STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NATIONAL GRID'S GAS :
COST RECOVERY CHARGE : **DOCKET NO. 4199**

REPORT AND ORDER

I. NGRID'S SEPTEMBER 1, 2010 FILING

On September 1, 2010, National Grid ("NGrid") filed with the Public Utilities Commission ("Commission") a Gas Cost Recovery ("GCR") filing with decreased rates for effect November 1, 2010. The GCR is an annual filing that allows NGrid to reconcile and recover its estimated costs for gas supplies, including pipeline transportation and storage charges, for the GCR year beginning November 1. This filing proposes to decrease the rates approved by the Commission in Docket No. 4097 for the period November 1, 2010 through October 31, 2011. For a typical residential heating customer using 922 therms per year this will result in a decrease of approximately $144 or 9.7% per year over currently effective rates.

As part of its filing, NGrid filed a Motion for Protective Treatment of Confidential Information pursuant to Rule 1.2(g) of the Commission's Rules of Practice and Procedure.[1] Specifically, NGrid claimed that certain price terms contained in the Distrigas contract as well as forecast basis numbers, are confidential, commercially

[1] Rule 1.02 states in pertinent part that "[a]ny party submitting documents to the Commission may request a preliminary finding that some or all of the information is exempt from the mandatory public disclosure requirements of the Access to Public Records Act. A preliminary finding that some documents are privileged shall not preclude the Commission's release of those documents pursuant to a public request in accordance with R.I.G.L. §38-2-1 *et seq.*" and that "claims of privilege are made by filing a written request with the Commission. One copy of the original document, boldly indicating on the front page, "Contains Privileged Information - Do Not Release", shall be filed with a specific indication of the information for which the privilege is sought, as well as a description of the grounds upon which the party claims privilege."

sensitive and proprietary and are exceptions to the requirement of public disclosure as set forth in R.I.G.L. §38-2-2(4)(i)(B). NGrid asserted that public disclosure of this information would be commercially harmful and that a confidentiality agreement exists between the Company and Distrigas. Specifically, NGrid requests that the information set forth in Attachments EDA-2 and EDA-4 be given protective treatment.[2]

In support of its filing, NGrid submitted the pre-filed testimonies of Elizabeth D. Arangio, Director of Gas Supply Planning for NGrid, John F. Nestor, III, Lead Analyst in Gas Regulatory and Pricing for NGrid and Stephen A. McCauley, Director of Origination and Hedging in Energy Portfolio Management for NGrid. Ms. Arangio stated that her testimony provides support for the estimated gas costs, assignment of pipeline capacity to marketers and other issues relating to the Company's proposed factors.

Ms. Arangio explained that the proposed GCR factors are based on the NYMEX strip as of the close of trading on August 4, 2010 and the difference between the futures contract purchases under the Gas Procurement Incentive Plan ("GPIP") as of July 31, 2010 and the August 24, 2010 NYMEX strip. The factors also reflect storage and inventory costs as of July 31, 2010 and the projected cost of purchasing gas ratably through the summer as provided for in the Natural Gas Portfolio Management Plan ("NGPMP").[3]

Ms. Arangio described how the Company uses a SENDOUT model to calculate projected gas costs. The model uses pricing, contract and storage information to determine dispatch of supplies to minimize yearly supply cost. Ms. Arangio explained the five gas cost components for the GCR: (1) supply fixed costs; (2) storage fixed costs;

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[2] NGrid Exhibit 1, Gas Cost Recovery Filing, filed September 1, 2010.
[3] NGrid Exhibit 1(a) Gas Cost Recovery Filing, Direct Testimony of Elizabeth D. Arangio at 1-4.

(3) supply variable costs; (4) storage variable product costs; and (5) storage variable non-product costs. She described the calculation of the delivered cost for a particular gas supply and how pipeline capacity is assigned to marketers noting that the Company collaborated with marketers regarding basis pricing as agreed to in Docket No. 4097. Ms. Arangio represented that the Company and the marketers agreed to use the forward looking forecast for this and all future filings. She noted that the 29,258 Dth per day capacity on six different pipeline paths available for marketers is a 4,000 Dth increase from last year.[4]

Ms. Arangio indicated that on November 1, 2010 a capacity change will occur with the addition of the new Algonquin pipeline capacity. Additionally, the October 31, 2010 termination the LNG combination vapor/liquid supply contract with Distrigas will affect the supply portfolio and gas costs. Ms Arangio noted that in addition to contractual changes, warmer than normal weather, weak economic conditions and higher than usual production and storage levels have contributed to the decline in the price of gas. Moreover, gas supply in 2009 has been abundant because of deliveries, emerging supplies and new drilling technology allowing for profitability from previously uneconomic formations. Ms. Arangio identified several "local" projects that have recently gone into service affecting supply. She also noted that the Tennessee Gas Pipeline will likely file a rate case with FERC by the end of the year and that NGrid will be very involved in such filing as Rhode Island receives approximately forty percent of its supply from deliveries on this pipeline.[5]

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[4] *Id.* at 4-11.
[5] *Id.* at 11-17.

