STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID'S DISTRIBUTION ADJUSTMENT CLAUSE	: :	**DOCKET NO. 4339**

REPORT AND ORDER

I. NATIONAL GRID'S FILING

On August 1, 2012, National Grid ("NGrid" or "the Company") filed with the Rhode Island Public Utilities Commission ("Commission") its annual Distribution Adjustment Charge ("DAC") for effect November 1, 2012. The DAC is filed annually to establish a factor that returns or recovers funds from ratepayers to reconcile estimated costs to actual costs included in rates over the twelve-month period beginning the first of November. The DAC provides for funding, or the reconciliation and refund, of amounts associated with a number of the Company's specific programs and facilitates the timely rate recognition of incentive/penalty provisions. Established in 2002 in Docket No. 3401, the purpose of the DAC was to credit customers with any amounts associated with the earnings-sharing provisions of the Amended Settlement in that Docket; to refund or to recover the amount by which non-firm margins deviated from $1.6 million; to recover LNG commodity costs associated with maintaining system pressures; to credit or to collect any weather normalization adjustment revenues and to reconcile revenues or expenses approved by the Commission. These other revenues or expenses to be reconciled annually were identified as Environmental Response Costs, Low Income

Program Costs, Weatherization Program Costs, and Demand Side Management Costs, an amount for all of which were included in base rates.[1]

In Docket No. 3943, the Commission approved two additional factors, a Pension and Post-Retirement Benefits Factor and a Capital Expenditures Tracker, to be added to the nine original DAC factors established in Docket No. 3401.[2] Additionally, during the 2010 legislative session, the General Assembly passed the Decoupling Act, R.I. Gen. Laws §39-1-27.7.1[3], requiring NGrid's gas and electric revenues be fully decoupled from sales. The Commission approved the Company's proposal to decouple its gas revenues from sales filed pursuant to the statute in Docket No. 4206. In addition to requiring the decoupling of revenues from sales, this statute required NGrid to submit to and reach agreement with the Division of Public Utilities and Carriers ("Division"), for final approval by the Commission, on a Gas Infrastructure, Safety and Reliability Plan ("ISR Plan").[4] On March 2, 2012, the Commission approved the Company's 2013 ISR Plan in Docket No. 4306. On July 3, 2012, the Company filed its Revenue Decoupling Adjustment ("RDA") factor and supporting testimony. Both the RDA factor and the ISR Reconciliation and Component are included in the DAC. NGrid's initial filing does not

[1] Docket No. 3401, Order No. 17381. On August 24, 2006, Narragansett Electric Company, doing business as National Grid, acquired the assets and gas business of Southern Union Company in Rhode Island, doing business as New England Gas Company.
[2] Docket No. 3943, Order No. 19563.
[3] R.I. Gen. Laws §39-1-27.7.1. The Company in its filing in Docket No. 4206 requested exclusion of the large and extra-large C&I classes from the RDM. The Commission approved this request, pursuant to its authority under R.I. Gen. Laws §39-1-27.7.1(e)(2), in that same Docket, Order No. 20745, finding that the record failed to support not excluding those classes.
[4] R.I. Gen. Laws §39-1-27.7.1(d) requires in part that a gas distribution company consult with the Division of Public Utilities and Carriers ("Division") regarding its infrastructure safety and reliability spending plan that shall address capital spending on utility infrastructure and all other costs related to maintaining safety and reliability that are mutually agreed upon with the Division. That plan must be submitted to the Commission for review and approval. Filed in this Docket is the Company's ISR Plan Reconciliation and resulting factor, which is calculated from the difference between the forecasted and actual revenue requirement and the reconciliation of forecasted collections and actual collections. The reconciled amounts are used to calculate an ISR Reconciliation factor that is included in the DAC. The Annual ISR Report and Reconciliation are discussed within this Report and Order.

propose a specific rate for all of the DAC components, because the Company had not finalized the data for a number of those components. NGrid represented that it will supplement and update this initial filing in its September 1, 2011 filing.[5]

The actual DAC factor results from ten components, which are totaled and then grossed up by 2.46% for uncollectibles.[6] This subtotal is then added to a RDA Factor for Residential, Small and Medium Commercial and Industrial ("C&I") Customers[7] for a final DAC factor. The final DAC factor is then added to an ISR reconciliation factor that is adjusted by 2.46% for uncollectibles and an ISR component for the final DAC rate. The component factors are:

(1) a System Pressure factor, in which 18.12 percent of LNG commodity costs, financing costs, and supplier demand costs are allocated to maintain system pressures in NGrid's distribution system;

(2) an Advanced Gas Technology ("AGT") factor, which includes $300,000 annually in base distribution rates;

(3) a Low Income Assistance Program ("LIAP") factor, which collects $1,785,000 annually in base distribution rates consisting of: $1,585,000 in supplements to the Federal Low Income Home Energy Assistance Program ("LIHEAP") and $200,000

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[5] NGrid Exhibit 1, 2012 Distribution Adjustment Charge filed August 1, 2012. A table listing the ten components of the DAC indicating the current factors, the factors agreed to by NGrid and the Division is attached hereto as Appendix A.

[6] The 2.10 uncollectible percentage established by the Commission in Docket No. 3401, was increased to 2.46% in Docket No. 3943.

[7] Within this Docket is the Company's first annual RDA factor filing for the 12-month period ending March 31, 2012. The details of the filing are discussed herein. As discussed in footnote 3, Large and Extr-large C&I customers are excluded from the RDM.

for a Low Income Weatherization Program, (the LIAP factor is zero unless the Commission changes the amount for LIAP funding);[8]

(4) an Environmental Response Cost ("ERC") factor, which collects $1,310,000 annually in base distribution rates, but allows annual adjustments for incremental environmental costs or credits, such as insurance recoveries, which are amortized over a 10-year period through this factor;[9]

(5) a Pension Costs and Post-Retirement Benefits ("PBOP")[10] factor, which reconciles pension and post-retirement benefits other than pensions expenses for the purpose of recovering or refunding the Company's actual expenses that were included in base rates;

(6) a Capital Expenditures Tracker ("CAPX")/Accelerated Replacement Program ("APR")[11], which refunds or collects from customers the revenue requirement impact associated with variations in capital spending including the Accelerated Replacement Program ("ARP");

(7) an On-System Margin Credit ("MC") factor, which provides an offset to some of the distribution system costs. All revenue margins from dual fuel customers (firm and non-firm) as well as revenue margins from non-firm special contracts for the twelve

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[8] During the 2011 legislative session, the General Assembly passed R.I. Gen. Laws §39-1-27.12 which provides for an additional charge to NGrid ratepayers in an amount not to exceed $10.00 per gas customer and $10.00 per electric customer for a total amount of at least $6.5 million and not more than $7.5 million to fund a LIHEAP Enhancement Plan the purpose of which is to supplement LIHEAP.

[9] Pursuant to Commission Order No. 18365 in Docket No. 3548, the Company files an Annual Environmental Report for the period July 1 through June 30 of the previous fiscal year. The Report contains a description of the environmental remediation sites and the expenses incurred during that fiscal year.

