

November 8, 2007

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket No. 3859 – Distribution Adjustment Charge  
Tariff Compliance Filing**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's<sup>1</sup> compliance filing in the above-referenced docket. Consistent with Commission approval, the compliance filing replaces the words "Demand Side Management (DSM) Program" in the Company's tariff with the words "Advanced Gas Technology (AGT) Program," so as not to confuse the Commission-approved tariff factor with the Commission-approved gas energy efficiency programs and DSM surcharge in Order No. 19024 (July 23, 2007).

These changes are incorporated in the Company's tariff R.I.P.U.C. NG No. 101 in both the General Rules and Regulations, Section 1, Schedule B, and in the Distribution Adjustment Charge, Section 3, Schedule A. The filing contains the following attachments:

**Attachment 1** contains the Company's redlined version of the existing Section 1, Schedule B and Section 3, Schedule A.

**Attachment 2** contains the clean version of the amended Section 1, Schedule B, First Revision and Section 3, Schedule A, First Revision.

Thank you for your attention to this filing. If you have any question, please feel free to contact me at (401) 784-7667.

Very truly yours,



Laura S. Olton

Enclosure

cc: Docket 3859 Service List

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<sup>1</sup> Submitted on behalf of The Narragansett Electric Company, d/b/a National Grid ("the Company").

### Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate have been e-mailed, mailed, or hand-delivered to the individuals listed below.



\_\_\_\_\_  
Joanne M. Scanlon

November 8, 2007  
Date

**Docket No. 3859 – National Grid – Annual Distribution Adjustment Clause Filing (“DAC”)  
– Service List as of 9/12/07**

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National Grid  
Rhode Island

Docket No. 3859  
Distribution Adjustment Charge

Compliance Attachment 1

Redlined General Rules and Regulations, Section 1, Schedule B

And

Redlined Distribution Adjustment Charge Section 3, Schedule A

**DEFINITIONS**

Actual Transportation  
Quantity:

The quantity of gas actually received during the Gas Day as measured by the metering equipment at the Point(s) of Receipt, adjusted for the applicable Company Fuel Allowance.

Aggregation Pool:

One or more transportation Customer accounts whose gas usage is aggregated into a Marketer's account for operational purposes, including but not limited to nominating, scheduling and balancing gas deliveries to specified Point(s) of Receipt.

AGT Costs:

Advanced Gas Technology program costs as approved by the Rhode Island Public Utilities Commission.

Average Normalized  
Winter Day Usage:

A customer's average normal winter day's usage, based on their actual gas usage during the most recent November through March period, adjusted for normal degree days, as approved in the most recent rate case proceeding.

BTU content factor:

One British thermal unit, i.e., the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit at sixty degrees (60°) Fahrenheit. A Therm is one hundred thousand Btus. The BTU content factor for a given volume, shall be calculated by the Company on a seasonal basis at the end of October and the end of April based upon an average of the Transporting Pipeline's prior six-month experience of recorded BTU factors.

Capacity Release  
Revenues:

Revenues derived from the sale of capacity upstream of the city-gate.

Company Fuel  
Allowance:

The quantity in Therms (as calculated on a percentage basis) by which the gross amount of gas received for Customer's account at the Point(s) of Receipt is reduced in kind in order to compensate the Company for gas loss and unaccounted for, Company use or similar quantity-based adjustment.

Consumption

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**DEFINITIONS**

Algorithm:	A mathematical formula used to calculate a Customer's daily consumption based on the Customer's historical base load and heat use per heating degree day factor.
Critical Day:	Defined as any day where supply resource constraints are expected to adversely impact the operation of the Company's distribution system. Generally, this occurs at ) forty-four (44) Degree Days or colder. A Critical Day may also occur under other conditions, such as pipeline emergencies, malfunctions or unusual, out-of-season weather conditions.
Customer:	Any party(s) that has obtained service from the Company pursuant to the General Terms and Conditions or pursuant to the Transportation Terms and Conditions
Daily Index:	The mid-point of the range of prices for the respective New England Citygates as published by <u>Gas Daily</u> under the heading "Daily Price Survey, Midpoint, Citygates, Algonquin citygates" and "Daily Price Survey, Midpoint, Citygates Tennessee/Zone 6 (delivered)" for the relevant Gas Day listed under "Flow date(s)." In the event that the <u>Gas Daily</u> index becomes unavailable, the Company shall apply its daily marginal cost of gas as the basis for this calculation until such time that RIPUC approves a suitable replacement.
Deferred Balance:	The difference between incurred costs and revenues received.
Deferred Gas Cost Balance:	The difference between gas costs incurred and gas revenues received.
Dekatherm (Dt):	Ten Therms or one million Btu's (MMBtu)
Design Winter Sales:	Sales of Residential Non-Heating, Residential Heating, Small C&I, Medium C&I, Large Low and High Load C&I, and Extra Large Low and High Load C&I during November through March based on design winter temperatures.

Electronic Bulletin

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**DEFINITIONS**

Board:	An internet web site which allows both the Company and Marketers to electronically post nominations and other transportation-related information.
Environmental Response Costs:	All reasonable and prudently incurred costs associated with evaluation, remediation, clean-up, litigation, claims, judgments, insurance recovery (net of proceeds), and settlements arising out of the company's utility-related ownership, operation, or use of: (1) manufactured gas production and storage facilities and disposal sites where wastes and materials from such facilities were deposited; (2) mercury regulators; and (3) meter disposal. Also included are the reasonable and prudently incurred costs for acquiring plant, property and equipment to facilitate remediation and other appropriate environmental management objectives in connection with the above sites, properties, and activities. The Company will use its best efforts to minimize Environmental Response Costs consistent with applicable regulatory requirements and sound environmental management policies and practices.
Forecasted Daily Usage (FDU):	Customer's estimated daily consumption for the next gas day as calculated by the Company based upon a forecast of heating degree days and the consumption algorithm.
Gas Day:	A period of twenty-four (24) consecutive hours beginning at 10:00 am (EST) and ending at 10:00 am (EST) the next calendar day.
Gas Usage:	The actual quantity of gas used by the Customer as measured by the Company's metering equipment at the Point of Delivery and converted to Therms.
Imbalance:	The difference between the Actual Transportation Quantity and Gas Usage.
Interest on Deferred	

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**DEFINITIONS**

Balance:	Interest revenue/expense required to finance the deferred balance based on the Fleet Prime Rate less 200 basis points (2%) as in effect from time to time.
Inventory Finance Charge:	Finance charges associated with the storage of natural gas as calculated using a thirteen (13) month average of upstream and local storage inventory costs.
Local Storage Costs:	Costs associated with the investment, operations and maintenance of natural gas storage downstream of the city-gate.
Low Income Assistance Programs:	Programs for assisting low income customers with their energy bills including, but not limited to, Low Income Heating Assistance (LIHEAP) and Low Income Weatherization, as in effect from time to time.
Marginal Cost:	The variable cost of the Company's marginal source of supply for the Gas Day. Incremental Cost is a synonymous term.
Marketer:	An entity meeting the eligibility requirements of Section 6 Schedule C, Item 5.03 that is designated in a Transportation Service Application by the Customer to act on its behalf for nomination, notification, scheduling, balancing and receipt of communications, and which has executed a Marketer Aggregation Pool Service Agreement. A Customer may designate itself as the Marketer provided that they have an executed service agreement with the Transporting Pipeline or provide proof of contract to purchase the gas at the Company's city gate.
Maximum Daily Quantity:	The maximum quantity of gas a customer is authorized to use during the gas day.
Monthly Index:	The simple average of the Daily Indices for the applicable month.

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**DEFINITIONS**

Net Insurance Recoveries:	Proceeds recovered from insurance providers and third parties for Environmental Response Costs, less the cost of obtaining such proceeds through claims, settlements, and litigation.
New Customer:	A Customer taking a supply of gas at a Point of Delivery that has not been previously served on a firm sales service basis by the Company.
Non-Firm Sales Margin:	Margins derived from the sale of natural gas to non-firm customers downstream of the city gate.
Non-Firm Transportation Margin:	Margins derived from the transportation of natural gas to non-firm customers downstream of the city gate.
Off-System Sales Margins:	Margins derived from the sale of natural gas upstream of the city-gate.
Pipeline Costs:	Costs associated with the entitlement and transmission of natural gas on the interstate pipeline system.
Pipeline Shipper(s):	The party(s) from whom Marketer has purchased gas to be delivered to and transported by the Company.
Point of Delivery:	A location at which the Company's distribution facilities are interconnected with the Customer's facility.
Point(s) of Receipt:	Outlet side of the measuring station at the interconnection between the Transporting Pipeline and the Company's distribution facilities where gas will be received by the Company for transportation service in its service territory.
Pool Balancing Revenues:	Revenues associated with Pool Balancing service, as derived in Section 2, Schedule A, Item 4.0.
Purchased Gas Working Capital:	Working capital required to finance gas costs.

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**DEFINITIONS**

Reconciliation Amount:	The Deferred balance at the end of September.
Refunds:	Refunds from pipeline, storage and suppliers.
Scheduled Transportation Quantity:	The quantity of gas scheduled by the Marketer to be received by the Company for Customer's account during the Gas Day at the Point of Receipt, including the applicable Company Fuel Allowance.
Service Quality Performance Fund:	Deferred account containing accumulated Service Quality adjustments.
Supplier Costs:	Costs associated with the entitlement and purchase of natural gas.
Therm:	An amount of gas having a thermal content of 100,000 Btus.
Transportation Imbalance Revenues:	Revenues associated with daily and monthly imbalances for transportation customers, as included in the Company's Terms and Conditions of Firm Transportation.
Transporting Pipeline:	The party(s) engaged in the business of rendering transportation service of natural gas in interstate commerce subject to the jurisdiction of the Federal Energy Regulatory Commission, which are transporting gas for Marketer to a Point of Receipt of the Company.
Upstream Storage Costs:	Costs associated with the entitlement, injection, withdrawal and storage of natural gas upstream of the city-gate.
Working Capital:	Amounts required to finance the Company's activities prior to the receipt of revenue.

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**DISTRIBUTION ADJUSTMENT CLAUSE**

**1.0 GENERAL**

**1.1 Purpose:**

The purpose of this clause is to establish procedures that allow the Company, subject to the jurisdiction of the RIPUC, to annually adjust its rates for firm sales and transportation in order to recover the costs of system balancing, Low Income Assistance, Advanced Gas Technology, Environmental Response, to credit margins from on-system non-firm sales and transportation and on-system non-traditional firm sales and transportation, and to credit or recover Weather Normalization over or under collections. Any costs recovered through the application of the Distribution Adjustment Charge shall be identified and explained fully in the annual Gas Charge filing.

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**1.2 Applicability:**

The distribution adjustment charge will be uniformly applied to sales and transportation volumes under any of the Company's firm rate schedules.

The Company will make annual Distribution Adjustment Charge filings based on forecasts of applicable costs and volumes and annual Reconciliation filings based on actual costs and volumes. The Distribution Adjustment Charge shall become effective with consumption as of November 1<sup>st</sup> each year.

Unless otherwise notified by the RIPUC, the Company shall submit the Distribution Adjustment Charge filings no later than 90 days before they are scheduled to take effect. The Annual Reconciliation filing will be made by August 1 of each year containing actual data for the twelve months ending June 30 of that year.

**2.0 DISTRIBUTION ADJUSTMENT**

**CHARGE:**

The distribution adjustment charge will consist of an annual System Pressure factor, an Advanced Gas Technology factor, a Low Income Assistance factor, an Environmental Response factor, an on-system credit factor, a Weather Normalization factor, and a deferred cost factor calculated as follows:

$$DAC = SP + \text{AGT} + LIAP + ERCF - MC + WN + R$$

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**DISTRIBUTION ADJUSTMENT CLAUSE**

Where:

- DAC Distribution Adjustment Charge applicable to all firm throughput
- SP System Pressure factor. See Item 3.1 for calculation.
- AGT Advanced Gas Technology factor. See Item 3.2 for calculation.
- LIAP Low Income Assistance Programs factor. See Item 3.3 for calculation.
- ERCF Environmental Response cost factor. See Item 3.4 for calculation.
- MC On-system margin credits related to interruptible and non-traditional sales and transportation. See Item 3.5 for calculation.
- WN Weather Normalization factor related to over-collections or under-collections of distribution revenues due to colder or warmer than normal weather. See Item 3.6 for calculation.
- R Reconciliation of deferred account balance as of October 31. See Item 5.0 for calculation.

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**3.0 DISTRIBUTION ADJUSTMENT CALCULATIONS**

**3.1 System Pressure**

**Factor:**

The System Pressure factor shall be computed on an annual basis utilizing a forecast of Liquefied Natural Gas (LNG) sendout and the projected average inventory cost of LNG based on the following formula:

$$SP = \frac{[D_{LNG} * INV_{LNG}] * SP\%}{D_T}$$

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**DISTRIBUTION ADJUSTMENT CLAUSE**

**Where:**

- SP            System Pressure Amount
- Dt<sub>LNG</sub>      Forecast of LNG sendout in dekatherms
- INV<sub>LNG</sub>     Average inventory cost of LNG per dekatherm
- SP%         Percent of local storage used to maintain system pressures, as established in the most recent rate case proceeding.
- Dt<sub>T</sub>         Forecasted annual firm throughput in dekatherms

**3.2 AGT Factor:**

The Advanced Gas Technology factor will be computed on an annual basis utilizing the approved budget for AGT programs based on the following formula:

$$\underline{AGT} = \frac{\underline{AGT}_B + WC_{\underline{AGT}} - \underline{AGT}_{EMB}}{Dt_T}$$

**Where:**

- AGT            AGT Factor
- AGT<sub>B</sub>         Approved AGT budget
- Dt<sub>T</sub>            Forecasted annual firm throughput in dekatherms
- WC<sub>AGT</sub>       Working Capital requirements of approved AGT programs. See Section 4.0 for calculation.
- AGT<sub>EMB</sub>      AGT funding embedded in base rates, \$301,496

**3.3 LIAP Factor:**

The Low Income Assistance factor shall be computed on annual basis utilizing the approved funding for low income programs, such as Low Income Heating Assistance and Low Income Weatherization, based on the following formula:

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**DISTRIBUTION ADJUSTMENT CLAUSE**

$$LIAP = \frac{LIAP_B + WC_{LIAP} - LIAP_{EMB}}{Dt_T}$$

**Where:**

- LIAP            LIAP Factor
- LIAP<sub>B</sub>        Approved low income program funding(s)
- Dt<sub>T</sub>            Forecasted annual firm throughput in dekatherms
- WC<sub>LIAP</sub>       Working Capital requirements of approved LIAP funding. See Section 4.0 for calculation.
- LIAP<sub>EMB</sub>      LIAP funding embedded in base rates, \$1,793,901

**3.4 Environmental Response Cost Factor (ERCF):**

$$ERCF = \frac{\frac{ERC_{95-01}}{10} + \frac{\sum_{x=n-9}^n ERC_{yr}}{10} - ERC_{EMB}}{Dt_T}$$

**Where:**

- ERC            Environmental Response Costs as defined in Section 1, Schedule B Definitions
- $\frac{ERC_{95-01}}{10}$         Unamortized Environmental Response Costs at the end of fiscal year 2001 to be amortized over ten years.
- $\sum_{x=n-9}^n ERC_{yr_x}$     The sum of Environmental Response Costs, incurred in the most recent fiscal year (“n”), and in the prior nine fiscal years, but no earlier than fiscal

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**DISTRIBUTION ADJUSTMENT CLAUSE**

year 2002. Therefore, until fiscal year 2011, n-9 is equal to fiscal year 2002.

ERC<sub>EMB</sub> Environmental Response Costs funding embedded in base rates, \$1,310,000.

Dt<sub>T</sub> Forecasted annual firm throughput in dekatherms

In order to limit the bill impacts that could potentially result from the incurrence of environmental remediation costs, the ERC factor, calculated as described above, shall be limited to an increase of no more than \$0.10 per dekatherm in any annual DAC filing. If this limitation results in the Company recovering less than the amount that would otherwise be eligible for recovery in a particular year, then beginning on the date that the proposed ERC factor becomes effective, carrying costs shall accrue to the Company on the portion of the environmental remediation costs not included in the ERC factor as a result of this limitation. Such carrying costs shall accrue through the year in which such amount, together with accumulated carrying costs, are recovered from ratepayers. Any amounts so deferred shall be incorporated into the ERC factor in succeeding years consistent with the \$0.10 per dekatherm ERC factor annual increase limitation. Such carrying charges shall accrue at the Interest on Deferred Balance rate specified in Section 1 Schedule C of the Company's General Rules and Regulations.

**3.5 On-System Credits:**

Each year the Company will calculate the total non-firm sales and transportation margins, exclusive of Rhode Island Gross Earnings Tax for the twelve month period ending June 30. If that total exceeds \$1,600,000, the On-System Credit shall be 75% of the amount in excess of \$1,600,000. If the total non-firm margins, exclusive of Rhode Island Gross Earnings Tax, for the twelve-month period ending June 30 are less than \$1,600,000, the On-System Credit shall be negative.

$$MC = \frac{(NFSM + NFTM - \$1,600,000) * Pct}{Dt_T}$$

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**DISTRIBUTION ADJUSTMENT CLAUSE**

MC	On-System margin credit factor
NFSM	The non-firm sales margins for the 12 months ending June 30.
NFTM	The non-firm transportation margins for the 12 months ending June 30.
Pct	If (NFSM+NFTM-\$1,600,000) > 0, then Pct = 75% If (NFSM+NFTM-\$1,600,000) ≤ 0, then Pct = 100%
Dt <sub>T</sub>	Forecasted annual firm throughput in dekatherms

**3.6 Weather**

**Normalization:** The Company shall compare actual heating degree days ("DD") to normal heating degree days at the end of each peak season (November through April). For each DD greater than 4,874 (2% colder than normal), the Company shall credit the Weather Normalization Account an amount equal to \$9,000 per DD. For each DD less than 4,682 (2% warmer than normal), the Company shall debit the Weather Normalization Account at \$9,000 per DD.

**4.0 WORKING CAPITAL REQUIREMENT OF THE  
DISTRIBUTION ADJUSTMENT CLAUSE**

$$WC_{DA} = WCA_{DA} * [DL / 365] * COC$$

**Where:**

WC <sub>DA</sub>	Working Capital requirements of <u>AGT</u> and LIAP factors.
WCA <sub>DA</sub>	Working Capital Allowed in the <u>AGT</u> and LIAP calculations.
DL	Days Lag approved in the most recent rate case proceeding

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**DISTRIBUTION ADJUSTMENT CLAUSE**

COC                      Weighted Pre-tax Cost of Capital approved in the most recent rate case proceeding

**5.0 DEFERRED DISTRIBUTION  
ADJUSTMENT  
COST ACCOUNT:**

The Company shall maintain separate Deferred Cost Accounts for AGT costs and revenues, LIAP costs and revenues, Environmental Response costs and revenues, and the On-System credit costs and revenues. Entries shall be made to each of these accounts at the end of each month as follows:

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- (1) An amount equal to the allowable costs incurred, less revenues collected adjusted for the RIGET and the uncollectible percentage approved in the most recent rate case proceeding;
- (2) Credits to costs, and;
- (3) Monthly rate based on a monthly rate of the current Fleet prime interest rate less 200 basis points (2%), multiplied by the arithmetic average of the account's beginning and ending balance after entries for (1) and (2) above.

With respect to Environmental Response Costs, the monthly deferred cost shall be the variance between actual and forecasted monthly firm throughput, multiplied by the ERC Factor.

**6.0 MODIFICATIONS:** Provisions in this Section are subject to modifications as ordered by the Commission in approval of a Settlement Agreement in Docket No. 3401. Such modifications include the following:

**6.1 Earnings Sharing  
Mechanism:**

The Earnings Sharing Mechanism (ESM) provides for the sharing of net merger-related savings that may be achieved in excess of those identified and incorporated into the Docket No. 3401 revenue requirement. The ESM will remain in place for the period July 1, 2002 through June 30, 2010. An estimate of the Earnings Sharing

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**DISTRIBUTION ADJUSTMENT CLAUSE**

Mechanism Credit (ESMC) will be included with the August 1<sup>st</sup> DAC filing and will be updated with the final EMSC calculation by September 1<sup>st</sup>. Calculation of the ESMT is as follows:

$$ESMC = \frac{ESMF}{Dt_T}$$

**Where:**

**ESMF** Earnings Sharing Mechanism Fund is defined as the earnings subject to sharing in the period July 1, 2002 through June 30, 2005, based on a return on equity of 11.25%. Annual earnings over this return on equity, up to and including 100 basis points, being shared 50% to customers and 50% to the Company. Any earnings more than 100 basis points in excess of this return on equity shall be shared 75% to customers and 25% to the Company. The return on equity will remain at 11.25% until modified by the Commission in a ratemaking proceeding for rates to be effective subsequent to June 20, 2005.

**Dt<sub>T</sub>** Forecasted annual firm throughput in dekatherms

**6.2 Consolidation Mitigation**

**Adjustment:**

For the billing periods starting with July 1, 2002 through and including consumption on June 30, 2003, the otherwise approved DAC calculated as described above, will be adjusted to reflect the following Consolidation Mitigation Adjustments:

Residential Non-Heating	
Former Valley Gas Customers	\$-0.2700/therm
Former ProvGas Customers	\$+0.0675/therm
Residential Heating	
Former Valley Gas Customers	\$-0.0848/therm
Former ProvGas Customers	\$+0.0290/therm
Small C&I	
Former Valley Gas Customers	\$-0.0953/therm

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**DISTRIBUTION ADJUSTMENT CLAUSE**

Former ProvGas Customers \$+0.0348/therm

For the consumption starting July 1, 2003 through and including June 30, 2004, the otherwise approved DAC calculated as described above, will be adjusted to reflect the following Consolidation Mitigation Adjustments:

Residential Non-Heating	
Former Valley Gas Customers	\$-0.1350/therm
Former ProvGas Customers	\$+0.0337/therm
Residential Heating	
Former Valley Gas Customers	\$-0.0424/therm
Former ProvGas Customers	\$+0.0145/therm
Small C&I	
Former Valley Gas Customers	\$-0.0476/therm
Former ProvGas Customers	\$+0.0174/therm

**6.3 ERI**

**Adjustment:**

As ordered by the Commission in Docket No. 3459, the reconciliation of certain elements of the Energize RI Extension Settlement Agreement (ERI-2) approved by the Commission in Docket No. 2581 shall be refunded to former ProvGas customers as an adjustment to the DAC. Such adjustment is to reflect the following:

Winter 2001-2002 Weather Mitigation	\$4,516,200
2001-2002 Non-Firm Margin Sharing (237,789)	
ERI-2 Excess Earnings	(5,227,000)
Total Adjustment	(\$ 948,589)

Actual amount of refund over the July 2003 through June 30, 2004 period shall be tracked and reconciled with the above amount as a credit/debit in the August 2004 annual DAC filing.

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National Grid  
Rhode Island

Docket No. 3859  
Distribution Adjustment Charge

## Compliance Attachment 2

Clean General Rules and Regulations, Section 1, Schedule B

And

Clean Distribution Adjustment Charge Section 3, Schedule A

**DEFINITIONS**

Actual Transportation Quantity:	The quantity of gas actually received during the Gas Day as measured by the metering equipment at the Point(s) of Receipt, adjusted for the applicable Company Fuel Allowance.
Aggregation Pool:	One or more transportation Customer accounts whose gas usage is aggregated into a Marketer's account for operational purposes, including but not limited to nominating, scheduling and balancing gas deliveries to specified Point(s) of Receipt.
AGT Costs:	Advanced Gas Technology program costs as approved by the Rhode Island Public Utilities Commission.
Average Normalized Winter Day Usage:	A customer's average normal winter day's usage, based on their actual gas usage during the most recent November through March period, adjusted for normal degree days, as approved in the most recent rate case proceeding.
BTU content factor:	One British thermal unit, i.e., the amount of heat required to raise the temperature of one pound of water one degree Fahrenheit at sixty degrees (60°) Fahrenheit. A Therm is one hundred thousand Btus. The BTU content factor for a given volume, shall be calculated by the Company on a seasonal basis at the end of October and the end of April based upon an average of the Transporting Pipeline's prior six-month experience of recorded BTU factors.
Capacity Release Revenues:	Revenues derived from the sale of capacity upstream of the city-gate.
Company Fuel Allowance:	The quantity in Therms (as calculated on a percentage basis) by which the gross amount of gas received for Customer's account at the Point(s) of Receipt is reduced in kind in order to compensate the Company for gas loss and unaccounted for, Company use or similar quantity-based adjustment.

### **DEFINITIONS**

Consumption Algorithm:	A mathematical formula used to calculate a Customer's daily consumption based on the Customer's historical base load and heat use per heating degree day factor.
Critical Day:	Defined as any day where supply resource constraints are expected to adversely impact the operation of the Company's distribution system. Generally, this occurs at ) forty-four (44) Degree Days or colder. A Critical Day may also occur under other conditions, such as pipeline emergencies, malfunctions or unusual, out-of-season weather conditions.
Customer:	Any party(s) that has obtained service from the Company pursuant to the General Terms and Conditions or pursuant to the Transportation Terms and Conditions
Daily Index:	The mid-point of the range of prices for the respective New England Citygates as published by <u>Gas Daily</u> under the heading "Daily Price Survey, Midpoint, Citygates, Algonquin citygates" and "Daily Price Survey, Midpoint, Citygates Tennessee/Zone 6 (delivered)" for the relevant Gas Day listed under "Flow date(s)." In the event that the <u>Gas Daily</u> index becomes unavailable, the Company shall apply its daily marginal cost of gas as the basis for this calculation until such time that RIPUC approves a suitable replacement.
Deferred Balance:	The difference between incurred costs and revenues received.
Deferred Gas Cost Balance:	The difference between gas costs incurred and gas revenues received.
Dekatherm (Dt):	Ten Therms or one million Btu's (MMBtu)
Design Winter Sales:	Sales of Residential Non-Heating, Residential Heating, Small C&I, Medium C&I, Large Low and High Load C&I, and Extra Large Low and High Load C&I during November through March based on design winter temperatures.

### **DEFINITIONS**

Electronic Bulletin  
Board:

An internet web site which allows both the Company and Marketers to electronically post nominations and other transportation-related information.

Environmental Response  
Costs:

All reasonable and prudently incurred costs associated with evaluation, remediation, clean-up, litigation, claims, judgments, insurance recovery (net of proceeds), and settlements arising out of the company's utility-related ownership, operation, or use of: (1) manufactured gas production and storage facilities and disposal sites where wastes and materials from such facilities were deposited; (2) mercury regulators; and (3) meter disposal. Also included are the reasonable and prudently incurred costs for acquiring plant, property and equipment to facilitate remediation and other appropriate environmental management objectives in connection with the above sites, properties, and activities. The Company will use its best efforts to minimize Environmental Response Costs consistent with applicable regulatory requirements and sound environmental management policies and practices.

Forecasted Daily  
Usage (FDU):

Customer's estimated daily consumption for the next gas day as calculated by the Company based upon a forecast of heating degree days and the consumption algorithm.

Gas Day:

A period of twenty-four (24) consecutive hours beginning at 10:00 am (EST) and ending at 10:00 am (EST) the next calendar day.

Gas Usage:

The actual quantity of gas used by the Customer as measured by the Company's metering equipment at the Point of Delivery and converted to Therms.

Imbalance:

The difference between the Actual Transportation Quantity and Gas Usage.

### **DEFINITIONS**

Interest on Deferred Balance:	Interest revenue/expense required to finance the deferred balance based on the Fleet Prime Rate less 200 basis points (2%) as in effect from time to time.
Inventory Finance Charge:	Finance charges associated with the storage of natural gas as calculated using a thirteen (13) month average of upstream and local storage inventory costs.
Local Storage Costs:	Costs associated with the investment, operations and maintenance of natural gas storage downstream of the city-gate.
Low Income Assistance Programs:	Programs for assisting low income customers with their energy bills including, but not limited to, Low Income Heating Assistance (LIHEAP) and Low Income Weatherization, as in effect from time to time.
Marginal Cost:	The variable cost of the Company's marginal source of supply for the Gas Day. Incremental Cost is a synonymous term.
Marketer:	An entity meeting the eligibility requirements of Section 6 Schedule C, Item 5.03 that is designated in a Transportation Service Application by the Customer to act on its behalf for nomination, notification, scheduling, balancing and receipt of communications, and which has executed a Marketer Aggregation Pool Service Agreement. A Customer may designate itself as the Marketer provided that they have an executed service agreement with the Transporting Pipeline or provide proof of contract to purchase the gas at the Company's city gate.
Maximum Daily Quantity:	The maximum quantity of gas a customer is authorized to use during the gas day.
Monthly Index:	The simple average of the Daily Indices for the applicable month.

**DEFINITIONS**

Net Insurance Recoveries:	Proceeds recovered from insurance providers and third parties for Environmental Response Costs, less the cost of obtaining such proceeds through claims, settlements, and litigation.
New Customer:	A Customer taking a supply of gas at a Point of Delivery that has not been previously served on a firm sales service basis by the Company.
Non-Firm Sales Margin:	Margins derived from the sale of natural gas to non-firm customers downstream of the city gate.
Non-Firm Transportation Margin:	Margins derived from the transportation of natural gas to non-firm customers downstream of the city gate.
Off-System Sales Margins:	Margins derived from the sale of natural gas upstream of the city-gate.
Pipeline Costs:	Costs associated with the entitlement and transmission of natural gas on the interstate pipeline system.
Pipeline Shipper(s):	The party(s) from whom Marketer has purchased gas to be delivered to and transported by the Company.
Point of Delivery:	A location at which the Company's distribution facilities are interconnected with the Customer's facility.
Point(s) of Receipt:	Outlet side of the measuring station at the interconnection between the Transporting Pipeline and the Company's distribution facilities where gas will be received by the Company for transportation service in its service territory.
Pool Balancing Revenues:	Revenues associated with Pool Balancing service, as derived in Section 2, Schedule A, Item 4.0.
Purchased Gas Working Capital:	Working capital required to finance gas costs.



**DEFINITIONS**

Reconciliation Amount:	The Deferred balance at the end of September.
Refunds:	Refunds from pipeline, storage and suppliers.
Scheduled Transportation Quantity:	The quantity of gas scheduled by the Marketer to be received by the Company for Customer's account during the Gas Day at the Point of Receipt, including the applicable Company Fuel Allowance.
Service Quality Performance Fund:	Deferred account containing accumulated Service Quality adjustments.
Supplier Costs:	Costs associated with the entitlement and purchase of natural gas.
Therm:	An amount of gas having a thermal content of 100,000 Btus.
Transportation Imbalance Revenues:	Revenues associated with daily and monthly imbalances for transportation customers, as included in the Company's Terms and Conditions of Firm Transportation.
Transporting Pipeline:	The party(s) engaged in the business of rendering transportation service of natural gas in interstate commerce subject to the jurisdiction of the Federal Energy Regulatory Commission, which are transporting gas for Marketer to a Point of Receipt of the Company.
Upstream Storage Costs:	Costs associated with the entitlement, injection, withdrawal and storage of natural gas upstream of the city-gate.
Working Capital:	Amounts required to finance the Company's activities prior to the receipt of revenue.

**DISTRIBUTION ADJUSTMENT CLAUSE**

**1.0 GENERAL**

**1.1 Purpose:** The purpose of this clause is to establish procedures that allow the Company, subject to the jurisdiction of the RIPUC, to annually adjust its rates for firm sales and transportation in order to recover the costs of system balancing, Low Income Assistance, Advanced Gas Technology, Environmental Response, to credit margins from on-system non-firm sales and transportation and on-system non-traditional firm sales and transportation, and to credit or recover Weather Normalization over or under collections. Any costs recovered through the application of the Distribution Adjustment Charge shall be identified and explained fully in the annual Gas Charge filing.

**1.2 Applicability:** The distribution adjustment charge will be uniformly applied to sales and transportation volumes under any of the Company's firm rate schedules.

The Company will make annual Distribution Adjustment Charge filings based on forecasts of applicable costs and volumes and annual Reconciliation filings based on actual costs and volumes. The Distribution Adjustment Charge shall become effective with consumption as of November 1<sup>st</sup> each year.

Unless otherwise notified by the RIPUC, the Company shall submit the Distribution Adjustment Charge filings no later than 90 days before they are scheduled to take effect. The Annual Reconciliation filing will be made by August 1 of each year containing actual data for the twelve months ending June 30 of that year.

**2.0 DISTRIBUTION ADJUSTMENT**

**CHARGE:** The distribution adjustment charge will consist of an annual System Pressure factor, an Advanced Gas Technology factor, a Low Income Assistance factor, an Environmental Response factor, an on-system credit factor, a Weather Normalization factor, and a deferred cost factor calculated as follows:

$$DAC = SP + AGT + LIAP + ERCF - MC + WN + R$$

**DISTRIBUTION ADJUSTMENT CLAUSE**

Where:

DAC	Distribution Adjustment Charge applicable to all firm throughput
SP	System Pressure factor. See Item 3.1 for calculation.
AGT	Advanced Gas Technology factor. See Item 3.2 for calculation.
LIAP	Low Income Assistance Programs factor. See Item 3.3 for calculation.
ERCF	Environmental Response cost factor. See Item 3.4 for calculation.
MC	On-system margin credits related to interruptible and non-traditional sales and transportation. See Item 3.5 for calculation.
WN	Weather Normalization factor related to over-collections or under-collections of distribution revenues due to colder or warmer than normal weather. See Item 3.6 for calculation.
R	Reconciliation of deferred account balance as of October 31. See Item 5.0 for calculation.

**3.0 DISTRIBUTION ADJUSTMENT CALCULATIONS**

**3.1 System Pressure**

**Factor:**

The System Pressure factor shall be computed on an annual basis utilizing a forecast of Liquefied Natural Gas (LNG) sendout and the projected average inventory cost of LNG based on the following formula:

$$SP = \frac{[Dt_{LNG} * INV_{LNG}] * SP\%}{Dt_T}$$

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**DISTRIBUTION ADJUSTMENT CLAUSE**

**Where:**

SP	System Pressure Amount
Dt <sub>LNG</sub>	Forecast of LNG sendout in dekatherms
INV <sub>LNG</sub>	Average inventory cost of LNG per dekatherm
SP%	Percent of local storage used to maintain system pressures, as established in the most recent rate case proceeding.
Dt <sub>T</sub>	Forecasted annual firm throughput in dekatherms

- 3.2 AGT Factor:** The Advanced Gas Technology factor will be computed on an annual basis utilizing the approved budget for AGT programs based on the following formula:

$$\frac{AGT}{Dt_T} = \frac{AGT_B + WC_{AGT} - AGT_{EMB}}{Dt_T}$$

**Where:**

AGT	AGT Factor
AGT <sub>B</sub>	Approved AGT budget
Dt <sub>T</sub>	Forecasted annual firm throughput in dekatherms
WC <sub>AGT</sub>	Working Capital requirements of approved AGT programs. See Section 4.0 for calculation.
AGT <sub>EMB</sub>	AGT funding embedded in base rates, \$301,496

- 3.3 LIAP Factor:** The Low Income Assistance factor shall be computed on annual basis utilizing the approved funding for low income programs, such as Low Income Heating Assistance and Low Income Weatherization, based on the following formula:

**DISTRIBUTION ADJUSTMENT CLAUSE**

$$LIAP = LIAP_B + \frac{WC_{LIAP} - LIAP_{EMB}}{Dt_T}$$

**Where:**

LIAP	LIAP Factor
LIAP <sub>B</sub>	Approved low income program funding(s)
Dt <sub>T</sub>	Forecasted annual firm throughput in dekatherms
WC <sub>LIAP</sub>	Working Capital requirements of approved LIAP funding. See Section 4.0 for calculation.
LIAP <sub>EMB</sub>	LIAP funding embedded in base rates, \$1,793,901

**3.4 Environmental Response Cost Factor (ERCF):**

$$ERCF = \frac{\frac{ERC_{95-01}}{10} + \frac{\sum_{x=n-9}^n ERC_{yr}}{10} - ERC_{EMB}}{Dt_T}$$

**Where:**

ERC	Environmental Response Costs as defined in Section 1, Schedule B Definitions
$\frac{ERC_{95-01}}{10}$	Unamortized Environmental Response Costs at the end of fiscal year 2001 to be amortized over ten years.
$\sum_{x=n-9}^n ERC_{yr_x}$	The sum of Environmental Response Costs, incurred in the most recent fiscal year (“n”), and in the prior nine fiscal years, but no earlier than fiscal

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**DISTRIBUTION ADJUSTMENT CLAUSE**

year 2002. Therefore, until fiscal year 2011, n-9 is equal to fiscal year 2002.

ERC<sub>EMB</sub> Environmental Response Costs funding embedded in base rates, \$1,310,000.

Dt<sub>T</sub> Forecasted annual firm throughput in dekatherms

In order to limit the bill impacts that could potentially result from the incurrence of environmental remediation costs, the ERC factor, calculated as described above, shall be limited to an increase of no more than \$0.10 per dekatherm in any annual DAC filing. If this limitation results in the Company recovering less than the amount that would otherwise be eligible for recovery in a particular year, then beginning on the date that the proposed ERC factor becomes effective, carrying costs shall accrue to the Company on the portion of the environmental remediation costs not included in the ERC factor as a result of this limitation. Such carrying costs shall accrue through the year in which such amount, together with accumulated carrying costs, are recovered from ratepayers. Any amounts so deferred shall be incorporated into the ERC factor in succeeding years consistent with the \$0.10 per dekatherm ERC factor annual increase limitation. Such carrying charges shall accrue at the Interest on Deferred Balance rate specified in Section 1 Schedule C of the Company's General Rules and Regulations.

**3.5 On-System  
Credits:**

Each year the Company will calculate the total non-firm sales and transportation margins, exclusive of Rhode Island Gross Earnings Tax for the twelve month period ending June 30. If that total exceeds \$1,600,000, the On-System Credit shall be 75% of the amount in excess of \$1,600,000. If the total non-firm margins, exclusive of Rhode Island Gross Earnings Tax, for the twelve-month period ending June 30 are less than \$1,600,000, the On-System Credit shall be negative.

$$MC = \frac{(NFSM + NFTM - \$1,600,000) * Pct}{Dt_T}$$

**Where:**

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**DISTRIBUTION ADJUSTMENT CLAUSE**

MC	On-System margin credit factor
NFSM	The non-firm sales margins for the 12 months ending June 30.
NFTM	The non-firm transportation margins for the 12 months ending June 30.
Pct	If $(NFSM+NFTM-\$1,600,000) > 0$ , then Pct = 75% If $(NFSM+NFTM-\$1,600,000) \leq 0$ , then Pct = 100%
Dt <sub>T</sub>	Forecasted annual firm throughput in dekatherms

**3.6 Weather**

**Normalization:**

The Company shall compare actual heating degree days ("DD") to normal heating degree days at the end of each peak season (November through April). For each DD greater than 4,874 (2% colder than normal), the Company shall credit the Weather Normalization Account an amount equal to \$9,000 per DD. For each DD less than 4,682 (2% warmer than normal), the Company shall debit the Weather Normalization Account at \$9,000 per DD.

**4.0 WORKING CAPITAL REQUIREMENT OF THE  
DISTRIBUTION ADJUSTMENT CLAUSE**

$$WC_{DA} = WCA_{DA} * [DL / 365] * COC$$

**Where:**

WC <sub>DA</sub>	Working Capital requirements of AGT and LIAP factors.
WCA <sub>DA</sub>	Working Capital Allowed in the AGT and LIAP calculations.
DL	Days Lag approved in the most recent rate case proceeding

**DISTRIBUTION ADJUSTMENT CLAUSE**

COC                      Weighted Pre-tax Cost of Capital approved in the most recent rate case proceeding

**5.0 DEFERRED DISTRIBUTION  
ADJUSTMENT**

**COST ACCOUNT:**

The Company shall maintain separate Deferred Cost Accounts for AGT costs and revenues, LIAP costs and revenues, Environmental Response costs and revenues, and the On-System credit costs and revenues. Entries shall be made to each of these accounts at the end of each month as follows:

- (1) An amount equal to the allowable costs incurred, less revenues collected adjusted for the RIGET and the uncollectible percentage approved in the most recent rate case proceeding;
- (2) Credits to costs, and;
- (3) Monthly rate based on a monthly rate of the current Fleet prime interest rate less 200 basis points (2%), multiplied by the arithmetic average of the account's beginning and ending balance after entries for (1) and (2) above.

With respect to Environmental Response Costs, the monthly deferred cost shall be the variance between actual and forecasted monthly firm throughput, multiplied by the ERC Factor.

**6.0 MODIFICATIONS:** Provisions in this Section are subject to modifications as ordered by the Commission in approval of a Settlement Agreement in Docket No. 3401. Such modifications include the following:

**6.1 Earnings Sharing**

**Mechanism:**

The Earnings Sharing Mechanism (ESM) provides for the sharing of net merger-related savings that may be achieved in excess of those identified and incorporated into the Docket No. 3401 revenue requirement. The ESM will remain in place for the period July 1, 2002 through June 30, 2010. An estimate of the Earnings Sharing



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**DISTRIBUTION ADJUSTMENT CLAUSE**

Mechanism Credit (ESMC) will be included with the August 1<sup>st</sup> DAC filing and will be updated with the final EMSC calculation by September 1<sup>st</sup>. Calculation of the ESMC is as follows:

$$ESMC = \frac{ESMF}{Dt_T}$$

**Where:**

ESMF            Earnings Sharing Mechanism Fund is defined as the earnings subject to sharing in the period July 1, 2002 through June 30, 2005, based on a return on equity of 11.25%. Annual earnings over this return on equity, up to and including 100 basis points, being shared 50% to customers and 50% to the Company. Any earnings more than 100 basis points in excess of this return on equity shall be shared 75% to customers and 25% to the Company. The return on equity will remain at 11.25% until modified by the Commission in a ratemaking proceeding for rates to be effective subsequent to June 20, 2005.

Dt<sub>T</sub>            Forecasted annual firm throughput in dekatherms

**6.2 Consolidation Mitigation**

**Adjustment:** For the billing periods starting with July 1, 2002 through and including consumption on June 30, 2003, the otherwise approved DAC calculated as described above, will be adjusted to reflect the following Consolidation Mitigation Adjustments:

Residential Non-Heating	
Former Valley Gas Customers	\$-0.2700/therm
Former ProvGas Customers	\$+0.0675/therm
Residential Heating	
Former Valley Gas Customers	\$-0.0848/therm
Former ProvGas Customers	\$+0.0290/therm
Small C&I	
Former Valley Gas Customers	\$-0.0953/therm

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**DISTRIBUTION ADJUSTMENT CLAUSE**

Former ProvGas Customers \$+0.0348/therm

For the consumption starting July 1, 2003 through and including June 30, 2004, the otherwise approved DAC calculated as described above, will be adjusted to reflect the following Consolidation Mitigation Adjustments:

Residential Non-Heating

Former Valley Gas Customers \$-0.1350/therm  
Former ProvGas Customers \$+0.0337/therm

Residential Heating

Former Valley Gas Customers \$-0.0424/therm  
Former ProvGas Customers \$+0.0145/therm

Small C&I

Former Valley Gas Customers \$-0.0476/therm  
Former ProvGas Customers \$+0.0174/therm

**6.3 ERI  
Adjustment:**

As ordered by the Commission in Docket No. 3459, the reconciliation of certain elements of the Energize RI Extension Settlement Agreement (ERI-2) approved by the Commission in Docket No. 2581 shall be refunded to former ProvGas customers as an adjustment to the DAC. Such adjustment is to reflect the following:

Winter 2001-2002 Weather Mitigation	\$4,516,200
2001-2002 Non-Firm Margin Sharing (237,789)	
ERI-2 Excess Earnings	(5,227,000)
Total Adjustment	(\$ 948,589)

Actual amount of refund over the July 2003 through June 30, 2004 period shall be tracked and reconciled with the above amount as a credit/debit in the August 2004 annual DAC filing.