nationalgrid

Thomas R. Teehan
Senior Counsel

October 19, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4283 – Gas Cost Recovery Filing – 2011
Stephen A. Mc Cauley Testimony
Re-submittal of the Attachments SAM-3 and SAM-4

Dear Ms. Massaro:

National Grid[1] is re-submitting ten (10) copies of Attachment SAM-3 and Attachment SAM-4 to Stephen A. Mc Cauley's testimony in the above-captioned proceeding.

Please be advised that the Company recently discovered that Attachment SAM-3 and Attachment SAM-4 provided with Mr. Mc Cauley's testimony on September 13, 2011, were not the documents that it intended to submit. Consequently, the Company is re-submitting Attachment SAM-3 and Attachment SAM-4 with today's date identified in the headers for incorporating into Mr. Mc Cauley's testimony currently on file with the Commission. Accordingly, please replace the prior versions of Attachment SAM-3 and Attachment SAM-4 with the versions attached. Mr. Mc Cauley's testimony as well as Attachment SAM-1 and Attachment SAM-2 remain unchanged.

Thank you for your attention to this filing. If you have any questions, please do not hesitate to contact me at (401) 784-7667.

Sincerely,

Thomas R. Teehan

Enclosures
cc: Docket 4283 Service List
Leo Wold, Esq.
Steve Scialabba

[1] The Narragansett Electric Company d/b/a National Grid ("Company").

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Re-submittal of Attachment SAM-3

Docket 4283 – GCR 2011

10/19/2011

Thomas R. Teehan
Senior Counsel

February 25, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4097 – Gas Cost Recovery
Gas Purchasing Incentive Plan ("GPIP")

Dear Ms. Massaro:

In the October 2009 Gas Cost Recovery filing, the Commission directed National Grid[1] and the Rhode Island Division of Public Utilities and Carriers ("Division") to engage in discussions to evaluate the existing Gas Purchasing Incentive Plan ("GPIP") in order to determine if it still provides the intended benefits to customers. The Commission further directed that the Company file a written report with the Commission detailing the results of those discussions. (Order 19832) The enclosed report is filed in compliance with that directive.

The report is the product of collaborative meetings and discussions involving representatives from the Company, the Division, and the Division's consultant. The report contains a description of the plan components and an assessment of the plan's success in achieving its goals. The parties support the continued importance of the GPIP as a tool to reduce the price volatility of customers' gas costs, and they recommend consideration of certain discreet changes in the incentive plan relative to discretionary purchases and with respect to the incentive cap.

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

Enclosure

cc: Leo Wold, Esq.
Steve Scialabba, Division

[1] The Narragansett Electric Company d/b/a National Grid ("Company").

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.

____________________________ February 25, 2010
Joanne M. Scanlon Date

Docket No. 4097 – National Grid – Annual Gas Cost Recovery Filing ("GCR") - Service List as of 10/5/09

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

Annual Gas Cost Recovery Filing 2009
Docket No. 4097

Evaluation Regarding Rhode Island Gas Procurement Incentive Plan (GPIP)

On October 27, 2009, in its Report and Order in the above-referenced Gas Cost Recovery proceeding, the Rhode Island Public Utilities Commission ("Commission") directed National Grid [1] and the Rhode Island Division of Public Utilities and Carriers ("Division") to engage in further discussions about the Gas Purchasing Incentive Plan ("GPIP") and to evaluate the existing plan to determine whether it still provides the intended benefits to customers and whether modifications are necessary. The Commission further directed that the Company file a written report with the Commission detailing the results from those discussions. (Order 19832) This report is filed in compliance with the Commission's directive.

Representatives from the Company, the Division, and the Division's consultant met to discuss the plan on several occasions. Initially, in order to determine the benefits of the plan, a three-step analysis was employed. First, the plan goals were clarified. Then, the parties were to determine whether those goals are being met. Finally, there was a reassessment of whether those goals are still relevant today.

[1] The Narragansett Electric Company d/b/a National Grid ('National Grid" or "Company").

The goal of the hedging program is to reduce the price volatility of the customer's gas costs. Gas costs are impacted by three primary factors: (1) fixed charges on pipeline, storage, and peaking supplies; (2) local distribution charges; and (3) commodity costs. Of the three, commodity costs are what drive the volatility of the customer's gas costs. In the late 1990's and early 2000's, the industry experienced a dramatic increase in the volatility of natural gas, both to the upside and downside. The mandatory volume component of the GPIP was developed at that time to help control this volatility. This mandatory component has specific volume targets and execution timing requirements. Because the Mandatory program locks in 60%-70% of the firm sales price, its execution provides the greatest impact to reducing price volatility to the customer. To date, the mandatory program has been very successful in reducing the gas cost volatility. For example, over the past three years the NYMEX volatility has been 14.6%. By comparison, during the same period under the gas purchasing plan, the mandatory hedged volume reduced the volatility of the purchased volume to 6.1%.

The GPIP supplements the mandatory volume component with additional "Discretionary" volumes. The volume and execution of Discretionary purchases are left to the Company's discretion. The goal of Discretionary purchases differs from that of the Mandatory purchasing program in that the primary purpose of Discretionary purchases is to reduce the overall hedged price to the customer. The discretionary volume was included in the GPIP because the Company and Division believed that natural gas prices would not always increase, but would also have periods of volatility to the downside. This depressed gas price would be due to temporary periods of over supply in the market, which would ultimately correct itself causing prices to again rise. Consequently, the GPIP incentive was devised by the Division and the Company to encourage the Company to be watchful for these moments and to lock up volumes in excess to the mandatory volumes at times when gas prices became depressed.

The incentive portion of the GPIP is a means to encourage the Company to execute these additional volumes. In order to determine how well the Company has performed under the GPIP, there must be a clearly defined goal and benchmark. As stated above, the goal of the discretionary volume incentive is to encourage the Company to lock up additional volumes when prices are trading at levels that are historically low. These incremental volumes should have the added benefit of lowering and not raising the overall hedged price. The GPIP incentive is currently structured such that the customers will have greater volumes hedged at lower prices because the incentive uses the mandatory average price as the benchmark and the Company earns an incentive only when it is a benefit to the customers. The average mandatory price is an effective benchmark because it is reflective of the average price over the most recent 24-month period.

More recently, the Division and its consultant were concerned that the Company had been primarily capturing “low hanging fruit” by executing the discretionary volume purchases at the end of the execution period when the mandatory price was known. This concern was addressed in the 2008 Gas Cost Recovery filing by reducing the incentive the Company would earn from 20% down to 10% on discretionary purchases executed within eight months prior to the month of flow. As a result of this change the Company would earn an incentive of 10% on any discretionary purchases when the average discretionary price was less than the mandatory price. The Company would earn an additional 10%, for a total incentive of 20%, on discretionary purchases when the average discretionary price was greater than fifty cents below the average mandatory price and the execution of the discretionary purchase was done in the period greater than eight months prior to the month of flow. Since this change was instituted, the Company has executed a greater percentage of discretionary volume in the greater than eight month period. The change in the program has had the intended effect on the Company's actions.

In addition, the Commission has recently questioned whether the incentive is still necessary to encourage the Company to execute the additional discretionary volumes, suggesting that the Company's actions would be the same with or without the incentive. The Company and the Division continue to believe that the incentive is necessary. With an incentive in place, the Company will look to maximize the price difference between the benchmark price and the discretionary hedge price and therefore maximize the benefit to the customers and the Company. Without an incentive, the Company's discretionary volume purchasing activities would be more defensive and the execution timing would be dictated by prudence risk and not maximizing customer benefits. The Company's discretionary execution strategy would most likely follow the more predictable execution pattern seen in the execution of the mandatory volume. In the case of continuously falling prices, however, the Company would be more concerned about prices rising, which would force the Company to execute sooner for fear of missing the bottom.

The GPIP incentive provides the Company with clear guidance as to the regulator's expectations relative to the Company's discretionary purchases. In the absence of this guidance, it is likely that the Company would migrate to the most conservative approach of hedging only those volumes that are mandatory. The GPIP incentive simultaneously provides the necessary, quantitative guidance that allows the Company to understand how the regulator intends this discretion to be employed, yet allows the company the flexibility to effectively execute within those guiding principals. With the incentive, the Company is driven to maximize the benefit to customers and the Company.

The last item of discussion was the issue of the incentive cap. The parties agree that the inclusion of a cap when the GPIP was first implemented in 2003 was intended as a short-term ceiling during the initial years of the program while the parties gained experience in the operation of the plan, and was not intended as a permanent component of the plan. The parties believe that the same arguments that support retaining the overall incentive apply equally to removing the incentive cap. An incentive cap may have the unintended effect of encouraging the Company to execute the discretionary volumes in a manner that is not consistent with the Commission's expectations for discretionary purchases. This unintended result may occur because with an incentive cap the customers' and Company's benefits are not aligned. For example, without an incentive cap, the Company will be encouraged to continue to increase total benefits to the customers and not to protect the incentive benefits to the Company. On the other hand, with a cap in place, it may be more beneficial for the Company to lock up discretionary volumes either earlier or in greater quantity because doing anything different would not further benefit the Company. If the Company has already reached the cap, the Company's focus may shift to other more pressing issues or it may actually deter the Company from executing incremental volumes since incremental transactions may only decrease the Company's benefit.

The Company and the Division staff continue to believe that the goals of the GPIP hedging plan are still appropriate, and we propose that the GPIP and the imbedded incentive mechanism continue to remain in effect with two changes to the program. In order to address concerns regarding the execution of discretionary volumes at the end of the execution period, when the mandatory price is known, the Company and the Division recommend that the Company incentive be reduced from 10% to 5% for volumes executed during the last four months of the execution period. The parties also believe that customers would further benefit with the removal of the incentive cap. The GPIP incentive, with the adjustment described above in conjunction with the removal of the incentive cap ensures that the customers' interests and those of the Company are always aligned. This alignment of goals should ensure that the Company is always executing the discretionary volumes when it is in the customer's best interest to do so. It is recommended that these changes go into effect for the gas cost year starting July 2010.

Re-submittal of
Attachment SAM-4

Docket 4283 – GCR 2011

10/19/2011

Thomas R. Teehan
Senior Counsel

June 2, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4038 – National Grid Natural Gas Portfolio Management Plan
Annual Report – April 1, 2010 to March 31, 2011

Dear Ms. Massaro:

On behalf of National Grid[1] enclosed please find ten (10) copies of the Company's Annual Report of activity relating to the Natural Gas Portfolio Management Plan ("NGPMP"). This filing is also accompanied by a Motion for Protective Treatment in accordance with Rule 1.2(g) of the Commission's Rules of Practice and Procedure and R.I.G.L. §38-2-2(4)(B). The Company seeks protection from public disclosure of the identities of certain companies in order to protect their pricing information for delivered volumes that are identified in the report. Additionally, the Company seeks protected treatment for account numbers to the extent that they appear on the attachments to this filing. Consequently and pursuant to Commission rules, the Company has provided the Commission with one copy of the confidential materials for its review, and has otherwise included redacted copies of the plan.

In this docket, the Commission approved the NGPMP, which implemented changes in the management of the Company's Rhode Island gas portfolio. These changes were designed to provide various financial, regulatory and risk management benefits over the asset management arrangement which it replaced. One of those benefits was to encourage the Company to minimize gas costs to customers by combining a least-cost dispatch with an asset optimization program designed to obtain the maximum value from the Rhode Island gas supply portfolio resources. As part of the NGPMP, the Company is required to file quarterly and annual reports in order to provide transparency in measuring the Company's performance.

