STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY, d/b/a NATIONAL GRID TARIFF ADVICE REGARDING TERMS AND CONDITIONS FOR GAS MARKETERS AND CALCULATION OF GAS COST RECOVERY RATES – R.I.P.U.C. NG-GAS NO. 101, SECTIONS 2, 5, 6	:	**DOCKET NO. 4270**

ORDER

On August 1, 2011, the Narragansett Electric Company, d/b/a National Grid (hereinafter "NGrid" or "the Company") filed a tariff advice seeking to amend its transportation Terms and Conditions relating to third-party gas marketers. The Company proposed modifications: 1) to change the storage service from an injection/withdrawal approach to a cash-out approach; 2) to simplify the capacity assignment process by assigning the capacity and storage entitlements based on the customers' calculated design peak-day use and class load factor; 3) to expand the availability of the FT-2 service to include the Small Commercial and Industrial class of customers and limit the availability of the FT-1 service to the Large and Extra Large classes; 4) to provide a mechanism to cash out imbalances under the FT-2 service; 5) to develop Electronic Data Interchange (EDI) capabilities for communications with Marketers; and 6) to add language to the tariff to enable the Company to terminate the participation of a Marketer for failing to properly serve customer's supply requirements, pay for their transportation service, or maintain creditworthiness. Additionally, NGrid proposed several other changes which would: 1) eliminate the $50 fee imposed on customers who change Marketers or services more than once a year; 2) provide for annual meetings between the company and

Marketers; 3) allow changes in nomination and scheduling times; 4) implement changes in the capacity assignment program; and 5) list the circumstances that would cause a Marketer to be disqualified.

In support of its proposed changes, the Company provided the pre-filed testimony of Michael Bauer, Manager of National Grid Gas Transportation and John F. Nestor, III, Lead Analyst National Grid Gas Regulatory and Pricing. Mr. Bauer set forth the collaborative meetings held with Rhode Island gas marketers to discuss the proposed changes and identified the participants. He described each of the six proposed modifications beginning with the proposed change from an injection/withdrawal approach to a cash-out approach noting that this change would eliminate the need for Marketers to inject gas into storage simplifying the existing storage process and making it easier for Marketers and the Company to administer the service. He pointed out the fact that Marketers are continually adding and losing customers which makes it difficult to manage storage injections. Mr. Bauer explained that going forward, the Company was proposing to eliminate Marketer injections for underground storage and to require payment of a charge equal to the average inventory price plus the weighted average unit cost of the variable charges incurred to move the supply to the system from storage, which would be updated every month. Peak storage pricing would be on a monthly cash-out based on the Company's cost of supply in the inventory at the beginning of the month as the supply is nominated during the winter instead of requiring the Marketers to purchase an allocated amount of inventory from the Company at an average inventory price in early November. He asserted that even if Marketers chose not to purchase the supply, the carrying cost of the stored gas would be recovered in a demand charge.[1]

Mr. Bauer explained the purpose of simplifying the capacity assignment process was so that pipeline capacity, underground storage, and peaking storage entitlements would be based on and assigned by whether the customer was a high load factor rate class or a low load factor rate class after the Company calculated the customer's design peak day use. He noted that the simplification of the formula and tying it to the customer's historic usage and rate class will allow Marketers to better serve their customers in providing quotes and evaluating the cost to serve the customer thus resulting in a better price to that customer. He asserted that the high load factor and low load factor class split was consistent with the reduction to two rates for Gas Cost Recovery approved by the Commission in Docket No. 3943.[2]

Mr. Bauer explained that expansion of the availability of the FT-2 Service to Small C&I rate class customers allows Marketers to continue to serve customers who fall below the threshold for the Medium C&I rate. He also described why the Company is eliminating the availability of FT-1 Service for the Medium C&I rate class pointing out that the cost and effort of providing this service to that rate class is not appropriate and that improvements to the FT-2 Service make access to the FT-1 Service unnecessary. Mr. Bauer represented that Medium C&I customers currently receiving FT-1 Service would be grandfathered and allowed to continue to receive such service. He also described the change in mechanism to cash out imbalances from the current practice of recording them as an injection into or withdrawal from storage to a two step approach

[1] Direct Testimony of Michael Bauer, August 1, 2011 at 2-5.
[2] *Id.* at 5-6.

that would cash out errors in the daily weather forecast based on daily prices and cashing out the remaining imbalance at a monthly index price prorated between the months that the bills overlap.[3]

The Company currently uses Electronic Data Interchange ("EDI") to communicate with electric marketers in Rhode Island and will implement the same for gas marketers. Mr. Bauer asserted that the Company and marketers have discussed this, and the marketers have agreed to implement this method of exchanging information that has proven to be both effective and economical. Mr. Bauer represented that the NGrid's Pool Balancing service has not had many customers over the past decade and that there has been no objection to its proposed elimination as Marketers have been successful at balancing.[4]

