nationalgrid

Thomas R. Teehan
Senior Counsel

October 24, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4346 - 2012 Gas Cost Recovery Filing ("GCR")
Rebuttal Testimony

Dear Ms. Massaro:

On behalf of National Grid,[1] enclosed are ten (10) copies of the rebuttal testimony of Ann E. Leary, Elizabeth D. Arangio, and Stephen A. Mc Cauley in response to the direct testimony of Bruce R. Oliver provided on behalf of the Division on October 22, 2012, in the above-captioned proceeding.

Thank you for your attention to this filing. If you have any questions, please feel free to contact me at (401) 784-7685.

Very truly yours,

Thomas R. Teehan

Enclosure

cc: Docket 4346 Service List
Leo Wold, Esq.
Steve Scialabba
Bruce Oliver

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

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REBUTTAL DIRECT TESTIMONY

OF

ANN E. LEARY

ELIZABETH D. ARANGIO

AND

STEPHEN A. MC CAULEY

OCTOBER 24, 2012

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I. <u>Introduction</u>

Q. Please state your names and business address.

A. My name is Ann E. Leary and my business address is Reservoir Woods, 40 Sylvan Road, Waltham, Massachusetts 02451.

My name is Elizabeth D. Arangio and my business address is also Reservoir Woods, 40 Sylvan Road, Waltham, Massachusetts 02451.

My name is Stephen A. Mc Cauley and my business address is 100 E. Old Country Road, Hicksville, NY 11801.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to address the following issues raised in the testimony of the Division's consultant, Mr. Bruce Oliver:

1. Revise the Company's proposed 2012-13 High Load and Low Load GCR factors by implementing the following changes:
    a. Lower the gas supply forecast by $467,704.
    b. Reassign $1.1 million of the Tennessee Gas Refund from Variable Cost to Fixed Supply Cost.
    c. Reallocate $2,595,319 in LNG-related costs from the Company's GCR to its DAC to reflect a revision to the System Pressure allocation.

2. Establish procedures to address the sharing of excess revenue margins approved by FERC in the Tennessee Gas Pipeline Rate case.
3. Reopen discussions between Company and Division to assess the continued appropriateness of the current NGPMP incentive structure in the context of National Grid's use of third parties for portions of its management of gas supply assets.
4. Require National Grid to prepare a new five-year planning study at least once every three years.
5. Recommend changes to the filing requirements to allow the Division adequate time to review the annual GCR and DAC filings.

Q. Are you sponsoring any attachments with your rebuttal testimony?

A. Yes, we are sponsoring one attachment – Attachment AEL-1R Gas Cost Recovery Factor.

II. <u>GCR Revisions</u>

Q. Please describe the $467,704 reduction in gas costs proposed by Mr. Oliver.

A. Mr. Oliver is proposing to reduce gas cost by $467,704 associated with the Company's forecast of FLS Distrigas call payments. Mr. Oliver based this adjustment on a comparison of the actual historical costs for the period April 2011-March 2012 with the projected costs included in the 2012-13 GCR forecast.

Q. Does the Company agree with Mr. Oliver's adjustment.

A. The Company does not agree with Mr. Oliver's adjustment. Mr. Oliver is proposing to include the actual historical Distrigas FLS costs for the period April 2011-March 2012 in the 2012-13 GCR filing. However, the Company based its 2012-2013 GCR forecast on the most recent signed contract with Distrigas for the period November 2011 through October 2012. Because the Distrigas FLS cost used in the Company's 2012-13 GCR filing reflects the actual costs incurred by the Company for the period November 2011 through October 2012 and not April 2011 through March 2012 as proposed by Mr. Oliver, the Company has used a more recent estimate of these costs in its 2012-2013 GCR. Therefore, the Company does not support Mr. Oliver's adjustment.

Q. Please describe Mr. Oliver's proposed reallocation of the $1.1 million in Tennessee Gas Refund from Variable Cost to Fixed Supply Cost.

A. Mr. Oliver is proposing to reallocate $1.1 million of the Tennessee Refund in March 2012 from Variable Cost to Fixed Supply Cost because this refund is associated with demand related and not variable related costs.