This annual report covers the measurement year April 1, 2010 through March 31, 2011.

The enclosed report provides a Monthly Summary which calculates the savings achieved based on supporting data contained in Attachments 1 through 10. The Monthly Report indicates that the preliminary estimate of savings for the period April 1, 2010 to March 31, 2011 of the

[1] The Narragansett Electric Company d/b/a National Grid.

optimization program is $ 4,655,473.83. The $1 million guarantee has been achieved with excess earnings of $3,655,473.83. The incentive to the Company is $731,094.77 at this time.

Also enclosed as part of this filing is a discussion of the Monthly Summary Report by section that describes the entries in the Monthly Summary and traces the entries in that report to the sources from which they are derived.

Thank you for your attention to this filing. Please feel free to contact me if you have any questions at (401) 784-7667 or Stephen Mc Cauley at (516) 545-5403.

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Docket 4038 Service List
Leo Wold, Esq.
Steve Scialabba, Division

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

Natural Gas Portfolio Management Plan
Docket No. 4038

NATIONAL GRID'S REQUEST
FOR PROTECTIVE TREATMENT OF CONFIDENTIAL INFORMATION

National Grid[1] hereby requests that the Rhode Island Public Utilities Commission ("Commission") provide confidential treatment and grant protection from public disclosure of certain confidential, competitively sensitive, and proprietary information submitted in this proceeding, as permitted by Commission Rule 1.2(g) and R.I.G.L. § 38-2-2(4)(i)(B). National Grid also hereby requests that, pending entry of that finding, the Commission preliminarily grant National Grid's request for confidential treatment pursuant to Rule 1.2 (g)(2).

I. BACKGROUND

On June 1, 2011, National Grid filed with the Commission its Plan Results for April 1, 2010 to March 31, 2011 of activity undertaken in pursuing the Natural Gas Portfolio Management Plan that was approved by the Commission in Order No. 19627. This filing includes information relative to the identity of companies that discloses the names of the suppliers and the paid for the supplies purchased. These references occur in Attachment 2 ("Flowing Transaction Deal"), Attachment 4 ("Storage Injection

Transactions"), Attachment 6 ("Peak Season Rhode Island Dispatch Pricing Structure"), Attachment 7 ("Realized Financial Transactions"), and Attachment 8 ("Narragansett Mark to Market"). National Grid is seeking protective treatment with respect to the identities of those companies in order to protect the pricing information, which is competitively sensitive information.

II. LEGAL STANDARD

The Commission's Rule 1.2(g) provides that access to public records shall be granted in accordance with the Access to Public Records Act ("APRA"), R.I.G.L. §38-2-1, *et seq*. Under APRA, all documents and materials submitted in connection with the transaction of official business by an agency is deemed to be a "public record," unless the information contained in such documents and materials falls within one of the exceptions specifically identified in R.I.G.L. §38-2-2(4). Therefore, to the extent that information provided to the Commission falls within one of the designated exceptions to the public records law, the Commission has the authority under the terms of APRA to deem such information to be confidential and to protect that information from public disclosure.

In that regard, R.I.G.L. §38-2-2(4)(i)(B) provides that the following types of records shall not be deemed public:

> Trade secrets and commercial or financial information obtained from a person, firm, or corporation which is of a privileged or confidential nature.

The Rhode Island Supreme Court has held that this confidential information exemption applies where disclosure of information would be likely either (1) to impair

[1] The Narragansett Electric Company d/b/a National Grid ("National Grid or "the Company").

the Government's ability to obtain necessary information in the future; or (2) to cause substantial harm to the competitive position of the person from whom the information was obtained. Providence Journal Company v. Convention Center Authority, 774 A.2d 40 (R.I.2001).

The first prong of the test is satisfied when information is voluntarily provided to the governmental agency and that information is of a kind that would customarily not be released to the public by the person from whom it was obtained. Providence Journal, 774 A.2d at 47.