John Nestor provided testimony to explain the calculation of the GCR charges for 1) firm sales service customers in the Residential Non-Heating and Heating rate classes as well as Commercial and Industrial ("C&I") customers in the Small, Medium, Large and Extra Large rate classes, 2) Gas Marketer Charges and factors associated with transportation services billed to Gas Marketers and 3) the Natural Gas Vehicle ("NGV") rate.[6]

Mr. Nestor noted that the GCR factors are intended to recover $218 million in costs over the period November 1, 2010 through October 31, 2011. He described how the GCR factor of $8.9288 per Dth was derived from the five-gas-cost components, Supply Fixed Costs $0.6665 per Dth, Storage Fixed Costs $0.3527 per Dth, Supply Variable Costs $6.6781 per Dth, Storage Variable Product Costs $1.0382 per Dth, and Storage Variable Non-Product Costs ($0.0263) per Dth plus a 2.46% uncollectible component. Mr. Nestor explained how Supply Fixed Costs are derived and how they are allocated to the various rate classes based on their proportion of design-winter use. Residential, Large-HLF and Extra Large HLF design sales represent 3.47% of Design Winter Sales and thus a total of 3.47% of Supply Fixed Costs are allocated to these classes. He noted that NGrid developed its design winter calculations using the calendar month degree days as set forth in Docket No. 4097.[7]

Mr. Nestor described how the Storage Fixed Costs factor was derived. He noted that 3.71% of total Storage Fixed Costs were allocated to the Residential and HLF classes. He pointed out that the difference between the allocation for Supply Fixed Costs and Storage Fixed Costs was that Storage Fixed Costs incorporated the FT-2

[6] NGrid Exhibit 1(b) Gas Cost Recovery Filing, Direct Testimony of John F. Nestor, III, filed September 1, 2010 at 1-4.
[7] *Id.* at 5-7.

transportation customers consistent with the Commission's Order in Docket No. 2552. Mr. Nestor described how the Supply Variable Costs were derived and noted that because these costs vary with the amount of gas actually used, they are allocated to the various rate classes based on projected consumption. They are not allocated on the basis of design throughput such as Supply Fixed and Storage Fixed Costs which are incurred to ensure that the Company is able to meet customer requirements during design-winter conditions.[8]

Mr. Nestor also explained how the Storage Variable Product Cost Factor and the Storage Variable Non-Product Factor associated with the Residential and HLF classes were derived. He explained that the Storage Variable Non-Product Costs were divided by forecasted throughput as opposed to the Storage Variable Product Costs and Supply Variable Costs which were divided by forecasted sales, because the Storage Variable Non-Product Costs are assigned to FT-2 Marketers. Thus, the total of the components equals $8.7092 per Dth which is then adjusted by the 2.46 uncollectible percentage resulting in a GCR factor of $8.9288 per Dth or $0.8929 per therm. Mr. Nestor noted that the GCR factors for the other classes are calculated in the same manner as the Residential and HLF classes.[9]

At the end of the current GCR period, Mr. Nestor indicated that the current estimate in the deferred gas cost account is an under collection of approximately $6.7 million. Mr. Nestor described how the forecasted throughput requirements were developed though the use of regression analyses of daily send-out and degree days over the May 2009 through April 2010 time period. The average residential heating customer

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[8] *Id.* at 7-9.
[9] *Id.* at 9-12.

using 922 therms per year will experience a decrease of approximately $144.00 or 9.7% per year over current rates.[10]

Mr. Nestor noted that the commodity charge of the Natural Gas Vehicle ("NGV") rate of $7.5298 is based on the supply variable costs included in the GCR rate. He also proposed changes to various gas marketer charges and factors, specifically, $0.0430 per therm for FT-2 Firm Transportation Marketer Gas Charge, $0.0024 per percentage of balancing elected per therm of throughput in the Marketer pool for pool balancing charges and $0.9630 per therm weighted average upstream pipeline transportation cost.[11]

Mr. McCauley provided testimony to discuss the results of the Gas Procurement Incentive Plan ("GPIP"), the recommended changes to the GPIP and the results of the Natural Gas Portfolio Management Plan ("NGPMP") for April 1, 2009 through March 31, 2010. He noted that the GPIP encourages the Company to purchase supply in a way that will reduce risk and stabilize supply. He stated that the GPIP requires NGrid to lock in future gas prices over a 24-month horizon and that these purchases are made in a structured series of monthly increments. The incentive or penalty is determined by multiplying the total savings or cost by 10% except for those discretionary purchases made at least 8 months prior to the month of gas flow where the unit cost savings is greater than 50 cents per dekatherm in which case the incentive applicable to those purchases is 20%. The Company calculated the incentive to be $1,606,937. Mr. McCauley noted that the average cost of discretionary purchases was $2.494 per Dth less than the mandatory locks. During Docket No. 4097, the Commission required NGrid and the Division to engage in discussions regarding the GPIP and whether or not there were

