STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

**NATIONAL GRID'S GAS : **
COST RECOVERY CHARGE : DOCKET NO. 4283

REPORT AND ORDER

I. NGRID'S SEPTEMBER 14, 2011 FILING

On September 14, 2011, National Grid ("NGrid") filed with the Public Utilities Commission ("Commission") a Gas Cost Recovery ("GCR") filing with decreased rates for effect November 1, 2011. 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. 4199 for the period November 1, 2011 through October 31, 2012. For a typical residential heating customer using 922 therms per year this will result in a decrease of approximately $103.52 or 7.7% 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, Specialist Pricing-New England 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 1, 2011 and the difference between the futures contract purchases under the Gas Procurement Incentive Plan ("GPIP") as of July 29, 2011 and the August 1, 2011 NYMEX strip. The factors also reflect storage and inventory costs as of July 31, 2011 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. To minimize yearly supply cost, pricing, contract and storage information are used to determine the dispatch of supplies. Ms. Arangio explained the five gas cost components for the GCR: (1) supply fixed costs; (2) supply variable costs;

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[2] NGrid Exhibit 1, Gas Cost Recovery Filing, filed September 14, 2011.
[3] NGrid Exhibit 1(a) Gas Cost Recovery Filing, Direct Testimony of Elizabeth D. Arangio at 1-3.

(3) storage fixed costs; (4) storage variable product costs; and (5) storage variable non-product costs. She provided attachments to her testimony; one, summarizing by month gas costs included in the GCR for the period November 2011 to October 2012 and the other providing the supporting detail for those gas costs. She described the calculation of the delivered cost for a particular gas supply as beginning with the NYMEX price, then being adjusted for basis and to reflect fuel retention and finally being added with the cost of transportation on the pipeline.[4]

Regarding marketer capacity assignment, Ms. Arangio noted an increase of 3,500 MMBtus from last year making 32,758 Dth per day of capacity on six different pipeline paths available to marketers. She explained the calculation of the surcharge/credit for each assigned pipeline path as starting with the system-average cost and then deriving the weighted-average pipeline path cost which is the sum of the 100% load factor fixed-cost unit value and the system-average pipeline unit variable cost. Ms. Arangio also explained the calculations of the delivered costs for each path released to marketers noting its similarity to the calculations for the system average. She indicated that to calculate the non-gas variable costs, commodity gas costs are subtracted from the total variable costs, the result of which is added to total fixed costs to determine the cost of the path. If this cost exceeds the system average, marketers electing that specific path would receive a credit for the difference between the direct cost and the system average cost. Finally, she described how the Company reconciled the fixed costs it had projected for August through October in its 2010/11 GCR filing noting that it resulted in a reduction of the weighted average and is included in this filing.[5]

[4] *Id.* at 4-7.
[5] *Id.* at 7-10.

Ms. Arangio indicated that on November 1, 2011 a capacity change will occur with the conversion of the Company's long-haul capacity Algonquin pipeline being replaced by two short-haul pipeline capacity, Union Gas Limited and TransCanada Pipelines Limited. She updated the East-To-West Project that provides incremental deliveries to four gate stations, three of which feed isolated and constrained areas with limited supply options resulting in improved reliability on two of those systems and reducing reliance on LNG facilities and trucking. She noted that last year, the Company supplied the East-To-West Project by issuing a Request for Proposals ("RFP") requesting a resource mix of both base and swing volume by month for the months of November 2010 through May 2011 and October 2011.[6]

Additionally, on March 31, 2011 the LNG combination vapor/liquid supply contract with Distrigas terminated. Ms. Arangio represented that NGrid is currently in negotiations with Distrigas for a similar commitment and anticipates a similar arrangement to the 2010/11 peak and off peak seasons for the coming year. She also discussed the settlement in principle in the Tennessee Gas Pipeline rate case currently pending before Federal Energy Regulatory Commission ("FERC") which is expected to reduce costs to NGrid's customers and to reflect rate stability and the ability to access new supplies under existing transportation contracts. Lastly, she noted that the Company is coordinating with other LDC's along TransCanada Pipeline by engaging experts to review the Pipeline's anticipated rate filing with the National Energy Board in Canada.[7]

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

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[6] *Id.* at 10-13.
[7] *Id.* at 13-16.

