

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 3868 – Annual Gas Cost Recovery 2007**  
**Response to Division Data Request – Set 1**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's response to the Division's Data Request issued in the above-captioned proceeding on October 24, 2007.

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

Very truly yours,



Laura S. Olton

Enclosures

cc: Docket 3868 Service List

Division Data Request 1-1

Request:

Re: the response to Commission Data Request 2-02:

- a. The response indicates that “the overall tax liability charged to customers will not change as a result of gains or losses on the sale of financial hedges.” Were tax liabilities charged to customers through the GCR when the Company purchased actual physical supply? If so, please demonstrate where and how these liabilities impacted the GCR, using actual historical data for prior fiscal years if possible.
- b. Please document the timing and magnitude of each gain or loss on financial hedges related to the Company’s procurement of gas supplies for Rhode Island that National Grid has experienced to date.
- c. Using actual data, please provide a numerical example which shows that gains or losses on financial hedges during a GCR period will necessarily net to zero within the costs and revenues that are considered in reconciling the GCR.
- d. Given that the GCR is not reconciled and adjusted on a monthly basis, please indicate whether it is possible that gains or losses on financial hedges would accrue interest during the GCR period. Also, if it is possible that gains or losses may accrue interest as part of monthly GCR imbalances, please demonstrate that interest accrued on such gains or losses can also be expected to net to zero for any given reconciliation period.

Response:

- a. Because the GCR is a reconciling cost recovery mechanism, its operation creates no operating or taxable income and no tax liability is charged to customers. This is true whether the Company purchases actual physical supply contracts or whether the Company purchases financial hedges and includes any gains or losses on such financial hedges in its cost of gas. In both instances, the Company bills and collects from customers its total gas costs including gains or losses from financial hedges, if any.
- b. The gain and loss through October are shown on the attached schedule from the monthly deferred report on the line item “hedging”.

- c. By and large, the physical supply contract price and the financial hedge contract price for the same future period is the same. The gain and loss on the financial hedge simply represents the difference in the actual market price incurred in that future period and the price the Company agreed to pay when the contracts were entered into. Consequently, under a financial hedge contract, the net cost of gas is reflected in two pieces, netting to the same price that would have been paid under a physical supply contract. If the actual market price in the contract period is more than the financial hedge price, the cost of gas is reflected as the higher market cost in the "Suppliers" line of the attached schedule with an offsetting "Hedging" gain as shown in the month of Oct-07. If the converse is true the "Suppliers" line will show a lower cost than the contracted price with a "Hedging" loss as indicated in the months of Aug-07 and Sep-07. In each case the net cost for the financially hedged supply nets to essentially the same cost as if a physical supply contract had been employed.

For book purposes, the Company reconciles actual GCR revenue to actual costs on a monthly basis and records a GCR receivable from customers if costs exceed revenue and records a GCR liability to customers if revenues exceed costs. A book receivable is offset as an increase to accrued revenue, while a liability is offset as a decrease to accrued revenue. In either case, no operating income is realized. The cumulative GCR receivable or liability accrues interest as part of the GCR mechanism.

- d. Please see response to item c.

	Nov-06 Actual	Dec-06 Actual	Jan-07 Actual	Feb-07 Actual	Mar-07 Actual	Apr-07 Actual	May-07 Actual	Jun-07 Actual	Jul-07 Actual	Aug-07 Actual	Sep-07 Actual	Oct-07 Forecast	Nov-Oct
Tennessee												\$4,055,514	\$4,055,514
TETCO												\$5,214,625	\$5,214,625
Hubline												\$0	\$0
M3 Delivered	\$282,602	\$68,501	(\$196,641)	\$268,366	(\$113,243)	(\$316,283)	(\$174,790)	\$18,132	\$2,441	(\$2,587)	\$10,305	\$0	(\$153,197)
Maumee Supplemental												\$2,191,236	\$2,191,236
Broadrun Col												\$588,097	\$588,097
Columbia AGT												\$0	\$0
Dominion												\$0	\$0
Transco												\$0	\$0
ANE	\$313,825	\$323,950	\$323,950	\$292,600	\$334,646	\$285,622	\$294,500	\$285,000	\$294,500	\$294,500	\$285,000	\$278,359	\$3,606,452
Niagara												\$210,865	\$210,865
Tetco to B&W												\$0	\$0
DIST FCS												\$0	\$0
Hedging										\$29,604	\$121,287	(\$88,110)	
Suppliers	\$20,101,888	\$29,701,037	\$35,799,099	\$38,315,764	\$33,220,683	\$23,040,844	\$8,729,913	\$7,632,628	\$6,764,455	\$6,783,821	\$6,970,814	\$297,600	\$217,358,546
Total Pipeline Commodity Charges	\$20,698,315	\$30,093,488	\$35,926,408	\$38,876,730	\$33,442,086	\$23,010,183	\$8,849,623	\$7,935,760	\$7,061,396	\$7,105,338	\$7,387,406	\$12,748,185	\$233,072,137
<b>TOTAL VARIABLE SUPPLY COSTS</b>	\$20,698,315	\$30,093,488	\$35,926,408	\$38,876,730	\$33,442,086	\$23,010,183	\$8,849,623	\$7,935,760	\$7,061,396	\$7,105,338	\$7,387,406	\$12,748,185	\$233,134,918
<b>VARIABLE STORAGE COSTS</b>													
Underground Storage	\$890,050	\$2,955,464	\$6,913,708	\$8,298,255	\$3,340,101	\$2,891	\$297,634	\$0	\$119,314	\$0	\$14,144	\$0	\$22,831,561
LNG Withdrawals/Westerly Trucking	\$159,553	\$206,217	\$1,573,115	\$3,175,105	\$1,772,712	\$184,168	\$219,388	\$214,338	\$192,327	\$188,853	\$152,865	\$179,013	\$8,217,654
LP	\$0	\$0	\$4,052	\$281,161	\$77,916	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$363,129
<b>TOTAL VARIABLE STORAGE COSTS</b>	\$1,049,603	\$3,161,681	\$8,490,875	\$11,754,521	\$5,190,729	\$187,059	\$517,022	\$214,338	\$311,641	\$188,853	\$167,009	\$179,013	\$31,412,344
<b>TOTAL VARIABLE COSTS</b>	\$21,747,918	\$33,255,169	\$44,417,283	\$50,631,251	\$38,632,815	\$23,197,242	\$9,366,645	\$8,150,098	\$7,373,037	\$7,294,191	\$7,554,415	\$12,927,198	\$264,547,262
<b>TOTAL SUPPLY COSTS</b>	\$24,411,205	\$36,404,434	\$47,468,804	\$53,544,294	\$41,660,836	\$26,207,808	\$12,268,728	\$11,068,309	\$10,299,839	\$10,169,841	\$10,455,552	\$15,934,030	\$299,893,680
<b>TOTAL CAPACITY RELEASE CREDITS</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>TOTAL SUPPLY COSTS AFTER CREDITS</b>	\$24,411,205	\$36,404,434	\$47,468,804	\$53,544,294	\$41,660,836	\$26,207,808	\$12,268,728	\$11,068,309	\$10,299,839	\$10,169,841	\$10,455,552	\$15,934,030	\$299,893,680
<b>Storage Costs for FT-2 Calculation</b>													
Storage Fixed Costs - Facilities	\$376,639	\$376,295	\$376,441	\$376,261	\$377,566	\$376,328	\$377,206	\$377,131	\$376,956	\$376,869	\$377,094	\$385,835	\$4,530,621
Storage Fixed Costs - Deliveries	\$447,510	\$402,307	\$532,324	\$439,532	\$468,703	\$471,502	\$435,083	\$456,512	\$453,559	\$412,571	\$442,600	\$472,903	\$5,435,106
Variable Delivery Costs	\$8,728	\$22,310	\$54,918	\$69,421	\$28,038	\$0	\$3,721	\$0	\$1,461	\$440	\$173	\$0	\$189,210
Variable Injection Costs	\$2,307	\$875	\$721	\$0	\$0	\$9,116	\$9,655	\$9,301	\$9,157	\$9,165	\$9,161	\$11,566	\$71,025
Fuel Costs Allocated to Storage	\$46,256	\$159,983	\$332,752	\$378,680	\$155,722	\$61,271	\$89,219	\$63,839	\$70,185	\$62,305	\$60,352	\$80,829	\$1,561,393
<b>Total Storage Costs</b>	\$881,441	\$961,770	\$1,297,156	\$1,263,895	\$1,030,030	\$918,218	\$914,884	\$906,782	\$911,318	\$861,350	\$889,380	\$951,132	\$11,787,354
Pipeline Variable	\$20,698,315	\$30,093,488	\$35,926,408	\$38,876,730	\$33,442,086	\$23,010,183	\$8,849,623	\$7,935,760	\$7,061,396	\$7,105,338	\$7,387,406	\$12,748,185	
Less Non-firm Gas Costs	\$737,349	\$934,307	\$486,044	\$145,982	\$584,816	\$691,014	\$694,817	\$579,796	\$808,659	\$689,282	\$682,966		
Less Company Use	\$66,607	\$91,706	\$107,489	\$137,512	\$100,455	\$74,778	\$38,587	\$24,405	\$34,350	\$35,181	\$30,741		
Less Manchester St Balancing	\$9,737	\$3,537	\$4,756	\$4,422	\$5,659	\$9,007	\$11,600	\$4,435	\$8,359	\$6,259	\$11,564		
Plus Cashout													
Less Mkter Over-takes	\$13,219	\$62,626	\$2,092	\$194,897	\$23,284	\$1,762	\$22,613	\$36,613	\$55,027	\$46,865	\$11,961		
Less Mkter W/drawals													
Plus Mkter Undertakes	\$23,764	-\$2,096	\$177,821	-\$14,274	\$59,667	\$47,747	\$228,915	\$161,847	\$71,848	\$4,366	\$85,169		
Plus Mkter Injections	\$80,038	\$125,681	-\$23,255	-\$119,054	-\$129,679	45,874	80,792	281,635	285,972	240,917	235,663		
Storage Service Charge													
Plus Pipeline Srchg/Credit	\$246,889	\$97,687	\$75,644	\$81,571	\$102,599	\$137,636	\$134,574	\$168,791	\$157,563	\$171,313	\$176,822		
<b>TOTAL FIRM COMMODITY COSTS</b>	\$20,222,094	\$29,222,584	\$35,556,237	\$38,342,160	\$32,760,459	\$22,464,879	\$8,526,287	\$7,902,785	\$6,670,384	\$6,744,347	\$7,147,828	\$12,748,185	\$228,308,229

## 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.



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Joanne M. Scanlon

November 8, 2007

Date

**Docket No. 3868 – National Grid – Annual Gas Cost Recovery Filing (“GCR”) - Service List as of 9/12/07**

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