In addition, the Court has held that the agencies making determinations as to the disclosure of information under APRA may apply the balancing test established in Providence Journal v. Kane, 577 A.2d 661 (R.I.1990). Under that balancing test, the Commission may protect information from public disclosure if the benefit of such protection outweighs the public interest inherent in disclosure of information pending before regulatory agencies.

II. BASIS FOR CONFIDENTIALITY

The Company has redacted the names of the companies from which purchases were made in order to protect the pricing information for those companies. Were this information revealed, those companies could be harmed in future negotiations with other parties. Public dissemination of this type of information could disincline these and other companies to deal with National Grid or to provide National Grid with their lowest prices. Thus, the absence of confidential treatment would negatively influence National

Grid's ability to negotiate with these and other similar companies and to receive least cost pricing

III. CONCLUSION

Accordingly, the Company requests that the Commission grant protective treatment to those previously identified portions of the Natural Gas Portfolio Procurement Plan Results for April 1, 2010 to March 31, 2011.

WHEREFORE, the Company respectfully requests that the Commission grant its Motion for Protective Treatment as stated herein.

Respectfully submitted,

NATIONAL GRID

By its attorney,

____

Thomas R. Teehan, Esq. (RI Bar #4698)
National Grid
280 Melrose Street
Providence, RI 02907
(401) 784-7667

Dated: June 2, 2011

National Grid
Natural Gas Portfolio Management Plan
Annual Report
Plan Results for April 1, 2010 to March 31, 2011

Introduction

In Docket 4038 the Commission approved a new approach to the management of the gas supply portfolio called the Natural Gas Portfolio Management Plan ("NGPMP"). One of the conditions included in that filing was a requirement that the Company file reports on the results of the Plan each quarter and annually and that the filings provide sufficient detail and transparency for the Commission and Division to determine the reasonableness and appropriateness of the costs associated with asset management transactions.

The Commission's order in this docket requires the Company to provide in the Annual Report the information suggested by Mr. Oliver in his testimony. In addition to the detailed information on each optimization transaction included with each quarterly report and also attached to this report, Mr. Oliver requested that annual reports contain information on the assignment of the Service Company costs associated with asset management activities allocated to the Narragansett Electric Company. Essentially, 9.5% of the full cost of the energy transactions team is allocated to the Narragansett Electric Company's Gas Division (NEC-Gas) based on a three point allocation methodology that is updated each year. The 9.5% allocation is derived based on NEC Gas' share of revenue, payroll and assets as compared to the total for all National Grid USA gas utilities with each component given an equal weight. The Energy Transaction team FTE count did not change from last years report.

The goal of the NGPMP is to minimize gas costs to customers by encouraging the Company to obtain as much value as possible from the Rhode Island gas supply portfolio assets. In order to measure the impact of the Company's efforts to optimize the value of the portfolio, the NGPMP establishes two benchmarks that exactly parallel the approach used in its past contracting for asset management services.

The first benchmark is built on the concept of least cost dispatch and focuses on the optimization of flowing supply. It provides that as the starting point for the management of flowing supplies, the Company will set up its dispatch of supply resources for each month and each day so that it utilizes the lowest cost flowing supplies available from its existing supply portfolio in the same fashion it would have if it used an asset manager (Attachment 6).

The second benchmark is used to measure the effectiveness of the Company's efforts to minimize the cost of supply injected into storage and is also drawn directly from the asset management contracting approach. This benchmark has as its starting point the concept that storage will be filled based on uniform monthly injections over the full seven months of the injection season. To the extent the Company can reduce the cost of supplies injected into storage from that injection schedule it provides savings to customers. In order to be certain customers will benefit from the injection optimization transactions in spite of significant movements up or down in natural gas prices, the Company puts hedge positions in place to guarantee their effectiveness. These hedge positions cover price changes within the injection season and thus are short term in nature and also completely unrelated to the hedge positions utilized in the execution of the Gas Purchase Incentive Program.

Monthly Summary Report

The report consists of a series of attachments that begins with the Monthly Summary Report (Attachment 1) which provides an overview of the results followed by additional attachments that provide detailed support for the information in the Monthly Summary Report. The Monthly Summary Report is divided into two sections. Section 1 shows the results from the Company's efforts to optimize flowing supply while Section 2 shows the results from optimizing the purchase of gas injected into storage. Section 2 is, itself, divided into 3 parts with 2a showing the injection cost and 2b and 2c showing the hedging results broken down into those that have been realized and those that will occur in the future and are, as yet, unrealized.

Section 1 Flowing Supply/Storage Withdrawals

This Section shows the calculation of the savings to customers generated by the Company's optimization activities as it purchases supplies for delivery to the city gate. The calculation starts with the total actual cost of all flowing supplies for each month. That cost is subtracted from the sum of those purchases made to support sales to third parties as part of optimization transactions and the cost of supply for customers calculated using the least cost dispatch for the monthly and daily supplies delivered to the RI gas system. This difference is the savings generated by the optimization transactions executed during each month as flowing supplies were purchased and sales were made to third parties to generate revenues.

The costs for each supply purchase are the actual delivered costs including both the supply acquisition cost and any pipeline related charges for the volumes purchased during the month. The purchases included in the actual delivered cost are both the supplies needed to support third party sales and the gas supplies delivered to the citygate for the firm sales customers. As part of the optimization process, the Company purchases supplies to reduce overall costs and it is common for specific supply purchases to be used to meet a different need than that for which they were initially purchased. For instance volumes that were purchased to meet a third party sale may have been injected into storage if that resulted in a lower overall cost for all supply purchases. When the schedulers transport the purchase volumes to meet the various demands, such as storage injections, baseload, swing or sales, they look to move the volumes most efficiently. The Actual Flowing Cost also includes any storage withdrawals delivered to the firm customers at the delivered weighted average cost of supply (WACOG) based on the benchmark dispatch.

The actual flowing supply costs are listed by transaction on the Flowing Transaction Detail Report (Attachment 2). Third Party sales are the aggregate monthly sales volume and revenue associated with sales off system. The revenue for each deal is also listed in the Flowing Transaction Deal Report.

The Flowing Transaction Deal (FTD) Report shows for each month all gas purchases and storage withdrawals. In the January section of the report the total 5,906,077 dekatherms and $33,040,696.41 of purchases are shown as the sub-total for the month and can also be found in the Monthly Summary Report under the Actual Flowing Cost for Jan-10. The report shows city-gate purchases, those purchases entered into as part of optimization transactions and any storage withdrawals. It ties directly to the Company's booked gas cost payable amount. The second part of the FTD Report for January shows the revenue from off-system sales which is also shown on the Monthly Summary Report under the 3rd Party Sales column.

The Customer Cost, or dispatch cost, is calculated as the product of the price and volume received each day by the firm sales customers based on the least cost dispatch structure. The cost of the supplies for customers for each day is shown in the attached Customer Transaction Summaries (Attachments 3) for the months of April 2010 through March 2011. For example, the volume and cost shown in the Customer Cost section of Attachment 1 for April 2010 are from Attachment 3a, which shows that the total delivered volume was 1,376,873 DT and the total delivered cost was $5,908,392.96. The detail provided in the Customer Transaction Summaries includes the price and volume by delivering pipeline with a breakdown into baseload purchases, swing purchases and storage withdrawals.

Section 2a Storage Injections

This section lays out the actual and benchmark cost of storage injections for each month. Because the Company uses hedges to guarantee that the economics of any optimized injections are actually achieved, it is also necessary to show the impact of the hedge transactions. In addition, the hedge transactions can be broken down into those for months where the NYMEX contract expiration date has passed and the exact final results are known and those where the contract remains open and subject to market volatility.

The April 2010 through March 2011 contracts have closed and become "realized", shown in Attachment 1, Section 2b, while hedges put in place to cover certain storage optimization transactions using available storage capacity in the future, remain open and are currently "unrealized", are shown in section 2c.

Section 2a Storage Transactions

This section shows the actual storage costs and volumes based on the optimized storage fill and the benchmark inventory cost based on the planned storage fill using a ratable, one-seventh per month approach as has been used in past asset management arrangements. The costs for the purchase of supply for injection are the actual delivered costs for the volumes purchased during the month and scheduled to be injected into the storage fields. Similar to the flowing costs, the volumes purchased and scheduled for injection may not be the specific volumes purchased for injection. The actual cost of injections into the storage fields is shown by transaction on the Storage Injection Transaction Deal report (Attachment 4).

The Customer Inventory Cost is the monthly ratable injection volume and price. It is the benchmark for measurement of the savings to customers from optimized storage fill. Attachment 5 lists the actual and Customer and Inventory Costs by storage field.

Section 2b Realized Hedging Impact on Storage Transactions

Realized hedging gains/losses are calculated based on the final monthly settlements of any financial transactions that were used to hedge forward transactions designed to lock in cost savings for supplies injected into storage. These gains or losses are separated here but are already included in actual costs in Section 1. The realized financial transactions are listed in Attachment 7.

Section 2c Unrealized Hedging Impact on Storage Transactions

Unrealized activity represents the results of the forward transactions that have not been financially settled or physically delivered. At the end of the fiscal year the unrealized Mark-to-Market value, as calculated on March 31, 2010, was booked to earnings for the April 2009 through March 2010 period. As this unrealized value, as of March 31st 2010, was realized in the April 2010 through March 2011 period it was reversed from the April 2010 through March 2011 earnings so that it was not double counted. This value was $373,141 and was recovered over the course of the April 2010 to March 2011 fiscal year. The storage long/short position is the excess gas that was injected into the storage capacity that is not currently being used by the firm sales customers. The MTM is the mark-to-market position of the financial transactions that were executed to lock in margins (savings) on the excess gas injected into storage. (Attachment 8) The Physical Storage Value is the difference in the inventory cost of the actual inventory and the Benchmark inventory. (Attachment 5) The Forward Storage Value is the value of the excess gas in storage when there is more gas in inventory then the benchmark inventory, or the forecasted replacement cost, when there is less gas in inventory than the benchmark inventory. These forward values are priced based on the future markets. The future carry costs on storage inventory are estimated for the remaining months of the fiscal year. The cost of collateral on the settled derivative positions is calculated to adjust the realized gains by the carry costs associated with financial storage hedges. The Mark to Market value calculated on March 31st is also decayed for the seven summer months as recovered and the cost of collateral associated with the early payment of this value is also captured as a cost of carry at the tariff rate of 11. 125%. The posted collateral associated with trading clearport futures is added into the cost of carry calculation at the monthly money pool rate (Attachments 9 and 10). The total unrealized value is the net value of the future activity; financial hedges, cost of excess gas in storage and expected forward value at market prices, adjusted for the earnings already booked in the previous contract year.

Position and Margin Sharing

The last section on the Monthly Summary Report is a calculation of the total savings to customers under the Plan and any incentive earned by the Company. This total is the sum of the Savings from Section 1 and the Total Unrealized value shown at the end of Section 2c. Any realized savings from storage activity is embedded in the Section 1 flowing supply activity which includes the impact of any optimization hedges for months where the NYMEX contract has closed.

The final value of the savings from all optimization transactions, as shown on page 2, is $4,655,473.83. This value is currently $3,655,473.83 more than the $1,000,000 guaranteed to customers. This amount of savings would be split with the customer's receiving $2,924,379.06 plus the $1,000,000 guaranteed amount and the Company receiving $731,094.77.