[10] The PBOP factor was approved by the Commission in Docket No. 3943. The Commission found that a reconciliation of these expenses was justified because the Company's pension and PBOP expenses were large and unpredictable. Additionally, the Commission noted that the pension program was funded at 97 percent and that the reconciling mechanism would provide ratepayers with the assurance that NGrid was funding its pension and PBOP funds at the same level as amounts collected by customers and that current ratepayers are not shifting these costs to future ratepayers.

[11] The inclusion of a CXT factor in the DAC was approved by the Commission in Docket No. 3943.

month period ending June 30 that exceed an annual threshold of $2,816,000 exclusive of Rhode Island Gross Earnings Tax are credited 100% to customers through the MC Factor;[12]

(8) an Earnings Sharing Mechanism ("ESM") factor, which provides for the sharing and refunding of NGrid's excess earnings, whereby ratepayers receive 50 percent of earnings between an 11.25 percent and 12.25 percent return on equity ("ROE"), and ratepayers receive 75 percent of earnings over a 12.25 percent ROE while NGrid retains the remaining share of earnings;

(9) a Reconciliation ("R") factor for the current DAC, which represents a true-up of the amount currently being collected for the DAC component factors approved by the Commission for the prior period; and

(10) a Service Quality Performance ("SQP"), which is for any penalty assessed against NGrid for service deficiencies as measured through the Service Quality Plan approved by the Commission in Docket 3476.[13]

In support of its filing, NGrid submitted the pre-filed testimony of Mariella C. Smith, a Lead Analyst in the Gas Regulatory & Pricing organization for NGrid - Gas. Ms. Smith's testimony described the DAC factors and the proposed changes to the various components of the DAC. She presented factors for eight of the ten components

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[12] In Docket No. 4333, the Commission approved revisions to the Company's On-System Margin Credit provisions. Specifically, the Company and the Division agreed to allow for an increase to the $2.8 million threshold by the amount of additional revenues resulting from a dual fuel customer's capital project for up to a five year period of time under a minimum-take commitment. The new language eliminates the financial impediment to CIAC relief that resulted from the original language because revenue in excess of the $2.8 million threshold was returned to firm customers and not included in the Company's CIAC calculation.

[13] In Docket 3476, the Commission found that the general purpose of a service quality plan was to ensure that customers receive a reasonable level of service and identified five key aspects of any service quality plan as service measures, benchmark standards, the amount of the penalty, the penalty weight for each measure, and the time period for measuring performance to assess a penalty.

with the exception of the System Pressure factor and the Earning Sharing Mechanism. She also included the RDM factor[14] and identified a preliminary DAC factor, absent the ISR component[15] of $0.0341 per therm for residential and Small and Medium C&I customers and $0.0045 for large and extra-large C&I customers noting that the figure is not yet finalized because necessary data was not available at the time of the filing. A supplemental filing will include the updated DAC rate and a bill impact analysis.[16] The current DAC factor is $0.0062 per therm absent the RDM.[17]

Ms. Smith explained that the System Pressure factor is based on the projected commodity related portion of LNG costs, including non-economic dispatch LNG costs, and the percentage of local storage needed to maintain system pressure from November 1, 2012 through October 31, 2013. Ms. Smith noted that the current system balancing percentage of 18.12 percent is being reviewed to determine if a change in that percentage is necessary. Ms. Smith stated that because the System Pressure costs are related to gas costs, the Company will file its proposed factor and supporting data in the DAC Supplemental Filing which is filed simultaneously with the Company's Gas Cost Recovery Filing ("GCR") on September 1.[18]

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[14] On July 3, 2012, NGrid filed its first annual RDA Factor for the 12-month period ending March 31, 2012 pursuant to its DAC tariff R.I.P.U.C. NG-Gas No. 101, Section 3, Schedule A approved by the Commission in Docket No. 4206. The filing includes the testimony of Ms. Jennifer B. Feinstein which details the calculation of the proposed $0.0421 per therm RDA factor to recover an under collection of $10,704,374.

[15] See footnote 4. NGrid's Report and Reconciliation of its ISR Plan was filed on August 1, 2012. The filing includes the testimonies of Walter F. Fromm, presenting the Company's actual spending for the April 1, 2011 through March 31, 2012, and William R. Richer, calculating the difference between the projected revenue requirement and the actual revenue requirement associated with the actual FY 2012 Gas ISR capital investment levels provided by Mr. Fromm.

[16] NGrid Exhibit No. 1, Direct Testimony of Mariella C. Smith and Attachments filed August 1, 2012 at 1-5.

[17] Docket No. 4269, Order No. 20581.

[18] NGrid Exhibit No. 1, Direct Testimony of Mariella C. Smith at 5-6.

Ms. Smith explained that the AGT program[19] was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. She noted that increased off-peak usage reduces the unit cost of gas for all customers by generating distribution revenues to support fixed costs associated with resources needed during peak periods. She explained that NGrid is proposing that the AGT account continue to be funded annually in the amount of $600,000[20] and noted a balance in the account as of the end of June 2012 of $2,222,825 which includes accrued interest. She noted that the Company has identified several major projects that would utilize almost the entire fund balance and that they include a large cogeneration system, smaller microturbine cogeneration installations and a major Natural Gas Vehicle project. She recognized the difficulty in predicting funding commitments and explained this as due to market conditions and the time needed for large projects involving new technologies. Ms. Smith optimistically expressed that current market conditions are expected to produce a number of projects that will rely on the AGT funding. The proposed AGT factor is $0.0008.[21]

Ms. Smith stated that NGrid is not proposing to change the current level of funding provided by the LIAP factor, which provides additional funding to LIHEAP and to a low income weatherization program. She noted that annual funding in distribution rates for LIHEAP and weatherization are $1,585,000 and $200,000, respectively. Regarding the ERC factor, NGrid proposed a credit factor of ($0.0019) per therm. This

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[19]This program was the Company's original DSM program and until Docket No. 3859 was referred to as the DSM factor. It continues to exist in the DAC subsequent to the Company's DSM Program established in R.I. Gen. Laws §39-2-1.2.
[20] Accepting the recommendation of the Division in Docket No. 4196, the Commission allowed for an additional $300,000 to be included with the $300,000 already embedded in rates to fund the AGT program.
[21] NGrid Exhibit No. 1, Direct Testimony of Mariella C. Smith at 6-9, Attachment NG-MCS-1, NG-MCS-3.

factor reflects a 10-year amortization of environmental response costs. The proposed ERC factor reflects annual amortization of expenses totaling $644,393. Since there is $1,310,000 of ERC funding embedded in base rates, the remaining balance of $665,607 must be returned to ratepayers.[22]

In Docket No. 3943, the Commission approved NGrid's proposal to reconcile pension and PBOP expenses through the DAC. The adjustment factor is based on the difference between the Company's actual expense for the prior twelve month period ending June 30 and the most recently approved base rate expense allowance. The current computation is based on the twelve month period ending June 30, 2012. NGrid proposed a factor of $0.0056 for pension and PBOP expenses noting that the calculation was preliminary and would be updated in its September 1 filing.[23]

Also approved by the Commission in Docket No. 3943 was a Capital Expenditures Tracker ("CXT") adjustment mechanism.[24] Ms. Smith noted that included within the DAC was an annual CXT reconciliation adjustment credit of $2,013,339 which was divided by forecasted throughput to calculate the ($0.0057) per therm credit. This amount was then added to the ARP component factor to reach an overall CXT DAC factor. Ms. Smith described the ARP of the CXT as the five year program designed to replace bare-steel and cast-iron mains and high pressure, bare-steel services located inside customers' premises. The program allows the Company to recover the incremental costs through a rate adjustment mechanism for costs assumed above a threshold level included in base rates. Ms. Smith explained that the type of investment designed to be recovered in the ARP component is now being collected through the ISR Plan and that

[22] *Id.* at 10-11, Attachment NG-MCS-1, NG-MCS-4.
[23] *Id.* at 12, Attachments NG-MCS-1, NG-MCS-5.
[24] Docket No. 3943, Order No. 19562.

the 2012 ARP component consists of the revenue requirement associated with ARP investments through March 31, 2011. She calculated the cumulative revenue requirement to be included in the ARP for FY2012 to be $2,199,383. This amount was divided by the forecasted throughput for the twelve months beginning November 1, 2012 and then divided by ten resulting in a per therm rate for the ARP of $0.0062 which was added to the $0.0057 CXT credit for an overall CXT factor of $0.0005 per therm.[25] The Company's ISR Plan, which was filed in compliance with R.I. Gen. Laws 39-1-27.7.1 and approved by the Commission, provides a tariff modification which allows for April 1, 2010 through March 31, 2011 recovery of ARP costs through the DAC and after that termination of the ARP. NGrid proposed a CXT/ARP factor of $0.0002 per therm.[26]

Ms. Smith asserted that the type of investment originally designed to be recovered under the ARP is not addressed in the Company's ISR Plan. She noted that the ISR reconciliation factor reconciles two components: the approved forecasted cumulative revenue requirement to the actual billed revenue for the prior fiscal year and the forecasted cumulative revenue requirement to the actual revenue requirement for FY 2012 associated with Actual FY 2012 capital investment levels. She identified William Richer as the individual who would provide the reconciliation of the forecasted to actual revenue requirement which she said demonstrated an under-collection of $195,193 and that when coupled with the additional under-collection of $197,835 resulting from the reconciliation of the approved forecasted revenue requirement to the actual billed revenue

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[25] NGrid Exhibit No. 1, Direct Testimony of Mariella C. Smith at 12-16, Attachment NG-MCS-1, NG-MCS-6.

[26] *See* Docket No. 3943, Order No. 19710 where the Commission approved a one-time refund to customers for excess revenues recovered from the effective date of the rates to November 1, 2009 and 2) an ongoing credit to customers equal to the revenue requirement on the difference in the Company's actual average net plant in service and that which was included in NGrid's cost of service in Docket No. 3943. NGrid Exhibit No. 1, Direct Testimony of John F. Nestor, III at 13-17, Attachments NG-JFN-1, NG-JFN-6.

yielded a $393,028 under-collection for FY 2012 which was allocated among the various rate classes based on the rate base allocations approved by the Commission in Docket No. 3943 and then divided by the total throughput for each rate class.[27]

In the area of on-system (non-firm) margins, NGrid proposed a credit factor of ($0.0021) per therm. In determining amounts to be returned to customers, NGrid tracks margins exclusive of the gross earnings tax for sixty-four (64) firm and non-firm dual customers at the time of the most recent rate case filing as well as any new non-firm customers and non-firm special contracts. These customers were referred to as "dual-fuel customers." Any amount collected in excess of $2,816,000 is to be returned to customers. Ms. Smith noted that NGrid collected $3,546,576 and therefore, $730,576 or $0.0021 per therm is to be returned to customers. She also pointed out that the recent revisions approved by the Commission to the Company's On-System dual Fuel tariff provisions do not impact the instant calculation as those revisions were approved for effect July 1, 2012.[28]

In describing the Service Quality Plan, Ms. Smith noted that penalties arising from the plan approved in Docket No. 3476 would be passed on to customers through the DAC. She identified the an actual performance of 96.26 in the "Service Appointments Met" category which was below the 96.99 penalty threshold that resulted in a $133,935 penalty which was divided by the forecasted throughput to arrive at the ($0.0004) per therm to be returned to customers. Noting that the weather normalization factor is no longer necessary because of the passage of the Revenue Decoupling statute[29] in 2011, she identified a $10,704,374 under-collection to be recovered through the RDA which

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[27] *Id.* at 16-17, Attachment NG-MCS-6.
[28] *Id.* at 18-19, Attachments NG-MCS-1, NG-MCS-7.
[29] R.I. Gen. Laws §39-1-27.7.1.

computes to $0.0302 per therm for Residential, Small and Medium C&I customers. She indicated that because the Company's financial data for the fiscal year ending June 30, 2012 has not been complete, the earnings sharing calculation was not performed. She asserted that the earnings sharing information would be provided in the September 1, 2012 supplemental filing.[30]

As for the reconciliation factor for fiscal year 2012 and the gas year (November 2011 through October 2012), Ms. Smith proposed a factor of $0.0013 per therm for Residential, Small and Medium C&I customers and a factor of $0.0019 for Large and Extra Large C&I customers to return an over-collection of the DAC in 2011 of $248,239 to ratepayers. The difference in the reconciliation amount for these two groups is the result of the exemption of the Large and Extra-Large C&I classes from the RDA where reconciliation of the base rate component of AGT, Environmental and LIAP programs for Residential, Small and Medium C&I customers occurs. Because no such reconciliation of these factors occurs for the Large and Extra-Large C&I classes through the RDA, a separate reconciliation factor of $0.0006 was applied to these customers. Ms. Smith noted the updated projected throughput as 35,387,711 dths for the November 1, 2012 through October 31, 2013 period as the throughput upon which the Company's preliminary DAC calculations are based. Her Attachment MCS-1 identified a DAC rate for a Residential Heating customer of $0.0627 per therm.[31]

II. <u>NGRID'S REVENUE DECOUPLING ADJUSMENT FACTOR FILING</u>

On July 3, 2012 and in accordance with the provisions of R.I.P.U.C. NG-Gas No. 101, Section 3, Schedule A which established an annual reconciliation of target revenue

[30] NGrid Exhibit No. 1, Direct Testimony of Mariella C. Smith at 19- 21, Attachment NG-MCS-1, NG-MCS-8,NG-MCS-10.
[31] *Id.* at 21-25, Attachments NG-MCS-1, NG-MCS-9, NG-MCS-11.

per customer and actual revenue per customer through an RDA factor to be included in the DAC, NGrid filed its annual RDA factor for the 12-month period ending March 31, 2012. In support of the proposed $0.0421 per therm RDA factor[32] designed to collect a $10,704,374 under-collection, the Company submitted the testimony of Jennifer B. Feinstein. Ms. Feinstein stated that her testimony would provide an overview of the RDA reconciliation mechanism and explain the actual RDM results for the Company's FY 2012.[33]

Reiterating that in Docket No. 4206 the Commission approved the Company's RDM to be performed on a monthly basis for all Residential and all Small and Medium C&I firm rate classes, Ms. Feinstein noted that any over-recovery would be returned to customers and under-recovery would be collected from those customers. She described how the Company used revenue per customer ("RPC") targets that were established in Docket No. 4206. She explained that actual RPCs for each month were calculated by dividing the actual base revenues, which include only the sum of the customer charge, variable distribution charges and demand charges from firm sales and transportation customers, by the number of customers in each rate class. Further, she noted that for the Low Income Residential Heating and Low Income Non-Residential Heating and the Medium C&I rate classes, adjustments were made to actual revenues to reflect the equivalent non-discounted revenue for the low income classes and to exclude revenues and customer numbers associated with Dual-Fuel customers for the Medium C&I class. Finally, Ms. Feinstein stated that to determine the difference between the allowed and the actual revenue, the difference between the target RPC and the actual RPC was multiplied

[32] This proposed factor was updated to $0.0302 in the Company's September 1, 2012 filing.
[33] NGrid Exhibit 2, Testimony of Jennifer B. Feinstein, filed July 3, 2012 at 2-3.

by the number of customers for each rate class in the month. She indicated that any monthly surplus or shortfall is recorded in a deferred account to which interest is added. Finally, she noted that at the end of March, 2012, monthly balances were totaled to arrive at the cumulative RPC.[34]

Ms. Feinstein provided a breakdown per class of the $10,704,374 under-recovery stating that the main driver for the under-recovery was the significantly warmer-than-normal weather during November 2011 through April 2012 that resulted in reductions in actual revenues collected from heating customers. She explained that the RDA DAC factor was calculated by dividing the forecasted throughput for the Residential and Small and Medium C&I rate classes by the under-recovery to arrive at the RDA factor of $0.0421 per therm that is to be included in the DAC filing. She also indicated that bill impacts had not yet been calculated as the RDA factor is only one component of the overall DAC rate.[35]

III. NGRID's GAS INFRASTRUCTURE, SAFETY, AND RELIABILITY PLAN FY2012 FILING

On August 1, 2012, NGrid filed its Gas Infrastructure, Safety, and Reliability Plan FY 2012 Annual Report and Reconciliation Filing pursuant to R.I.P.U.C. NG-Gas No. 101, Section 3, Schedule A, Sheet 6 which comprises a reconciliation of two components: the difference between the forecasted and actual revenue requirement and the reconciliation of forecasted collections and actual collections. To support the calculations set forth in the filing, NGrid provided the pre-filed testimonies of Walter F. Fromm and William R. Richer.

[34] *Id.* at 3-5.
[35] *Id.* at 5-7, Attachments NG-JFB-1, NG-JFB-2, NG-JFB-3.

Mr. Fromm stated that the purpose of his testimony was to present the details of the filing, as well as the actual spending for the April 1, 2011 through March 31, 2012 period. He also discussed certain spending variances. Mr. Fromm indicated that the Company spent $57.3 million for non-growth capital investment under the Gas ISR Plan which was approximately $3.9 million more than the Company's annual approved budget of $53.4 million. He identified $5.7 million in excess spending in the Mandated Programs category and $1.8 million in excess spending in the Public Works and Proactive Main Replacement category that was offset by $3.6 million under spending in the Reactive Main, Reliability, and Service Replacement categories to equal the $3.9 million overspending.[36]

Mr. Fromm listed the specifics of the $5.7 million in overspending in the Mandated Programs. He identified the main drivers of the $3.1 million of excess spending in Capital Leak Repair to be the underestimation in forecasting work volumes and repair costs. Meter purchases and meter fitting work accounted for approximately $1.5 million of the $3.9 million, which Mr. Fromm explained was the result of the meter retirement being greater than initially forecasted. Finally, non-leak spending associated with costs incurred with meter protection, service relocations, service abandonments and the installation of curb valves was identified by Mr. Fromm as comprising $1.1 million of the overspending. Lastly, Mr. Fromm noted the addition of two phases of Narragansett Bay Commission ("NBC") projects as being the primary driver of the $1.6 million excess spending in the Public Works category.[37]

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[36] NGrid Exhibit No. 3a, Testimony of Walter F. Fromm, filed August 1, 2012 at 2-3.
[37] *Id.* at 3-5. Attachment NG-WFF-1.

Mr. Fromm discussed the three categories where the Company underspent in FY 2012. The first category he noted was the Reactive Main category where the Company spent $1 million less than the amount budgeted, because there was not a need to replace leak prone pipe. In the Reliability category, he identified four areas where NGrid was able to defer projects reducing spending in that category by $1.9 million. Lastly, Mr. Fromm discussed the Company's reallocation of spending originally targeted for the Service Replacement Program to areas that it deemed to be of a higher priority. In requesting full reconciliation of the actual spending, he represented that the Company believes the overspending to be prudent and reasonable and necessary to address changing circumstances encountered during the Plan year.[38]

Mr. Richer's testimony was submitted to describe the reconciliation of the projected revenue requirement to the actual revenue requirement which he identified as $2,012,983 and $195,193 more than what the Company originally proposed and that the Commission approved in April 2011 in Docket No. 4219. Additionally, he stated that because actual revenue billed during the plan year was less than the actual requirement, the net difference of $197,835 combined with the difference between the projected and actual revenue requirement revealed a total under collection of $393,028.[39]

Noting that the actual revenue requirement calculation is nearly identical to the projected revenue requirement, Mr. Richer relied on his testimony in Docket No. 4219 for the detailed description of that calculation. He limited his testimony in this proceeding to summarizing the revenue requirement reconciliation and to discussing the change in the tax depreciation calculation. He asserted that the ultimate revenue

[38] *Id.* at 5-6, Attachment NG-WFF-1.
[39] NGrid Exhibit 3b, Testimony of William R. Richer, filed August 1, 2012 at 2-3.

requirement on incremental non-growth capital investment equals the return on investment, plus depreciation expense and property taxes associated with the investment. He stated that the incremental non-growth capital investment is defined as the capital additions plus cost of removal, less annual depreciation expense embedded in the Company's rates, net of depreciation expense attributable to general plant.[40]

Mr. Richer explained the difference in how the tax depreciation was determined in the revenue requirement calculation and how that differs from the calculation of tax depreciation in the FY 2012 projected revenue requirement. He noted the difference as relating to the percent of plant additions eligible for the 100 percent capital repairs deduction and the percent of all remaining plant additions that are expected to be eligible for bonus depreciation. He indicated that tax depreciable plant additions eligible for the capital repairs deduction increased to 48.33 percent from what the Company had used in its projected FY 2012 ISR revenue requirement. He further described the Company's assumptions in calculating bonus depreciation and how total tax depreciation is calculated by adding the amount of depreciation deducted for the IRS Modified Accelerated Cost-Recovery System ("MACRS") to the amount of capital repairs deduction plus the bonus depreciation deduction and the cost of removal. He reiterated that the revenue requirement associated with actual capital investment is $2,012,983.[41]