[10] *Id.* at 12-14.
[11] *Id.* at 14-16, Attachment JFN-6.

any changes needed to be made to the Plan. The Division and the Company agreed that the incentive plan should continue with the $1 million cap for the period July 1, 2009 through June 30, 2010. Thus, even though the calculated incentive exceeded $1 million NGrid proposed it be granted an incentive of $1 million.[12]

Mr. McCauley also described the Company's recommended changes to the GPIP which were filed in a report with the Commission on February 25, 2010. Mr. McCauley noted that the Division agreed with NGrid that the Company's incentive be reduced from 10 percent to 5 percent for volumes executed during the last four months of the execution period and believed that removing the incentive cap of $1 million would benefit customers. NGrid recommended that the proposed changes take effect July 1, 2010.[13]

Finally, Mr. McCauley described the NGPMP which changed management of the Company's gas portfolio from an external company to internally within NGrid. Mr. McCauley pointed out how in its first year NGrid saved a total of $2,876,377. He noted that based on the NGPMP incentive, the Company is entitled to receive 20 percent of the total of savings in excess of $1 million which equals $375,276 for the April 2009 through March 2010 period.[14]

II. DIVISION

On October 7, 2010, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimony of Bruce R. Oliver, its consultant, to address NGrid's filing. Mr. Oliver identified the proposed percentage decreases that would affect the rate classes: 14.5% from $1.0801 per therm to $0.9239 per therm for Residential Heating

[12] NGrid Exhibit 1(c) Gas Cost Recovery Filing, Direct Testimony of Stephen a. McCauley, filed September 1, 2010 at 1-4.
[13] *Id.* at 4-6.
[14] Id. at 6-8.

customers, Small and Medium C&I customers, Low Load Factor Large C&I customers and Low Load Factor Extra Large C&I customers and 17.5% from $1.0338 per therm to $0.8929 per therm for Residential Non-Heating customers and High Load Factor Large and Extra Large C&I customers. Mr. Oliver indicated that NGrid's GCR rate for Natural Gas Vehicles would decrease 17.2% from $0.9091 to $0.7530 per therm and the FT-2 Storage Charge would increase by 27.6% from $0.0337 to $0.0430 per therm.[15]

Mr. Oliver noted that the difference in the percentages assigned to the different rate classes is the result of three contributing factors in: the rates of change in the size of the GCR cost components, the magnitude of over- or under-collection of costs by GCR component and the manner in which the five components of GCR costs are allocated among classes. Mr. Oliver pointed out that the changes in the individual cost components range from -37.0% for Storage Variable Product Costs to 9.6% for Storage Fixed Costs even though gas costs have decrease by 22.5%. He noted that NGrid did not directly explain the large variations in the changes in the components, and he opined that the decline in overall gas costs is primarily the result of changes in the Company's Supply Variable Costs and Storage Variable Costs. He pointed out the significant drop of 11% in NGrid's forecasted sales volumes which impacts gas costs, operations, planning and revenue. Mr. Oliver noted that a comparison with the 2009-2010 GCR period reveals large differences in the adjustment and reconciliation amounts totaling a $3.9 million decrease in costs to be collected in this period. He found the Company's projected costs to be reasonable. However, he questioned the 2% net decrease in light of the large reductions in NGrid's annual throughput and Design Winter Requirements.[16]

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[15] Division Exhibit 1, Testimony of Bruce R. Oliver, filed October 7, 2010 at 1-4.
[16] *Id.* at 4-7.

Mr. Oliver noted that he found computational inconsistencies in the Company's determination of deferred cost balances. These inconsistencies include discrepancies in the sum of the Month's Average Balances for the five categories not equaling the Month's Average Balances for the GCR Deferred Summary of the months of March 2010 through August 2010 which was explained by Mr. Nestor as the result of double counting that was corrected in a footnote of his testimony. Mr. Oliver indicated that while the correcting adjustment was allegedly made, he has not been able to verify that the amount of the adjustment is correct. Additionally, Mr. Oliver noted the difficulty he had in verifying the Total Storage Variable Product Costs as the elements did not equal the total. He attributed this to the Company's use of spreadsheet files that were not provided to the Division. He also expressed concern about the amount of the corrections made by the Company in the Storage Variable Product Costs – UG should result in a change in Underground Storage Inventory balances and Inventory Financing - UG which apparently did not occur. Finally, he found that the methods used to compute the proposed charges are consistent with the methods previously used by the Company and accepted by the Commission.[17]

Mr. Oliver discussed the dramatic change in throughput and forecasted sales presented by the Company. He indicated that beyond one paragraph in his direct testimony, Mr. Nestor did not provide any observations regarding the significance of the changes in the forecasted throughput volumes that result from NGrid's application of the forecasting methods. He also noted that beyond her representation that the decline in prices are associated with reduced demand, Ms. Arangio did not discuss the significance of the decline on the Company's weather and design winter requirements and the impacts

