State of Rhode Island and Providence Plantations

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Patrick C. Lynch, Attorney General

November 13, 2008

VIA ELECTRONIC FILING

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: **National Grid DAC Filing; Docket No. 3977**

Dear Ms. Massaro:

Enclosed for filing are ten copies of the testimony and exhibits of Bruce Oliver on behalf of the Division of Public Utilities and Carriers in connection with National Grid's Distribution Adjustment Clause (DAC) proceeding. Mr. Oliver's testimony covers all aspects of the DAC except for the Earnings Sharing Mechanism (ESM).

The Company's September 26, 2008 filing pertains to its earned return on equity (ROE) for the twelve months ended June 30, 2008. The Company calculated an earned return on equity of 0.95% for FY 2008 and zero earnings to be shared, as sharing begins at 11.25% ROE based on the settlement in Docket 3401. David Effron, the Division's consultant, reviewed the ESM filing on behalf of the Division and determined that the pre-tax income of the Company would have to be increased by approximately $18 million through adjustments before the Company would be in a sharing scenario. Mr. Effron concluded that, based on his review, there did not appear to be a reasonable possibility that any potential adjustments would, in sum, approach that magnitude. Accordingly, no modification to the calculation of zero earnings to be shared is recommended.

Thank you for your attention to this matter.

Very truly yours,

Paul Roberti
Assistant Attorney General

Enclosures
cc: Service List

BEFORE THE

PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

IN THE MATTER OF

The National Grid Proposal	**)**	
For Changes In Its Distribution	**)**	**Docket No. 3977**
Adjustment Charge	**)**	

DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

November 12, 2008

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DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 3977
November 12, 2008

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I manage the firm's business and consulting activities, and I direct its preparation and presentation of economic, utility planning, and policy analyses for our clients.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. My testimony in this proceeding is presented on behalf of the Division of Public Utilities and Carriers (hereinafter "the Division").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. This testimony addresses the request of National Grid (hereinafter “National Grid” or “the Company”) for a change in its Distribution Adjustment Charge (“DAC”) which is set forth in testimony filed on August 1, 2008 and September 2, 2008 by witness Peter C. Czekanski on behalf of the Company. More specifically, this testimony discusses all elements of the Company's DAC calculations other than the Earnings Sharing Mechanism.

II. DISCUSSION OF ISSUES

Q. WHAT IS THE DAC RATE THAT THE COMPANY PROPOSES IN THIS PROCEEDING?

A. Attachment PCC-1 to the Company's August 1, 2008 filing computes a net **credit** of $0.0030 per therm. The Company's second Updated of Attachment PCC-1 which was filed on October 31, 2008 computes a DAC rate which is a **credit** of **$0.0043** per therm. By comparison, the Company's present DAC rate reflects a credit of $0.0025 per therm. Thus, the Company's proposed DAC rate reflects an increase from the Company's currently effective DAC credit of $0.0018 per therm.

Q. WHAT ARE THE MAJOR COMPONENTS OF THE COMPANY'S DISTRIBUTION ADJUSTMENT CHARGE (DAC) CALCULATIONS?

A. National Grid's DAC calculations comprise nine (9) major components. The components of the Company's Distribution Adjustment Charge calculations include:

1. A System Pressure (SP) Factor
2. An Advance Gas Technology Program (AGT) Factor
3. A Low Income Assistance Program (LIAP) Factor
4. An Environmental Response Cost (ERC) Factor
5. An On-System Margin Credits (MC) Factor
6. A Weather Normalization (WN) Factor
7. An Earnings Sharing Mechanism (ESM)
8. A Reconciliation (R) Factor
9. An Allowance for Uncollectibles

Q. HOW IS YOUR DISCUSSION OF THE ABOVE REFERENCED FACTORS ORGANIZED?

A. The first eight components of the Company's DAC calculations are re-examined, and subject to re-calculation on an annual basis. In Sections A through F of this testimony, the Company's proposals for each of those factors in this proceeding are discussed. The last component of the DAC, the Allowance for Uncollectibles, was last established through the Commission-approved settlement in Docket No. 3401. National Grid's filings in this docket reflect no change in that allowance. However, in Company's currently pending base rate case, Docket No. 3943 National Grid proposed two changes with respect to the Allowance for Uncollectibles in its DAC computations. Those proposed changes are discussed in Section H. of this presentation. Section I addresses the composite effects of all of the current DAC factors as proposed by the Company and adjustments to those factors presented herein. Section J reviews the expected bill impacts of the proposed DAC changes.

A. System Pressure Factor

Q. WHAT IS THE PURPOSE OF THE SYSTEM PRESSURE ADJUSTMENT?

A. Since the beginning of rate unbundling for firm service customers, this Commission has recognized that a portion of the Company's use of its LNG facilities is associated with the maintenance of operating pressures on its system. Given that both sales service and transportation service customers benefit from the maintenance of system operating pressures, it is appropriate that such costs be recovered from customers in both of those service classifications. In the absence of the System Pressure Adjustment, all of the Company's LNG costs would be recovered through its Gas Cost Recovery (GCR) charges and paid for by only sales service customers. Thus, it is necessary for the Company to allocate a portion of its LNG costs to system pressure maintenance, and collect those costs through charges that are applied to both firm sales service <u>and</u> firm transportation service customers. The System Pressure factor within the DAC mechanism accomplishes this objective.

Q. HOW IS THE SYSTEM PRESSURE FACTOR DETERMINED?

A. In Docket No. 3401 the System Pressure factor was established through a Commission-approved settlement at 0.2039. The 0.2039 factor was developed to reflect the results of an assessment which suggested that 20.39% of LNG commodity related costs were used for System Pressure purposes, and therefore, should be borne by all customers (i.e., sales and transportation service customers) who utilize the Company's distribution system, as opposed to being treated as gas costs and assigned only to gas sales service customers. Multiplying Total LNG Commodity Related Costs by the System Balancing Factor (.2039) and dividing by projected, weather-normalized, annual Firm Throughput yields a System Pressure Factor (SP) in dollars per therm.

Q. WHAT IS THE LEVEL OF THE SYSTEM PRESSURE FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. As shown in Attachment PCC-2, filed on August 1, 2008, the computed System Pressure Factor for the November 1, 2008 to October 31, 2009 GCR period was $0.0056 per therm. The data used in those calculations were subsequently updated in Mr. Czekanski's September 2, 2008 Updated Attachment PCC-2. Based on its updated calculations, National Grid now seeks a System Pressure Factor of $0.0512 per Dth. The Company provided a second update on October 31, 2008 which reflects a further reduction in System Pressure costs and yields a System Pressure Factor of $0.0044 per therm.

Q. IS THE COMPANY'S UPDATED SYSTEM PRESSURE FACTOR APPROPRIATELY COMPUTED?

A. Yes, I find no mathematical or data problems in the Company's October 31, 2008 Updated System Pressure Factor calculations. I have reviewed the detail of National Grid's LNG Commodity related cost estimates, and I find them reasonably consistent with the Company's past actual experience and reflective of reasonable planning assumptions.

Q. ARE THERE ANY OTHER ISSUES ASSOCIATED WITH THE DEVELOPMENT OF THE SYSTEM PRESSURE FACTOR COMPONENT OF THE DAC THAT YOU WISH TO ADDRESS AT THIS TIME?