In addition to the major modifications described by Mr. Bauer, he identified a number of minor changes proposed to accommodate Marketers' requests. Those changes include eliminating the $50 fee currently required for customers switching services or Marketers more than once per year. Mr. Bauer explained that the implementation of the EDI eliminates the need for the internal labor required to manage such changes. He represented that the Company has agreed to a yearly meeting with Marketers following the end of winter and to accommodate certain changes in the nomination and scheduling times, and has set forth, in the tariff, practices it is currently engaged in with regard to the issuance of operational flow orders and critical day notices.[5]

Mr. Bauer noted that the Company proposed a modification that eliminates the grandfathering of paths in the capacity assignment program when the annual

[3] *Id.* at 7-8.
[4] *Id.* at 8-9.
[5] *Id.* at 9-10.

reassignment is done which will allow Marketers to better predict what capacity they will end up with when the annual reassignment is complete. Lastly, the proposed tariff identifies a list of circumstances that would result in the disqualification of a Marketer including, loss of certification by the Commission, acting in a manner that compromises safety and/or reliability and failing to pay for or reasonably provide the supply needed by customers.[6]

Finally, Mr. Bauer described the Company's rationale in proposing the changes he set forth. He noted the Marketers desire for more commonality with other jurisdictions in which they operate. He also stated that the proposed changes are beneficial to the Company and to the Marketers as they will reduce administrative costs and simplify the administration of the program. He asserted that the proposed changes will encourage Marketer participation in Rhode Island resulting in increased competition. Mr. Bauer stressed the necessity of an expedited review so that implementation of the proposed changes can occur by November 1, 2011 to allow for implementation of the system and to prevent unnecessary actions on the part of Marketers if the changes are approved.[7]

Mr. Nestor provided pre-filed testimony describing the rate design and tariff changes and the impact of those changes on the GCR filing and rates. He described how NGrid restructured and simplified its rate design in Docket No. 3943 by reducing the number of GCR rates for firm customers from six to two. He noted that the proposed changes implement those changes for sales customers that the Commission previously approved in that Docket. He explained that although the changes were approved in

[6] *Id.* at 10.
[7] *Id.* at 10-11.

Docket No. 3943 in 2009, the Company did not change the specific tariff provisions, in part, because such change would require modification of the monthly gas cost deferred filings and then require changes to gas cost models and the billing system. He reiterated Mr. Bauer's testimony that the Company deemed it more efficient to coordinate these tariff modifications with implementation of the new systems.[8]

Mr. Nestor represented that many of the proposed modifications resulted from meetings that occurred between the Company and Marketers. He noted that there will be no rate change as a result of restructuring the rates into two classifications and that simplification of the calculation of future gas cost recovery mechanisms and monthly deferred filings will be the primary benefit of the restructure. He explained that costs incurred by Marketers will be better reflected by the proposed modifications to the FT-2 Storage and Peaking sections of the tariff, which he asserted were supported by Marketers. He pointed out how the proposed tariff will better reflect how storage costs are currently incurred as opposed to the current tariff which can result in over or under recovery of the actual storage cost. He reiterated that Marketers desire consistency with practices in other Northeast states.[9]

On September 28, 2011, Mr. Nestor filed Supplemental Testimony requesting the effective date for the tariff be modified from November 1, 2011 to April 1, 2012 for all provisions of the tariff except for the capacity release provision which the Company requested remain November 1, 2011 for effect. In support of this request, Mr. Nestor noted that the billing and Customer Choice systems conversion scheduled to be operational by November 1, 2011 will not be complete by that time. He asserted that

[8] Direct Testimony of John F. Nestor, III, August 1, 2011 at 3-4.
[9] *Id.* at 4-6.

extending the effective date of the tariff will allow the Company additional time to test and implement the system and will allow the Commission and the Division additional time to review the filing. He pointed out that the Company was not seeking to extend the effective date for the capacity release provision because the Company wanted to honor the pipeline path requests that it had already received from Marketers.[10]

On October 28, 2011, the Division of Public Utilities and Carriers ("Division") filed a memorandum with the Commission recommending that the Commission defer its decision on NGrid's proposed tariff modification to the capacity release provisions until such time as the issues raised could be properly reviewed and vetted by the Division. The Division attached a detailed memorandum from its expert, Mr. Bruce Oliver noting a number of concerns with NGrid's proposal. Mr. Oliver alleged that the Company's development process did not include any other parties that could be affected by the tariff changes other than the Marketers. He asserted that the Company made one substantive addition and a number of substantive deletions to the existing tariff.[11]

Citing NGrid's proposed additional language, Mr. Oliver identified six problems with NGrid's addition. The first problem he noted was that the "calculated base and thermal factors used in the calculation of each customer's peak day use" was not provided to the Division for review. He reiterated the concerns he raised in his testimony in Docket No. 4283 with regard to NGrid's forecasting and estimation of usage by class under Normal Weather, Design Winter and Design Peak conditions. He noted that the basis for the Company's "calculated base and thermal factors" is necessary for a proper

[10] Supplemental Testimony of John F. Nestor, III, September 28, 2011 at 1-2.
[11] Division of Public Utilities and Carriers Memorandum, filed October 28, 2011.