[17] *Id.* at 7-10.

of the decline on the Company's planning and operations. He suggested that because of the magnitude of the change in forecasted throughput requirements, the Commission be provided greater understanding of the changes and their impacts. He requested additional time to supplement his testimony because he did not receive supporting detail for the Company's sales and throughput forecasts until shortly before his testimony was due. Mr. Oliver noted that the Company's present forecast is 17% less, than the Design Day Peak for January 2011 that NGrid projected in Docket No. 3789. He asserted that NGrid should be able to advise the Commission as to the costs to ratepayers that will result from the Company's carrying of excess capacity to address future load uncertainties. He cautioned that allowing the Company an approximate 16% capacity reserve above the one-in-one hundred year Design Day Peak requirement may increase the Company's potential to earn incentives under the Natural Gas Portfolio Management Program ("NGPMP")[18]

Mr. Oliver noted that two things have affected the natural gas market in the United States, the recession and the all-time high levels of domestic production of natural gas. He stated that increased domestic production has resulted in the slowing of demand growth and the imports of natural gas to the United States. He also pointed out that while industrial gas demand has increased, residential and commercial gas use has remained flat. Mr. Oliver discussed the Marcellus Shale, which he noted Ms. Arangio represented as an immature supply basin and he identified as the subject of environmental and cost impact controversy, and the Rockies Express Pipeline, which can supply extra natural gas supplies to the Central and Eastern U.S. but the effects of which are unable to be quantitatively assessed. Additionally, Mr. Oliver stated that the Company acknowledged

[18] *Id.* at 12-16

that it has not yet contracted for dedicated supplies from any of the new local projects discussed by Ms. Arangio for its Rhode Island customers. Mr. Oliver pointed out that many of these projects are premised on LNG imports. Mr. Oliver explained that even though there is substantial LNG import capability, import capacity is being operated at very low capacity factors. He also described cargoes of opportunity noting that this LNG is only delivered to the U.S. when spot prices in the U.S. markets exceed other international markets and are likely to be priced higher than average gas supply costs.[19]

Mr. Oliver stated that he does not expect further dramatic decline in gas prices over the coming months. He noted that based on NGrid's forecast, its inventories in storage are likely to be sufficient for the upcoming winter. He pointed out that demand growth will impact natural gas prices beyond the next six to eight months. He identified industrial users as the primary drivers of the recent changes in natural gas use and the use of natural gas for electric generation. He stated that even with renewable projects and initiatives, the use of natural gas in industry and electric generation should be expected to place upward pressure on the cost of natural gas over the next few years. Mr. Oliver indicated that the company was not specific about its use of LNG during the winter season but pointed out that neither Newport nor Westerly was identified by the Company as using LNG during the coming winter.[20]

Mr. Oliver found no reason to dispute the calculation of the Company's GPIP incentive calculation. He agreed that the incentive should be capped at $1 million but did not dispute the changes proposed in Mr. McCauley's testimony which would eliminate the annual cap. He found the proposed changes to be consistent with the understanding

[19] *Id.* at 16-20.
[20] *Id.* at 20-23.

reached by NGrid and the Division and supported the Commission's approval of the changes.[21]

Regarding the Natural Gas Portfolio Management Plan ("NGPMP"), Mr. Oliver indicated that NGrid properly computed the incentive of $375,276 and found no reason for the Commission to withhold that incentive. He also pointed out that even though NGrid estimated a $1 million credit for its in-sourced asset management activities, it achieved benefits for ratepayers of $2,501,102. He opined that it is reasonable to believe that NGrid will achieve more than the $1 million annual benefit originally estimated in the upcoming GCR year. He noted that 80% of all asset management revenue in excess of the $1 million ratepayer guaranteed benefit is given to the ratepayers. He suggested the Commission assume an annual NGPMP credits to ratepayers of not less than $3.4 million because it is reasonable to expect that the NGPMP credits will significantly exceed the $1 million guarantee. He recommended that the Commission assume a level of not less than $3.4 million annually of NGPMP credits to ratepayers, noting that this is consistent with the $4 million of annual net asset management revenues.[22]

After reviewing the Gas Cost Reconciliations, Mr. Oliver noted that for the most part he found the calculations to be mathematically accurate; however, he found a number of calculations that were not mathematically correct. Mr. Oliver assumed that those calculations did not materially impact the Company's reconciliations but he was unable to fully verify his assessment prior to the filing of his testimony.[23]

Mr. Oliver asserted that the Commission should not accept the Company's reconciliation as filed. He discussed the approximate $6.2 million adjustment which

[21] *Id.* at 24-25.
[22] *Id.* at 25-28.
[23] *Id.* at 28-30.