Q. Does the Company agree with Mr. Oliver's adjustment.

A. Yes, the Company agrees in principle with Mr. Oliver's adjustment. However, this revision results in an increase of only $0.0012 per them to the 2012-13 High Load GCR factor and a reduction of only $0.0001 per therm to the 2012-13 proposed Low Load GCR factors (Please see Attachment AEL-1R). Therefore the Company is not proposing to revise its proposed 2012-13 GCR factor filed on September 4, 2012 to reflect this small change. However, for the purposes of the calculating deferral balances, the Company will allocate $1.1 million of the refund to fixed costs and the remaining refund will remain in variable costs.

Q. Please describe the issues raised by Mr. Oliver regarding the System Pressure Factor part of the GCR/DAC.

A. In both his DAC and GCR testimony, Mr. Oliver disagrees with the Company's approach to identify the portion of the LNG costs that are associated with the maintenance of system pressure (18.12%). He cites two issues: (1) the ratio of LNG for system pressure support to total system sendout is not indicative of the portion of total LNG costs that is attributable to system pressure requirements; (2) the Company's allocation factor does not consider its use of LNG for system pressure support during non-peak hours.

Q. Does the Company agree with Mr. Oliver's recommendations on how to appropriately reflect the portion of the Company's annual LNG costs that is associated with maintenance of system pressures?

A. No. The Company has examined Mr. Oliver's suggested changes to the allocation of the system pressure costs and does not believe his calculations regarding the allocation of the commodity and capacity-related LNG are appropriate.

Regarding Mr. Oliver's calculation of the commodity-related LNG allocation, Mr. Oliver assumed that 228,950 dts[1] of LNG used throughout the year, as provided in witness Arangio's Exhibit EDA-2, page 17 of 17, are for system pressure purposes while in fact, these volumes represent the annual LNG boiloff volumes and have no association with system pressure requirements. Boiloff occurs at each LNG plant and varies depending on the operations occurring at the plant on each day. Since LNG boiloff is a source of supply for customers, the Company models the LNG boiloff supply in its SENDOUT model. Therefore, the LNG volumes shown on EDA-2, page 17 of 17[2] reflect LNG sendout used to most economically meet customer requirements during a normal winter season, and do not reflect or include any LNG sendout required for system pressure. As such, it is not appropriate to base any system pressure calculations on the numbers provided in EDA-2 Page 17.

Q. Does the Company have any other issues with Mr. Oliver's recommendation?

A. Yes. In order to consider modifications to the System Pressure Factor, the Company believes a comprehensive review of the issue is warranted. Thus, that

[1] The Company assumed that the 228,950 dts was calculated by multiplying 365 days by the average off-peak LNG daily use. However when verifying this calculation, the Company computed a total of 229,070 dths (627.59 * 365) and not the 228,950 dts.

[2] EDA-2 is an exhibit to Elizabeth Arangio's testimony in this year's Gas Cost Recovery proceeding (Docket No. 4346).

is the reason why the Company proposed in its Long-Range Gas Supply Plan to fully analyze the issue in that docket since there are additional factors which must be considered that are not discussed in Mr. Oliver's testimony. These factors include, design season LNG usage as compared to normal season LNG usage, and peaking costs paid for by Marketers on behalf of customers taking FT-2 Service.

Q. What is the Company's proposal regarding the System Pressure Factor for the 2012-2013 DAC/GCR period?

A. The Company proposes to maintain the 18.12% factor as included in this filing and to comprehensively address changes to the System Pressure Factor raised by Mr. Oliver in a separate docket opened to review the Company's Long-Range Supply Plan.

Q. In Exhibit BRO-5, Mr. Oliver is proposing a revised 2012-2013 High Load GCR factor of $0.6127/therm and a 2012-2013 Low Load GCR factor of $0.6583/therm. Does the Company support these revised GCR Factors?

A. For the reasons described above, the Company does not support a change to the Company's 2012-2013 High Load GCR factor of $0.6193/therm and 2012-2013 Low Load GCR factor of $0.6675/therm submitted in its initial filing on September 4, 2012.

III. Other Recommendations

Q. Please describe Mr. Oliver's recommendations regarding the revenue sharing mechanism related to the Tennessee Gas Pipeline Settlement.

A. As part of the recent Tennessee Gas Pipeline Settlement Agreement, Tennessee Pipeline agreed to a revenue sharing mechanism under which 75% of General System Revenues achieved by Tennessee in excess of $885,000,000 per year will be shared with Tennessee customers (which includes National Grid). Mr. Oliver recommends that such revenue sharing amounts, if and when received, be treated in the same manner as pipeline supplier refunds with the entirety of such sharing amounts credited against gas costs through the GCR.

Q. Does the Company agree with Mr. Oliver's recommendation?

A. Yes, the Company agrees to refund to customers any revenue sharing associated with the Tennessee Gas Pipeline Settlement Agreement as credits against gas costs.

Q. Please describe Mr. Oliver's recommendations related to the Company's NGPMP program and its Long-Range Gas Supply Plan.

A. Mr. Oliver recommends that discussions be reopened between the Company and the Division to assess the continued appropriateness of the current NGPMP incentive structure in the context of National Grid's use of third parties for portions of its management of gas supply assets. Mr. Oliver also recommends that the Commission require National Grid to prepare a new five-year planning study at least once every three years.

Q. Does the Company agree with Mr. Oliver's recommendations?

A. Yes, even though the Company believes the current NGPMP incentive structure appropriately aligns Company and customer benefits, the Company agrees to reopen discussions regarding the current NGPMP incentive structure in the context of National Grid's use of third parties for portions of its management of gas supply assets. The Company has already agreed to file its Long-Range Gas Supply Plan every three years.

Q. Please describe the procedural changes proposed by Mr. Oliver?

A. Mr. Oliver is proposing the following procedural changes:

1. Include in its initial pre-filed Direct Testimony all matters that remained open a the time of the Commission last GCR determination
2. Move the filing date of the Company's Annual GCR Reconciliation Filing from August 1 to July 1 of each year.
3. Move the filing date of the Company's initial GCR filing from September 1 to August 1 with the opportunity for the Company to supplement that testimony on or about September 1.
4. Require the Company to provide with its testimony and exhibits the electronic spreadsheet files used to generate those quantitative analyses contained herein.

5. Encourage the Company to make a best effort attempt to responds to Division's data requests within two weeks of receipt of the data requests.

Q. Does the Company support these procedural changes proposed by Mr. Oliver?

A. The Company would agree to accommodate the Division and implement some of the changes suggested by Mr. Oliver. The Company would agree to move the filing date of the Annual GCR Reconciliation filing from August 1 to July 1; to include in its prefiled testimony discussions of all matters that remained opened at the time of the Commission's last GCR determination; to include electronic copies of all attachments contained in initial filing; and to respond to Division's data request in accordance with the procedural schedule set forth in each docket. However, the Company does not support moving the filing date of the GCR filing from September 1 to August 1. To accommodate this change, the Company would have to develop its proposed GCR factor using a sales and sendout forecast that was over a year old and would not reflect the most recent winter season activity. With the September 1 GCR filing date, the Company is able to calculate its proposed GCR factor using its most recent gas supply and sales forecasts for the upcoming year. These sales and sendout forecasts incorporates the most recent historical winter sales data through March of each year and are completed in June of each year. Once the sales forecast is finalized in June, the Company then must prepare its supply portfolio using the SENDOUT® Model to determine the supplies required to meet the forecasted demand, calculate the cost of these supplies, compute the GCR factors, and finally prepare the entire GCR filing including testimony and exhibits. The Company would not have adequate time to complete all these tasks by August 1st of each year.

Q. Is the Company proposing any changes to the procedural process which will assist the Division in its review of the Company's GCR filing.

A. Yes, the Company is proposing to hold a technical session between the Company and the Division each year to help clarify and explain the Company's proposed GCR filing. The Company believes that it would be best to schedule this technical session after the Company has responded to the Division's discovery but before the Division has filed its testimony. This will give the Division an opportunity to ask the Company additional questions regarding the filing. It will also give both the Company and the Division an opportunity to address any initial concerns the Division may have with the Company's filing. During a technical session, the Company and the Division would have the opportunity to address such issues as System Pressure.

