

MEMORANDUM

To: Steve Scialabba

From: Bruce R. Oliver

Date: January 31, 2011

Subject: GCR Proceeding (Docket 4199) "Netted" Gas Purchase Costs

This memorandum is intended to formally convey the findings of our review of the supplemental information regarding "netted" gas purchase transactions that National Grid ("NGrid") provided subsequent to the Commission's hearing in Docket No. 4199.

BACKGROUND

In NGrid's Annual GCR proceeding (Docket No. 4199), the Company included an adjustment to gas costs of approximately \$6.2 million to reflect "netting transactions." Through the Division's testimony in that docket and during hearings, questions were raised regarding the reasonableness and appropriateness of costs associated with such "netting transactions." Division Data Request Set 3, filed with the Company on September 17, 2010, sought documentation to support NGrid's requested \$6.2 million adjustment to gas costs for "netting transactions." As explained in my direct testimony for the Division, filed on October 7, 2010, the information provided in response to Division Data Request Set 3 on September 30, 2010 did not provide sufficient detail permit verification of appropriateness of the dollar amounts which comprised its proposed \$6.3 million gas cost adjustment. The Commission's Report and Order in Docket No. 4199 issued December 21, 2010 states at page 25:

"Regarding the \$1.3 million of prior period costs, the Commission unanimously finds that NGrid should be allowed to recover these costs if it provides satisfactory documentation to support the netting transaction that resulted in those costs and the total balance of \$6.2 million. Furthermore, allowance of these costs is dependent upon the notification by the Division that the documentation is satisfactory."

On November 1, 2010 the Division submitted its fifth set of Data Requests to NGrid in Docket No. 4199 which were intended to solicit information the Division believed would be necessary to verify amounts of the prior period costs and the netting transaction balance referenced in the Division's proposed points of settlement. NGrid's responses to those Division Set 5 data requests were provided to the Division by correspondence dated November 16, 2010.

ANALYSIS

NGrid's responses to the Division's Set 5 data request provides further documentation of the "netting transactions" that comprise the Company's claimed \$6.2 million adjustment to its Deferred Gas Cost Balance and includes detail to support the \$1.3 million of prior period costs that the Division had questioned. The further documentation NGrid has provided includes invoices for the individual transactions that comprise those costs as well as specification of the volumes of gas purchased and sold as part of the subject netting transactions and the dollar amounts paid and received for gas purchased and sold over the period May 2009 through April 2010. The invoice detail is accompanied by schedules which show the aggregation of individual invoice data to the dollar amounts for netted transactions for which the Company has sought recovery.

We have examined the further data NGrid has provided in considerable detail and verified the development of the dollar amounts the Company has claimed. With a couple of exceptions the supporting detail by month was consistent with the monthly amounts for which NGrid has sought cost recovery. In those limited instances where inconsistencies were found, the Company was able to clearly show that the inconsistencies were solely the result of typographical errors that, when corrected, did not yield any change gas cost adjustment NGrid included in its initial Deferred Gas Cost Balance in Docket No. 4199.

FINDINGS AND RECOMMENDATIONS

With the further detail that NGrid has provided, we are satisfied that the Company's claimed \$6.2 million gas cost adjustment does in fact represent actual gas supply costs that the Company has incurred. Earlier provision of comparable detail may have avoided concerns that the Division felt compelled to raise in its Direct Testimony.

The analyses undertaken for this memorandum did not make any assessment of the reasonableness of the volumes sold or the dollar amounts received as part of the referenced "netting transactions." Nor, did we attempt to examine the cost basis, if any, for those volumes marketed under those transactions as the Company has made no explicit claim for recognition of such costs.

The period covered by the Company's cost claim and the further supporting data provided in response to the Division's Set 5 data requests reflects the Company's fiscal year (i.e., April – March) as opposed to the standard gas cost reconciliation period. It is our hope that these two periods can be synchronized in the future such that the Company's fiscal year and gas cost reconciliation period are one in the same. When the current gas cost reconciliation procedure was established, the reconciliation period was specifically chosen to reflect the Company's fiscal year. However, with NGrid's acquisition of the New England Gas Company, its fiscal year has been changed. We

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urge that synchronization of the Company's gas cost reconciliation period with its fiscal year be re-established such that issues regarding requests for recovery of out of period costs, such as those the Division addressed in its testimony in this proceeding, may be avoided.

Furthermore, the Division's acceptance of the Company's recovery of out-of-period portion of its claimed cost adjustment should be viewed as the Division's recognition of the current lack of synchronization between its fiscal year and its gas cost reconciliation period. It should not be viewed as a precedent for a blanket acceptance of out-of-period gas cost adjustments. Rather, we believe that the Commission should continue to consider merits of requests for out-of-period adjustments to gas costs on a case-by-case basis.