assessment of the reasonableness and appropriateness of those factors. He asserted that the Company did not provide that basis.[12]

Mr. Oliver also noted that the Company's change from average winter day use to estimated peak day use is a change that should be further reviewed and the implication and impact of which should be assessed prior to implementation. Additionally, Mr. Oliver alleged that the Company's reference to the "specific methodology" in the tariff is inappropriately vague. He asserted that the reference to "certain historical data" was unclear and did not allow a reader to understand the parameters of the data to which the methodology was being applied. Mr. Oliver noted that the Company, in Docket No. 4283, withdrew the GCR rates that it had developed based on the High Load and Low Load factor classifications but that its proposal plan is premised on the assumed relationships between pipeline, storage and peaking requirements for these two categories of customers. He also pointed out that because the Company withdrew those rates, it did not conduct a full and complete investigation of the appropriateness of those rates. Additionally, the Company's proposed factors that will represent the percentages of customers' requirements by load factor category constituting pipeline, storage, and peaking capacity requirements are subject to change should class usage patterns and the composition of the Company's capacity resources change.[13]

Finally, Mr. Oliver asserted that the language proposed by the Company introduces the potential that capacity assigned will not meet the needs of the Firm Transportation Service customers' requirements under all conditions. He noted that the

[12] *Id.*
[13] *Id.*

language does not identify how the Company will respond to an event when there is not sufficient capacity to meet customers' needs.[14]

Mr. Oliver asserted that the new methodology would likely have an impact on the Firm Sales Service customers. He pointed out that the current system designates pipeline capacity available for release to Marketers after the needs of Firm Sales Service customers' needs are determined while the Company's proposal assigns capacity to Marketers as "a piece of the pie". Mr. Oliver opined that this methodology will limit NGrid's ability to purchase gas for its Firm Sales Service customers and warned that it should not be accepted by the Commission without careful analysis of the impacts. He also cautioned that the methodology allowing for assignment of capacity separately to each transportation service customer account would eliminate the benefits achieved from diversity such as the ability to lower overall costs of gas supply services for individual customers by taking advantage of the diversity in the timing of the peak requirements for those individuals.[15]

Mr. Oliver ended his comments by observing that NGrid's need for a November 1, 2011 effective date for the capacity release provision of its tariff modifications appears to be representations that the Company made to Marketers regarding the changes prior to Commission approval and the need for change due to implementation of the new billing system which was subsequently postponed until April, 2012. Mr. Oliver recommended that the Commission defer action on the Company's proposal until such time as the matter can be fully vetted and resolved. He offered that if nominations of pipeline capacity by pipeline path under the existing tariff provisions have not occurred that they

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[14] *Id.*
[15] *Id.*

occur immediately and be retroactive to November 1, 2011. The Division requested that the Company identify whether Mr. Oliver's recommendation that the nominations occur under the existing tariff could occur without disruption to the gas transportation market and if not recommended that the Commission approve the Company's proposal on a provisional basis only until such time as there is final disposition of the issues in this Docket.[16]

In response to the Division's and Mr. Oliver's comments, NGrid filed a letter with the Commission on October 31, 2011 noting that it has already surveyed Marketers for their pipeline choice. The Company further asserted that Marketers could be financially harmed by deferment of a decision on the proposed capacity release modifications. NGrid represented that Marketers agreed to the proposed approach after collaborative meetings regarding the same and that all Marketers choices had been confirmed by the Company and that re-nomination of the pipeline paths at this time would create disruption that could potentially result in defaults on supply deliveries to the Marketers' customers. The Company agreed with the Division's recommendation that the provision be allowed to go into effect subject to further modification if necessary and agreed to meet with the Division to come to resolution of the issues raised.

On October 31, 2011 at an Open Meeting, the Commission considered NGrid's request and the comments filed. In order to avoid market disruption and the potential of financial harm to Marketers, the Commission approved NGrid's capacity release modification on a provisional basis and until such time as the issues raised by the Division can be vetted and resolved. In the event that resolution between the parties does not occur prior to the April 1, 2012 proposed effective date for the remaining

[16] *Id.*

modifications as proposed by NGrid and set forth above, the Commission shall consider those issues and the parties' positions and make a ruling that is in the best interest of all ratepayers.

Accordingly, it is hereby

(20543) <u>ORDERED</u>:

1. The Narragansett Electric Company d/b/a National Grid Tariff request to modify the capacity release provisions of its Tariff as set forth above is approved provisionally and until such time as the Commission rules on the remainder of National Grid's modifications.

2. The Narragansett Electric Company d/b/a National Grid shall meet with the Division of Public Utilities and Carriers and work to resolve the issues set forth above.

3. The Narragansett Electric Company d/b/a National Grid shall comply with all other findings and instructions as contained in this Order

EFFECTIVE AT WARWICK, RHODE ISLAND, NOVEMBER 1, 2011, PURSUANT TO AN OPEN MEETING DECISION ON OCTOBER 31, 2011. WRITTEN ORDER ISSUED NOVEMBER 17, 2011.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner