MEMORANDUM

TO: Rhode Island Public Utilities Commission

FROM: Bruce R. Oliver, Revilo Hill Associates, Inc.
Tim Oliver, Revilo Hill Associates, Inc.
On Behalf of the Division of Public Utilities and Carriers

DATE: February 22, 2018

SUBJECT: Docket 4719, Review of National Grid's January 29, 2018 Interim Gas Cost Recovery Filing

On January 29, 2018 National Grid filed a request for an interim adjustment to its Gas Cost Recovery ("GCR") rates. That filing was made pursuant to National Grid's gas tariff at RIPUC NG-GAS No. 101, Section 2, Schedule A, Part 1.2 that specifies:

> *In the event of any change subsequent to the November effective date which would cause the estimate of the Deferred Gas Cost Balance to differ from zero by an amount greater than five percent (5%) of the Company's gas revenues, the Company may make a Gas Charge filing designed to eliminate that non-zero balance.*

As explained in National Grid's January 29, 2018 filing, as of the time of that filing the Company was projecting an end of October 2018 Deferred Gas Cost Balance of approximately $34.4 million. That equates to 24% of the National Grid's total forecasted gas cost revenue for the current GCR year (i.e., November 1, 2017 through October 31, 2018), and clearly exceeds the 5% threshold for requesting GCR rate adjustments set forth in National Grid's tariff.

Although the tariff authorizes the Company to "*make a Gas Charge filing designed to eliminate that non-zero balance,"* National Grid's request for an Interim GCR rate adjustment only seeks recovery of $22.8 million or roughly 66% of the projected under-recovery balance. The remaining $11.6 million would be deferred for recovery during the 2018-19 GCR year. National Grid's request to defer a significant portion of the projected under-recovery balance reflects its consideration of two factors: (1) the limited numbers

of therms over the remaining eight months of the current GCR year to which the rate increase can be applied, and (2) the magnitude of the rate increases customers will experience as a result of the proposed increase in GCR charges.

National Grid's filing for an interim adjustment to its GCR rates was premised on actual data for only the first two months of the current GCR period. However, it included estimates of the impacts of severe cold weather in late December 2017 and the first half of January 2018 on its gas usage and costs for January 2018. As documented by Witness Culliford for National Grid, the period between mid-December and mid-January included six of the ten highest daily sendout volumes recorded in the Company's history. It was undeniably an extremely cold period, although the Company did not exceed its design day heating degree days (i.e., 65 HDDs) on any of those days. Still, the intensity and duration of cold weather caused National Grid to make significant additional spot purchases of gas at extremely high prices. Witness Culliford reports that in just the first 16 days of January 2018, the Company purchased 0.765 billion cubic feet ("Bcf") of market area supply at an average price of **$31 per dekatherm** ("Dth"). By comparison, the average annual variable cost per Dth approved by the Commission for the current GCR period is only **$3.57 per Dth**. In other words, the incremental market area purchases made by the Company in the first 16 days of January 2018 had an average price that was more than **8.5 times** the anticipated average variable cost on which the current GCR rates are premised. The high cost of these market area purchases was apparently the product of extremely high market area demand and a lack of liquidity in the market area.

Those January purchases alone **added roughly $24 million** to National Grid's normal weather variable costs of gas. Other important elements of the Company's projected $34.4 million deferred gas cost balance are attributable to an additional 0.93 Bcf to market area purchases made in December 2017, and another **$5 million** of additional demand costs that the Company has incurred, or will incur, under new contracts entered into with ENGIE that were not included in its Annual GCR filings in September 2017.

Further, on February 20, 2018, National Grid submitted its February 2018 Monthly Filing of GCR Deferred Balances. That report provides an updated assessment of National Grid's Deferred GCR Balance at the end of October 2018. The Company's updated end of October 2018 Deferred GCR Balance is now projected to be **over $47.1 million.** That is about $12.7 million above the level projected in the Company's January 29, 2018, request for an interim rate adjustment. Although there are some elements of National Grid's reported and projected GCR costs with which we have questions, our assessments to date suggest that National Grid will be able to justify recovery of at least the $22.8 million of additional cost recovery that National Grid seeks to recover through its proposed interim GCR rate adjustment is reasonable. Moreover, the analyses presented by Witness McCauley for National Grid suggest that, but for the market area hedges approved by the Commission, National Grid's increase in gas costs for January 2018 would have been approximately $7.5 million higher and its projected deferred balance that much greater.

Any effort to reduce the amount recovered through the interim rate adjustment or delay the implementation of that adjustment will most likely further amplify the size of the cost deferral that will need to be built into National Grid's next annual GCR filing (i.e., built into rates for the 2018-19 GCR year). Thus, we support approval of the Company's proposed interim rate adjustment as proposed with a March 1, 2018 effective date.

There are, however, several ratemaking, planning, and policy concerns relating to the costs the Company has included in its projected end of October 2018 Deferred GCR Balance that need to be addressed in greater detail. Moreover, many of those considerations are not issues that lend themselves to resolution with the Company's comparatively quick turn-around Annual GCR proceeding. Among the questions that need to be considered are:

1. **Minimization of gas supply costs:** Did the Company act in a reasonable and prudent manner to minimize its costs for the procurement of incremental gas supplies, including costs for access to incremental gas supply resources.

2. **Assignment of responsibilities for the Company's increased gas costs:** This concern has two parts:

   a. To what extent have customers who utilize non-firm services, capacity exempt transportation services, default services, and/or balancing services contributed to National Grid's incurrence of costs for extremely high-priced market area purchases; and have the Company's existing rates and tariff provisions provided National Grid adequate compensation for such customers' service requirements during periods of high demand and high market are prices;

   b. Given that a portion of National Grid's increased gas costs reflects a need for greater fixed cost recovery, National Grid has proposed to recover the entire rate adjustment through its "Variable Cost Factor," but a portion of the reported cost increase is comprised of increased fixed costs that would more appropriately be recovered through the Company's "Fixed Cost Factor." To expedite the implementation of new rates, the Division has elected not to seek such refinements in the application of the interim rate adjustment at this time. However, greater recognition of the contribution of fixed cost to National Grid's increased deferred gas cost balance may be appropriate in the Company's next annual GCR filing.

3. **Examination of alternatives for further insulating gas sales customers from exposure to large interim rate adjustments:** This may involve capacity planning, regulatory policy, and rate structure alternative.

   a. Planning alternatives may include such options as: (1) contracting for additional pipeline capacity, (2) greater access to more liquid markets for spot gas purchases, and (3) expansion of LNG storage capabilities; (4) changes in the parameters of the Company's GPIP and/or NGPMP.

   b. Planning considerations may also involve re-examination of the manner in which planning criteria are established and weather uncertainties weather uncertainties are addressed. We have now experienced extreme cold weather conditions that have had major impacts on gas costs in three of the last five winters. Is the historical practice of assuming that weather outcomes will be normally distributed around historical average result still appropriate? These issues may be addressed, in part, through the Long-Term plan the Company expects to file on March 1, 2018.

   c. Regulatory policy options which may include: (1) encouragement of greater use of gas demand-side management options, such as the pilot program recently approved for National Grid in New York; (2) greater penalties for marketers whose customers use gas in excess of the marketer's deliveries on high sendout days; (3) encouragement for customers to utilize interruptible gas services; and (4) development of curtailment plans under which non-essential gas uses could be curtailed during extremely high-priced periods for incremental market area gas purchases.