
State of Rhode Island and Providence Plantations

**Public Utilities Commission
Minutes of Open Meeting Held November 24, 2008**

Attendees: Chairman Elia Germani, Commissioner Robert Holbrook, Commissioner Bray, Patricia Lucarelli, Alan Nault, Jeff Gladstone, Rob Taylor and Luly Massaro. Staff members Cindy Wilson-Frias, Sharon Colby Camara and Nick Ucci were not present.

Chairman Germani called the open meeting to order at 10:00 A.M. in the first-floor hearing room of the Public Utilities Commission. A quorum was present.

3977 – National Grid Gas – The Commission reviewed the record relating to National Grid's Distribution Adjustment Clause (DAC) filing. After review, the following motions were made:

- Chairman Germani moved to approve a System Pressure Factor of \$.00037 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to adopt the Division's recommendation that the Gas Technology Factor be set to offset the amount of the AGT program fund that would otherwise be collected through base rates of the next year. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve an Environmental Cost Factor of \$.00020 per therm and accepted the Division's recommendation that the Company provide information on the cost for mercury replacement and status of the replacement program. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to adopt the Division's position for an On-System Credit Factor of \$.00080 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve a Reconciliation Factor of \$.00010 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve a DAC factor credit of (\$.00061) per therm for effect December 1, 2008. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

3982 – National Grid Gas – The Commission reviewed the record relating to National Grid's proposed Gas Cost Recovery (GCR) filing. After review, the following motions were made:

- Chairman Germani entertained a motion to approve revised the GCR factors in Schedule PPC-1 for effect December 1, 2008. The GCR factors on a per therm cost basis are: \$1.0883 for Residential and Small C&I customers; \$1.0839 for Medium C&I customers; \$1.0996 for Large Low Load Factor C&I customers;

\$1.0583 for Large High Load Factor customers; \$1.0850 for Extra Large Low Load Factor customers; and \$1.0457 for Extra Large High Load Factor customers, \$0.8332 per them for Natural Gas Vehicles. Commissioner Holbrook moved to approve the revised GCR factors. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

- Chairman Germani entertained a motion to approve proposed changes to the Company's gas procurement and asset management incentive plan as recommended by the Division. Commissioner Holbrook moved to approve. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

3943 – National Grid Gas - The Commission reviewed the record relating to National Grid's application to increase revenues. After discussion and deliberation, the Commission took action on the following outstanding issues outlined below:

Decoupling

1. Revenue Decoupling – Commissioner Bray moved to reject National Grid's proposal for revenue decoupling. Chairman Germani seconded the motion. Commissioner Holbrook opposed the motion. **Vote 2-1.**

Revenue Requirement Issues

2. Capital Structure – Percentage of Equity - Commissioner Holbrook moved to approve a Percentage of Equity of 47.71%. Chairman Germani seconded the motion. Commissioner Bray supported a percentage of 37.7% on equity and opposed the motion. Motion to approve a Percentage of Equity of 47.71% passed. **Vote 2-1.**
3. Return on Equity - Commissioner Holbrook moved to approve a Return on Equity (ROE) of 10.5%. Commissioner Bray moved to approve an ROE of 9.95%. Chairman Germani seconded Commissioner Holbrook's motion. Commissioner Bray opposed the motion. Motion to approve an ROE of 10.5% passed. **Vote 2-1.**
4. Size of Rate Base - Commissioner Holbrook moved to approve a rate base of \$285,241,458. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. Motion to approve a rate base of \$285,241,458 passed. **Vote 2-1.**

Operating Expenses (Cost of Service)

5. Health Care Costs – Chairman Germani moved to allow an expense of \$3,706,544 for health care costs. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**
6. FAS 112 Expense – Chairman Germani moved to allow an amount of \$740,000 for

FAS 112 expense. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

7. Southern Union Merger Synergy Savings – Commissioner Holbrook moved to reject the Company’s proposal of the Synergy Savings from the NGrid/Southern Union merger. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
 - a. FAS 71 Regulatory Asset - The Company’s request for approval of the regulatory asset in accordance with FAS 71 is also rejected. **Vote 3-0.**
8. Keyspan Merger Synergy Savings – Commissioner Bray moved to approve the Company’s proposal of the Synergy Savings from the Keyspan Merger. Chairman Germani seconded the motion. Commissioner Holbrook opposed the motion. **Vote 2-1.** This results in a credit to cost of service in the amount of \$2,450,000 (reduction in rates)
 - a. FAS 71 Regulatory Asset - The Company’s request for approval of the regulatory asset in accordance with FAS 71 is also approved. **Vote 3-0.**
9. Gas Marketing Program Approved Expenses – Commissioner Bray moved to reject the Company’s Gas Marketing Program proposal. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**
 - a. Adjustment to New Customer Revenues – The Commission found no basis for an adjustment and the Company’s request was denied. **Vote 3-0.**
10. Uncollectible Expense – Commissioner Bray moved to reduce uncollectible expense by \$150,000. Chairman Germani seconded the motion. Commissioner Holbrook opposed. **Vote 2-1.**
11. Rate Case Expense – Chairman Germani moved to allow rate case expense for the Company, Division and Commission to be recovered through base rates. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
12. Encroachment Expense – Chairman Germani moved to approve a reduction of \$756,000 to the pro forma test year operation and maintenance expense for encroachment. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**
13. Distribution Maintenance - Chairman Bray moved to approve a reduction of \$539,000 to the pro forma test year operation and maintenance expense for distribution maintenance. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**

Revenue Reconciliation Proposals

14. Accelerated Capital Replacement Program (ARP) – Commissioner Holbrook moved to approve the ARP as agreed by the Company and the Division that only the incremental cost of the accelerated replacement program, above pipeline replacement costs that would be incurred in the ordinary course, should be reconciled. Also, the agreement to limit upward rate adjustments for the accelerated replacement program if the Company's earnings are at or above its approved return on investment. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
15. Gas-Supply Related Bad Debt Cost – Commissioner Bray moved to deny the Company's request to recover gas-supply related bad debt. Commissioner Holbrook seconded the motion. Chairman Germani opposed the motion. **Vote 2-1.**
16. Reconciliation of Pension and PBOP – Commissioner Holbrook moved to approve the Company's proposal to reconcile pension and post-retirement benefits other than pension. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. **Vote 2-1.**

Low Income Discount

17. Low Income Discount at 10% - Commissioner Bray moved to approve the Company's proposed Low Income Discount at 10%. Chairman Germani moved to approve the motion. Commissioner Holbrook opposed the motion. **Vote 2-1.**

Non-Firm Tariff Issues

18. Pricing for Non-Firm Transportation Customers – Commissioner Holbrook moved to approve a cost of service pricing method for Non-Firm Transportation customers. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
 - a. Pricing Structure – The Commission approved to set the Non-Firm Transportation rates less a 20% discount. **Vote 3-0.**
 - b. Sharing of Non-Firm Revenues (sharing mechanism) – The Commission agreed to eliminate the sharing mechanism. **Vote 3-0.**
 - c. Stipulation Regarding Migration of Customers – The Commission approved the stipulation by the Company and the Division to create a mechanism to account for the various possible migrations of customers between firm and non-firm service. **Vote 3-0.**
19. Enlarge the Time Within Which Non-Firm Transportation Customers May Lock in Rates From 5 to 10 Days – Chairman Germani moved to Company's proposal to

enlarge the time within which non-firm transportation customer may lock in rates from 5 to 10 days. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**

20. Introduce Flexible Firm Service, Under Which Customers Electing That Service Would Negotiate Rates With the Company – Commissioner Holbrook moved to reject the Company’s proposal to introduce Flexible Firm Service, under which customers electing that service would negotiate rates with the Company. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
21. Eliminate the Non-Firm Sales Service Tariff – Commissioner Holbrook moved to reject the Company’s proposal to eliminate the Non-Firm Sales Service Tariff. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

Firm Service Base Charge

22. Firm Service Base Charge – Commissioner Holbrook moved to adopt the Division’s proposal for increasing the Firm Service Base. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. **Vote 2-1.**

Other Rate Design Issues

23. Consolidation of Gas Cost Recovery (GCR) Rates from 6 to 2 – Commission Holbrook moved to approve the Company’s proposal to consolidate the GCR rates from six to two. Chairman Germani seconded the motion and the motion was unanimously passed. **Vote 3-0.**
24. Distribution Adjustment Clause (DAC) – The Commission made a determination to whether reconcile the following cost recovery mechanisms/items through the DAC on an annual basis:
 - a. Accelerated Pipe Replacement program cost recovery mechanism as modified by agreement between the Division and the Company - Commissioner Holbrook moved to reconcile this item through the DAC. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
 - b. Pension and PBOP Reconciliation Mechanism - Commissioner Holbrook moved to reconcile this item through the DAC. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. **Vote 2-1.**
 - c. Recovery of DAC-related Bad Debt - Commissioner Bray disallow the reconciliation of this item through the DAC. Commissioner Holbrook seconded the motion. Chairman Germani opposed the motion. **Vote 2-1.**
 - d. Establishment of a Revenue Decoupling Mechanism - The Commission rejected

the Revenue Decoupling Mechanism. Chairman Germani moved to reject the reconciliation of this item through the DAC. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

e. Elimination of Weather Normalization Adjustment as applied to rate classes subject to Decoupling - The Commission rejected the Revenue Decoupling Mechanism. Chairman Germani moved to eliminate the reconciliation of this item through the DAC. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**

f. Elimination of the Consolidated Mitigation and ERI adjustments – Chairman Germani moved to reject the Company’s proposal to eliminate the reconciliation of this item through the DAC. Commissioner Holbrook seconded the motion and the motion was unanimously passed. **Vote 3-0.**

g. Allocation Method – Chairman Germani moved to approve an allocation method by class consumption. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

25. Three Year Rate Plan Proposal – The Commission agreed to reject the Company’s Three Year Plan proposal. **Vote 3-0.**

A transcript of the Commission’s November 24, 2008 open meeting discussion relating to Docket Nos. 3977, 3982 and 3943 is available at the office of the Commission Clerk.

The open meeting adjourned at 2:27 P.M.