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.[8]

Mr. Nestor discussed how the Company, consistent with the Commission's Order in Docket No. 3943, has combined the previous six rates for firm sales customers into two rates. Additionally, in this filing, NGrid has consolidated the five gas cost components, all of which were either fixed or variable, into just two components, one which consolidates all of the fixed costs and the other which consolidates all of the variable costs. He noted that although the 2009 and 2010 GCR filings modified the gas recovery rates to allow for a high load factor rate and a low load factor rate, the tariff provision was not changed at that time because that would have required modification of the monthly gas cost deferred filings and changes to gas cost models and administration and system changes. He discussed the Company's filing in Docket No. 4270 where NGrid is proposing the elimination of the existing billing system for its firm customers and Marketers and the migration of those customers to new systems in October 2011. He asserted that it was more efficient to implement the tariff and rate design changes to the Customer Choice program that the Company and Marketers had been discussing for the past year simultaneously with the administrative and system changes.[9]

Mr. Nestor described the proposed consolidation from five to two components, fixed and variable, as a *de minimus* change having no effect on the way rates are developed for firm sales customers but only eliminating the separate reporting of the

[8] NGrid Exhibit 1(b) Gas Cost Recovery Filing, Direct Testimony of John F. Nestor, III, filed September 1, 2011 at 1-4.
[9] *Id.* at 4-5.

storage cost components. He noted that no gas costs have been allocated to the NGV rate as those costs will be recovered from the third party that will operate the two NGV stations in Rhode Island.[10]

Mr. Nestor asserted that the proposed new rate design for the FT-2 rates will have little effect on overall gas rates. He described the two proposed FT-2 rates as the FT-2 Demand rate designed to recover costs for storage and peaking that is proposed to be $4.95 per Dth and the FT-2 variable rate designed to recover variable underground storage costs and associated commodity costs and loss factors associated with pipeline contracts to bring the gas from storage to the city gate. The variable storage rate will be calculated each month and credited to firm customers to ensure they are appropriately compensated for these variable costs. He identified the volatility of the current allocation methodology as a reason that the Company was seeking to modify the FT-2 Storage rate design, volatility that resulted in an under-recovery 2009 and an over-recovery in 2008 of the forecasted FT-2 gas costs.[11]

Mr. Nestor reiterated Ms. Arangio's testimony that projected gas costs for the period November 2011 to October 2012 will total approximately $191.4 million and coupled with other costs and a credit associated with LNG Costs, the GCR factors are intended to recover a total of approximately $196 million. Mr. Nestor described how the fixed cost component was developed noting that it includes all fixed costs for both high load and low load customers. He noted that adjustments and credits are made to the total of those fixed costs with the fixed storage costs for Marketers being deducted from the Fixed Cost calculation and a reconciliation amount added pursuant to the Commission's

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[10] *Id.* at 6.
[11] *Id.* at 7-9.

decision in Docket No. 4199. After these calculations, Mr. Nestor identified a total Fixed Gas Cost of $32,877,086. He concluded by stating that NGrid plans its gas resources to assure sufficient supply for its firm customers under severe (design) winter conditions and thus Fixed Gas Costs are allocated to a particular rate class based on its portion of design-winter use, the calculation of which is based on the use of calendar month degree days.[12]

In describing the Variable Cost component, Mr. Nestor identified total Variable Costs for the November 2011 through October 2012 period as $159,568,334 which he divided by the projected period sales of 24,820,943 Dths to calculate a Variable Cost factor of $6.4288 per Dth. He asserted that an approximate $3 million over-collection is incorporated into the GCR rate. Finally, he noted the Company's discussions with the Division regarding the identification of the period that most appropriately reflects gas costs which he specified was the Company's fiscal year, April 1 through March 31.[13]

Mr. Nestor stated that the Company was submitting a tariff modification in this filing to change the current annual reconciliation from June to March and was seeking approval of the $7,051,411 under-collection as of March 2011. The Company also submitted the calculation of the system high load and low load factors for Commission approval. Mr. Nestor noted that the consolidation from five to two components was to simplify calculation and reporting of gas costs and indicated that NGrid was willing to modify the filing and reporting in an effort to provide clear and concise information on future gas costs. Lastly, Mr. Nestor identified the billing impact on a residential

[12] *Id.* at 9-12.
[13] *Id.* at 12-13.

customer using 922 therms per year as a decrease of approximately $103.52 or 7.7% annually.[14]

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, 2010 through March 31, 2011. 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 $226,102. Mr. McCauley noted that the average cost of discretionary purchases was $0.420 per Dth less than the mandatory locks. Mr. McCauley asserted that the Company was proposing that it be granted the full $226,102 incentive.[15]

Mr. McCauley discussed the temporary removal of the $1 million cap on the incentive requesting that it be permanently removed effective July 1, 2011 based on the February 25, 2010 report filed by NGrid and the Division. Mr. McCauley described the

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[14] Id. at 13-15.

[15] NGrid Exhibit 1(c) Gas Cost Recovery Filing, Direct Testimony of Stephen A. McCauley, filed September 1, 2011 at 1-4. In Docket No. 4199, the Commission approved NGrid's request to remove for a period of one year the $1 million cap that had been previously set on the amount it was entitled to receive as an incentive. This removal of the cap was conditioned on the parties engaging in a technical session in order to further evaluate how the incentive aligns the interest of the shareholders and the ratepayers. Although a technical session was not held over the course of the past year, NGrid has represented that it will provide testimony during the evidentiary hearing as to how the incentive aligns the interests of its shareholders and its ratepayers.

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 second year NGrid saved a total of $4,655,473.83. He noted that based on the NGPMP incentive, customers receive $3.9 million of those savings while the Company is entitled to receive 20 percent of the total of savings in excess of $1 million which equals $731,094 for the April 2010 through March 2011 period. Finally, Mr. McCauley noted that the terms of the NGPMP require review after years two and four of the plan to make recommended changes. He represented that, at the present time, the Division is satisfied with the Company's management of its portfolio and recommended no changes to the plan through March 2014. He indicated that the Company would review the plan again in 2013 to determine if an extension or changes were necessary through April 2014.[16]

II. NGRID'S SEPTEMBER 27, 2011 FILING

Mr. Nestor filed subsequent testimony on September 27, 2011 requesting that the Commission approve the GCR rates using the existing five factor cost component rate design rather than the two component, fixed and variable, design originally intended to be implemented to coincide with the new customer and Marketer billing systems that were anticipated to be operating by November 1, 2011. He noted that the billing systems necessary to support the changes to the Marketer tariff changes will not be available by November 1, 2011. Mr. Nestor asserted that establishing GCR rates using the methodology utilized in Docket No. 4199 and the existing rate design will result in a decrease of approximately $107.11 annually or 7.8% for an average residential heating customer using 922 therms per year. Combined with the proposed decrease to the DAC

[16] Id. at 5-8.

rate, Mr. Nestor identified an annual decrease to the average residential customer as $110 or 8.1%.[17]

II. DIVISION

On October 20, 2011, 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: 12.8% from $0.9091 per therm to $0.7929 per therm for Residential Heating customers, Small and Medium C&I customers, Low Load Factor Large C&I customers and Low Load Factor Extra Large C&I customers and 14.9% from $0.8803 per therm to $0.7487 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 16.7% from $0.7436 to $0.6193 per therm and the FT-2 Storage Charge would increase by 0.5% from $0.0367 to $0.0369 per therm.[18]

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 because the forecasted reductions are primarily in the Variable Cost elements of the overall gas costs, the high load factor service classifications received the largest percentage of decreases in this filing. He noted that all of the components except for Supply Fixed Costs are expected to decline by 8.4% while Supply Fixed costs are projected to increase by 15.0%. He discussed the

[17] NGrid Exhibit 2, Supplemental Testimony of John F. Nestor, III, filed September 27, 2011 at 1-3.
[18] Division Exhibit 1, Testimony of Bruce R. Oliver, filed October 20, 2011 at 1-4.