Lastly, Mr. Richer discussed the rate design and reconciliation of the Gas ISR factor. He again identified the $393,028 under-collection. He set forth the different ISR reconciliation factors proposed by the Company based on rate class required to compensate NGrid for the under-collection. He represented that the Company had not

[40] *Id.* at 3-5, Attachment NG- WRR-1.
[41] *Id.* at 5-7, Attachment NG-WRR-1.

determined the bill impact that would result from this reconciliation factor but that such would be filed with NGrid's September 1, 2012 DAC filing.[42]

II. NGRID'S SEPTEMBER 5, 2012 FILING

On September 5, 2012, NGrid filed the supplemental testimonies of Mariella Smith to incorporate updates to the DAC components included in the August 1, 2012 filing, and William R. Richer to describe the calculation of the earnings sharing component of the proposed DAC. The updates resulted in a proposed DAC rate of $0.0770 per therm, approximately $40.00 per year for an average residential customer using 922 therms or a 3.6% increase. Ms. Smith updated the Reconciliation Factor, the RDA Factor and provided a System Pressure Factor. She also provided the proposed DAC factor and overall DAC rate to include the ISR component and provided the rate impacts on customers' bills.[43]

With regard to the system pressure calculation, she proposed a factor of $0.003 per therm, which she explained was derived by multiplying the forecasted 2012-2013 LNG supply-related costs and the 18.12% of local storage used to maintain system pressure. Ms. Smith stated that there was no earnings calculation included in Mr. Richer's testimony because the Company's return for the period was 5.03% which is below the 10.5% threshold. She also noted that the reconciliation component of the August 1, 2012 DAC filing was updated to incorporate actual throughput for July 2012, resulting in an increase of $0.0001 per therm to the factors proposed in the August 1

[42] *Id.* at 7-8, Attachment NG-WRR-1.
[43] NGrid Exhibit No. 4a, Supplemental Testimony of Mariella C. Smith, filed September 5, 2012 at 1-3, 7, Attachments NG-MCS-1S, NG-MCS-12.

filing for a final factor of $0.0014 per therm for Residential, Small and Medium C&I rate classes and $0.0020 per therm for the Large and Extra-Large rate classes.[44]

Ms. Smith explained the increase to the proposed RDA factor from $0.0302 in the Company's August 1, 2012 filing to $0.0413 per therm in her supplemental filing as reflecting the correct throughput associated with the Residential, Small and Medium C&I classes rather than the total annual firm throughput that the Company used to derive the factor previously proposed. She presented NGrid's proposed DAC rates and the resulting bill impacts.[45]

Mr. Richer provided the calculation of NGrid's earnings subject to the ESM factor for the fiscal year ending June 30, 2012. He noted that the determination of earnings is based on a 10.5% return on equity. Any amount in excess of the 10.5% up to 11.5% is shared 50 percent with customers and 50 percent with NGrid. Earnings in excess of 11.5% return on equity are shared 75 percent with customers and 25 percent with NGrid. The return on equity is calculated by dividing the net income available for common equity by the common equity applicable to rate base. For FY 2012, NGrid calculated a net income available for common equity of $7,967,760.[46]

Mr. Richer discussed a number of adjustments made to operating revenues, expenses and interest charges. The adjustments to operating revenue included a $730,576 reduction reflecting an over-collection to be returned to customers in excess of the $2,816,000 threshold for firm and non-firm sales and transportation margins established in Docket No. 3943, Order No. 19528. The second adjustment to operating revenues was a increase of $778,043 to FY 2012 operating revenues to reflect that same amount of a

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[44] *Id.* at 3-4, Attachments NG-MCS1S, NG-MCS-2S, NG-MCS-9S.
[45] *Id.* at 5-7, Attachments NG-MCS-10S, NG-MCS-12.
[46] NGrid Exhibit No. 4b, Direct Testimony of William R. Richer at 2-4, NG-WRR-1.

reduction in operating revenues in the FY 2011 ESM filing reflecting a true up from the estimate recorded for the customer portion of non-firm margins. Third, a $152,754 adjustment was made for the difference between the revenue allowed to the Company in the base rate case and what was actually received between April 1, 2011 and June 30, 2011 in accordance with the Company's Revenue Decoupling Plan ("RDM"). Fourth, operating revenues were increased by $13,666,887 to correct overstated revenues prior to FY 2012. Fifth, operating revenues were increased by $209,939 to reflect NGrid's exclusion of unbilled revenues from the ESM calculation. Sixth, NGrid added $549,846 or 25 percent of the ARP revenue requirement to reflect the amount earned during the April 1, 2012 to June 30, 2012 period. Lastly, stored gas inventory was removed from rate base to eliminate carrying costs on stored gas inventory from revenues, which decreased operating revenue by $2,348,833.[47]

The Company also made adjustments to three expense and interest accounts. First, NGrid increased operating expenses by $150,567 for unbilled gas costs. Second, $2,450,000 was included in operating expenses in accordance with the Commission's Order No. 19563 in Docket No. 3943 to include the investors' share of annual net merger savings. Finally, NGrid included $72,872 of costs related to customer deposits as Other Interest Expense. Other charges not considered a normal part of the gas distribution business were recorded below the line and not included in the ESM calculation.[48]

Mr. Richer noted that NGrid used the statutory rate of 35 percent to calculate federal income taxes for a total expense of $4,290,332. Mr. Richer utilized an imputed capital structure as specified in Docket No. 3943, Order No. 19563 to calculate the

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[47] *Id.* at 4-8, NG-WRR-1 at 2.
[48] *Id.* at 8-9, NG-WRR-1 at 2.

average cost of capital: 11.66 percent short-term debt, 40.63 percent long-term debt, and 47.71 percent common equity. He stated that NGrid computed the cost of long-term debt by multiplying the base applicable to long-term debt by 5.40 percent which was NGrid's actual long-term debt rate for 2011. Further, he explained that the Company calculated short-term debt by multiplying the rate base applicable to short-term debt by 0.18 percent which is the twelve month average cost of short-term debt. Finally, he noted that funds used during construction were included in calculating operating income.[49]

In calculating the rate base, Mr. Richer stated that NGrid used a five-quarter average for the year ending June 30, 2012. He excluded environmental response costs and prepaid taxes from rate base. He did include construction work in progress ("CWIP") in the rate base and computed the working capital allowance pursuant to the method approved in Docket No. 3943. Also, the deferred debits in the rate base included Y2K costs, to be amortized at the rate of $240,000 per year. Mr. Richer excluded the costs associated with legacy customer-information systems, stored gas inventory and customer deposits. Finally, he noted that NGrid included a hold harmless rate base credit as a reduction to rate base, which he explained as associated with the Company's purchase of the regulated gas assets in Rhode Island from Southern Union.[50]