included a $1.35 million adjustment for May and June 2009 which were in the last GCR period and he noted were not relevant to this reconciliation period. He asserted that including this amount constituted inappropriate retroactive ratemaking. He also stated that NGrid failed to demonstrate that this amount was not previously included in the gas costs for which NGrid had already been provided cost recovery. Finally, Mr. Oliver stated that NGrid should have identified the May and June error/adjustment in its 2009 Annual Gas Cost Recovery Reconciliation Report. Mr. Oliver also pointed out that nowhere in NGrid's August 2, 2010 Annual Gas Cost Recovery Reconciliation or its September 1, 2010 filing in this proceeding did it discuss this $6.2 million adjustment but merely discussed it in response to a Division data request associating it with a netting of transactions where the Company buys and sells to the same vendor. The adjustment was also identified in fifteen journal entries provided in response to a Division data request which Mr. Oliver was unable to verify because the information provided was insufficient to do so.[24]

Mr. Oliver discussed NGrid's rationale for including the prior excluded portion of the $6.2 million in this proceeding, which included: that the costs were prudently incurred but excluded due to an oversight; that it is common to include items such as credits and refunds from prior periods; and that it is appropriate to include such amounts since NGrid has included refunds from Tennessee Pipeline that related to periods prior to July 2009. In response to these justifications, Mr. Oliver stated that NGrid did not provide sufficient documentation for him to determine that the costs were prudently incurred or not previously included in its reported gas costs for the prior GCR period. He also urged the Commission to differentiate between credits and refunds that NGrid

[24] *Id.* at 30-33.

receives from regulated pipeline suppliers. He pointed out that the Commission's treatment of these types of costs is limited by the *Filed Rate Doctrine.*[25]

He stressed that adjustments to costs based on transactions with unregulated entities are not required to be passed through on a dollar per dollar basis. Mr. Oliver noted the Commission's decision in Docket No. 3832, where it denied Providence Water Board's request for $1.489 million of prior period costs that was ultimately upheld by the Rhode Island Supreme Court. Recognizing the exception to retroactive ratemaking for review of past costs in conjunction with a reconciliation tariff, Mr. Oliver stated that once the Company filed and the Commission accepted and approved new GCR rates based on an annual filing, the exception disappears.[26]

Mr. Oliver discussed the concerns of the gas marketers raised in Docket No. 4097 where NGrid changed its methodology for computing prices marketers would pay for the use of various pipeline paths. The Company had previously used a historical average to determine the basis portion of the WACOG, but in Docket No. 4097 proposed using a one year forward looking forecast of prices. He pointed out that the marketers disagreed with this approach but that in July the marketers and the Company met and the marketers accepted the Company's use of the one-year forward looking pricing methodology. He noted that neither the Division nor any other non-marketer participated in this decision. Mr. Oliver indicated that he is not opposed to the methodology if a mechanism is adopted for reconciliation of forecasted and actual costs. He stated that absent such a reconciling mechanism, the Commission should require NGrid to continue its prior three-year

[25] *Id.* at 33-34
[26] *Id.* at 35-36.

historical moving average. He noted that because of the dramatic changes in supply and usage, the ability for anyone to forecast changes in basis prices is questionable.[27]

Mr. Oliver recommended that the Commission require NGrid to file copies of all electronic spreadsheets relied upon either directly or indirectly in its filings at the time the filing is made. He reiterated that a number of calculations relied on data and analyses computed in other spreadsheets that were not provided to the Division. Thus, review and verification were impeded. Finally, Mr. Oliver summarized his recommendations. These recommendations are that the Commission approve the changes to the GPIP, that the Commission accept the request to recover $1 million in GPIP incentives, that the Commission approve the NGPMP incentive of $375,276, that the Commission direct NGrid to include $3.4 million of net customer benefit in its GCR rate calculations for the upcoming GCR year, that the Commission mandate NGrid to adopt a mechanism for reconciling forecasted and actual costs for computing prices marketers would pay for use of various pipeline paths, that the Commission accelerate the timing of the Company's next required long range gas supply planning study in light of forecasted declines in throughput and operational changes that will result from the start-up service from the Algonquin East to West Project, that the Company be required to address the implications of changes in its throughput forecasts on its near-term and long-term gas supply planning and the expected availability of capacity resources for release or use in the production of asset management credits, and that the Commission reject the $1,348,893 portion of the $6.2 million adjustment. Absent the approximate $1.35 million adjustment, Mr. Oliver computed GCR charges that reflect the Division's recommendations of $3.4 million of assumed NGPMP Customer Benefit and the impact of the Division's recommendation

[27] Id. at 36-39.

that the System Pressure Factor in the DAC be set at zero. As a result, Mr. Oliver recommended a GCR charge for Residential Heating, Small C&I, Medium C&I, Large Low Load Factor and Extra Large Low Load Factor C&I customers of $0.9160 per therm and for Residential Non-Heating, Large High Load Factor C&I, and Extra Large High Load Factor C&I customers of $0.8854 per therm.[28]

