

December 10, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**RE: Docket 4206 - Revenue Decoupling Mechanism Proposal
Responses to Commission Data Requests – Set 3**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's responses to the Commission's Third Set of Data Requests issued on November 19, 2010, concerning the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



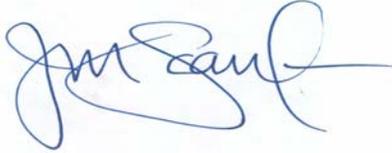
Thomas R. Teehan

Enclosures

cc: Docket 4206 Service List
Leo Wold, Esq.
Steve Scialabba, Division

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

December 10, 2010
Date

**Docket No. 4206 - National Grid (NGrid) – Revenue Decoupling Mechanism Filing
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Commission Data Requests 3-1 and 3-2

Request:

This is a follow up to COMM 1-3. COMM 1-3 states, in part: "For electric, how is the company proposing to avoid cross subsidization of rate classes?" The company did provide a 3 paragraph response, but the response did not seem to answer the direct question posed of what measures will be in place to avoid cross subsidization. If the company could respond to the direct question, it would be appreciated.

This is a follow up to COMM 1-7. COMM 1-7 states, in part: "For gas, how is the company proposing to avoid cross subsidization of rate classes...?" The company did provide a 3 paragraph response, but the response did not seem to answer the direct question posed of what measures will be in place to avoid cross subsidization. If the company could respond to the direct question, it would be appreciated.

Response:

As indicated in the responses to Commission Data Requests 1-3 and 1-7, the Company acknowledges that its proposal to charge a uniform per unit RDM adjustment factor, rather than rate class specific factors, may result in some potential cross subsidization of costs between rate classes. Further, the Company is not proposing to implement any measures to avoid any cross subsidization between classes that may result from the application of a uniform per unit adjustment factor. This is because, as discussed below, the Company recognizes that cross subsidization issues are more appropriately addressed at the time of a rate case. Rather, in this proceeding, the Company is seeking to design its RDM proposals and rate reconciliation mechanisms to achieve other regulatory policy goals. Specifically, the Company designed its RDM reconciliation mechanisms so as to minimize rate impacts on rate classes and to align the benefits of the RDM proposal with the goal of energy efficiency.

It is important to note that the only appropriate way to measure cross subsidization¹ between rate classes is by performing a fully allocated cost of service study. In a base distribution rate case, which includes an allocated cost of service study, new rate levels are set based upon the characteristics of each rate class at the time the study is performed along with the impacts of any policy objectives of the Commission. These other Commission policy objectives may seek to gradually bring rate classes to their full cost of service as a means of mitigating negative bill impacts by re-allocating revenue requirement among rate classes. In addition to the inherent subsidies built into a final allocated cost of service study, it is also possible for the characteristics of the various rate classes to change over time. For example, it is possible that the revenue that is expected to be collected from each class at the time rates are set during a rate case may change

¹ Defined here to mean where one class of service is paying rates above their cost to serve so that another class may pay rates below their cost to serve

Commission Data Requests 3-1 and 3-2 (continued)

dramatically due to factors such as the loss or gain of customers, changes in load requirements of customers within the class, and various other reasons. But a change in the expected revenue contribution by a specific class does not necessarily mean that that class is now receiving a subsidy from or providing a subsidy to another class. Without performing an allocated cost of service study, it is impossible to determine how the cost to serve that class has changed relative to its revenue contribution, and therefore, whether this class is receiving or providing a subsidy to other classes.

The Company is proposing to utilize a rate reconciliation mechanism that it believes is aligned with, and captures the benefits of, energy efficiency. Currently, the Company charges a uniform energy efficiency rate to all customers because the benefits of these programs accrue to all customers in the state. Therefore, it is appropriate that all customers should pay an equal share of the costs of these programs. One of the major drawbacks of a separate reconciliation for each rate class would be that those customers who avail themselves of these energy efficiency programs and aggressively conserve (thereby significantly lowering the average use per customer for the rate class) could potentially be surcharged more than under a uniform RDM reconciliation rate. Such a rate reconciliation mechanism would penalize these customers. It is simply not consistent with the goal of encouraging energy efficiency through an RDM proposal to adopt separate RDM reconciliation rates that could undermine the very policy goals the Rhode Island State Legislature has chosen to promote.

In addition, the Company believes that uniform adjustment factors, rather than rate class specific factors, will mitigate potential bill impacts that could result from class usage characteristics shifting significantly over time. By way of example, assume that the Company was to implement rate class specific electric RDM adjustment factors. Further, assume that a class with a small number of customers has an ATR of \$5 million. Finally, assume that during a reconciliation year, a single (large) customer, which contributes 50% of the class revenue, successfully employs energy efficiency measures and reduces its usage by 20%. The remaining customers in the class would see their distribution charges increase by 10%. In addition, a class specific RDM adjustment factor would result in only a net 10% decrease in that conserving customer's distribution charges, significantly impacting the incentive to pursue such energy efficiency measures.

The Company notes that collecting reconciling costs through a uniform per unit factor is consistent with the operation of other rate mechanisms currently in effect for both the electric and gas companies. For example, as noted on page 20 of the Joint Testimony, the Company's proposed gas RDM mechanism also takes into account the revenue impact of weather related differences in customer usage. As proposed, the Company's gas RDM proposal will eliminate the need for and replace the Weather Normalization Adjustment (WNA) factor that is currently included in the Company's annual Distribution Adjustment Charge (DAC) filing. Today, the WNA factor utilizes a uniform rate in the DAC to account for the weather impact on usage

Commission Data Requests 3-1 and 3-2 (continued)

across all rate classes. The Company's proposed RDM uniform rate mechanism and proposal to reconcile future RDM actual revenues in the DAC is entirely consistent with this mechanism.

Finally, a uniform RDM reconciliation rate will also be administratively efficient for the Company and the Commission's RDM review. On the electric side, the Company's Transmission Cost Adjustment Provision, R.I.P.U.C. No. 2036 includes rate specific base transmission charges, but collects or refunds any under or over collections through a uniform per kWh factor applicable to all customers. On the gas side, almost all other DAC reconciliation components are reconciled through a uniform reconciliation factor.

In summary, the Company believes that a uniform per kWh RDM adjustment factor applicable to all customers for electric and a uniform gas RDM adjustment factor for gas RDM rate classes is appropriate because it will 1) mitigate potential bill impacts and 2) align the Company's RDM proposals with the goals of the energy efficiency programs; 3) act in a way that is completely consistent with other types of comparable rate mechanisms; and 4) simplify the operation of the RDM.

Prepared by or under the supervision of: Jeanne A. Lloyd and Jennifer B. Feinstein