Tennessee Gas Pipeline ("TGP") rate increase resulting in an approximate $500,000 per month addition to NGrid's projected Pipeline Demand Costs and the fact that this increase was implemented prior to resolution of the FERC proceeding which could result in rates lower than what was implemented meaning refunds of any amounts paid in excess of what is approved by the Federal Energy Regulatory Commission. He also discussed the TGP settlement which will reduce NGrid's forecasted fixed costs for the period between June 1, 2011 and implementation of the Settlement rates, if those rates are approved. He expressed the Division's concern over how NGrid will treat any revenue sharing amounts it receives from TGP and recommended that the Commission require NGrid to treat these amounts as "supplier refunds."[19]

Mr. Oliver identified six concerns he has with NGrid's filing. Those concerns are: 1) the inappropriately low dollar vaue for NGPMP credits to Supply Fixed Costs for the 2011-2012 GCR period, 2) the understated dollar amount of LNG-related costs allocated to the DAC, 3) the potential for significantly lower pipeline demand costs as a result of the TGP FERC settlement, 4) the changes in the distribution of NGrid's forecasted sales and throughput by month and by rate class affecting the assignment of gas costs among rate classes, 5) the inability to verify the reasonableness or appropriateness of fixed gas supply and storage costs for the coming GCR year because of the lack of a long range gas supply planning study, and 6) the inability to review the reasonableness of the Company's estimated LNG costs for the coming GCR year because NGrid has not finalized its LNG contractual arrangements for the coming year.[20]

[19] *Id.* at 4-7.
[20] *Id.* at 8.

Regarding the allocation of LNG costs between DAC and GCR, Mr. Oliver stated no Commission action was required at this time as NGrid has agreed to work with the Division to refine data and models used to determine these allocations. He also asserted that it would be premature to make any adjustment to the filing to reflect the assumed levels of costs associated with the TGP settlement and that whether an interim adjustment is required can be determined when final resolution of the case is known. Mr. Oliver also noted that it was not reasonable to expect the Commission to address his concerns regarding NGrid's forecasts of normal weather and design winter sales and throughput at this time considering the Company has not explained the causes for the changes in its forecasts. He recommended that the Company work with the Division to develop more reasonable forecasts over the course of the next few months.[21]

Mr. Oliver expressed concern over the fact that NGrid has not filed a new Long-Term Gas Supply Plan in almost five years, pointing out that the last plan filed only assessed the reasonableness of the Company's portfolio through the winter of 2011. Not only has this prevented an evaluation of reasonableness of the Company' gas supply asset portfolio for the coming GCR year, Mr. Oliver asserted that his concern is accentuated by the disproportionately large increase in the Company's Design Winter requirements. He highlighted NGrid's forecasted increase in Design Winter Sales as being more than four times its forecasted increase in Normal Weather Sales. These disproportionate results, he offered, cause low load factor customers to assume relatively greater costs and monthly mandatory gas purchasing requirements to be affected. Mr. Oliver also expressed concern with the Company's projected increase in Residential Heating customers' Normal Weather Throughput and the Company's forecasted growth rate of this class.

[21] *Id.* at 9-10.