IV. NATIONAL GRID OCTOBER 15, 2010 REBUTTAL

On October 15, 2010, NGrid filed the Rebuttal Testimonies of Elizabeth Arangio and John Nestor. Ms. Arangio updated a number of schedules and addressed Mr. Oliver's concerns regarding the cost of capacity released to the marketers and the Company's projected peak day gas supply requirements. She explained why the twelve-month forward pricing is more appropriate than the three year historic average to calculate the Company's weighted average cost of capacity released to marketers. She pointed out three reasons: it is consistent with the calculations used to set the gas cost adjustment factor for the same twelve month period; it provides a more accurate price signal for market pricing; and the two calculations yield similar results. She disagreed with Mr. Oliver's recommendation that a reconciling mechanism be established and cautioned that it would result in price uncertainty for marketers that would likely be passed on to customers through premium charges to cover the potential risk of the marketers having to pass on an additional surcharge.[29]

Ms. Arangio clarified the Company's projected peak day gas supply requirements, noting firm sales customers peak day requirement of 289,700 Dth with a corresponding available capacity of 337,603 Dth. For the 2010/11 winter, Ms. Arangio noted the

[28] *Id.* at 40-44.
[29] NGrid Exhibit 7a, Rebuttal Testimony of Elizabeth D. Arangio, filed October 15, 2010 at 1-6.

projected peak day requirement for firm sales and firm transportation customers of 336,636 Dth and corresponding available capacity of 366,543. She pointed out that the projected peak day requirement for all customers utilizing utility capacity for January 2011 in Docket No. 3789 was 349,367 Dth and that in the Company's Long Range Gas Supply Plan filed on October 26, 2007, the projected peak day for January 2011 was 334,090 Dth. She agreed with Mr. Oliver's recommendation to accelerate the timing of the Company's next required Long Range Gas Supply Plan.[30]

Mr. Nestor filed rebuttal testimony to address: the alleged inconsistencies in the GCR Deferred Balances in his Attachment NG-JFN-1 pages 6-9; Mr. Oliver's proposed increase of NGPMP customer benefits to $3.4 million; Mr. Oliver's adjustment of LNG costs to reflect his recommendation in the DAC proceeding that the System Pressure factor be set at $0.000; and Mr. Oliver's recommendation that the Commission reject $1,348,893 of NGrid's gas cost adjustment included in its Annual Gas Cost Reconciliation Report.[31]

Mr. Nestor indicated that the Company was willing to provide the Division with copies of all electronic spreadsheets relied upon at the time of its GCR filing to the extent that such information is available. Regarding the inconsistencies alleged by Mr. Oliver in the Deferred Balances, Mr. Nestor asserted that Mr. Oliver's observations did not consider additional information submitted to the Commission. He stated that while Mr. Oliver was correct in his assertion that monthly totals did not reconcile, the August adjustment he filed corrected this problem. Mr. Nestor asserted that NGrid was in

[30] *Id.* at 6-7.
[31] NGrid Exhibit 7b, Rebuttal Testimony of John F. Nestor, III, filed October 15, 2010 at 1-2.

agreement with Mr. Oliver's recommendation to establish the NGPMP credit of $3,400,000 for this filing.[32]

Mr. Nestor also discussed Mr. Oliver's recommendation in the DAC to set the System Pressure factor at zero and to adjust the Storage Fixed factor to ($661,228) and the Storage Variable factor to ($349,551) to eliminate the allocation of LNG in the DAC. Mr. Nestor disagreed with this recommendation and asserted that the System Pressure allocation factor be maintained at 16.8% until such time as a study can be prepared to evaluate this recommendation.[33] He also discussed Mr. Oliver's recommendation that $1,348,893 of the gas cost adjustment be disallowed because it relates to May and June of 2009. He asserted that this recommendation is based on an incorrect legal foundation, conflicts with past precedent of the Commission and seeks to establish a new regulatory policy that would undermine and eliminate appropriate benefits for customers. He pointed out that prior Annual Reconciliation filings have included adjustments from prior periods. He also distinguished the reference to Docket No. 3832 noting that that case was a general distribution rate case where healthcare expenses would have provided a rate benefit to that water company where in the instant matter, the adjustment relates only to the recovery of gas costs designed to be passed through and does not provide a financial incentive or benefit to NGrid. He again reiterated that the $1.3 million resulted from an error of incorrect reporting which was subsequently corrected. He also pointed out the exception that the Commission has made to the policy of retroactive ratemaking for past

[32] *Id.* at 2-5.
[33] *Id.* at 5.

costs in conjunction with a reconciliation tariff and has allowed for this exception in prior cases, one such case being last year's GCR matter, Docket No. 4097.[34]