A. Yes. In Docket No. 3943, the Company's pending base rate proceeding, National Grid has proposed to lower the percentage of LNG commodity-related costs that are allocated to the System Pressure Component of the DAC. The Company, in that proceeding, proposes to replace the current 0.2039 System Balancing Factor that was established in Docket No. 3401 with a new factor of 0.1610. However, the Company has chosen not to reflect that change in its DAC filings in this proceeding pending the outcome of Docket No. 3401. The Division has reviewed that proposal and finds it to be reasonable. No other party has challenged the proposed change in the System Balancing Factor. Therefore, the Division believes that the

Company's proposed change should be implemented in this proceeding. Furthermore, given that the effects of changes in the System Balancing Factor are reconciled through both the DAC and the Company's GCR, such changes can be implemented without impact on the Company's base rates. Thus, the Division recommends that future changes in the System Balancing Factor be implemented through simultaneous adjustments to DAC and GCR calculations and need not be considered a base rate issue.

To facilitate the implementation of an updated System Balancing Factor, Exhibit BRO-1 provides a revised System Pressure Factor calculation of National Grid for the November 1, 2008 through October 31, 2009 forecasted GCR period. As shown in Exhibit BRO-1, implementation of the revised System Pressure Factor calculation will further lower the Company's projected System Pressure costs, lowering the SP factor to **$0.0035** per therm. This marks a **reduction** of **more than 37%** from the $0.0056 System Pressure Factor that National Grid included in its initial filing in this proceeding.

<u>B. Advanced Gas Technology Program Factor</u>

Q. WHAT IS THE PURPOSE OF THE ADVANCED GAS TECHNOLOGY PROGRAM FACTOR?

A. The Advanced Gas Technology (AGT) Program Factor reflects the Company's renaming of its Demand Side Management (DSM) Factor. The AGT Factor provides the Commission a mechanism for reflecting differences between actual expenditures for AGT program rebates and the amount of funding provided for that program annually through base rates. It should be noted that the Company has renamed this factor to avoid confusion with the recently implemented National Grid Energy Efficiency Programs. The goal of the AGT program is to promote the installation of gas technologies that increase utilization of natural gas during periods of low demand.

Q. WHAT IS THE LEVEL OF FUNDING CURRENTLY PROVIDED FOR THE COMPANY'S AGT PROGRAM THROUGH THE BASE RATES?

A. As set forth in National Grid's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 3, paragraph 3.2, the level of funding presently embedded in base rates for the AGT program is **$301,496** per year. That tariff amount includes an allowance for working capital. The actual amount provided through rates to fund DSM program payments to customers is $300,000.

Q. WILL ANY AGT FUNDS BE CARRIED FORWARD FROM FY 2007?

A. Yes. The Company projects a carry-forward balance of uncommitted AGT funds at the end of the 2007-08 DAC period of $701,326 including interest accrued during the year. Adding this carry-forward balance to the annual funding provided through base rates, would provide $1,001,326 of funding for new projects that would be available over the next year (not counting any additional interest that may accrue during the projected DAC period year).

Q. IS THE COMPANY PROPOSING ANY CHANGE IN FUNDING FOR AGT PROJECTS FOR FY 2008?

A. No. As a result the Company's proposed Advanced Gas Technology (AGT) Program Factor for the coming year (November 2008 – October 2009) remains **$0.0000 per therm**.

Q. DOES THE DIVISION SUPPORT THE COMPANY'S PROPOSAL TO CONTINUE CURRENT FUNDING LEVELS FOR AGT PROJECTS FOR FY 2008?

A. No. Attachment PCC-3 to the Company's August 1, 2008 filing in this proceeding indicates that the Company expended only **$12,916** of AGT funds over the last 12 months. In response to Division Data Request 1-7 in this proceeding, National Grid explains that it is in discussions with three customers relating to possible new cogeneration projects. However, the most advanced of those projects is just in the process of having a contractor perform an engineering assessment. National Grid does not expect implementation of any of the projects currently under discussion during the November 2008 – October 2009 DAC rate period. In this context, the Division assesses that additional AGT funding during the 2008-09 DAC rate period is not necessary. Thus, the Division recommends that the AGT Program Factor for the coming year be set at **($0.0008) per therm** to offset the amount of AGT program funding that would otherwise be collected through base rates over the next year. The Division's calculation of its recommended **($0.0008) per therm** AGT factor is presented in Exhibit BRO-2. If the Company has more substantial commitments from such projects when it makes its annual filing for DAC adjustments in August of next year, those requirements can be considered at that time.

C. Low Income Assistance Program Factor

Q. WHAT IS THE PURPOSE OF THE LOW INCOME ASSISTANCE PROGRAM (LIAP) FACTOR?

A. The Low Income Assistance Program (LIAP) Factor performs a function similar to that of the AGT (or DSM) Factor. It provides a mechanism for the Commission to adjust the funding of the Company's Low Income Heating Assistance Program

(LIHEAP) and Low Income Weatherization Program activities outside the context of a base rate proceeding.

Q. WHAT IS THE LEVEL OF FUNDING PROVIDED FOR NATIONAL GRID'S LOW INCOME ASSISTANCE PROGRAMS THROUGH ITS BASE RATE CHARGES?

A. As set forth in the Company's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 4, paragraph 3.3, the LIAP funding presently embedded in base rates for National Grid is **$1,793,901** per year. This includes a working capital allowance. After subtracting the working capital allowance, the amount of new LIAP funding is $1,785,000. That amount includes $1,585,000 for LIHEAP and $200,000 for Low Income Weatherization Program activities.

Q. **ARE ANY FUNDS FOR LOW INCOME ASSISTANCE PROGRAMS BEING CARRIED OVER FROM FY 2007?**

A. No. The Company reports that it slightly over spent its available funding for Low Income Assistance Programs for the twelve months ended June 2008, leaving a **negative** carry forward balance of **$8,408**.

Q. DOES NATIONAL GRID SEEK ADDITIONAL LIAP FUNDING THROUGH ITS PROPOSED LIAP FACTOR IN THIS PROCEEDING?

A. No, it does not. Therefore, the LIAP factor in the Company's DAC calculations remains at $0.0000 per therm.

D. Environment Response Cost Factor

Q. PLEASE DESCRIBE THE PURPOSE OF THE ENVIRONMENTAL RESPONSE COST (ERC) FACTOR?

A. The primary function of the ERC Factor is to provide the Company a means of recovering "reasonable and prudently incurred" environmental response costs while limiting impacts on customers' bills. Costs subject to recovery through the ERC Factor include:

(1) Costs for evaluation, remediation and clean-up of sites associated with National Grid's ownership and operation of manufactured gas plants, manufactured gas storage facilities, and manufactured gas plant-related off-site waste disposal locations;

(2) Costs for removal and disposal of mercury regulators and meters;

(3) Costs for acquiring property associated with the clean up of such sites; and

(4) Litigation costs, claims, judgments, and settlements associated with environmental clean up activities.

Q. HOW ARE REASONABLE AND PRUDENTLY INCURRED ENVIRONMENTAL RESPONSE COSTS RECOVERED THROUGH THE ERC FACTOR?

A. According to the terms of the settlement approved by this Commission in Docket No. 3401, such Environmental Response Costs shall be recovered through a 10-year straight-line amortization, subject to the restriction that the ERC Factor shall be limited to an increase of no more than $0.10 per dekatherm (i.e., $0.01 per therm) in any annual DAC filing. Moreover, the ERC Factor is computed to reflect an adjustment to the $1,310,000 of Environmental Response Costs that is presently included in National Grid's base rate charges. Thus, the dollar amount subject to recovery through the ERC Factor in any year reflects the sum of all applicable 10-year ERC amortizations less the $1,310,000 of budgeted base rate recoveries, and the ERC Factor reflects that net dollar amount divided by forecasted firm throughput.

Q. IN THIS PROCEEDING, WHAT IS THE NET DOLLAR AMOUNT THAT NATIONAL GRID PROPOSES FOR RECOVERY THROUGH ITS ERC FACTOR?

A. As shown in Attachment PCC-4, filed on August 1, 2008, the Company seeks approval of a net recovery of **($730,669)**. That net dollar amount reflects:

1. A 10-year amortization of $12,510,252 of net ERC costs incurred through the end of FY 2002;

2. A 10-year amortization of ($6,012,673) of net ERC costs for FY 2003;

3. A 10-year amortization of ($472,960) of net ERC costs for FY 2004;

4. A 10-year amortization of $136,707 of net ERC costs for FY 2005;

5. A 10-year amortization of $436,020 of net ERC costs for FY 2006;

6. A 10-year amortization of ($758,291) of net ERC costs for FY 2007;

7. A 10-year amortization of ($45,755) of net ERC costs for FY 2008 and adjustment for FY 2007; and

8. A deduction of $1,310,000 for budgeted base rate recovery of ERC costs during the annual period in which the proposed ERC Factor will be effective.

Q. WHAT IS NET BALANCE OF THE ENVIRONMENTAL REMEDIATION COSTS TO BE RECOVERED THROUGH THE COMPANY'S ERC FACTOR?

A. The Company reports a net balance of un-recovered Environmental Response Costs at the end of FY 2008 of **$1,430,281**.

Q. DOES NATIONAL GRID PROPOSE A CHANGE IN THE LEVEL OF THE ERC FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. National Grid proposes An ERC Factor of **($0.0020)** per therm. That net credit to firm customers is nearly identical to the factor the Company computed for its ERC Factor a year ago, i.e., ($0.0021). Thus, the National Grid proposes a small reduction in the level of the credit that customers receive.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2007?

A. For FY 2008 National Grid claims a net Environment Response Cost of $(185,419). That amount represents the net of $985,348 of new environmental expenditures less $1,170,767 of Insurance Settlement proceeds. As shown below, two projects accounted for nearly 86% of the total new Environmental Response Costs incurred by National Grid during FY 2008. Those projects and their associated costs are as follows:

➢	Project 171	Contaminated Regulators	$ 535,019	54.3%
➢	Project --	Thames & Wellington	$ 311,408	31.6%
➢	All Other Projects		$ 138,921	14.1%
	Total		$ 985,348	100.0%

Q. AT PAGE 9, LINES 1-13, OF WITNESS CZEKANSKI'S AUGUST 1, 2008 TESTIMONY, HE STATES THAT "…THE FY2008 [ENVIRONMENTAL RESPONSE COST] DATA IS CONSIDERED PRELIMINARY AND IF THERE ARE ANY CHANGES WHEN THE COMPANY'S BOOK ARE FINALIZED FOR THE FISCAL YEAR, THE COMPANY WILL FILED AN UPDATED CALCULATION." HAS ANY UPDATE OF THAT DATA BEEN FILED TO DATE?

A. No. The Company did not include further discussion of that matter in either its September 2, 2008 update testimony, or in any of the other subsequent updates of its testimony and attachments.

Q. DO YOU FIND ANY REASON TO QUESTION THE AMOUNT OF ENVIRONMENTAL RESPONSE COSTS FOR WHICH THE COMPANY SEEKS RECOVERY IN THIS PROCEEDING?

A. I have reviewed the testimony and supporting materials that witness Czekanski presents on behalf of National Grid, as well as the National Grid's Annual Environmental Report for the period July 1, 2007 to June 30, 2008, and the Company's responses to data requests relating to the determination of its filed ERC Factor in this proceeding. Based on that review, which included examination of information relating to the Company's claimed adjustments to prior period (FY 2007) costs, I generally find the Company's environmental cost claims to be reasonable. However, I must offer three caveats to the general assessment of the Company's ERC costs. **First**, the accuracy and reliability of the Company's accounting for costs by project appears somewhat questionable. **Second**, the Company's costs for the removal of Mercury Seal Regulators (MSRs) continue to rise to levels substantially above its historic average costs for that activity raising questions regarding the reasonableness of those expenditures. **Third**, as I will discuss in more detail later in this testimony as part of my assessment of the Company's DAC reconciliations, I find that National Grid not properly recognized the timing of its receipt of over $1.1 million of environmental-related insurance settlement proceeds. As a result, ratepayers have been inappropriately denied the benefit of interest on those funds over the past year.

Q. PLEASE EXPLAIN FURTHER THE FIRST OF THE CONCERNS REGARDING NATIONAL GRID'S CLAIMED ENVIRONMENTAL EXPENDITURES THAT YOU HAVE NOTED ABOVE.

A. My concern regarding the accuracy and reliability of the Company's accounting for its Environment Response Costs has arisen in part from inconsistencies between the Company's claimed Environmental Expenses by project that are detailed in Attachment PCC-4, page 3 of 3, in this proceeding and the detailed break down of invoices by projected that is found in National Grid's response to Division Data Request DIV 1-8. As illustrated in Exhibit BRO-3, none of the invoiced costs by project set forth in the Company's response to DIV 1-8 correspond directly to the Company's claimed costs for FY 2008. For some projects the claimed costs exceed the invoice costs. For other projects the invoiced costs exceed the claimed costs. In total the reported invoice amounts exceed the Company's claimed expense for FY 2008 by nearly $16,000.

In addition, the Company's Annual Environmental Report, filed on August 1, 2008, and its response to Division Data Request DIV 1-14 provided on October 9, 2008 offer inconsistent representations. On page 12 of National Grid's Annual

Environmental Report, the Company indicates that during the period from July 1, 2007 through June 30, 2008, it incurred $535,019 of costs that included *"…removal of 379 MSRs and the remediation of 3 spills related to mercury seal regulators*." When asked in Division Data Request DIV 1-14 for separate identification of the costs for removal of the 379 MSRs and the costs associates with each of the three spills, the Company's response appears to indicate that the previously cited $535,019 amount was just for the removal of MSRs and that an additional $42,203 was incurred for the remediation of the three referenced mercury seal regulator related spills. Yet, the Company offers no indication of where the $42,203 of costs for spill remediation were reflected in its reporting of environmental costs by project, if they are not included in the $535,019 reported for Project 171, Mercury Regulator Replacement program.

Further, the response to Division Data Request 1-10, indicates that $2,098.80 of costs that should have been charged to the MSR replacement program were instead charge to PCB Regulated Pipe Abandonment. However, the documentation provided for MSR Program expenditures in the Company's response to Division Data Request DIV 1-8 does not reconcile with the costs claimed by the Company for that program with or without those costs included. Exhibit BRO-3 highlights differences between the Company's claimed environmental response costs by project for FY 2008 and the invoiced costs reflected in the response to Division Data Request DIV 1-8.

Q. YOUR SECOND CONCERN EXPRESSED ABOVE RELATES TO THE COMPANY'S RISING COSTS FOR MSR REPLACEMENT. HOW MUCH HAVE THE COMPANY'S COSTS FOR THAT ACTIVITY RISEN?

A. National Grid's average cost per unit for removing and replacing mercury seal regulators (MSRs) during FY 2008 averaged **$1,412 per MSR**. In FY 2007, National Grid removed and replaced 95 MSRs at an average cost of **$1,261 per MSR**. Prior to FY 2007, the Company replaced nearly 9,000 MSRs at cost of $1,540,573 or the equivalent of **$171 per MSR**. Thus, the Company's costs for recent replacements are 7 to 8 time greater than its average historical MSR replacement costs and the resulting increases are far in excess of any reasonable allowance for inflation. In the Company's response to Division Data Request 2-05.b in Docket No. 3760 suggested that requirements for the involvement of a "Clean Harbors" in the removal and transport of MSRs may contribute to the reported increased in the Company's costs per MSR remove, but it has offered no assessment of the portion of the observed increases that would be appropriately attributed to necessary and prudent use of Clean Harbors' services. The previously referenced National Grid response to Division Data Request 1-8 reflects a total of $283,869.42 of costs invoiced to the

Company by Clean Harbors for FY 2008. That represents more than 50% of the Company's total claimed MSR Program costs for FY 2008. Even with all of the costs invoiced by Clean Habors excluded, the National Grid's claimed FY 2008 MSR costs per unit replaced are nearly four times greater than its historic average for the period prior to FY 2007. That increase cannot be explained solely on the basis of cost inflation.

Q. WHAT IS THE DIVISION'S POSITION WITH RESPECT TO THE COMPANY'S PROPOSED ADJUSTMENT TO ITS CLAIMED FY 2007 ENVIRONMENTAL RESPONSE COSTS?

A. Assuming that the claimed costs were prudently incurred and meet the criteria established for recovery through the Company's Environmental Response Cost (ECR) component of the DAC the Division find no reason for exclusion of the requested FY 2007 environmental cost adjustment. Given that the DAC is a reconciling mechanism intended to provide National Grid with a mechanism for recovery of such costs, the fact that the Company was delayed in its request for recognition of such costs need not impede its ability to gain recovery of such costs.

E. On-System Margin Credits

Q. WHAT IS THE ROLE OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR?

A. The On-System Margin Credit (MC) Factor performs two functions. First, it provides National Grid a mechanism for recovery of shortfalls, if any, in the actual on-system margin revenue derived from Non-Firm sales and transportation services relative to the $1.6 million of annual on-system margin revenue presently assumed in the design of the Company's base rates. Second, the MC Factor provides a mechanism for sharing of on-system margin revenue in excess of the level assumed in the design of base rates. If actual Non-Firm margin revenue exceeds $1.6 million within the 12-month period ending June 30th of any year completed subsequent to the effective date of this tariff provision, the MC Factor provides an incentive to the Company to maximize such margin revenue by enabling National Grid to retain 25% of such revenue while crediting 75% of on-system non-firm margins to firm service customers as an offset to their distribution system costs.

Q. DID NATIONAL GRID ACHIEVE ON-SYSTEM NON-FIRM MARGINS IN EXCESS OF $1.6 MILLION FOR THE 12-MONTH PERIOD ENDED JUNE 30, 2008?

A. Yes. Although the Company has twice updated and revised its Non-Firm Margin calculations in this proceeding, there appears to be little question that the $1.6

million sharing threshold has been surpassed. As initially filed on August 1, 2008, Attachment PCC-5, page 2 of 12, showed a net margin from Non-Firm Service of $5,429,797. That is $3,829,797 above the $1.6 million threshold. However, that amount was offset in part by a -$191,624 adjustment to the Company's claimed margins for the prior fiscal year (i.e., FY 2007), thus leaving a net margin of $3,638,173 for sharing between Firm ratepayers and the Company. Updated Attachment PCC-5, appended to Mr. Czekanski's September 2, 2008 testimony, revised the Company's computed net margin from Non-Firm customers for FY 2008 to $5,637,874, and showed a net margin for sharing of $4,037,874. A second set of revisions to Attachment PCC-5 was filed on September 23, 2008. In that second revised version of Attachment PCC-5, National Grid reports a Non-Firm margin revenue for FY 2008 of **$5,442,307** net of gross earnings tax (GET and Energy Efficiency charges). That filing indicates the Company has a net margin for sharing, after folding in the FY 2007 adjustment, of **$3,650,683**.

Q. HAS THE DIVISION ASSESSED THE APPROPRIATENESS OF NATIONAL GRID'S FY 2008 NON-FIRM MARGIN REVENUE DETERMINATIONS OR THE COMPANY'S PROPOSED ADJUSTMENTS TO ITS FY 2007 NON-FIRM MARGIN REVENUE?

A. National Grid's Updated and revised Attachments PCC-5 in this proceeding have been presented without full and accurate explanations of the changes that were made in the data supporting its Non-Firm revenue margin determinations. At this point the Division has not had the opportunity perform a detailed examination of either the information underlying the Company's claimed Non-Firm margin revenue for FY 2008 or the basis for the proposed adjustments to Non-Firm revenue margins for FY 2007. However, what the Company has characterized as "updates" to its FY 2008 Non-Firm margin appear to include substantive revisions to data that should have been available at the time of its initial filing and should have been more clearly identified when the Company submitted its September 2, 2008 and September 23, 2008 "updates" of Attachment PCC-5. Furthermore, the Division observes that National Grid has provided no detailed explanation or rationale for the revisions to its FY 2007 Non-Firm margin data, nor has the Company shown that changes in its FY 2007 Non-Firm gas costs were in fact flowed back to Firm Service customers through either its present or proposed GCR charges.

The Division also is concerned by the size of the indicated change in gas costs relative to the Company's computed change in Non-Firm Sales Service volumes. The Company's computed $163,395 change in Non-Firm Gas Costs cannot be explained by simply relating it to the reported 5,003 Dth increase in Non-Firm Sales Service volumes. If that were the case, the average gas cost associated with the added Non-Firm Sales Service volumes would be more than $32.65 per Dth, (i.e., a figure substantially in excess of all of the monthly costs of gas that National Grid used in pricing that Non-Firm Sales Service during FY 2007). Thus, it appears that substantial errors existed in the gas costs applied to other Non-Firm Sales Service volumes. Unfortunately, the Non-Firm pricing detail provided on pages 4-12 of Updated Attachment PCC-5 does not highlight or otherwise indicate where changes in Non-Firm volumes and gas costs were made. A preliminary review of the Company's detailed support for its Non-Firm Revenue Margin determinations has identified a number of unexplained or inadequately explained rate calculations and billing adjustments, but much greater effort will be required to fully resolve such matters.

Q. AFTER THE ESTABLISHED SHARING PERCENTAGES ARE APPLIED WHAT IS THE MAGNITUDE OF THE NET BENEFIT THAT THE COMPANY PROPOSES TO FLOW TO FIRM SERVICE RATEPAYERS?

A. The identified $3,842,307 of undated and revised Non-Firm margin revenue in excess of the $1.6 million sharing threshold that the Company now computes for FY 2008 would yield a net margin sharing benefit to Firm Service customers of **$2,881,730**. However, if the Company's proposed adjustments to its FY 2007 net revenue margin are accepted, Firm Service customers' benefits would be **reduced**

by $143,718. Thus, the net margin sharing benefit that National Grid proposes to flow to its Firm Service customers is **$2,738,012.**

Q. WHAT IS THE NET BENEFIT THAT THE COMPANY WOULD RETAIN FROM ITS FY 2008 AND REVISED FY 2007 MARGINS FROM NON-FIRM SERVICE CUSTOMERS?

A. As presented by National Grid, the Company's net benefit would be **$912,671**.

Q. BASED ON THE SHARE OF NON-FIRM MARGINS THAT NATIONAL GRID PROPOSES TO FLOW TO ITS FIRM SERVICE CUSTOMERS, WHAT IS THE LEVEL OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR THAT THE COMPANY HAS COMPUTED?

A. Corrected Attachment PCC-5, filed September 23, 2008 computes a proposed MC Factor of (**$0.0076) per therm** for the November 2008 through October 2009 DAC period.

Q. DO YOU FIND ANY OTHER REASONS TO QUESTION THE ACCURACY OF THE COMPANY'S DETERMINATION OF ITS MARGINS ON NON-FIRM GAS SERVICE FOR THE TWELVE MONTHS ENDED JUNE 30, 2008?

A. I do. The gas costs that National Grid has used in pricing its Non-Firm Sales service generally do not reflect the actual gas costs that the Company incurs to serve those customers. If Non-Firm Sales Service customers requirements were perfectly uniform across the days of each month, and the Company in fact purchased the entirety of its Non-Firm Sales Service gas supply requirements for each month at the gas cost used in setting the Company's prices of that service each month, then there would be no difference between the Company's actual revenue margins for Non-Firm Sales Service and the margins that National Grid has computed in support of its Non-Firm Margin Revenue determinations. However, neither Non-Firm Sales Service customers' volume requirements nor the Company's incremental costs of gas supply are constant throughout any month. At times, such fluctuation in daily service requirements and daily gas costs allow the Company to buy gas to meet Non-Firm Sales Service gas supply requirements at costs below the measure of gas cost used for pricing purposes. At other times, National Grid must incur daily gas costs in excess of the monthly gas cost used for pricing purposes to meet Non-Firm Sales Service customers' gas supply requirements.

Q. WHY IS PROPER RECOGNITION OF THE ACTUAL GAS COSTS INCURRED BY NATIONAL GRID TO SUPPLY NON-FIRM GAS SALES SERVICE CUSTOMERS CRITICAL?

A. As noted at the bottom of Attachment PCC-5, page 3 of 12, "*Any change in the gas costs* [for Non-Firm Sales Service customers] *results in shifting the gas costs between firm sales service and non-firm.*" This occurs because the Company has failed to segregate its purchases of gas for Non-Firm Sales Service from those that it incurs for Firm Sales Service.

In Docket No. 3943 the Company has proposed to terminate its provision of Non-Firm Gas Sales Service and the Division has supported that proposal. If the termination of Non-firm Sales Service is approved by the Commission in Docket No. 3943, problems associated with the proper identification of gas costs for Non-Firm customers will ultimately be eliminated. However, a decision to continue the Company's offering of Non-Firm Gas Sales Service will necessitate changes in the manner in which National Grid determines its costs of gas for Non-Firm Sales Service.

Q. IS THERE ANY EVIDENCE THAT FIRM SERVICE CUSTOMERS BENEFIT FROM THE COMPANY'S INTEGRATION OF ITS PURCHASES OF FIRM AND NON-FIRM GAS SUPPLIES?

A. No. As priced by National Grid, Non-Firm Gas Sales Service customers are charged none of the Company's fixed gas supply related costs. Thus, there are <u>**no**</u> fixed costs that can be spread over a greater number of units of service as a result of the Company's comingling of Firm and Non-Firm gas supply purchase requirements. In essence, the Company's determination of Non-Firm Gas Costs enables Non-Firm Sales Service customers to purchase gas at the Company's city gas without any responsibility for the pipeline capacity used to deliver such gas to the city gate. Furthermore, this practice is inconsistent with the manner in which gas supplies are priced to Non-Firm customers in competitive retail markets.

Q. HOW IS THE COMPANY'S DETERMINATION OF NON-FIRM GAS COSTS INCONSISTENT WITH THE PRICING OF NON-FIRM GAS SUPPLIES IN COMPETITIVE RETAIL MARKETS?

A. In competitive retail markets non-firm customers must generally pay "basis" charges for gas supplied (in addition to gas commodity costs) that effectively incorporate pipeline capacity costs. Their interruptible status may yield a somewhat lesser average "basis" cost than a firm service customer would pay, but even strictly off-peak users of gas supply and customers who are subject to frequent and/or enduring service interruption during winter months typically pay significant "basis" charges. In addition, most competitive non-firm gas supply contracts include "swing allowances" (i.e., typically plus or minus 10%) which limit the extent to which a non-firm customer's monthly and/or daily purchases may vary from contractually established levels without the customer incurring additional gas supply charges.

By contrast, the only costs of gas considered in National Grid's assessment on non-firm gas costs are natural gas commodity costs, and in the assessment of non-firm margin revenue, those commodity costs are premised on a measure of gas costs at which supplies could be obtained (without consideration of variations in daily service requirements) prior to the start of each month. Even if National Grid actually attempted to purchase all of its estimated Non-Firm Sales Service requirements prior to the start of a month, unpredictable fluctuations in daily requirements would cause its actual gas supply costs for Non-Firm Sales Service to deviate from its beginning of month gas cost estimates.

It should be noted that, under the Company's current value-of-service pricing for Non-Firm Sales Service customers, Non-Firm customers are not harmed by, or benefit from, the Company's failure to properly represent its non-firm costs of gas since their pricing is determined primarily by reference to their alternate fuel costs. Rather, as I will explain below, it is the Company that benefits.

Q. WHAT ARE THE DIVISION'S RECOMMENDATIONS WITH RESPECT TO THE COMPANY'S CALCULATION OF NON-FIRM MARGIN CREDITS IN THIS PROCEEDING?

A. First, the Division recommends that for the purpose of establishing a new DAC, the Company's September 23, 2008 Non-Firm margin calculations for FY 2008 be accepted subject to the Division's further review and the possibility of future recommendations for revisions. Second, the Division recommends that the Company's proposed adjustments to its FY 2007 Non-Firm margin calculations should be denied based on the Company's failure to provide adequate supporting explanations and data for the "updated" information provided in Attachment PCC-5, page 3 of 12. Although the Company indicates in witness Czekanski's August 1, 2008 testimony that its adjustments to FY 2007 margin determinations were primarily related to gas costs, it does not explain what caused its earlier misstatement of its Non-Firm gas cost determinations, nor does the Company provided any demonstration that the change in its assessment of Non-Firm gas costs for FY 2007 has been properly reflected in GCR determinations. For these reasons, the Commission should reject National Grid's proposed adjustments to the Company's FY 2007 Non-Firm revenue margins.

Q. HAVE YOUR COMPUTED THE IMPACT THAT REJECTION OF THE COMPANY'S PROPOSED FY 2007 ADJUSTMENT TO NON-FIRM REVENUE MARGINS WOULD HAVE ON ITS PROPOSED ON-SYSTEM MARGIN CREDIT IN THIS PROCEEDING?

A. Yes. Exhibit BRO-4 shows revised MC Factor computations, and presents the Division's recommended On-System Margin Credit Factor of **($0.0080) per therm.**

F. Weather Normalization Factor

Q. WHAT IS THE INTENDED ROLE OF NATIONAL GRID'S WEATHER NORMALIZATION FACTOR?

A. The Weather Normalization (WN) Factor provides a mechanism for moderating the impacts of weather on the Company's base revenue. When winter weather, as measured in Heating Degree Days (HDDs), is warmer than normal, National Grid's collection of fixed costs through its charges for distribution service declines below the level anticipated under normal weather conditions. If the resulting decline in heating degree days is significant, a positive Weather Normalization Factor is computed for the subsequent DAC period to compensate the Company for a portion of the revenue foregone due to reduced system throughput. On the other hand, colder than normal winter weather causes system throughput and distribution charge revenue to increase relative to expected revenue levels under normal weather conditions. If recorded HDDs are greater than anticipated normal degree day levels, a negative Weather Normalization Factor (credit) returns a measure of excess revenue collections to customers during the subsequent DAC period.

However, the Weather Normalization Factor only addresses heating degree days recorded for each year that are more than 2% above or below normal heating degree day levels when accumulated over the defined winter season (i.e., the months of November through April). If recorded actual HDDs are within plus or minus 2% of normal levels for the winter season, no adjustment to revenue is permitted and the Weather Normalization Factor for the subsequent DAC period is zero. On the other hand, if total HDDs for the winter season are beyond the range defined by normal HDD expectations plus or minus 2%, each heating degree day beyond that range is multiplied by $9,000 per degree day to obtain the total dollar amount to be recovered from, or credited to, customers through the Weather Normalization Factor.

Q. WAS THE 2007-2008 WINTER SEASON A SUFFICIENTLY WARMER OR COLDER THAN NORMAL TO TRIGGER THE COMPUTATION OF A NON-ZERO WEATHER NORMALIZATION FACTOR FOR NATIONAL GRID?

A. No. As shown in Attachment PCC-6 filed with Mr. Czekanski's August 1, 2008 testimony in this docket, the actual number of heating degree days (HDDs) for the months of November 2007 through April 2008 was **4,737**. As a result, actual heating degree days for that period were 70 HDDs below normal. However, the lower bound of the plus or minus 2% dead band around Normal Heating Degree Days was 4,711 HDDs. Thus, the Company's filing reflects no weather normalization adjustment for the winter of 2007-08, and the Company's proposed WN Factor is **$0.0000 per therm**.

Q. DO YOU FIND ANY BASIS FOR QUESTIONING THE COMPANY'S DEGREE DAY CALCULATIONS FOR THE WINTER OF 2007-08?

A. No, I do not.

G. Reconciliation Factor

Q. HOW IS THE RECONCILIATION (R) FACTOR COMPUTED?

A. The Reconciliation (R) Factor component of the Company's DAC adjusts for differences between revenue collections associated with each component of DAC and either actual costs or budgeted revenue by component, adjusted for interest on deferred balances. In this proceeding, the R Factor computations include reconciling adjustments for Advanced Gas Technology (formerly Demand Side Management), Low Income Assistance, Environmental Response Costs (both in Base Rates and in the DAC), System Pressure, On-System Margin Credits, Weather Normalization, Earnings Sharing, and the previous Reconciliation Factor.

Q. WHAT IS THE RESULT OF NATIONAL GRID'S "R" FACTOR COMPUTATIONS?

A. Updated Attachment PCC-7, page 1 of 9, reflects a Reconciliation Factor of $0.0010 per therm for application during the Company's 2007-2008 DAC period. The Company's proposed R Factor, thus, results in a net charge to customers for the November 2008 – October 2009 period.

Q. ARE THE RECONCILING ADJUSTMENTS COMPUTED AS PART OF THE "R" FACTOR COMPONENT OF THE DAC REASONABLE AND APPROPRIATE?

A. In general, they are. However, I find that in the reconciliation of Environmental costs and revenues National Grid's has not properly recognized the $1.17 million of environmental insurance settlement proceeds it received during FY 2008. The significance of this oversight is amplified by the fact that the vast majority of those funds which were received by the Company within the first month of its 2008 fiscal year, and therefore the Company had use of those funds throughout most of FY 2008. The results of this omission include (1) a denial of noticeable benefits for Firm customers in terms of interest that should have been accrued; and (2) the Company's effective use of those funds use of those funds at no cost for most of FY 2008.

Q. HOW SHOULD THE REFERENCED INSURANCE PROCEEDS HAVE BEEN REFLECTED IN THE DEVELOPMENT OF THE COMPANY'S RECONCILIATION (R) FACTOR?

A. The Company's response to Division Data Request DIV 1-8 includes copies of checks and related documents that were used to convey environmental insurance settlement proceeds to National Grid from Southern Union. One check in the amount of $1,110,345 is dated July 13, 2007. A second check is for $60,422 is dated May 5, 2008. These insurance proceeds should be reflected in the environmental reconciliations found on page 3 of witness Czekanski's Attachment PCC-7 as a credit to the Company's "Actual Environmental Collections." By doing so, such proceeds impact the "Ending Environmental Balance" for the month in which they are received and for all subsequent months of the fiscal year, and changes in those balances impact the computation of "Interest Applied."

Q. HAVE YOU CORRECTED THE COMPANY'S ENVIRONMENTAL RECONCILIATION CALCULATIONS?

A. Yes, I have. Exhibit BRO-5 provides the Company's September 2, 2008 Environment reconciliation calculations from page 3 of Updated Attachment PCC-7 which was filed with witness Czekanski's September 2, 2008, testimony as well as a revised version of those calculations that includes the referenced insurance settlement proceeds. For clarity, "Insurance Settlement Proceeds" are shown on a separate line. As demonstrated by Exhibit BRO-5, inclusion of the actual Insurance Settlement Proceeds in the reconciliation of National Grid's environmental costs raises the "Applied Interest" benefit for firm customers by **$51,198** and changes the result of the environmental reconciliation from a $5,216 over-collection to a **$56,415** over-collection.

Q. WHAT IMPACT DOES YOUR CORRECTION OF THE COMPANY'S ENVIRONMENTAL RECONCILIATIONS HAVE ON THE "R" FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. Exhibit BRO-6 provides a comparison of the Company's calculated "R" Factor and the revised "R" Factor that I compute based on the previously discussed revision to National Grid's environmental reconciliation calculations. The Division's revised environmental reconciliations lower slightly the "R" factor from $0.0010 to **$0.0009**.

<u>H. Distribution Adjustment Charge Summary</u>

Q. PLEASE SUMMARIZE THE CHANGES THAT YOU PROPOSE TO THE COMPANY'S FILED DAC?

A. In this testimony I propose changes to the System Pressure (SP) Factor, the Advanced Gas Technology (AGT) Factor, the On-System Margin Credits (MC)

Factor, and the Reconciliation (R) Factor. Those changes are summarized in Exhibit BRO-7. I have expressed some reservations regarding the reliability of the Company's Environmental Response Cost (ERC) Factor and the Company's On-System Margin Credit determinations, but at this time I have posed no change in those factors. Exhibit BRO-7 also includes an update of the Uncollectible Percentage to reflect the increase from 2.10% to 2.46% that National Grid has proposed in Docket No. 3943. The composite of those changes yields a DAC, adjusted for uncollectibles, of **($0.0066)** per therm.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

Exhibit BRO - 1

November 12, 2008

National Grid - RI Gas

Docket No. 3977

Computation of Revised System Pressure (SP) Factor for National Grid

	LNG Commodity Related Costs			
	Commodity Withdrawal	Inventory Costs	Demand From GCR	Total
Nov-08	$ 196,029	$ 83,569	$ 157,500	$ 437,098
Dec-08	$ 358,851	$ 83,187	$ 252,500	$ 694,538
Jan-09	$ 1,112,712	$ 76,551	$ 252,500	$ 1,441,763
Feb-09	$ 1,517,738	$ 64,845	$ 252,500	$ 1,835,083
Mar-09	$ 254,929	$ 62,348	$ 157,500	$ 474,777
Apr-09	$ 196,772	$ 63,951	$ 157,500	$ 418,223
May-09	$ 201,339	$ 66,235	$ 157,500	$ 425,074
Jun-09	$ 192,821	$ 68,435	$ 157,500	$ 418,756
Jul-09	$ 197,620	$ 72,977	$ 157,500	$ 428,097
Aug-09	$ 197,104	$ 77,584	$ 157,500	$ 432,188
Sep-09	$ 190,467	$ 82,856	$ 157,500	$ 430,823
Oct-09	$ 196,291	$ 81,388	$ 157,500	$ 435,179
Total	$ 4,812,672	$ 883,925	$ 2,175,000	$ 7,871,598
System Balancing Factor (Dkt 3401)	0.2039	0.2039	0.2039	
GCR Costs Allocated to DAC	$ 981,304	$ 180,232	$ 443,483	$ 1,605,019
Firm Throughput in Dth				36,073,744
NGrid System Pressure Factor ($ / Dth)				$ 0.0445
NGrid System Pressure Factor ($ / therm)				$ 0.0044
Revised System Balancing Factor (Dkt 3943) 1/	0.1610	0.1610	0.1610	
GCR Costs Allocated to DAC	$ 774,840	$ 142,312	$ 350,175	$ 1,267,327
Firm Throughput in Dth				36,073,744
Revised System Pressure Factor ($ / Dth)				$ 0.0351
Revised System Pressure Factor ($ / therm)				**$ 0.0035**

1/ No party in Docket No. 3943 has challenged the Company's proposed revision to its System Balancing Factor.

National Grid - RI Gas

Docket No. 3977

Computation of Revised Advanced Gas Technology (AGT) Factor for National Grid

Annual Funding Presently Embedded in Base Rates	$ 301,496
Proposed DAC Offset for the Nov 2008 - Oct 2009	$ (301,496)
Annual Firm Gas (in Dth)	36,073,744
Revised AGT Factor for Nov 2008 - Oct 2009 ($ / Dth)	(0.0084)
Revised AGT Factor for Nov 2008 - Oct 2009 ($ / therm)	**(0.0008)**

Exhibit BRO - 3
November 12, 2008

National Grid - RI Gas
Docket No. 3977

Comparison of Claimed Environmental Response Costs By Project With Reported Invoiced Costs By Project for FY 2008

Project No.	Project Description	Annual Environmental Report	Docket 3977 Claimed Cost	DIV 1-8 Invoiced Costs	Difference Claimed Less Invoiced
907 & 908	Allens Avenue	$ 62,864	$ 62,864	$ 55,110	**$ 7,754**
306	Insur Pol no Pollution Excl	$ -	$ -	$ -	**$ -**
307	PCB Reg Pipe Abandonment	$ 34,300	$ 34,300	$ 34,033	**$ 267**
309	Manchester Street	$ -	$ -	$ -	**$ -**
317	Plympton	$ -	$ -	$ -	**$ -**
379	Petroleum Site	$ 3,783	$ 3,783	$ 3,057	**$ 726**
700	18 & 21 Holders COR	$ 29,562	$ 29,562	$ 21,325	**$ 8,237**
161	Canal Street, Westerly	$ -	$ -	$ -	**$ -**
963	Narr Electric, South St.	$ -	$ -	$ -	**$ -**
170	IAG Insurance Investment	$ -	$ -	$ -	**$ -**
170	General Enviro Issues	$ -	$ -	$ -	**$ -**
178	Site Inv Connell Hwy Newport	$ -	$ -	$ -	**$ -**
144	Westerly Soil Investigation	$ -	$ -	$ -	**$ -**
171	Contaminated Regulators	$ 535,019	$ 535,019	$ 518,555	**$ 16,464**
781	Mendon Road	$ -	$ -	$ -	**$ -**
782	Tidewater	$ 8,412	$ 8,412	$ 9,265	**$ (853)**
783	Hamlet	$ -	$ -	$ -	**$ -**
784	Environmental Study	$ -	$ -	$ -	**$ -**
785	Gooding Ave	$ -	$ -	$ -	**$ -**
786	Plympton	$ -	$ -	$ -	**$ -**
787	Site Inv 19 Brown St, Warren, RI	$ -	$ -	$ -	**$ -**
--	Thames & Wellington	$ 311,408	$ 311,408	$ 327,094	**$ (15,686)**
--	Miscellaneous MPG	$ 1,938	$ -	$ 1,050	**$ (1,050)**
	Total	$ 987,286	$ 985,348	$ 969,489	**$ 15,859**

Exhibit BRO - 4
November 12, 2008

National Grid - RI Gas
Docket No. 3977

Division Revised On-System Margin Credit Factor Calculations

Line No.	Description	Reference	Division Position
1	FY 2008 Non-Firm Margin in Excess of Threshold	Corrected PCC-5, page 2, filed 09/23/08	$ 3,842,307
2	FY 2007 Adjustment	Division Witness Oliver	$ (0)
3	Total	[1] + [2]	$ 3,842,307
4	Company 25%	[3] * 0.25	$ 960,577
5	Customers 75%	[3] * 0.75	$ 2,881,730
6	Annual Firm Volumes - Nov 08 - Oct 09 (in Dth)	Corrected PCC-5, page 1, filed 09/23/08	36,073,744
7	On-System Margin per Dth	[5] / [6]	$ 0.0799
8	**On-System Margin Credit (MC) Factor ($ / therm)**	[7] / 10	**$ 0.0080**

Exhibit BRO - 5
November 12, 2008

National Grid - RI Gas
Docket No. 3977

The Division's Revised Calculation of National Grid's Environment al - Base Rate Reconciliation for FY 2008

Line No.		Jun-03 31 (actual)	Jul-03 31 (actual)	Aug-03 30 (actual)	Sep-03 31 (actual)	Oct-03 30 (actual)	Nov-03 31 (actual)	Dec-03 31 (actual)	Jan-04 29 (actual)	Feb-04 31 (actual)	Mar-04 30 (actual)	Apr-04 31 (actual)	May-04 30 (actual)	**Twelve Months Ended June 30, 2008**
		Base Rate/ Fiscal Year Reconciling Components												
	Environmental Reconciliation Adjustment - Base Rates -- AS FILED BY NATIONAL GRID												Target Collection	$ 1,310,000
1	Environmental Recon. Acct Beg. Bal.	$ -	$ (664)	$ (219)	$ (273)	$ 10,167	$ 21,304	$ 10,540	$ 1,586	$ 7,693	$ 11,059	$ 9,853	$ 2,092	
2	Fcst Firm Thru-put Acct. Beg. Bal.	1,062,847	1,043,395	1,126,112	1,528,945	2,471,545	3,858,840	5,353,921	5,771,059	5,148,808	3,616,705	2,211,777	1,346,413	34,540,367
3	Fcst Environmental Collections	$ 40,282	$ 39,545	$ 42,680	$ 57,947	$ 93,672	$ 146,250	$ 202,914	$ 218,723	$ 195,140	$ 137,073	$ 83,826	$ 51,029	$ 1,309,081
4	Actual Firm Thru-put	1,080,325	1,031,605	1,127,532	1,254,120	2,179,572	4,144,752	5,590,839	5,610,324	5,060,771	3,649,233	2,416,968	1,563,363	34,709,404
5	Actual Environmental Collections	$ 40,944	$ 39,098	$ 42,733	$ 47,531	$ 82,606	$ 157,086	$ 211,893	$ 212,631	$ 191,803	$ 138,306	$ 91,603	$ 59,251	$ 1,315,485
6	Collection Variance	$ (662)	$ 447	$ (53)	$ 10,416	$ 11,066	$ (10,836)	$ (8,979)	$ 6,092	$ 3,337	$ (1,233)	$ (7,777)	$ (8,222)	
7	Insurance Settlement Proceeds	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	
8	Ending Environmental Balance	$ (662)	$ (217)	$ (272)	$ 10,143	$ 21,233	$ 10,468	$ 1,561	$ 7,678	$ 11,030	$ 9,826	$ 2,076	$ (6,130)	
9	Average Balance	$ (331)	$ (440)	$ (246)	$ 4,935	$ 15,700	$ 15,886	$ 6,050	$ 4,632	$ 9,361	$ 10,442	$ 5,965	$ (2,019)	
10	Bank of America Rate Less 200 Basis Pts	6.25%	6.25%	6.03%	5.74%	5.50%	5.33%	4.97%	4.00%	3.60%	3.24%	3.00%	3.00%	
11	Interest Applied	$ (2)	$ (2)	$ (1)	$ 24	$ 71	$ 72	$ 26	$ 15	$ 29	$ 28	$ 15	$ (5)	$ 269
12	Environmental End Balance	$ (664)	$ (219)	$ (273)	$ 10,167	$ 21,304	$ 10,540	$ 1,586	$ 7,693	$ 11,059	$ 9,853	$ 2,092	$ (6,135)	
13	Under/(Over) Recovery	$ (660)	$ 449	$ (52)	$ 10,392	$ 10,995	$ (10,908)	$ (9,005)	$ 6,077	$ 3,308	$ (1,261)	$ (7,792)	$ (8,217)	$ (5,216)
	Environmental Reconciliation Adjustment - Base Rates -- WITH DIVISION CHANGES												Target Collection	$ 1,310,000
14	Environmental Recon. Acct Beg. Bal.	$ -	$(1,113,956)	$(1,119,421)	$(1,125,022)	$(1,120,065)	$(1,114,037)	$(1,129,941)	$(1,143,708)	$(1,141,242)	$(1,141,389)	$(1,145,663)	$(1,216,868)	
15	Fcst Firm Thru-put Acct. Beg. Bal.	1,062,847	1,043,395	1,126,112	1,528,945	2,471,545	3,858,840	5,353,921	5,771,059	5,148,808	3,616,705	2,211,777	1,346,413	34,540,367
16	Fcst Environmental Collections	$ 40,282	$ 39,545	$ 42,680	$ 57,947	$ 93,672	$ 146,250	$ 202,914	$ 218,723	$ 195,140	$ 137,073	$ 83,826	$ 51,029	$ 1,309,081
17	Actual Firm Thru-put	1,080,325	1,031,605	1,127,532	1,254,120	2,179,572	4,144,752	5,590,839	5,610,324	5,060,771	3,649,233	2,416,968	1,563,363	34,709,404
18	Actual Environmental Collections	$ 40,944	$ 39,098	$ 42,733	$ 47,531	$ 82,606	$ 157,086	$ 211,893	$ 212,631	$ 191,803	$ 138,306	$ 91,603	$ 59,251	$ 1,315,485
19	Collection Variance	$ (662)	$ 447	$ (53)	$ 10,416	$ 11,066	$ (10,836)	$ (8,979)	$ 6,092	$ 3,337	$ (1,233)	$ (7,777)	$ (8,222)	
20	Insurance Settlement Proceeds	$(1,110,345)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (60,422)	$ -	
21	Ending Environmental Balance	$(1,111,007)	$(1,113,509)	$(1,119,474)	$(1,114,606)	$(1,108,999)	$(1,124,873)	$(1,138,920)	$(1,137,616)	$(1,137,905)	$(1,142,622)	$(1,213,862)	$(1,225,090)	
22	Average Balance	$ (555,504)	$(1,113,732)	$(1,119,447)	$(1,119,814)	$(1,114,532)	$(1,119,455)	$(1,134,430)	$(1,140,662)	$(1,139,573)	$(1,142,005)	$(1,179,763)	$(1,220,979)	
23	Bank of America Rate Less 200 Basis Pts	6.25%	6.25%	6.03%	5.74%	5.50%	5.33%	4.97%	4.00%	3.60%	3.24%	3.00%	3.00%	
24	Interest Applied	$ (2,949)	$ (5,912)	$ (5,548)	$ (5,459)	$ (5,038)	$ (5,068)	$ (4,789)	$ (3,625)	$ (3,484)	$ (3,041)	$ (3,006)	$ (3,011)	$ (50,930)
25	Environmental End Balance	$(1,113,956)	$(1,119,421)	$(1,125,022)	$(1,120,065)	$(1,114,037)	$(1,129,941)	$(1,143,708)	$(1,141,242)	$(1,141,389)	$(1,145,663)	$(1,216,868)	$(1,228,101)	
26	Under/(Over) Recovery	$ 2,287	$ 6,359	$ 5,495	$ 15,875	$ 16,104	$ (5,768)	$ (4,190)	$ 9,717	$ 6,821	$ 1,808	$ (4,771)	$ (5,211)	**$ (56,415)**

Exhibit BRO - 6
November 12, 2008

National Grid - RI Gas
Docket No. 3977

Revised Reconciliation (R) Factor for National Grid

Line No.	Description	Reference	Ending Balance: As Filed By NGrid	Ending Balance: Division Position
1	AGT Factor - Base Rates	PCC-7, p. 2	$ (414)	$ (414)
2	LIAP Factor - Base Rates	PCC-7, p. 2	$ (7,151)	$ (7,151)
3	Environmental - Base Rates	PCC-7, p. 3	$ (5,216)	**$ (56,415)**
4	System Pressure Factor	PCC-7, p. 4	$ 307,918	$ 307,918
5	Environmental - DAC	PCC-7, p. 4	$ 14,337	$ 14,337
6	On-System Margin Credits (MC)	PCC-7, p. 5	$ 16,372	$ 16,372
7	Weather Normalization (WN) Factor	PCC-7, p. 5	$ (3,741)	$ (3,741)
8	Earnings Sharing Mechanism (ESM)	PCC-7, p. 5	$ 10,158	$ 10,158
9	Previous Reconciliation (R) Factor	PCC-7, p. 6	$ 40,426	$ 40,426
10	Total		$ 372,689	$ 321,490
11	Projected Firm Throughput in Dth	Nov 2008 - Oct 2009	36,073,744	36,073,744
12	Reconciliation Factor in $ / Dth	Line 10 / Line 11	$ 0.0103	$ 0.0089
13	**Reconciliation Factor in $ / Therm**	Line 12 / 10	$ 0.0010	$ 0.0009

National Grid - RI Gas
Docket No. 3977

Division Revised DAC Summary & Comparison to National Grid's Udpated DAC

		Ending Balance	
Line No.	**Description**	**As Filed By NGrid**	**Division Position**
1	System Pressure (SP) Factor	$ 0.0044	$ 0.0035
2	Advanced Gas Technology (AGT) Factor	$ -	$ (0.0008)
3	Low Income Assistance Program (LIAP) Factor	$ -	$ -
4	Environmental Response Cost (ERC) Factor	$ (0.0020)	$ (0.0020)
5	On-System Margin Credit (MC) Factor	$ (0.0076)	$ (0.0080)
6	Weather Normalization (WN) Factor	$ -	$ -
7	Earnings Sharing Mechanism (ESM)	$ -	$ -
8	Reconciliation (R) Factor	$ 0.0010	$ 0.0009
9	Subtotal	$ (0.0042)	$ (0.0064)
10	Uncollectible Percentage	2.10%	2.46%
11	**DAC Adjusted for Uncollectibles**	$ (0.0043)	**$ (0.0066)**