Mr. Richer noted that the annual reconciliation expense of pension and PBOP is handled through the DAC, while the annual funding reconciliation is reflected as an adjustment to rate base in the Earnings Sharing Mechanism. He noted a cumulative rate

[49] *Id.* at 8-11, NG-WRR-1 at 2, 3, 4, 11, 12.
[50] *Id.* at 11-13, NG-WRR-1 at 5.

base decrease of $4,859,984 to reflect the annual funding reconciliation of pension and PBOP as allowed for in Docket No. 3943.[51]

Mr. Richer provided that common equity applicable to rate base was $331,936,373, which was the sum of the average rate base times 47.71 percent, the capital structure equity percentage approved in Docket No. 3943. Since the return on common equity for FY 2012 was 5.03 percent, which is significantly below the 10.50 percent threshold for sharing, no earnings are available to be shared with customers.[52]

III. DIVISION'S DIRECT TESTIMONY

On October 12, 2012, the Division of Public Utilities and Carriers ("Division") filed the direct testimony of its consultants, Bruce R. Oliver, President of Revilo Hill Associates, Inc., and David J. Effron, a consultant specializing in utility regulation. Mr. Oliver discussed all elements of the DAC except the PBOP, ESM and the CXT, which were reviewed Mr. Effron. He also noted that his testimony did not discuss the Service Quality Program. Mr. Oliver noted that the current rate proposed by the Company prior to inclusion of the ISR reflects a $0.0422 per therm increase from the current net DAC charge for Residential, Small and Medium C&I classes and a $0.0015 per therm increase for the Large and Extra Large C&I classes. He presented a list of rates by class that show the inclusion of the ISR charges, noting the large per therm charges for the Residential, Small C&I and Medium C&I classes.[53]

Mr. Oliver identified the components of the DAC. He noted his review of the Company's filing resulted in his recommending adjustments to the System Pressure, the Advanced Gas Technology, the Environmental Response Cost and the Reconciliation

[51] *Id.* at 11-12, WRR-1 at 5, 6, 7.
[52] *Id.* at 12-14, WRR-1 at 1, 4.
[53] Division Exhibit 1a, Direct Testimony of Bruce R. Oliver, filed October 12, 2012 at 2-3.

Factors. He explained that if there was no system pressure factor to recover the cost of LNG used to maintain pressure in the system, the cost of such would be recovered through the GCR from sales service customers. Mr. Oliver asserted that the 18.12% allocation factor that the Company proposed to calculate the SP factor does not appropriately reflect NGrid's annual LNG costs that are associated with maintaining system pressure. He identified what he deemed as two problems with NGrid's formula to come up with the allocation factor of 18.12%, the first being that it is not properly constructed to allocated LNG-related costs and the second being that the allocation factor does not consider non-peak hours LNG system pressure use. He asserted that the allocation of LNG-related costs to the system pressure factor should be accomplished in two steps: 1) allocating capacity-related costs based on ratio of LNG capacity required for system pressure support under peak hour conditions to total peak hour LNG vaporization capacity and 2) allocating commodity-related LNG costs based on a ratio of total annual LNG sendout for system pressure purposes under normal winter weather conditions to total forecasted LNG sendout for all purposes under normal winter conditions. He noted that this same issue was discussed in Docket No. 4269 and that NGrid had not addressed this issue further in its Long Range Gas Supply Plan other than repeating its position in Docket No. 4269 and suggesting that it would engage in further discussions with the Division. Mr. Oliver computed a LNG capacity allocation factor of 60.72% and a LNG commodity-related LNG cost allocation factor of 63.21%. Combined, these two allocation factors yield a System Pressure Factor of $0.0102 per therm as opposed to the $0.0030 per therm proposed by the Company. He explained his recovery of pressure-related LNG costs as allowing for a broader distribution of responsibility for those costs which is appropriate as both sales and transportation customers benefit from the maintenance of system pressure.[54]

Mr. Oliver also addressed the Company's request for continued funding of the AGT program through a factor that allows for recovery of $600,000 annually, $300,000 of which is recovered through DAC and the remaining $300,000 recovered through base rates. He pointed out that NGrid has not expended any AGT funds in almost five years and that the last reported expenditure was $12,916 in February 2008. He also noted that at the end of June 2012, the Company had a balance of $2,222,825 in the AGT program. He recommended that the $300,000 of additional funding allowed by the Commission in Docket No. 4269 be disallowed and that the AGT factor be $0.0000 per therm.[55]

Mr. Oliver discussed the LIAP Factor and stated the continuation of the current factor of $0.0000 per therm is reasonable. He pointed out the substantial increase in annual funding available for LIHEAP eligible customers as the result of recent legislation.[56] Mr. Oliver asserted that while the Division has not conducted a full audit of the Company's environmental expenses, its review of the documentation provided reveals that those expenditures appear to be reasonable. He described the factor and detailed the amortization of ten years of costs. Although he represented that he had no reason to question the accuracy of the Company's ERC factor computations, he did express concern regarding the purchase costs of the 170 Allens Avenue project which represents 77.5% of the total ERC claim and the fact that NGrid intends to record this property as non-utility property. He explained that because the cost of the property is being fully funded by ratepayers, the proceeds of any sale or disposition of such should

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[54] *Id.* at 5-11, Exhibit BRO-1 .
[55] *Id.* at 12-14.
[56] *Id.* at 9-13. *See* footnote 8, *supra*.

benefit ratepayers. He recommended that the Company's annual Environmental Report for Gas Service include any asset sales or exchanges of real property that the Company has acquired or may acquire with ratepayer funds through the DAC.[57]

Regarding the On-System Margin Credit, Mr. Oliver found that NGrid exceeded the $2,816,000 threshold during FY2012 resulting in $730,576 in excess margins to be returned to ratepayers. He accepted the Company's credit factor of $0.0021 per therm as reasonable. In discussing the RDA, Mr. Oliver noted that because the RDA replaced the Weather Normalization Adjustment ("WNA") and applies to only Residential, Small Commercial and Medium Commercial classes, the Company and the Division should evaluate the merits of a separate WNA for Large and Extra Large C&I customers as the weather will also impact usage for those customers.[58]

In his testimony regarding the reconciliation adjustment, Mr. Oliver found that adding accrued interest to the balance in the AGT account was inappropriate. He asserted that because the funds upon which the interest accrues are ratepayer funds being held by the Company for future use, that interest should be credited against the amount that ratepayers are providing to fund the AGT program. He reiterated the three changes that he recommended be made to the Company's proposal: 1) revising the allocations of LNG-related costs for the determination of the System Pressure Factor, 2) eliminating the $300,000 per year funding that the Commission approved in Docket No. 4269 and 3) revising the manner in which interest on the AGT balance is applied in the reconciliation of the AGT Factor costs and revenues. With these three changes and the updating of the

[57] *Id.* at 14-22.
[58] *Id.* at 22-24.