Mr. Nestor also discussed the three modifications that NGrid has made in updating its proposed GCR rates. He identified those modifications as the elimination of double counting of costs related to a DistriGas contract, modification of the demand charges for LNG thereby eliminating $1,971,000 and inclusion of Mr. Oliver's adjustment of $3,400,000 for the NGPMP credit. Based on the changes made, Mr. Nestor noted that the Company was proposing a rate of $0.8803 per therm for Residential Heating, Small C&I, Medium C&I, Large Low Load Factor and Extra Large Low Load Factor C&I customers and $0.9091 per therm and for Residential Non-Heating, Large High Load Factor C&I, and Extra Large High Load Factor C&I customers. Additionally, Mr. Nestor represented that the Company was proposing an FT-2 Marketer rate of $0.0376 and a Natural Gas Vehicle rate of $0.7436. These changes result in an overall impact on an average residential heating customer utilizing 922 therms to be an annual reduction of 9.3% or $157.68.[35]

V. DIVISION RESPONSE TO REBUTTAL

On October 19, 2010, the Division filed a response to NGrid's Rebuttal Testimony. The response addressed the three disputed issues: the pricing of capacity released to marketers, the allocation of LNG costs to the DAC and the recovery of prior period costs. Regarding the pricing of capacity released to marketers, the Division maintained its position that fixed cost components of costs for capacity released to marketers should be reconciled with actual costs because of the uncertainty that exists

[34] *Id.* at 5-12.
[35] *Id.* at 12-13.

regarding fixed capacity costs for the coming GCR year. The Division asserted that the Company did not demonstrate that the 16.8% System Pressure Factor set in Docket No. 3943 continues to be appropriate in light of the fact that the Company has not executed an LNG contract for the coming year and that LNG use will be affected by changes to the Company's supply portfolio. Finally, the Division alleged that the Company's rebuttal testimony does not provide sufficient detail to support recovery of the $1.3 million prior period costs.[36]

VI. DIVISION PROPOSALS IN SETTLEMENT OF ISSUES

The Division filed a proposed settlement of the outstanding issues 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. Regarding inclusion of the $1.3 million in prior period costs, the Division agreed that recovery was acceptable if NGrid provided documentation to the netting transactions that resulted in the prior period costs. The issue remained open for further consideration until satisfactory full documentation of those costs is provided to the Division and agreement to allow recovery of the prior period costs not be considered to have precedential value. 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. Finally, the Division agreed with the Company's use of the one year forward looking estimates of marketer charges conditioned on an

[36] Division Exhibit 2, The Division of Public Utilities and Carriers Response to National Grid Rebuttal Testimony filed October 19, 2010 at 1-3.

annual reconciliation of the fixed cost component that includes adjustments for sales service customers.[37]

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.[38]

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. Assistant Attorney General
FOR THE COMMISSION:	Patricia S. Lucarelli Chief of Legal Services

Prior to the beginning of the presentation of evidence by the parties, the Commission ruled to grant NGrid's Motion for Protective Treatment in accordance with Rule 1.2(g) of its Rules of Practice and Procedure and to protect as confidential schedules EDA-2 and EDA-4, which are attachments to the testimonies of Elizabeth Arangio. Additionally, NGrid requested that its response to Division Data Request 1-9 be given

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

such protective treatment as it includes confidential information. The Commission granted these requests authorizing protective treatment of certain pricing terms contained in NGrid's FCS contract with Distrigas as well as forecast basis numbers which are subject to a contractual confidentiality agreement. The protection of this information is necessary to protect not only the companies that are parties to contracts, but also the ratepayers whose interests could be compromised or adversely affected should NGrid be required to make public the details of its contractual negotiations.

At the hearing, NGrid presented Ms. Arangio, Mr. Nestor and Mr. McCauley as its witnesses. The Division presented Mr. Oliver. The panel of experts was made available for Commission inquiry. The panel discussed LNG and the gas supply. Ms. Arangio explained that the majority of LNG used by the Company was for supply purposes as opposed to system pressure because it is economic to use LNG in the system and because the low variable cost pricing in the Distrigas contract supports the dispatch. Ms. Arangio also explained the East West Project and how the adding of compression allowed for deliveries further into NGrid's system and into Connecticut where NGrid can backfeed its system. She also explained that when NGrid is conducting a system pressure study, it will consider the future of the existing LNG tanks which it considers to be a very valuable asset and crucial if an upstream disruption were to occur.[39]

Ms. Arangio acknowledged lower growth and additional capacity with the East to West Project. She represented that the Company agrees with Mr. Oliver's recommendation to submit a five-year gas supply plan in 2011 so that the forecast methodologies as well as the gas supply portfolio can be reviewed. In response to a question, Ms. Arangio explained that additional supply is not needed in this area because

[39] Transcript of Hearing, October 20, 2010 at 34-38.

of the number of projects in New England. Additionally, she noted that if Weaver's Cove does not have any firm contracts, the cargos would go where there is a higher price. Mr. Oliver also noted that the decline in demand has affected the requirements for a facility such as Weaver's Cove. He also pointed out that a study by the United States Department of Energy revealed low utilization of LNG in this region.[40]