Q. Does this conclude your testimony?

A. Yes, it does.

National Grid - RI Gas
Gas Cost Recovery (GCR) Filing
Factors Effective November 1, 2012

Line No.	Description (a)	Source Reference (b)	Line #	High Load[1] (c)	Low Load[2] (d)	FT-2 Mkter[3] (e)
1	Fixed Cost Factor	**AEL-1 pg 2**	Line 17	$1.3165	$1.7743	
2	Variable Cost Factor	**AEL-1 pg 3**	Line 14	$4.7357	$4.7357	
3	Total Gas Cost Recovery Charge	(1)+(2)		$6.0522	$6.5100	
4	Uncollectible %	Docket 3943		2.46%	2.46%	
5	Total GCR Charge adjusted for Uncollectibles	(3) / [(1 - (4)]		$6.2048	$6.6742	
6	**GCR Charge on a per therm basis**	(5) / 10		**$0.6205**	**$0.6674**	
	Proposed rate 09/04/2012			$0.6193	$0.6675	
	Variance			$0.0012	($0.0001)	
	Percent Variance			0.2%	0.0%	

[1] Includes: Residential Non Heating, Large High Load and Extra Large High Load
[2] Includes: Residential Heating, Small C&I, Medium C&I, Large Low Load, Extra Large Low Load
[3] See AEL-5 for calculation of FT-2 rate

National Grid - RI Gas
Gas Cost Recovery (GCR) Filing
Fixed Cost Calculation ($ per Dth)

Line No.	Description (a)	Reference	Source Line # (b)	Amount (c)	High Load Factor Total (e)	Low Load Factor Total (d)	Line No.
1	Fixed Costs (net of Cap Rel to marketers)	**AEL-1 pg 4**	Line 56	$40,043,545			1
	Less:						
2	NGPMP Customer Benefit	EDA-1		($4,600,000)			2
3	Interruptible Costs			$0			3
4	FT-2 Storage Demand Costs	**AEL-5 pg 3**	Line 5	($1,178,704)			4
5	LNG Demand to DAC	**AEL-1 pg 4**	Line (33 + 52) x (18.12%)*	($622,659)			5
6	Refunds			$0			6
7	Total Credits	sum[(3):(7)]		($6,401,363)			7
	Plus:						
8	Supply Related LNG O&M Costs	Rate Case		$618,591			8
9	Working Capital Requirement	**AEL-1 pg 8**	Line 15	$265,525			9
10	Deferred Fixed Cost Balance	**AEL-1 pg 6**	Line 12 + Line 25	$9,555,775			10
11	Reconciliation Amount from Fixed costs- Marketers	EDA-4		($374,462)			11
12	Total Additions	sum[(8):(11)]		$10,065,429			12
13	Total Fixed Costs	(1) + (7) + (12)		$43,707,610			13
14	Design Winter Sales Percentage	**AEL-1 pg 12**	Lines 10 & 11		2.87%	97.13%	14
15	Allocated Supply Fixed Costs	(13) x (14)			$1,253,680	$42,453,930	15
16	Sales (Dt) Nov 2012 - Oct 2013	**AEL-1 pg 11**	Line 12	24,879,878	952,267	23,927,611	16
17	**Fixed Factor**	(15) / (16)			**$1.3165**	**$1.7743**	17

* System Balancing Factor (Dkt 4283)

National Grid - RI Gas
Gas Cost Recovery (GCR) Filing
Variable Cost Calculation ($ per Dth)

Line No.	Description	Source Reference	Source Line #	Amount	Line No.
1	**Variable Costs**	**AEL-1 pg 4-5**	Line 87 - 81	$124,155,464	1
	Less:				
2	Non-Firm Sales			$0	2
3	Balancing Related LNG Costs (to DAC)	**AEL-1 pg 4-5**	Line 84 x (18.12%)*	($372,608)	3
4	Refunds	**AEL-1 pg 4-5**	Line 81	$0	4
5	Total Credits	sum [(2):(4)]		($372,608)	5
	Plus:				
6	Working Capital	**AEL-1 pg 8-9**	Line 31	$823,727	6
7	Reconciliation Amount	**AEL-1 pg 6-7**	Line 40 & 57 & 70	($9,068,774)	7
8	Supply Related LNG O&M	Docket 3943		$430,129	8
9	Inventory Financing - LNG (Supply)	**AEL-1 pg 10**	Line 25	$370,897	9
10	Inventory Financing - Storage	**AEL-1 pg 10**	Line 12	$1,485,575	10
11	Total Additions	sum [(6):(10)]		($5,958,445)	11
12	Total Variable Supply Costs	(1)+(5)+(11)		$117,824,411	12
13	Sales (Dt) Nov 2012 - Oct 2013	**AEL-1 pg 11**	Line 12	24,879,878	13
14	**Variable Cost Factor**	(12)/(13)		**$4.7357**	14

* System Balancing Factor (Dkt 4283)