levels of usage the Company employs in its bill comparisons, Mr. Oliver recommended approval of the Company's proposal.[59]

Mr. Effron reviewed the calculation of the Pension and PBOP, the Capital Expenditures Tracker and the Earnings Sharing Mechanism components of the DAC. He indicated that he analyzed all of the exhibits, supplements and responses to data requests and did not propose any modifications to what the Company filed. He noted that since last year's Docket, No. 4269, the Company has complied with its commitment to fund the full amount of pension and PBOP accruals, prospectively.[60]

IV. NATIONAL GRID'S REBUTTAL TESTIMONY

On October 18, 2012, NGrid filed the joint rebuttal testimony of Ms. Smith and Ms. Arangio for the purpose of addressing Mr. Oliver's recommendations regarding the system pressure factor and discontinuation of AGT funding and how interest accrued on that fund is treated. Additionally, the Company's witnesses provided an updated reconciliation factor and provided bill impacts that would result should the Commission approve the proposed DAC rates. The testimony included updated Attachments. Regarding the System Pressure Factor, the Company's witnesses asserted that Mr. Oliver's use of Ms. Arangio's LNG volumes in EDA-2 was not appropriate upon which to base his system pressure calculation because that Attachment depicts volumes for LNG boiloff and are not associated with system pressure requirements. The Company's witnesses recommended use of the 18.12% factor until such time as a comprehensive

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[59] *Id.* at 25-27.

[60] Division Exhibit 1b, Testimony of David J. Effron filed October 12, 2012 at 3-4.

review of the issue, which they stated was warranted, could occur in a separate docket opened to review NGrid's Long-Range Supply Plan.[61]

Ms. Smith and Ms. Arangio agreed with Mr. Oliver's recommendation to suspend the additional $300,000 of funding to the AGT account while reserving the Company's right to ask that such funding be resumed should the fund become substantially diminished. The Company's witnesses asserted that Mr. Oliver's recommendation that interest on the account be treated as a credit to customers rather than being applied to increase the balance component of the Reconciliation Factor was not appropriate. The Company's witnesses updated their Attachment to correctly align the additional monthly base rate collections credited to the AGT fund that were misaligned in the Company's initial filing. They also updated the Reconciliation Factor to $0.0020 to reflect August and September actual results and presented a table showing the calculation of the base DAC factor with the ISR reconciliation. They identified the final DAC rates by rate class and noted a bill impact for an average residential heating customer using 846 therms[62] or approximately $36 annually or a 3.1% increase over current rates. Lastly, in response to Mr. Oliver's suggestion that the Company and the Division work together to assess the merits of applying a separate Weather Normalization Adjustment Factor to Large and Extra Large C&I customers, the Company's witnesses represented that the Company would be willing engage in such an assessment.[63]

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[61] NGrid Exhibit 5, Rebuttal Testimony of Mariella C. Smith and Elizabeth D. Arangio filed October 24, 2012 at 1-4.

[62] The Company explained its change from using 922 therms in its direct testimony as the result of Mr. Oliver's suggestion that it update the "average usage" to that which is used in its latest rate case in Docket No. 4323.

[63] NGrid Exhibit 5, Rebuttal Testimony of Mariella C. Smith and Elizabeth D. Arangio filed October 24, 2012 at 5-10, Attachments MCS-3R, MCS-9R, MCS-12-R..

V. SETTLEMENT AGREEMENT

On October 31, 2012, immediately prior to the commencement of the hearing, the parties filed a Settlement Agreement ("the Agreement") resolving all of the disputed issues. The Settlement Agreement specified that the parties agreed to utilize the System Pressure Factor proposed by NGrid and that beginning in November 2012, NGrid will assign 75.77 % of NGLNG Lease payment to the DAC. The Agreement further specified that Commodity related LNG and Distrigas FLS demand charges will not be assigned to the DAC in the GCR filing. Additionally, the Agreement detailed how the Company will compute the amount of LNG reallocated from the GCR to the DAC in its GCR Reconciliation Filing. This computation will make a comparison between the normal projected LNG Usage from the Providence NGLNG facility with the actual usage from that facility, and if such actual usage exceeds the normal projection, then 75.77% of the incremental costs will be assigned to the DAC. The parties specified that this approach is intended to reflect the ratio of LNG capacity required for system pressure support at the Providence NGLNG facility to the dedicated peak hour LNG vaporization capacity at the facility.[64]

The Settlement Agreement also addressed the disagreement regarding AGT interest. The parties agreed that such interest will be credited to ratepayers and not to increase the balance in the AGT fund. Additionally, the parties agreed to assess the advisability of incorporating the AGT program into the Company's Energy Efficiency program and to provide the Commission with its findings prior to the next DAC filing. The parties also agreed that future profits from the sale of land for which acquisition costs have been included in the ERC factor will be credited to ratepayers. In

[64] Joint Exhibit 1, Settlement Agreement, filed October 31, 2012.

consideration of this Agreement, the parties agreed to recommend that the DAC facots as set forth in NGrid's rebuttal testimony be approved by the Commission.[65]

VI. HEARING

Following published notice, a public hearing was conducted on October 31, 2012[66] 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, Esq. Chief of Legal Services

At the hearing, the Chairman granted NGrid's motion for protective treatment of certain of its responses to data requests. After ensuring no objection, the Chairman had all exhibits were marked as full exhibits. Mr. Teehan presented the terms of the Settlement Agreement. He explained the Company's change from using 922 dekatherms to 846 dekatherms when discussing average usage as being consistent with what the Company is doing in Docket No. 4323.[67]

COMMISSION FINDINGS

At the conclusion of the hearing, the Chairman moved that the Commission approve the following factors: System Pressure - $0.0030 per therm; Advanced Gas Technology Program (AGT) - $0.0000 per therm; Low Income Assistance (LIAP) - $0.0000 per therm; Environmental Response Cost (ERC) – ($0.0019) per therm; Pension

[65] *Id.* at 2, Attachment 1.
[66] The hearing was originally scheduled and noticed for October 29, 2012; however, the Governor ordered non-essential state offices and agencies to be closed for Monday, Oct. 29, 2012 and first shift for Tuesday, October 30, 2012 in response to Hurricane Sandy.
[67]Transcript of Hearing, October 31, 2012 at 2-4.

and Post-Retirement Benefits - $0.0056 per therm; Capital Tracker and Accelerated Replacement Program - $0.0005 per therm; On-System Margin Credits (MC) - ($0.0021) per therm; Service Quality Performance (SQ) – ($0.0004) per therm; Reconciliation Factor - $0.0014 per therm for Residential/Small/Medium C&I customers and $0.0020 per therm for Large/X-Large customers; and Earnings Sharing Mechanism - $0.0000 per therm. The motion included the request for approval of an Uncollectible Percentage of 2.46% for a DAC adjusted for uncollectibles of $0.0063 per therm for Residential/Small/Medium C&I customers and $0.0069 for Large/X-Large customers; and a Revenue Decoupling charge of $0.0413 for Residential/Small/Medium C&I customers for a base DAC factor of $0.0476 per therm for Residential/Small/Medium C&I customers and $0.0069 per therm for Large/X-Large customers.[68] The motion provided for the base DAC factor being added to an ISR reconciliation adjusted for uncollectibles and then added to and ISR component.[69] The resulting calculations revealed a DAC rate of $0.1203 per therm for Residential Non-Heating customers, $0.0762 per therm for Residential Heating customers, $0.0732 per therm for Small C&I customers, $0.0657 per therm for Medium C&I customers, $0.0241 for Large Low Load C&I customers, $0.0196 per therm for Large High Load C&I customers, $0.0139 per therm for X-Large Low Load C&I customers and $0.0114 per therm for X-Large High Load C&I customers. The Motion was seconded and approved unanimously. The Commission finds that the evidence, both oral and written, presented by NGrid and the Division support the reconciliation of the factors set forth above and is satisfied that the calculations supporting these factors are accurate.

[68] The specific factors for the various customer classes are set forth in Attachment A.
[69] The different ISR reconciliation amounts and components based on customer class are set forth in Attachment B.

Accordingly, it is

(21005) ORDERED:

1. The System Pressure factor of $0.0030 per therm is approved for effect November 1, 2012.
2. The Advanced Gas Technology factor of $0.0000 per therm is approved for effect November 1, 2012.
3. Any interest earned on the balance in the Advanced Gas Technology fund shall be credited to ratepayers.
4. The parties shall assess the advisability of incorporating the Advanced Gas Technology program into the Company's Energy Efficiency program and shall provide the Commission with its findings prior to the next DAC filing.
5. The Environmental Response Cost credit factor of ($0.0019) per therm is approved for effect November 1, 2012.
6. The Company shall continue to include in its annual Environmental Report for Gas Service all asset sales or exchanges involving real property that the Company has acquired or may acquire that is funded by ratepayers through the DAC and any such future profits from the sale of land for which acquisition costs have been included in the ERC factor will be credited to ratepayers.
7. The Reconciliation factor of $0.0014 per therm for Residential/Small/Medium C&I customers and $0.0020 per therm for Large/X-Large C&I customers is approved for effect November 1, 2012.
8. The On-System Margin credit factor of ($0.0021) per therm is approved for effect November 1, 2012.

9. The Pension and Post-Retirement Benefits factor of $0.0056 per therm is approved for effect November 1, 2012.

10. The Capital Expenditure Tracker factor of $0.0005 per therm is approved for effect November 1, 2012.

11. The Service Quality Performance factor of ($0.0004) per therm is approved for effect November 1, 2012.

12. The Revenue Decoupling Adjustment factor of $0.0413 per therm for Residential/Small/Medium C&I customers and $0.0069 per therm for Large/X-Large C&I customers is approved for effect November 1, 2012.

13. The various ISR reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2012.

14. The overall Distribution Adjustment Charges of $0.1203 per therm for Residential Non-Heating customers, $0.0762 per therm for Residential Heating customers, $0.0732 per therm for Small Commercial customers, $0.0657 per therm for Medium C&I customers, $0.0241 per therm for Large Low Load C&I customers, $0.0196 per therm for Large High Load C&I customers, $0.0139 per therm for Extra-Large Low Load C&I customers and $0.0114 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2012.

15. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE NOVEMBER 1, 2012 AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING ON OCTOBER 31, 2012. WRITTEN ORDER ISSUED APRIL 8, 2013.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

Attachment A

National Grid - RI Gas

Docket No. 4339

*DAC Summary & Comparison to National Grid's Updated DAC**

Line No.		Current	AS AGREED TO BY THE PARTIES Residential/Small Medium C&I	Large/X-Large C&I
1 System Pressure (SP) Factor		$ 0.0026	$ 0.0030	$ 0.0030
2 Advanced Gas Technology (AGT) Factor		$ 0.0008	$ 0.0000	$ 0.0000
3 Low Income Assistance Program (LIAP) Factor		$ -	$ -	$ -
4 Environmental Response Cost (ERC) Factor		$ 0.0001	($ 0.0019)	($ 0.0019)
5 Pension and Post-Retirement Benefits (PBOP) Factor		$ 0.0112	$ 0.0056	$ 0.0056
6 Capital Expenditures Tracker (CXT)/Accelerated Replacement Program (ARP)		$ 0.0003	$ 0.0005	$ 0.0005
7 On-System Margin Credit (MC) Factor		$ (0.0022)	($ 0.0021)	($ 0.0021)
8 Service Quality Performance (SQP)		$ -	($ 0.0004)	($ 0.0004)
9 Weather Normalization (WN) Factor		$ (0.0061)	$ -	-
10 Earnings Sharing Mechanism (ESM)		$ -	$ 0.0000	$ 0.0000
11 Reconciliation (R) Factor		$ (0.0007)	$ 0.0014	$ 0.0020
12 Subtotal		**$ 0.0060**	**$ 0.0061**	**$ 0.0067**
13 Uncollectible Percentage	2.46%		2.46%	
14 DAC Adjusted for Uncollectibles		**$ 0.0062**	**$ 0.0063**	**$ 0.0069**
15 Revenue Decoupling Mechanism			$ 0.0413	$ 0.0000
DAC Factor			**$ 0.0476**	**$ 0.0069**

***All figures are per therm.**

Attachment B

Docket No. 4339

DAC Factors including annual ISR component

	ISR Reconciliation w/o uncollectible	Uncollectible Percentage	ISR Reconciliation	Base DAC Component	DAC Component Subtotal Rates	ISR Component	November 1, 2012 DAC Rates
	(therms)		(therms) (A)	(therms) (B)	(therms) (C) =(A) + (B)	(therms) (D)	(therms) (E) = (C)+(D)
Res-NH	$0.0047	2.46%	$0.0048	$0.0476	$0.0524	$0.0679	$0.1203
Res-NH-LI	$0.0047	2.46%	$0.0048	$0.0476	$0.0524	$0.0679	$0.1203
Res-H	$0.0017	2.46%	$0.0017	$0.0476	$0.0493	$0.0269	$0.0762
Res-H-LI	$0.0017	2.46%	$0.0017	$0.0476	$0.0493	$0.0269	$0.0762
Small	$0.0009	2.46%	$0.0009	$0.0476	$0.0485	$0.0247	$0.0732
Medium	$0.0005	2.46%	$0.0005	$0.0476	$0.0481	$0.0176	$0.0657
Large LL	$0.0006	2.46%	$0.0006	$0.0069	$0.0075	$0.0166	$0.0241
Large HL	$0.0008	2.46%	$0.0008	$0.0069	$0.0077	$0.0119	$0.0196
XL-LL	($0.0001)	2.46%	($0.0001)	$0.0069	$0.0068	$0.0071	$0.0139
XL-HL	($0.0002)	2.46%	($0.0002)	$0.0069	$0.0067	$0.0047	$0.0114

*Factors Include Uncollectible Allowance