Additionally, he noted a large number of counter intuitive changes in Normal Weather Throughput made in this proceeding as opposed to last years GCR filing. He cautioned that the substantial shifts in monthly distribution of forecasted gas service volumes are important and were presented without explanation and discussion as to their effect on the Company's gas costs and supply planning. He noted that his comparison with the two previous years' GCR filings do not reveal that the increases forecasted by the Company in this proceeding is just a reversal of previously projected decreases.[22]

When questioned about whether the Company's GCR charges were properly computed, Mr. Oliver noted one exception to his assertion that the proposed charges are computed in a consistent manner as with prior GCR filings. That one exception, he asserted, was the reconciliation amount of the Marketers Fixed Costs. He indicated that after discussion with Mr. Nestor and with the addition of that amount, the Company's computations appear mathematically accurate.[23]

Regarding the Forecasted Sales and Throughput, Mr. Oliver discussed the fact that the Company's design winter requirements for Sales and FT-2 customers are significantly greater than the Company's projected increases in annual sales and throughput. He compared the projected 7.7% one year increase in Normal Weather annual Sales and FT-2 Throughput with the 15.6% forecasted increase in Design Winter requirements for those same customers. He also noted that the Company projected greater increases for Design Winter requirements than for annual Normal Weather Throughput requirements for customers in the high load factor service classification as well. He represented that the Company did not offer any explanation as to these

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[22] *Id.* at 10-15.
[23] *Id.* at 15.

forecasted changes or the causes thereof, and absent such explanation, he was unable to assess the reliability of the forecasts.[24]

Recognizing that GCR is a fully reconciling mechanism for the Company's gas supply related costs, Mr. Oliver pointed out that Commission consideration of the reasonableness of the forecast throughput is important because rate class allocations of Supply Fixed and Storage Variable Costs are not subject to subsequent reconciliation, throughput forecasts are important in the planning of gas supply resources and affects the costs and amounts of those resources and inappropriate changes to the Company's forecasted sales and throughput volumes by month can adversely impact both discretionary and mandatory gas purchase volumes. Mr. Oliver also noted that the Company's Forecasted Peak Day Sendout Requirement, that has decreased by 17% since the Company's last Long-Range Gas Supply Planning Study in Docket No. 3789 and which is forecasted to decrease another 20% for the 2011-12 winter, is inconsistent with the Company's Sales and Throughput forecasts.[25]

Regarding the GPIP, Mr. Oliver asserted that the requested incentive of $226,102 is much lower than last year's request and is indicative of comparatively low and more stable gas prices. He found no reason to question the accuracy of the incentive calculations. He also testified that he had no issue with eliminating the $1 million incentive cap permanently. He also indicated that he supported the proposed changes in the NGPIP that the Company presented.[26]

Regarding the Natural Gas Portfolio Management Plan ("NGPMP"), Mr. Oliver indicated that NGrid properly computed the incentive of $731,094 and found no reason

[24] *Id.* at 16-18.
[25] *Id.* at 18-20.
[26] *Id.* at 20-22.

for the Commission to withhold that incentive. He also pointed out that NGrid achieved benefits for ratepayers of $3,924,380 which is the $1 million guaranteed benefit plus 80% of all asset management revenue in excess of the $1 million ratepayer guaranteed benefit. Mr. Oliver noted that NGrid's assumption of $3,120,000 NGPMP credit for ratepayer benefit for the 2011-2012 GCR year, which he found to be unsupported by analyses, rationale or other justification, appears conservative in light of the amount that the Company achieved in the current GCR year, $4,655,474. Additionally, he asserted that the actual ratepayer share of NGPMP capacity released credits for the twelve months ending March 2011 exceed Mr. Nestor's computations by approximately $800,000. He recommended that the Commission assume at least the $3,920,000 of customer benefit for the 2011-12 rate year that the Company achieved for the twelve month period ending March, 2011.[27]

After reviewing the Gas Cost Reconciliations, Mr. Oliver noted that he found the calculations to be mathematically accurate and recommended that the Commission accept those reconciliations. Finally, Mr. Oliver summarized his recommendations. These recommendations are that the Commission require NGrid to include $3.9 million of NGPMP net customer benefit in its GCR rate calculations for the 2011-2012 GCR year, that the Commission should require NGrid to adjust its assumed NGPMP credits for the 2011-2012 GCR year to reflect an $800,000 increase in assumed NGPMP credits, that the Commission accept the request to recover $226,102 in GPIP incentives, that the Commission approve the NGPMP incentive of $731,094 for the period April 2010 through March 2011, that the Commission determine that any revenue sharing amounts that the Company receives in the future from TCP be treated as "refunds" from pipeline

[27] *Id.* at 22-26.

companies for GCR rate computation purposes, that the Commission require NGrid to file a Long-Term Gas Supply Planning Study by January 31, 2012 which shall include a planning period which extends to not less than five full years into the future and shall be filed once every three years thereafter, that the Commission direct NGrid to file a fully documented copy of the methodologies it has used to forecast Normal Weather Sales and Throughput and Design Winter Sales and Thoughput as well as detailed explanations as to the large variations in monthly and seasonal volumes by rate classification and that the Commission approve the changes to the provisions to the GPIP as presented by Mr. McCauley. As a result of Mr. Oliver's recommended adjustment of $800,000 to assumed NGPMP benefits, he 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 $0.7896 per therm and for Residential Non-Heating, Large High Load Factor C&I, and Extra Large High Load Factor C&I customers of $0.7464 per therm.[28]

IV. NATIONAL GRID OCTOBER 15, 2010 REBUTTAL

On October 21, 2011, NGrid filed the Rebuttal Testimony John Nestor. Specifically, he addressed Mr. Oliver's testimony regarding treatment of TGP refunds, NGrid's forecasting of Normal Weather Sales and Throughput and Design Winter Sales and Throughput and the recommended $800,000 increase to the forecasted NGPMP credit. Regarding Mr. Oliver's recommended treatment of future TGP refunds, Mr. Nestor asserted that the current GCR tariff specifically addresses how the Company must treat future refunds. He referred to NG-GAS No., 101, Section 2, Schedule A, Sheet 1, paragraph 7.0 which provides that if the refund is less than 2% of the Company's total gas cost for the prior fiscal year, such refund shall be credited to the appropriate Deferred

[28] *Id.* at 26-31.

Cost Account. Mr. Nestor addressed Mr. Oliver's testimony regarding the Company's forecasts of Normal Weather Sales and Throughput and Design Winter Sales and Throughput and asserted that the Company stood by its forecasts and would supply the additional information that Mr. Oliver requested. Mr. Nestor represented that NGrid will file a Long Range Gas Supply Plan in January 2012. Finally, Mr. Nestor accepted Mr. Oliver's recommendation to increase the NGPMP credit noting that the $800,000 recommended adjustment was consistent with Mr. McCauley's testimony. He agreed with the bill impact set forth by Mr. Oliver above and noted that an average residential heating customer using 922 therms per year will experience a decrease of approximately $110.14 or 8.0% per year. Combined with the decrease in the DAC factor, Mr. Nestor indicated that the combined annual decrease for that same customer would be $113.48 or 8.2%.

HEARING

Following published notice, a public hearing was conducted on October 26, 2011 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 the Attachment to its response to Division Data Request 1-1, Attachments 3, 4, and 5 to its response to Division Data Request 1-11 and its responses to Division Data Requests 1-5, 1-6 and 1-12 be given such protective treatment as they include confidential information. The Commission granted these requests authorizing protective treatment. 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.

Ms. Arangio, Mr. McCauley and Mr. Nestor testified as a panel. Because of the delay in the implementation of the billing system, Ms. Arangio presented a revised proposal that included the methodology and rate design used by the Company previously. In describing why the Company changed its approach to calculating the marketer component of the GCR, Mr. Nestor explained that over the course of the past year, the Company has been in discussions with marketers to put in a new FT-2 rate design and to collapse the existing five buckets[29] to two buckets. Since the Company is not prepared to implement its new billing system at the present time, Mr. Nestor noted that this change has been delayed. Mr. Nestor testified that he incorporated Mr. Oliver's recommended adjustment to increase the NGPMP credit into his calculations. Mr. McCauley testified that there were no changes to his prefiled testimony.[30]

When questioned about the Company's amount of the percentage increase in design winter requirements, Mr. Nestor responded that the Company did not do anything

[29] The five buckets consist of (1) supply fixed costs; (2) supply variable costs; (3) storage fixed costs; (4) storage variable product costs; and (5) storage variable non-product costs.
[30] Transcript of Hearing ("Tr."), October 26, 2011 at pp. 8-15.

differently than it had in the previous year in setting the rates. When pressed to explain why the Company was projecting a much greater percentage increase than in the previous year, he stated that he had discussions with Mr. Oliver about the design winter concept within the context of the supply plan that the Company intends to file and that how the rates were set is "pretty similar month by month year over year."[31]

Mr. Oliver clarified that when he prepared his prefiled rebuttal testimony, he was unaware of the supplemental filing by the Company. This, however, did not change the fact that there is still a significant decline between the Company's January 2012 design date peak requirement and what it foresaw when it prepared its last long-range planning study. He discussed how his comparison of Mr. Nestor's Exhibit NG-JFN-1 showed a marked difference between this year's and last year's results for the design winter or design day requirements compared to the increases in normal weather requirements. He pointed out that these costs are allocated among the classes of customers and are not reconciled by class but only by category. He cautioned that there must be consistency between the forecasts that the Company uses for rate design purposes and for its supply planning for the current year as well as for the long term supply plan. He testified that the design winter day and the normal winter day have increased over the past two years and that this creates a problem in how these increases are allocated among the various classes of customers. He explained that increases in winter costs tend to be more on the heating customers and less on the high load factor classes. He explained that energy efficiency should cause the peak to become smaller relative to average use but Mr. Nestor's data shows the opposite. He suggested that prior to the Company's filing of its long range planning study in January, it needs to explain what's driving the forecasts

[31] *Id.* at 15-19.

especially since the Company's planning will be based on those forecasts. Mr. Oliver testified that the Company has agreed to work with the Division to further investigate the issue and noted that discussions have already occurred.[32]

COMMISSION FINDINGS

Immediately following the conclusion of the testimony, the Chairman moved that the factors proposed by the Company with the modifications made by Mr. Oliver, specifically Residential Heating, Small C&I, Medium C&I, Large Low Load Factor and Extra Large Low Load Factor C&I customers of $0.7896 per therm, Residential Non-Heating, Large High Load Factor C&I, and Extra Large High Load Factor C&I customers of $0.7464 per therm, be approved. He also moved that the incentive of $226,102 for the GPIP and $731,094 for the NGPMP be approved. Additionally, the motion included requiring NGrid to file a Long Term Gas Supply Planning Study by January 31, 2011 and one every three years thereafter and to allow for the permanent removal of the $1 million cap on the incentive. Lastly the Chairman moved for approval of the BTU Factor of 1.027. 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. Furthermore, the Commission believes that there no longer exists the need for the $1 million cap on the GPIP incentive and finds that the cap may be permanently removed until such time as the Commission determines a cap is necessary. The Chairman's motion was approved unanimously.

On November 2, 2011, the Commission reconvened to consider the proposed Natural Gas Vehicle Rate of $0.6171, the proposed FT-2 Transportation Marketer Gas Charge of $0.0369, the proposed Pool Balancing Charge of $0.0023 and the proposed

[32] *Id.* at 20-35.

Weighted Average Upstream Pipeline Transportation Cost of $0.9617. The Commission approved unanimously these charges to be included in the GCR rate.

Accordingly, it is

(20617) 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: $0.7464 per therm for Residential Non-Heating Customers, Large and Extra Large High Load Factor and $0.7896 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, 2011.
3. The Natural Gas Vehicle Rate of $0.6171 per therm is approved for usage on and after November 1, 2011.
4. The Gas Marketer Transportation factors of: $0.0369 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 $0.9617 per therm of capacity are approved for usage on and after November 1, 2011.
5. The BTU factor of 1.027 is approved.
6. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE NOVEMBER 1, 2011 IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISIONS ON OCTOBER 26, 2011 AND NOVEMBER 2, 2011. WRITTEN ORDER ISSUED JANUARY 10, 2012.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner