Order No. 19563 in Docket No. 3943 to include the investors' share of annual net merger savings. Finally, NGrid included interest expense of $255,114 related to customer deposits. Other charges not considered a normal part of the gas

[22] *Id.* at 5-9, WRR-1 at 2.

distribution business were recorded below the line and not included in the ESM calculation.[23]

Mr. Richer explained that, in order to account for the purchase by NGrid of the regulated Rhode Island assets of Southern Union, the pre-acquisition New England Gas Company's book/tax timing differences were transferred to the books of Southern Union. NGrid began recording its own deferred tax liabilities following the acquisition. For the ESM federal income tax calculation, NGrid used the statutory rate of 35 percent for a total expense of ($3,394,684).[24]

Mr. Richer utilized an imputed capital structure as specified in Docket No. 3943, Order No. 19563 to calculate the average cost of capital: 11.66 percent short-term debt, 40.63 percent long-term debt, and 47.71 percent common equity. NGrid computed the cost of long-term debt by multiplying the base applicable to long-term debt by 5.98 percent which was NGrid's actual long-term debt rate for 2009. The Company calculated short-term debt by multiplying the rate base applicable to short-term debt by 0.23 percent which is the twelve month average cost of short-term debt. Also, NGrid included funds associated with the allowance for funds used during construction in calculating operating income.[25]

In calculating the rate base, NGrid used a five-quarter average for the year ending June 30, 2010. Mr. Richer excluded environmental response costs and prepaid taxes from rate base. He did include construction work in progress ("CWIP") in the rate base and computed the working capital allowance pursuant to the method approved in Docket No. 3943. Also, the deferred debits in the rate base included Y2K costs, to be amortized

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[23] *Id.* at 9-10, WRR-1 at 2.
[24] *Id.* at 10-12, WRR-1 at 2, 3.
[25] *Id.* at 12-13, WRR-1 at 2, 4, 11, 12.

at the rate of $240,000 per year. Mr. Richer excluded the costs associated with legacy customer-information systems, stored gas inventory and customer deposits. Finally, NGrid included a hold harmless rate base credit as a reduction to rate base. Mr. Richer also noted that the annual reconciliation expense of pension and PBOP is handled through the DAC, while the annual funding reconciliation is reflected as an adjustment to rate base in the Earnings Sharing Mechanism. He noted a cumulative rate base decrease of $2,954,534 to reflect the annual funding reconciliation of pension and PBOP as allowed for in Docket No. 3943.[26]

Mr. Richer noted that common equity applicable to rate base was $290,736,925, which was the sum of the average rate base times 47.71 percent, the capital structure equity percentage approved in Docket No. 3943. Since the return on common equity for FY 2010 was -4.58 which is significantly below than 10.50 percent threshold for sharing, no earnings are available to be shared with customers.[27]

III. NGRID'S SEPTEMBER 23, 2010 FILING

On September 23, 2010, Mr. Nestor filed supplemental testimony to correct a number of incorrect calculations and to modify and update certain of the DAC components and the impact of the same. Mr. Nestor noted that NGrid incorrectly calculated the Pension and PBOB current year expenses the original filing resulting in overstating the amount it sought to recover. The original amount of $0.012 per therm was modified to $0.0078 per therm. He also noted that although the initial calculation of the ARP factor incorrectly included information with respect to depreciation and deferred tax reserves, this error did not change the ARP factor of $0.0009. Mr. Nestor updated the

[26] *Id.* at 13-14, WRR-1 at 5, 6, 7.
[27] *Id.* at 14-15, WRR-1 at 1.

reconciliation factor from ($0.0007) to ($0.0008). Mr. Nestor also corrected his forecasted throughput, because NGrid's original filing incorrectly double-counted 1,377,741 dths forecasted for "dual-fuel" customers. The corrected projected throughput eliminates the extra 1,377,741 that was already accounted for resulting in forecasted throughput of 32,083,572 dths. Mr. Nestor's corrections resulted in the overall DAC rate being decreased from $0.0123 to $0.0099. This decrease equates to 1.3% of the proposed amount in the original filing or $2.20 annually.[28]

III. DIVISION'S DIRECT TESTIMONY

On October 1, 2010, the Division of Public Utilities and Carriers ("Division") filed the direct testimony of its consultant, Bruce R. Oliver, President of Revilo Hill Associates, Inc. Mr. Oliver discussed all elements of the DAC except the PBOP, ESM and the CXT, which were reviewed by Division witness, David Effron. Mr. Oliver noted that the current rate proposed by the Company reflects a $0.0215 increase from the current DAC rate.[29]

Mr. Oliver noted that the System Balancing Factor established in Docket No. 3943 of 0.1680 is multiplied by the Total LNG Commodity Related Costs and divided by projected weather-normalized, annual Firm Throughput to yield a System Pressure Factor in dollars per therm. He pointed out that the substantial changes in the Company's winter and design winter throughput forecasts and the start-up of service from the Algonquin East to West Project question whether the reliance on historic LNG use is reasonable. He questioned the on-going appropriateness of continuing to use System Pressure Costs

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[28] NGrid Exhibit 3, Updated Supplemental Testimony and Attachments of John F. Nestor, III, filed September 23, 2010 at 1-5.
[29] Division Exhibit 1a, Direct Testimony of Bruce R. Oliver, filed October 1, 2010 at 2.

as a percentage of LNG costs which was initially reasonable because the relationship between LNG use and system pressure requirements was stable.[30]

Mr. Oliver identified other concerns regarding the System Pressure Factor calculations. First he questioned the usefulness of NGrid's estimation of the System Pressure Factor in its initial filing when the basis for the estimates doesn't exist until the Company's GCR filing is completed and there exists a noticeable difference between the initial and the supplemental calculations. He asserted that an investigation of the initial calculations is meaningless and can be misleading. Mr. Oliver also alleged that he was unable to verify actual System Pressure Costs and to assess the reasonableness and accuracy of the Company's estimates because insufficient data was provided to do so. He advised that the Commission not accept NGrid's computed System Pressure Factor because without a contract for LNG supply for the coming winter it is not possible to assess how much LNG can be anticipated or how much of that will be used for system pressure requirement. Mr. Oliver opined that the most acceptable result is for the Commission to assume LNG requirements to maintain system pressure will be zero. He suggested then that when the Company enters into a contract it petition the Commission for a revision of the zero factor.[31]

Mr. Oliver explained how the AGT funding was suspended during the 2008-2009 DAC year but was reinstated for 2009-2010 to allow for the collection of $300,000. He noted that NGrid's figures show a fund balance of $975,602 as of June 2010. He pointed out that NGrid has only identified one new potential project for the coming DAC year. Representatives of the company met with that customer approximately six months ago;

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[30] *Id.* at 5-9
[31] *Id.* at 9-10.

however, Mr. Oliver asserted that no formal application for funding has been submitted to NGrid. He noted that revival of the project discussed during last year's DAC proceeding with the educational institution that was put on hold because of the economic recession could result in a potential rebate of between $1.5 and $3.0 million dollars which would deplete all of the existing funds in the AGT account. He stated that the Division does not oppose NGrid's proposal to continue current AGT funding and would not object to increasing the amount to provide the Company with greater flexibility to address the needs of larger projects. He asserted that an increase in the AGT Factor in the range of $500,000 to $600,000 would cost the average residential ratepayer approximately $0.86 per year. Mr. Oliver recommended that requested rebate payments that exceed $500,000 should be spread over multiple years to minimize the impact that the rebate would have on available AGT funds. He also recommended that any rebate in excess of $500,000 for a single project require Commission review and approval prior to its disbursement.[32]

Mr. Oliver found the Company's current level of funding for the LIAP Programs to be reasonable. He noted that NGrid seeks to recover more than $1.2 million in environmental remediation costs than it did at the end of FY 2009. Mr. Oliver's review supported his conclusion that NGrid's environmental response costs are reasonable and are supported by the reports, studies and invoices submitted by the Company. Mr. Oliver also observed that only $55,415 remain of Southern Union's $4 million obligation to pay environmental insurance settlement funds to NGrid. Once that money is depleted, ratepayers will have to bear the burden of this expense without the assistance of insurance payments.[33]

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[32] *Id.* at 11-15.
[33] *Id.* at 16-23.

Regarding the On-System Margin Credit, Mr. Oliver found that NGrid's margin revenue determinations were mathematically correct. He also recommended setting the Service Quality Factor at $0.0000 per therm as no penalties are reflected in the Company's Annual Report on Service Quality. Mr. Oliver verified NGrid's Weather Normalization factor of $0.0077 per therm noting that because there were 274 heating degree days ("HDD") below the 2% threshold, the Company was entitled to collect an additional $2,466,000 from its Rhode Island customers.[34]

Mr. Oliver questioned the reasonableness of the Company's reconciliation adjustment calculations for System Pressure because he found it impossible to verify the accuracy of the "Actual Costs" included in the calculations. Even though he noted that the cost estimates used to establish the System Pressure Factor, which are comprised of three components, Commodity Withdrawal Costs, Inventory Costs and Demand Costs, can be tied directly to the GCR filing, the Company informed him that it does not maintain information regarding actual costs for those categories of expenditures. Mr. Oliver asserted that the ability to track the actual System Pressure Costs is essential for cost verification, understanding cost variances and assessing the reasonableness and prudence of the actual LNG expenditures. He recommended that the Commission approve the System Pressure reconciliation adjustment on an interim basis and require the Company within sixty days to provide actual cost data by month for the costs incurred with documented ties to NGrid's actual gas costs for the same period.[35]

Mr. Oliver summarized his recommendations and reiterated the two changes he proposed to NGrid's filing. First, he recommended setting the System Pressure Factor at

[34] *Id.* at 23-27.
[35] *Id.* at 27-30.

zero until such time as the Company contracts for either LNG liquid supply or peaking service and provides the Commission with a clear and comprehensive plan for meeting its peaking service and system pressure requirements for the coming winter. Mr. Oliver's second recommendation was to double the amount of AGT program funding. The two recommendations result in a further decrease of the DAC to $0.0075 per therm.[36]

Mr. Effron reviewed the calculation of the Pension and PBOP, the Capital Expenditures Tracker and the Earnings Sharing Mechanism components of the DAC. He indicated that he analyzed all of the exhibits, supplements and corrections and did not propose any modifications to what the Company filed.[37]

IV. NATIONAL GRID'S REBUTTAL TESTIMONY

On October 6, 2010, NGrid filed the rebuttal testimony of Mr. Nestor. Mr. Nestor addressed Mr. Oliver's recommendation regarding the Company having to file complete information on the System Pressure Factor in its September DAC filing as opposed to providing only partial information in its August preliminary filing. Mr. Nestor represented that NGrid is in agreement with Mr. Oliver's assessment and recommendation noting that it was more efficient that the current practice. Mr. Nestor also represented that since the Company has available actual information for each of the component parts of the System Pressure Reconciliation factor, the Company would be willing to include this information in its September DAC filing.[38]

Mr. Nestor discussed Mr. Oliver's recommendation that the System Pressure Factor be set at zero. He represented that NGrid's position is to modify the System

[36] *Id.* at 30-31.
[37] Division Exhibit 1b, Testimony of David J. Effron filed October 1, 2010 at 3.
[38] NGrid Exhibit 4, Rebuttal Testimony of John F. Nestor , III, filed October 6, 2010 at 3-5.

Pressure Factor by modifying the estimated gas costs used in the calculation of the factor. He supported this position by noting that other factors in addition to increased pipeline supply and the execution of a contract need to be considered for system pressure. Mr. Nestor pointed out that a number of non-firm customers have shifted to firm service and some customers have reduced their use. He also noted that even though some areas will benefit from increased pipeline supply, other areas that do not have increased volume will still require LNG to maintain system pressure. Mr. Nestor addressed Mr. Oliver's suggestion that the Commission reexamine the 16.8% System Pressure DAC allocation factor and stressed that a study to update LNG costs would take time. He also advised against eliminating the 16.8% factor without the benefit of specific information obtained from a study. Lastly, he noted that setting the factor at zero would result in LNG costs used for system pressure being borne by sales customers as opposed to sales and transportation customers. Mr. Nestor suggested that the 16.8% allocation factor be maintained but that the LNG demand charges be decreased to reflect the absence of an LNG contract resulting in a decrease in the factor from $0.0035 per therm to $0.0024 per therm.[39]

Mr. Nestor commended the Division and Mr. Oliver for recommending the doubling of the AGT Factor and supported the suggestion that Commission approval be required for rebates in excess of $500,000. He concluded by noting that based on his rebuttal testimony there would be a decrease in the proposed DAC from $0.0099 to $0.0098. This would further reduce the annual bill of a residential customer using 922 therms by an additional 1.3% or by $19.75.[40]

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[39] *Id.* at 5-8.
[40] *Id.* at 8-9.

V. DIVISION PROPOSALS IN SETTLEMENT OF ISSUES

The Division filed a proposed settlement of the outstanding issues in both the GCR case, Docket No. 4199, and the instant matter on October 20, 2010, the morning of the hearing. The settlement set forth conditions acceptable to the Division in order to resolve the three outstanding issues. The one issue affecting the DAC was Mr. Oliver's recommendation that the system pressure factor be set at zero. The Division agreed to withdraw its objection to the Company's use of the 16.8% factor for System Pressure based on NGrid's agreement to engage in a study to establish the appropriate factor for the next GCR and DAC proceedings.[41]

The Division also required that all electronic spreadsheets relied on either directly or indirectly by the Company in preparing its future DAC and GCR filings be provided at the time of the filing of the Company's testimonies. The Division represented that the Company agreed with this proposal. Lastly, the Division noted that NGrid agreed to adjust the timing of its GCR and DAC filings to better reflect the Company's fiscal year and the timing of the availability of gas cost projections for System Pressure cost determinations.[42]

IX. HEARING

Following published notice, a public hearing was conducted on October 20, 2010 at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

FOR NGRID	:	Thomas Teehan, Esq.
FOR THE DIVISION	:	Leo Wold, Esq.

[41] Division Exhibit 3, The Division of Public Utilities and Carriers Proposals in Settlement of GCR Issues filed October 20, 2010 at 1-2.
[42] *Id.* at 2.

Assistant Attorney General

FOR THE COMMISSION: Patricia S. Lucarelli, Esq.
Chief of Legal Services

Prior to the beginning of the hearing, the parties presented the Commission with a settlement proposal that addressed the outstanding issues in both the DAC and GCR filings. Mr. Teehan described the terms of the settlement proposal. He discussed the $1.3 million gas cost that the Division originally rejected from inclusion in this years GCR filing, noting that the Division was in agreement with inclusion of this cost provided that the Company verify, with additional documentation that the costs are related to netting transactions and are GCR gas costs. Mr. Teehan represented that the Division was satisfied that the Company would conduct an analysis of the System Pressure Factor, currently set at 16.8%, prior to the next DAC and GCR filing to determine whether that factor continues to be appropriate or another factor should be used. Additionally, Mr. Teehan maintained that the Company was using a forecasted capacity charge and reconciling actual fixed costs with forecasted costs at the end of the year. The Company agreed to provide the Division with electronic spreadsheets which provided the basis of its calculations along with the filing of those calculations. Finally, Mr. Teehan represented that the Company and the Division agreed to review the timing of the filing of the GCR filing to determine if it is advisable to change the timing so that it coincides with the Company fiscal year which ends March/April.[43]

The Company and the Division presented a panel of witnesses that included Mr. Nestor, Ms. Arangio and Mr. McCauley. Mr. Nestor testified regarding the DAC filing and his preparation of the material submitted to the Commission in support of NGrid's

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[43] Transcript of Hearing ("Tr."), October 20, 2010 at 4-7.

reconciliation. The Division's witness, Mr. Oliver, provided a review of the Company's DAC filing. Mr. Nestor answered questions about the possible projects that could be entitled to AGT rebates. Mr. Oliver explained that he accepted an increase in the AGT funding for three reasons: available funds encourage projects, the trend has shown an increase in the size of projects and having available funds would encourage more jobs and more development of energy efficiency. He opined that lack of available funds is an inhibiting factor. Lastly, Mr. Nestor represented that it was the Company's intention to complete the study determining the appropriateness of the 16.8% System Pressure Factor by September 1 of next year.[44]

COMMISSION FINDINGS

On October 26, 2010, the Commission discussed the matter and approved the proposed factor of $0.0098 per therm for effect November 1, 2010. The approved DAC factor will result in an increase of approximately $19.75 annually to residential heating ratepayers. The Commission is satisfied that the evidence presented by NGrid supports the approved DAC factor.

Specifically, the DAC is composed of eleven factors: System Pressure, Environmental Response Cost, Advanced Gas Technology, Low Income Assistance Program, Weather Normalization, Pension and Post Retirement Benefits, Capital Expenditure Tracker, On-System Margin Credit, Reconciliation, Service Quality Performance and the Earnings Sharing Mechanism. With regard to the System Pressure Factor, LNG commodity costs are projected to increase resulting in a change to the System Pressure Factor from $0.0038 to $0.0024 per therm. Also, the Commission

[44] *Id.* at 16-29.

approved an Environmental Response Cost credit factor of ($0.0013) per therm. The Commission is satisfied with the testimony of parties that rebate requests have grown in size and that having available funds in this account will encourage the development of additional projects. Therefore, the Commission will approve NGrid's request to allow the $0.0009 per therm of funding to the Advanced Gas Technology account. The Commission finds requested rebate amounts that exceeds $500,000 must be approved by the Commission.

After review of the parties' testimonies and representations regarding the Pension and Post-Retirement Benefits Factor, the Commission approved the Pension and Post-retirement Benefits Factor of $0.0078. The Commission was satisfied that the Capital Expenditure Tracker calculation performed by NGrid complies with the Commission's prior Order in Docket No. 3943 and as such approved the Capital Expenditure Tracker factor of ($0.0054). As for the On-System Margins factor, NGrid filed a credit of ($0.0018) per therm to return $592,566 to ratepayers. Regarding the reconciliation factor, the Division testified at the hearing that it was satisfied with the ($0.0008) factor proposed by NGrid. Therefore, the Commission approved this factor. The Commission approved the $0.0077 Weather Normalization Factor. As for the Earning Sharing Mechanism factor, NGrid did not earn a ROE above 11.25% for fiscal year 2010. Thus, no adjustments the Commission could have made that would have brought the ROE above 11.25%. Accordingly, the Commission approved NGrid's proposed Earning Sharing Mechanism credit factor of ($0.0000) per therm. The other components of the DAC, Low Income Assistance Program and Service Quality Performance remain unchanged. Finally, the Commission agreed that NGrid should provide copies of all electronic spreadsheets relied on either directly or indirectly by the Company in preparing its future DAC filing at the time the Company files the testimony that relies on the information contained in those spreadsheets.

Accordingly, it is

(20231) ORDERED:

1. The System Pressure factor of $0.0024 per therm is approved for effect November 1, 2010.
2. The Advanced Gas Technology factor of $0.0009 per therm is approved for effect November 1, 2010.
3. The Environmental Response Cost credit factor of ($0.0013) per therm is approved for effect November 1, 2010.
4. The Weather Normalization factor of $0.0077 is approved for effect November 1, 2010.
5. The Reconciliation factor of ($0.0008) per therm is approved for effect November 1, 2010.
6. The On-System Margin credit factor of ($0.0018) per therm is approved for effect November 1, 2010.
7. The Pension and Post-Retirement Benefits factor of $0.0078 is approved for effect November 1, 2010.
8. The Capital Expenditure Tracker factor of ($0.0054) is approved for effect November 1, 2010.
9. The overall Distribution Adjustment Charge credit of $0.0098 per therm is approved for effect November 1, 2010.

10. NGrid shall obtain Commission approval prior to issuing a rebate from AGT funds of any amount in excess of $500,000.

11. NGrid shall provide the Division with copies of the electronic spreadsheets relied on either directly or indirectly by the Company in preparing its future DAC filing at the time of the filing of the testimony discussing on the calculations established by the information contained on those spreadsheets.

12. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING ON OCTOBER 26, 2010. WRITTEN ORDER ISSUED DECEMBER 21, 2010.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

Attachment A

National Grid - RI Gas

Docket No. 4196

Division Revised DAC Summary & Comparison to National Grid's Updated DAC

Line No.		Current	As Agreed to By the Parties
1	System Pressure (SP) Factor	$ 0.0038	$ 0.0024
2	Advanced Gas Technology (AGT) Factor	$ -	$ 0.0009
3	Low Income Assistance Program (LIAP) Factor	$ -	$ -
4	Environmental Response Cost (ERC) Factor	$ (0.0018)	$ (0.0013)
5	Pension and Post-Retirement Benefits (PBOP) Factor	$ 0.0033	$ 0.0078
6	Capital Expenditures Tracker (CXT)	$ (0.0114)	$ (0.0054)
7	On-System Margin Credit (MC) Factor	$ (0.0020)	$ (0.0018)
8	Service Quality Performance (SQP)	$ -	$ -
9	Weather Normalization (WN) Factor	$ (0.0040)	$ 0.0077
10	Earnings Sharing Mechanism (ESM)	$ -	$ -
11	Reconciliation (R) Factor	$ 0.0008	$ (0.0008)
12	**Subtotal**	**$ (0.0113)**	**$ 0.0095**
13	Uncollectible Percentage	2.46%	2.46%
14	**DAC Adjusted for Uncollectibles**	**$ (0.0116)**	**$ 0.0098**