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REF: 3694

Memorandum

To:	Luly Massaro, Clerk Rhode Island Public Utilities Commission
From:	Jerry Mierzwa Exeter Associates, Inc.
Date:	September 28, 2020
Subject:	Review of National Grid's 2020 Gas Customer Choice Program Docket No. 5067

Introduction

On September 1, 2020, the Narragansett Electric Company d/b/a National Grid, filed revised tariffs proposing certain modifications to its Gas Customer Choice Program. The proposed modifications address two matters: (1) the allocation of interstate pipeline capacity costs to Marketers serving capacity eligible transportation customers; and (2) the need to enhance the operational flexibility of the interstate pipeline assets which the Company releases to Marketers.

Background

National Grid provides firm sales service to retail gas cost rate (GCR) customers. This is a bundled service under which the Company purchases and arranges for the delivery of gas supplies to its citygate and provides for the delivery (transportation) of these arranged supplies across its distribution system to retail customers. National Grid contracts for interstate pipeline capacity and gas supply resources to serve retail sales customers.

National Grid's Gas Customer Choice Program is an optional firm transportation program that allows the Company's small, medium, large, and extra-large Commercial and Industrial (C&I) customers to purchase their gas supplies from Marketers which arrange for the delivery of the gas supplies necessary to serve their customers to National Grid's citygate. National Grid then provides for the transportation of the Marketer-arranged supplies from its citygate to the Marketers' end-use customers. National Grid offers two primary types of firm transportation service — FT-1 and FT-2. Under FT-1 service, a customer's gas usage is measured on a daily basis. Under FT-2 service, a customer's gas usage is generally measured on a monthly rather than daily basis.

There are two categories of FT-1 customers — capacity-assigned and capacity-exempt customers. The Marketers serving capacity-assigned FT-1 customers receive a direct assignment of the Company's firm interstate pipeline transportation capacity to meet a portion of their customer's gas supply requirements. The remainder of a capacity-assigned FT-1 customer's requirements would be met by other resources acquired by the Marketer serving the customer. The Marketers serving capacity-exempt FT-1 customers are not assigned any of the Company's firm interstate pipeline transportation capacity resources. Marketers serving capacity-assigned and capacity-exempt FT-1 customers are required to deliver the gas supply requirements of their customers on a daily basis within the imbalance tolerances permitted under National Grid's tariff.

The Marketers serving FT-2 customers also receive a direct assignment of National Grid's interstate pipeline firm transportation capacity to meet a portion of their customers' gas supply requirements. Marketers serving FT-2 customers are also allocated a portion of the Company's storage and peaking capacity resources which the Marketer may use to meet the daily gas supply requirements of its customers that are not met by the assigned interstate pipeline firm transportation capacity. The storage and peaking resources are not directly assigned to Marketers, but are managed by the Company.

Capacity Assignment

Except for capacity-exempt customers, the capacity assignments to Marketers under the Company's Gas Customer Choice Program are mandatory. These mandatory capacity assignments enable the Company to ensure that there is adequate firm capacity upstream of its citygate to maintain supply adequacy and operational integrity of the distribution system. Mandatory capacity assignment also prevents customers from avoiding responsibility for the cost of the Company's long-term capacity commitments given these customers' ability to avail themselves to competitive options. Currently under the Gas Customer Choice Program, the Company sets aside a portion of its interstate pipeline firm transportation capacity resources for release to Marketers. The resources made available for release are designated as "capacity paths," and a capacity path may consist of a single or multiple interstate pipeline contracts which provide for the delivery of gas supplies to the Company's citygate. Each year, Marketers designate their order of preference for each of the transportation capacity paths identified for release.

Releases are executed subject to Marketers' preferences at the actual cost for each capacity path. Marketers are charged directly by the interstate pipelines for the released capacity. The Company assesses a surcharge or provides a credit to Marketers based on the difference between the cost of the pipeline transportation capacity released and the weighted average cost of the Company's firm pipeline transportation capacity portfolio ("WACOD"). This surcharge or credit adjustment accounts for not only fixed and variable pipeline charges, but also that each capacity path provides access to different supply sources at different commodity prices and seeks to reconcile any commodity price disparities relative to the Company's portfolio.

Gas Supplies are delivered to National Grid's citygate by two interstate pipelines: Algonquin Gas Transmission (Algonquin) and Tennessee Gas Pipeline (Tennessee). Deliveries by Algonquin are made to National Grid at 11 citygate take stations and by Tennessee at 4 citygate take stations. The capacity currently released to Marketers provides for the firm delivery gas supply at only one take station for each pipeline. For Algonquin, the released capacity provides for the delivery at the Dey Street station and on Tennessee at the Cranston station. Marketers currently must deliver a minimum of 40 percent of their supplies on each of the pipelines serving National Grid, and the remaining 20 percent may be delivered by either or both Algonquin and Tennessee.

Proposed Customer Choice Program Modifications

In Docket No. 4963, the Division expressed a concern that the payment of significant gas supply reservation (demand) charges was required in order to obtain firm gas supplies to fill several of the Company's interstate pipeline delivery paths. Marketers typically did not select capacity paths that would require these significant gas supply reservation charges, and the charges were not included in the WACOD charges assessed to Marketers for released capacity. Therefore, these significant gas supply reservation charges were only paid for by retail sales customers. The Division found this unreasonable and recommended that the Commission direct the Company to work with the Division to evaluate the Company's current cost allocation procedures for assigned interstate pipeline firm transportation capacity and reflect modifications to the current approach which addresses the allocation of gas supply reservation charges, and to present those modifications in next year's GCR filing. In Docket No. 4963, the Commission accepted the Division's recommendation.

To address the Division's concern, the Company is proposing to release a *pro-rata* share of each of its interstate pipeline firm transportation capacity paths with a maximum daily delivery quantity (MDQ) of at least 2,000 Dth. Under this proposal, with the exception discussed in the following section of this memorandum, capacity paths requiring the payment of gas supply reservation charges will be released to Marketers, and the Company will not incur gas supply reservation charges which would be assessed to retail GCR customers to fill the capacity released to Marketers on these capacity paths. As shown on Attachment GSP-1, page 19 of the Company's September 1, 2020 GCR filing in Docket No. 5066, under National Grid's proposed modifications, the capacity charges to retail sales customers and Marketers serving Choice Program customers will be nearly identical.

The Company also claims that its proposal will better enable the Company to address Operational Flow Orders (OFO) which may be issued by Algonquin or Tennessee. OFOs may require National Grid to balance takes and deliveries at each of its citygate take stations. Such OFOs were issued by Algonquin in the winter of 2018-19. National Grid may be assessed penalty charges if it fails to comply with an OFO. Under the Company's current capacity assignment procedures, all gas supplies are delivered by Marketers to the Dey and Cranston gate stations which on most days results in deliveries to those stations which exceed customer requirements and insufficient deliveries to other stations. Under the proposed modifications to the Company's capacity assignment procedures, deliveries by Marketers will be made to the Company's other citygate stations and enable the Company to better align pipeline deliveries and takes across its system, thereby better enabling the Company to address OFOs that may be issued.

Design Peak Hour Costs

In the Company's Distribution Adjustment Charge (DAC) filing in Docket No. 5040, the Company has proposed to recover the estimated fixed costs of the peaking assets needed to maintain design peak hour reliability from all customers through the DAC. This proposal was also made due to a concern expressed by the Division in Docket No. 4963 concerning the recovery of design peak hour reliability costs. The Company has estimated these hourly peaking fixed costs to be $5.2 million for the period November 1, 2020 through October 31, 2021.

In its September 25, 2020 memorandum to the Commission concerning National Grid's DAC, the Division found the Company's proposal to recover the costs associated with the design peak hour resources through the DAC to be reasonable. However, the Division also found that there are additional fixed costs that will be incurred to address the projected design peak hour deficiency that should be included in the DAC. More specifically, it appears that some of the capacity under the Company's Tennessee FT contracts that provide for the delivery of gas from Everett, MA ("Everett FT contracts") to National Grid citygate will be used to meet design peak hour demands and the Company will incur demand charges to reserve this capacity. In addition, the Company will maintain arrangements for gas supplies to be delivered under the Everett FT contracts which will requirement payment of gas supply reservation charges. National Grid maintains two Everett FT contracts with a total MDQ of 25,000 Dth per day and the Company has entered into two gas supply arrangements to fill the 25,000 Dth per day of Everett FT contract capacity. One of the gas supply contracts is for 20,000 Dth per day, was initially entered into several years ago prior to the need for National Grid to address peak hour demands, and expires at the end of the winter of 2021/2022. The other gas supply contract is for 5,000 Dth per day and was recently executed. The fixed gas supply reservation charges associated with the gas supply contracts are significantly greater than the fixed demand costs associated with the Everett FT contracts. Under the Company's proposal, the fixed costs associated with the Everett FT contracts and gas supply arrangements will only be recovered from FT-2 Marketers and sales customers. None of the costs will be recovered from FT-1 customers. Absent the need to address the potential design peak hour deficiency, the Everett FT contracts and accompanying gas supply arrangements would not be required to meet customer requirements under the design day conditions which the Company uses for capacity planning purposes. In its DAC memorandum, the Division recommended the calculation of the DAC be revised to reflect the fixed gas supply reservation charges associated with the recently executed Everett gas supply arrangement for 5,000 Dth per day. The Division finds this appropriate since this arrangement was executed to meet peak hour requirements, and the arrangement would be unnecessary if FT-1 Marketers were not assigned capacity by National Grid. The Division also recommended that the recovery of the fixed demand charges associated with the gas supply arrangement for 20,000 Dth per day should be revisited when the contract expires if the Company executes a replacement arrangement that requires the payment of gas supply reservation charges.

Division Recommendation

Provided the Division's recommendation to include the gas supply reservation charges associated with the recently executed Everett gas supply arrangement for 5,000 Dth per day are included in the DAC is adopted, the Division finds that the Company's proposed modifications to its Choice Program adequately addresses the Division's concerns expressed in Docket No. 4963 regarding gas supply reservation charges. In addition, the Division finds that the Company's proposal would simplify the capacity assignment process by eliminating the surcharge/credit adjustment. Finally, the Division also finds that the modifications will assist the Company's ability to comply with OFOs. Therefore, the Division recommends that the proposed modifications be approved by the Commission.