Ms. Arangio testified that NGrid is constantly looking for opportunities to obtain lower cost gas for its customers. She explained the similarities in capacity issues with other New England states noting that they are served off laterals. She distinguished New York because it is not typically served off laterals. Regarding the 16.8% percent of LNG costs that are sent to the DAC, Mr. Nestor explained the rational with this was so that marketers would also be responsible for a portion of the system pressure requirements. He also mentioned the Company's planned study to ensure that this factor is appropriate.[41]

The panel also discussed the gas purchasing program and the agreement between the Company and the Division to remove the $1 million cap on the Company's incentive. Mr. Oliver described the modifications including the change in timing of when incentives were available and how much would be received. Mr. Oliver explained that the Company never receives an incentive for a loss but that the incentive goes for pricing that the Company achieves below the average cost of its mandatory purchases. He noted that even in a declining market, the incentive works to have the company lower the cost of gas to customers. He predicted that in light of the fact that gas prices have remained

[40] *Id.* at 38-45.
[41] *Id.* at 46-53.

relatively stable, it is unlikely that the Company will exceed the $1 million incentive; however, if it does, ratepayers will be receiving noticeable benefits.[42]

COMMISSION FINDINGS

At its open meeting, on October 26, 2010, the Commission considered NGrid's request to decrease the GCR rate. It was not necessary for the Commission to rule on NGrid's Motion for Protective Treatment as the Motion was granted at the commencement of the hearing. At the hearing, the Commission found that protection of this information was necessary to protect not only the companies that are parties to the contracts, but the ratepayers whose interests could be compromised or adversely affected should NGrid be required to make this information public.

The Commission is satisfied that the rates proposed by NGrid and supported by the Division will ensure that customers pay a just and reasonable rate. The Commission finds that the Gas Cost Recovery factors proposed by NGrid and supported by the Division, set forth on a per therm basis, of: $0.8803 for Residential Non-Heating Customers, Large and Extra Large High Load Factor Customers and $0.9091 for Residential Heating Customers, Small and Medium Commercial Customers, and Large and Extra Large Low Load Factor Customers were reasonable and justified. Further, the Commission finds the Natural Gas Vehicle Rate of $0.7436 per therm, the pipeline path credits of $0.9677[43] per therm of capacity, the FT-2 Marketer Rate of $0.0367 per therm and the pool balancing charge of $0.0023 per percent of balancing were reasonable and justified.[44]

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[42] *Id.* at 65-72.
[43] This modification was made in EDA-4R.
[44] The rates reflect the change in the uncollectible percentage of 2.46% approved in Docket No. 3943.

The majority of the Commission further finds that the cap of $1 million on the Gas Purchase Incentive Plan ("GPIP") may be removed for a period of one year on the condition that a technical session is held in order to further evaluate how the incentive aligns the interest of the shareholders and the ratepayers.[45] The Commission unanimously finds that NGrid should be required to provide all electronic spreadsheets relied on either directly or indirectly by the company in preparing its future GCR filings at the time of the filing of the Company's testimonies. 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.

The Commission finds that NGrid should conduct a study during the course of the year to determine whether the 16.8% System Pressure Factor is appropriate or needs to be modified prior to next year's GCR and DAC filings. The Commission also finds that NGrid shall use a one-year forward looking estimate of marketer charges with an annual reconciliation of the Fixed Costs component of those charges and that reconciliation adjustments will be applied on a forward looking basis only and will recognize fixed costs for sales service customers. Finally, the BTU factor of 1.026 is approved.

[45] Chairman Germani supported removing the cap without condition.

Accordingly, it is

(20230) ORDERED:

1. The Gas Cost Recovery Factors, the Natural Gas Vehicle Commodity Rate, the Gas Marketer Charges agreed to by the parties and set forth below are hereby approved.
2. The Gas Cost Recovery factors, set forth on a per therm basis, of: $0.9091 per therm for Residential Non-Heating Customers, Large and Extra Large High Load Factor and $0.8803 per therm for Residential Heating Customers, Small and Medium and Large and Extra Large Low Load Factor customers are approved for usage on and after November 1, 2010.
3. The Natural Gas Vehicle Rate of $0.7436 per therm is approved for usage on and after November 1, 2010.
4. The Gas Marketer Transportation factors of: $0.0367 per therm for the FT-2 Firm Transportation Marketer Gas Charge; $0.0023 per percent of balancing elected per therm for Pool Balancing Charge; and a weighted average upstream pipeline transportation cost of $0.9677 per therm of capacity are approved for usage on and after November 1, 2010.
5. National Grid shall conduct a study to review and determine the appropriateness of or whether changes are necessary to the 16.8% system pressure factor.
6. The BTU factor of 1.026 is approved.
7. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISION ON OCTOBER 28, 2010. WRITTEN ORDER ISSUED DECEMBER 21, 2010.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner