

November 25, 2008

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Division Clerk
RI Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02888

RE: National Grid – Docket 3982 Gas Cost Recovery Compliance Filing

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of National Grid's compliance filing in its Annual Gas Cost Recovery filing. This filing consists of Compliance Attachments PCC-1, PCC-2, and GLB-8.

Compliance Attachment PCC-1 reflects changes approved in the Company's base rate filing in Docket No. 3943. Compliance Attachment PCC-2 incorporates the Commission-approved Marketer Transportation Factors, while Compliance Attachment GLB-8 provides the revised section III E to the Gas Procurement Incentive Plan that was approved by the Commission. The bill impact associated with these changes will be incorporated in the Company's compliance filing in Docket No. 3943.

If you have any questions, please contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosures

Cc: Paul Roberti, Esq.
Steve Scialabba
Bruce Oliver

(\$ per Dth)

Line No.	Description (a)	Reference (b)	Residential Non-Heat (c)	Residential Heat (d)	Small C&I (e)	Medium C&I (f)	Large LLF (g)	Large HLF (h)	Extra Large LLF (i)	Extra Large HLF (j)	FT-2 Mktkr (k)	NGV (l)
1	Supply Fixed Cost Factor	pg. 2	\$0.5409	\$0.7783	\$0.7783	\$0.7783	\$0.7783	\$0.5409	\$0.7783	\$0.5409	n/a	
2	Storage Fixed Cost Factor	pg. 3	\$0.2148	\$0.3082	\$0.3082	\$0.3082	\$0.3082	\$0.2148	\$0.3082	\$0.2148	\$0.2917	
3	Supply Variable Cost Factor	pg. 4	\$8.1815	\$8.1815	\$8.1815	\$8.1815	\$8.1815	\$8.1815	\$8.1815	\$8.1815	n/a	\$8.1815
4a	Storage Variable Product Cost Factor	pg. 5	\$1.3244	\$1.3244	\$1.3244	\$1.3244	\$1.3244	\$1.3244	\$1.3244	\$1.3244	n/a	
4b	Storage Variable Non-product Cost Factor	pg. 5	\$0.1129	\$0.1129	\$0.1129	\$0.1129	\$0.1129	\$0.1129	\$0.1129	\$0.1129	\$0.1129	
5	Total Gas Cost Recovery Charge	(1)+(2)+(3)+(4)	\$10.3745	\$10.7053	\$10.7053	\$10.7053	\$10.7053	\$10.3745	\$10.7053	\$10.3745	\$0.4046	\$8.1815
6	Uncollectible %	Docket 3943	2.46%	2.46%	2.46%	2.46%	2.46%	2.46%	2.46%	2.46%	2.46%	2.46%
7	Total GCR Charge adjusted for Uncollectibles	(5) / [(1 - (6))]	\$10.6361	\$10.9753	\$10.9753	\$10.9753	\$10.9753	\$10.6361	\$10.9753	\$10.6361	\$0.4148	\$8.3878
8	GCR Charge on a per therm basis	(7) / 10	\$1.0636	\$1.0975	\$1.0975	\$1.0975	\$1.0975	\$1.0636	\$1.0975	\$1.0636	\$0.0415	\$0.8388
	Current rate effective 7/15/08 difference		\$1.2269 (\$0.1633) -13.3%	\$1.2269 (\$0.1294) -10.5%	\$1.2269 (\$0.1294) -10.5%	\$1.2260 (\$0.1285) -10.5%	\$1.2300 (\$0.1325) -10.8%	\$1.2039 (\$0.1403) -11.7%	\$1.2269 (\$0.1294) -10.5%	\$1.1938 (\$0.1302) -10.9%	\$0.0501 (\$0.0086) -17.2%	\$0.9326 (\$0.0938) -10.1%

Line No.	Description (a)	Reference (b)	Amount (c)	Residential Heating (d)	Small C&I (e)	Medium C&I (f)	Large LLF (g)	Extra Large LLF (h)	Low Load Factor Total (i)	Residential Non-Heat (j)	Large HLF (k)	Extra Large HLF (l)	High Load Factor Total (m)	Line No.
1	Supply Fixed Costs (net of Cap Rel)	GLB-1	\$21,600,984											1
2	Less:													2
3	Capacity Release Revenues	GLB-1	\$0											3
4	Interruptible Costs		\$0											4
5	Non-Firm Sales Costs		\$0											5
6	Off-System Sales Margin		\$0											6
7	Refunds		\$0											7
8	Total Credits	sum[(3):(7)]	\$0											8
9	Plus:													9
10	Working Capital Requirement	pg 8	\$164,768											10
11	Reconciliation Amount	pg 6	(\$2,232,818)											11
12	Total Additions	(10) + (11)	(\$2,068,050)											12
13	Total Supply Fixed Costs	(1) - (8) + (12)	\$19,532,934											13
14	Design Winter Sales Percentage	pg 13		67.20%	9.25%	14.58%	5.12%	0.48%	96.63%	1.49%	1.28%	0.61%	3.37%	14
15	Allocated Supply Fixed Costs	(13) x (14)		\$13,125,269	\$1,806,928	\$2,848,700	\$1,000,090	\$93,546	\$18,874,534	\$290,251	\$249,875	\$118,274	\$658,400	15
16	Sales (Dt) Dec 2008 - Oct 2009	pg 12	25,468,433	16,873,407	2,234,886	3,819,273	1,198,477	125,212	24,251,254	523,332	443,935	249,912	1,217,179	16
17	Supply Fixed Factor	(15) / (16)							\$0.7783				\$0.5409	17

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Fixed Cost Calculation (\$ per Dth)
December 2008 - October 2009

Line No.	Description (a)	Reference (b)	Amount (c)	Residential Heating (d)	Small C&I (e)	Medium C&I (f)	Large LLF (g)	Extra Large LLF (h)	Low Load Factor Total (i)	Residential Non-Heat (j)	Large HLF (k)	Extra Large HLF (l)	High Load Factor Total (m)	Line No.
1	Storage Fixed Costs	GLB-1	\$8,566,385											1
2	Less:													2
3	LNG Demand to DAC	GLB 2/Dkt 3943	\$338,940											3
4	Credits		\$0											4
5	Refunds		\$0											5
6	Total Credits	sum [(3):(5)]	\$338,940											6
7	Plus:													7
8	Supply Related LNG O&M Costs	Docket 3943	\$567,042											8
9	Working Capital Requirement	pg 8	\$67,083											9
10	Reconciliation Amount	pg 6	(\$865,243)											10
11	Total Additions	sum [(8):(10)]	(\$231,118)											11
12	Total Storage Fixed Costs	(1) - (6) + (11)	\$7,996,326											12
13	Design Winter Throughput Percentage	pg 13		65.11%	8.96%	15.81%	6.07%	0.52%	96.47%	1.44%	1.46%	0.63%	3.53%	13
14	Allocated Storage Fixed Costs	(12) x (13)		\$5,206,337	\$716,745	\$1,264,122	\$485,120	\$41,693	\$7,714,017	\$115,133	\$116,961	\$50,215	\$282,309	14
15	Throughput (Dt) Dec 08 - Oct 09	pg 12	26,344,428	16,873,407	2,234,886	4,314,216	1,470,177	137,508	25,030,193	523,332	524,495	266,408	1,314,235	15
16	Storage Fixed Factor	(14) / (15)							\$0.3082				\$0.2148	16

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Variable Cost Calculation (\$ per Dth)
December 2008 - October 2009

<u>Line No.</u>	<u>Description</u>	<u>Reference</u>	<u>Amount</u>	<u>Line No.</u>
1	Variable Supply Costs	GLB 1	\$190,181,397	1
2	Less:			2
3	Non-Firm Sales		\$0	3
4	Variable Delivery Storage Costs	GLB 2/ PCC 7 p5	\$216,629	4
5	Variable Injection Storage Costs	GLB 2/ PCC 7 p5	\$72,665	5
6	Fuel Costs Allocated to Storage	GLB 2/ PCC 7 p5	\$2,210,288	6
7	Refunds		\$0	7
8	Total Credits	sum [(3):(7)]	<u>\$2,499,582</u>	8
9	Plus:			9
10	Working Capital	pg 9	\$1,431,602	10
11	Reconciliation Amount	pg 6	<u>\$19,257,064</u>	11
12	Total Additions	(10)+(11)	\$20,688,666	12
13	Total Variable Supply Costs	(1)-(8)+(12)	<u>\$208,370,481</u>	13
14	Sales (Dt) Dec 2008 - Oct 2009	pg 12	25,468,433	14
15	Supply Variable Cost Factor	(13)/(14)	<u>\$8.1815</u>	15

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Variable Cost Calculation (\$ per Dth)
December 2008 - October 2009

Line No.	Description	Reference	Amount	Line No.
1	Storage Variable Product Costs	GLB 1	\$38,632,729	1
2	Less:			2
3	Balancing Related LNG Costs (to DAC)	GLB 2/Dkt 3943	\$775,596	3
4	Refunds		\$0	4
5	Total Credits	(3)+(4)	<u>\$775,596</u>	5
6	Plus:			6
7	Supply Related LNG O&M	Docket 3943	\$394,285	7
8	Working Capital	pg 9	\$291,775	8
9	Inventory Financing - LNG (Supply)	pg 11	\$712,456	9
10	Inventory Financing - Storage	pg 11	\$1,896,153	10
11	Inventory Financing - LP	pg 11	\$0	11
12	Reconciliation Amount	pg 7	<u>(\$7,421,641)</u>	12
13	Total Additions	sum[(7):(12)]	<u>(\$4,126,972)</u>	13
14	Total Storage Variable Costs	(1)-(5)+(13)	<u>\$33,730,160</u>	14
15	Sales (Dt) Dec 2008 - Oct 2009	pg 12	25,468,433	15
16	Storage Variable Product Cost Factor	(14) / (15)	<u>\$1.3244</u>	16
17	Storage Variable Non-Product Costs	GLB 1	\$1,884,632	17
18	Less:			18
19	Refunds		\$0	19
20	Total Credits		<u>\$0</u>	20
21	Plus:			21
22	Variable Delivery Storage Costs	pg 4	\$216,629	22
23	Variable Injection Storage Costs	pg 4	\$72,665	23
24	Fuel Costs Allocated to Storage	pg 4	\$2,210,288	24
25	Working Capital	pg 10	\$14,376	25
26	Inventory Financing - Storage	pg 11	\$0	26
27	Reconciliation Amount	pg 7	<u>(\$1,423,487)</u>	27
28	Total Additions	sum[(22):(27)]	<u>\$1,090,471</u>	28
29	Total Storage Variable Costs	(17)-(20)+(28)	<u>\$2,975,103</u>	29
30	Throughput (Dt)	pg 12	26,344,428	30
31	Storage Variable Product Cost Factor	(29) / (30)	<u>\$0.1129</u>	31

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Gas Cost Account Balances

Line No.	Jul-08 31 actual	Aug-08 31 actual	Sep-08 30 actual	Oct-08 31 forecast	Nov-08 30 forecast	Line No.
<u>I. Supply Fixed Cost Deferred</u>						
1	(\$7,977,817)	(\$5,887,819)	(\$4,573,887)	(\$3,435,225)	(\$2,367,907)	1
2	\$2,885,908	\$2,044,179	\$1,767,703	\$2,051,317	\$1,965,255	2
3	\$0	\$0	\$0	\$0	\$0	3
4	\$12,475	\$8,837	\$7,642	\$8,868	\$8,479	4
5	\$2,898,383	\$2,053,016	\$1,775,345	\$2,060,185	\$1,973,734	5
6	\$790,743	\$725,773	\$626,821	\$986,434	\$1,833,924	6
7	(\$5,870,177)	(\$4,560,576)	(\$3,425,363)	(\$2,361,475)	(\$2,228,096)	7
8	(\$6,923,997)	(\$5,224,197)	(\$3,999,625)	(\$2,898,350)	(\$2,298,001)	8
9	3.00%	3.00%	3.00%	2.61%	2.50%	9
10	(\$17,642)	(\$13,311)	(\$9,862)	(\$6,432)	(\$4,722)	10
11	\$0	\$0	\$0	\$0	\$0	
12	(\$5,887,819)	(\$4,573,887)	(\$3,435,225)	(\$2,367,907)	(\$2,232,818)	12
<u>II. Storage Fixed Cost Deferred</u>						
13	(\$2,909,401)	(\$2,471,911)	(\$1,911,144)	(\$1,427,779)	(\$957,086)	13
14	\$743,858	\$850,485	\$752,604	\$858,716	\$771,732	14
15	(\$56,282)	(\$56,282)	(\$56,282)	(\$56,282)	(\$32,114)	15
16	\$43,241	\$43,241	\$43,241	\$43,241	\$43,241	16
17	\$3,159	\$3,620	\$3,197	\$3,656	\$3,378	17
18	\$733,977	\$841,064	\$742,760	\$849,331	\$786,236	18
19	\$0	\$0	\$0	\$0	\$0	19
20	\$289,639	\$274,721	\$255,284	\$375,994	\$692,523	20
21	(\$2,465,064)	(\$1,905,567)	(\$1,423,668)	(\$954,443)	(\$863,372)	21
22	(\$2,687,233)	(\$2,188,739)	(\$1,667,406)	(\$1,191,111)	(\$910,229)	22
23	3.00%	3.00%	3.00%	2.61%	2.50%	23
24	(\$6,847)	(\$5,577)	(\$4,111)	(\$2,643)	(\$1,870)	24
25	(\$2,471,911)	(\$1,911,144)	(\$1,427,779)	(\$957,086)	(\$865,243)	25
<u>III. Variable Supply Cost Deferred</u>						
26	\$7,791,754	\$7,280,749	\$8,515,621	\$9,365,411	\$11,883,752	26
27	\$5,322,469	\$7,557,368	\$6,326,879	\$11,090,877	\$23,209,041	27
28	\$0	\$0	\$0	\$0	\$6,918	28
29	\$0	\$0	\$0	\$0	\$0	29
30	\$0	\$0	\$0	\$0	\$1,772	30
31	\$23,008	\$32,669	\$27,350	\$47,944	\$100,169	31
32	\$5,345,477	\$7,590,038	\$6,354,229	\$11,138,821	\$23,317,899	32
33	\$5,871,095	\$6,376,416	\$5,524,729	\$8,644,031	\$15,976,549	33
34	\$4,565	(\$1,152)	\$1,729	\$0	\$0	34
35	\$7,261,571	\$8,495,523	\$9,343,393	\$11,860,201	\$19,225,102	35
36	\$7,526,663	\$7,888,136	\$8,929,507	\$10,612,806	\$15,554,427	36
37	3.00%	3.00%	3.00%	2.61%	2.50%	37
38	\$19,178	\$20,099	\$22,018	\$23,552	\$31,961	38
39	\$0	\$0	\$0	\$0	\$0	
40	\$7,280,749	\$8,515,621	\$9,365,411	\$11,883,752	\$19,257,064	40

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Gas Cost Account Balances

Line No.	Jul-08 31 actual	Aug-08 31 actual	Sep-08 30 actual	Oct-08 31 forecast	Nov-08 30 forecast	Line No.	
<u>IVa. Storage Variable Product Cost Deferred</u>							
41	Beginning Balance	(\$2,405,878)	(\$3,192,369)	(\$3,877,973)	(\$4,429,098)	(\$5,415,398)	41
42	Storage Variable Prod. Costs - LNG	\$138,890	\$159,479	\$169,734	\$191,357	\$196,029	42
43	Storage Variable Prod. Costs - LP	\$0	\$0	\$0	\$0	\$0	43
44	Storage Variable Prod. Costs - UG	\$0	\$0	\$0	\$0	\$74,045	44
45	Supply Related LNG to DAC	(\$28,320)	(\$32,518)	(\$34,609)	(\$39,018)	(\$39,970)	45
46	Supply Related LNG O & M	\$30,455	\$30,455	\$30,455	\$30,455	\$30,455	46
47	Inventory Financing - LNG	\$52,996	\$55,942	\$59,387	\$71,533	\$66,529	47
48	Inventory Financing - UG	\$55,239	\$55,239	\$55,239	\$55,239	\$55,130	48
49	Inventory Financing - LP	\$0	\$0	\$0	\$0	\$0	49
50	Working Capital	\$610	\$680	\$716	\$790	\$1,124	50
51	Total Storage Variable Product Costs	\$249,871	\$269,278	\$280,922	\$310,357	\$383,342	51
52	Storage Variable Product Collections	\$1,029,239	\$945,886	\$821,818	\$1,285,745	\$2,376,411	52
53	Prelim. Ending Balance	(\$3,185,246)	(\$3,868,977)	(\$4,418,869)	(\$5,404,486)	(\$7,408,466)	53
54	Month's Average Balance	(\$2,795,562)	(\$3,530,673)	(\$4,148,421)	(\$4,916,792)	(\$6,411,932)	54
55	Interest Rate (BOA Prime minus 200 bps)	3.00%	3.00%	3.00%	2.61%	2.50%	55
56	Interest Applied	(\$7,123)	(\$8,996)	(\$10,229)	(\$10,911)	(\$13,175)	56
57	Storage Variable Product Ending Bal.	(\$3,192,369)	(\$3,877,973)	(\$4,429,098)	(\$5,415,398)	(\$7,421,641)	57
<u>IVb. Stor Var Non-Prod Cost Deferred</u>							
58	Beginning Balance	(\$988,320)	(\$1,055,840)	(\$1,120,245)	(\$1,180,547)	(\$1,267,083)	58
59	Storage Variable Non-prod. Costs	\$0	\$0	\$0	\$0	\$8,714	59
60	Variable Delivery Storage Costs	\$0	\$0	\$0	\$0	(\$6,918)	60
61	Variable Injection Storage Costs	\$0	\$0	\$0	\$0	\$0	61
62	Fuel Costs Allocated to Storage	\$0	\$0	\$0	\$0	(\$1,772)	62
63	Working Capital	\$0	\$0	\$0	\$0	\$0	63
64	Total Storage Var Non-product Costs	\$0	\$0	\$0	\$0	\$24	64
65	Storage Var Non-Product Collections	\$64,919	\$61,636	\$57,469	\$83,823	\$153,667	65
66	Prelim. Ending Balance	(\$1,053,239)	(\$1,117,476)	(\$1,177,714)	(\$1,264,370)	(\$1,420,725)	66
67	Month's Average Balance	(\$1,020,779)	(\$1,086,658)	(\$1,148,979)	(\$1,222,458)	(\$1,343,904)	67
68	Interest Rate (BOA Prime minus 200 bps)	3.00%	3.00%	3.00%	2.61%	2.50%	68
69	Interest Applied	(\$2,601)	(\$2,769)	(\$2,833)	(\$2,713)	(\$2,761)	69
70	Storage Var Non-Product Ending Bal.	(\$1,055,840)	(\$1,120,245)	(\$1,180,547)	(\$1,267,083)	(\$1,423,487)	70
<u>GCR Deferred Summary</u>							
71	Beginning Balance	(\$6,489,662)	(\$5,327,190)	(\$2,967,628)	(\$1,107,239)	\$1,876,280	71
72	Gas Costs	\$9,188,455	\$10,707,589	\$9,114,352	\$14,297,435	\$26,348,087	72
73	Working Capital	\$39,253	\$45,807	\$38,905	\$61,258	\$113,149	73
74	Total Costs	\$9,227,708	\$10,753,396	\$9,153,256	\$14,358,693	\$26,461,237	74
75	Collections	\$8,050,200	\$8,383,280	\$7,287,850	\$11,376,027	\$21,033,074	75
76	Prelim. Ending Balance	(\$5,312,155)	(\$2,957,074)	(\$1,102,221)	\$1,875,427	\$7,304,442	76
77	Month's Average Balance	(\$5,900,908)	(\$4,142,132)	(\$2,034,924)	\$384,094	\$4,590,361	77
78	Interest Rate (BOA Prime minus 200 bps)	3.00%	3.00%	3.00%	2.61%	2.50%	78
79	Interest Applied	(\$15,035)	(\$10,554)	(\$5,018)	\$852	\$9,432	79
80	Gas Purchase Plan Incentives/(Penalties)	\$0	\$0	\$0	\$0	\$0	80
81	Ending Bal. W/ Interest	(\$5,327,190)	(\$2,967,628)	(\$1,107,239)	\$1,876,280	\$7,313,875	81
82	Under/(Over)-collection	\$1,177,508	\$2,370,116	\$1,865,406	\$2,982,666	\$5,428,163	82

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Working Capital Calculation
December 2008 - October 2009

<u>Line No.</u>	<u>Description</u> (a)	<u>Reference</u> (b)	<u>Amount</u> (c)	<u>Line No.</u>
1	Supply Fixed Costs (net of Cap Rel)	GLB 1	\$21,600,984	1
2	Capacity Release Revenue		\$0	2
3	Allowable Working Capital Costs	(1) - (2)	\$21,600,984	3
4	Number of Days Lag	Docket 3943	24.40	4
5	Working Capital Requirement	[(3) x (4)] / 365	\$1,444,011	5
6	Cost of Capital	Docket 3943	8.71%	6
7	Return on Working Capital Requirement	(5) x (6)	\$125,817	7
8	Weighted Cost of Debt	Docket 3943	3.70%	8
9	Interest Expense	(5) x (8)	\$53,478	9
10	Taxable Income	(7) - (9)	\$72,338	10
11	1 - Combined Tax Rate	Docket 3943	0.6500	11
12	Return and Tax Requirement	(10) / (11)	\$111,290	12
13	Supply Fixed Working Capital Requirement	(9) + (12)	\$164,768	13
14	Storage Fixed Costs	GLB 1	\$8,566,385	14
15	Less: LNG Demand to DAC		(\$338,940)	15
16	Less: Credits		\$0	16
17	Plus: Supply Related LNG O&M Costs		\$567,042	17
18	Allowable Working Capital Costs	(14)-(15)+(16)+(17)	\$8,794,486	18
19	Number of Days Lag	Docket 3943	24.40	19
20	Working Capital Requirement	[(18) x (19)] / 365	\$587,905	20
21	Cost of Capital	Docket 3943	8.71%	21
22	Return on Working Capital Requirement	(20) x (21)	\$51,224	22
23	Weighted Cost of Debt	Docket 3943	3.70%	23
24	Interest Expense	(20) x (23)	\$21,773	24
25	Taxable Income	(22) - (24)	\$29,451	25
26	1 - Combined Tax Rate	Docket 3943	0.6500	26
27	Return and Tax Requirement	(25) / (26)	\$45,310	27
28	Storage Fixed Working Capital Requirement	(24) + (27)	\$67,083	28

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Working Capital Calculation
December 2008 - October 2009

<u>Line No.</u>	<u>Description</u> (a)	<u>Reference</u> (b)	<u>Amount</u> (c)	<u>Line No.</u>
1	Supply Variable Costs	GLB 1	\$190,181,397	1
2	Credits		<u>\$2,499,582</u>	2
3	Allowable Working Capital Costs	(1) - (2)	\$187,681,815	3
4	Number of Days Lag	Docket 3943	24.40	4
5	Working Capital Requirement	[(3) x (4)] / 365	\$12,546,401	5
6	Cost of Capital	Docket 3943	<u>8.71%</u>	6
7	Return on Working Capital Requirement	(5) x (6)	\$1,093,169	7
8	Weighted Cost of Debt	Docket 3943	<u>3.70%</u>	8
9	Interest Expense	(5) x (8)	\$464,651	9
10	Taxable Income	(7) - (9)	\$628,518	10
11	1 - Combined Tax Rate	Rate Case	<u>0.6500</u>	11
12	Return and Tax Requirement	(10) / (11)	\$966,951	12
13	Supply Variable Working Capital Requirement	(9) + (12)	\$1,431,602	13
14	Storage Variable Product Costs	GLB 1	\$38,632,729	14
15	Less: Balancing Related LNG Commodity (to DAC)		(\$775,596)	15
16	Plus: Supply Related LNG O&M Costs		<u>\$394,285</u>	16
17	Allowable Working Capital Costs	(14) + (15) + (16)	\$38,251,418	17
18	Number of Days Lag	Docket 3943	24.40	18
19	Working Capital Requirement	[(17) * (18)] / 365	\$2,557,081	19
20	Cost of Capital	Docket 3943	<u>8.71%</u>	20
21	Return on Working Capital Requirement	(19) x (20)	\$222,799	21
22	Weighted Cost of Debt	Docket 3943	<u>3.70%</u>	22
23	Interest Expense	(19) x (22)	\$94,701	23
24	Taxable Income	(21) - (23)	\$128,098	24
25	1 - Combined Tax Rate	Rate Case	<u>0.6500</u>	25
26	Return and Tax Requirement	(24) / (25)	\$197,074	26
27	Storage Var. Product Working Capital Requir.	(23) + (26)	\$291,775	27

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Working Capital Calculation
December 2008 - October 2009

<u>Line No.</u>	<u>Description</u> (a)	<u>Reference</u> (b)	<u>Amount</u> (c)	<u>Line No.</u>
1	Storage Variable Non-Product Costs	GLB 1	\$1,884,632	1
2	Credits		\$0	2
3	Allowable Working Capital Costs	(1) - (2)	<u>\$1,884,632</u>	3
4	Number of Days Lag	Docket 3943	24.40	4
5	Working Capital Requirement	[(3) x (4)] / 365	\$125,986	5
6	Cost of Capital	Docket 3943	<u>8.71%</u>	6
7	Return on Working Capital Requirement	(5) x (6)	<u>\$10,977</u>	7
8	Weighted Cost of Debt	Docket 3943	<u>3.70%</u>	8
9	Interest Expense	(5) x (8)	<u>\$4,666</u>	9
10	Taxable Income	(7) - (9)	\$6,311	10
11	1 - Combined Tax Rate	Docket 3943	<u>0.6500</u>	11
12	Return and Tax Requirement	(10) / (11)	<u>\$9,710</u>	12
13	Storage Variable Non-product WC Require.	(9) + (12)	\$14,376	13

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Inventory Finance Cost Calculation

Line No.	Description (a)	Reference (b)	Nov-08 (c)	Dec-08 (d)	Jan-09 (e)	Feb-09 (f)	Mar-09 (g)	Apr-09 (h)	May-09 (i)	Jun-09 (j)	Jul-09 (k)	Aug-09 (l)	Sep-09 (m)	Oct-09 (n)	Total (p)	Line No.
1	Storage Inventory Balance	GLB 2 pg 16	\$5,629,465	\$5,629,465	\$5,629,465	\$5,629,465	\$7,078,653	\$11,349,321	\$15,789,773	\$20,198,932	\$24,707,160	\$28,761,082	\$32,710,102	\$36,299,137		1
2	Cost of Capital	Docket 3943	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%		2
3	Return on Working Capital Requirement	(1) x (2)	\$490,496	\$490,496	\$490,496	\$490,496	\$616,764	\$988,868	\$1,375,765	\$1,759,935	\$2,152,738	\$2,505,957	\$2,850,035	\$3,162,748	\$17,374,793	3
4	Weighted Cost of Debt	Docket 3943	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%		4
5	Interest Charges Financed	(1) x (4)	\$208,485	\$208,485	\$208,485	\$208,485	\$262,155	\$420,318	\$584,768	\$748,060	\$915,020	\$1,065,156	\$1,211,406	\$1,344,325	\$7,385,148	5
6	Taxable Income	(3) - (5)	\$282,011	\$282,011	\$282,011	\$282,011	\$354,609	\$568,550	\$790,997	\$1,011,876	\$1,237,718	\$1,440,801	\$1,638,629	\$1,818,423		6
7	1 - Combined Tax Rate	Docket 3943	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500		7
8	Return and Tax Requirement	(6) / (7)	\$433,863	\$433,863	\$433,863	\$433,863	\$545,552	\$874,692	\$1,216,918	\$1,556,732	\$1,904,181	\$2,216,617	\$2,520,968	\$2,797,574	\$15,368,684	8
9	Working Capital Requirement	(5) + (8)	\$642,348	\$642,348	\$642,348	\$642,348	\$807,707	\$1,295,010	\$1,801,686	\$2,304,791	\$2,819,201	\$3,281,772	\$3,732,374	\$4,141,899	\$22,753,833	9
10	Monthly Average	(9) / 12	\$53,529	\$53,529	\$53,529	\$53,529	\$67,309	\$107,917	\$150,141	\$192,066	\$234,933	\$273,481	\$311,031	\$345,158	\$1,896,153	10
11	LNG Inventory Balance	GLB 2 pg 17	\$8,533,502	\$8,494,526	\$7,816,813	\$6,621,484	\$6,366,554	\$6,530,262	\$6,763,410	\$6,988,075	\$7,451,871	\$7,922,299	\$8,256,487	\$8,310,797		11
12	Cost of Capital	Docket 3943	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%	8.71%		12
13	Return on Working Capital Requirement	(11) x (12)	\$743,525	\$740,129	\$681,080	\$576,931	\$554,719	\$568,983	\$589,297	\$608,872	\$649,282	\$690,271	\$719,389	\$724,121	\$7,846,597	13
14	Weighted Cost of Debt	Docket 3943	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%	3.70%		14
15	Interest Charges Financed	(11) x (14)	\$316,035	\$314,592	\$289,493	\$245,224	\$235,783	\$241,846	\$250,480	\$258,801	\$275,977	\$293,399	\$305,776	\$307,787	\$3,335,193	15
16	Taxable Income	(13) - (15)	\$427,490	\$425,538	\$391,587	\$331,707	\$318,936	\$327,137	\$338,816	\$350,071	\$373,305	\$396,872	\$413,613	\$416,334		16
17	1 - Combined Tax Rate	Docket 3943	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500	0.6500		17
18	Return and Tax Requirement	(16) / (17)	\$657,677	\$654,673	\$602,442	\$510,318	\$490,670	\$503,287	\$521,256	\$538,571	\$574,316	\$610,572	\$636,327	\$640,513	\$6,940,622	18
19	Working Capital Requirement	(15) + (18)	\$973,712	\$969,265	\$891,934	\$755,542	\$726,453	\$745,133	\$771,736	\$797,372	\$850,293	\$903,971	\$942,103	\$948,300	\$10,275,815	19
20	Monthly Average	(19) / 12	\$81,143	\$80,772	\$74,328	\$62,962	\$60,538	\$62,094	\$64,311	\$66,448	\$70,858	\$75,331	\$78,509	\$79,025	\$856,318	20
21	System Balancing Factor	Docket 3943	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%	16.80%		21
22	Balancing Related Inventory Costs	(20) x (21)	\$13,632	\$13,570	\$12,487	\$10,578	\$10,170	\$10,432	\$10,804	\$11,163	\$11,904	\$12,656	\$13,189	\$13,276	\$143,861	22
23	Supply Related Inventory Costs	(20) - (22)	\$67,511	\$67,202	\$61,841	\$52,384	\$50,367	\$51,663	\$53,507	\$55,284	\$58,954	\$62,675	\$65,319	\$65,749	\$712,456	23

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Forecasted Throughput (Dth)
December 2008 - October 2009

Line No.	Rate Class (a)	Dec-08 (c)	Jan-09 (d)	Feb-09 (e)	Mar-09 (f)	Apr-09 (g)	May-09 (h)	Jun-09 (i)	Jul-09 (j)	Aug-09 (k)	Sep-09 (l)	Oct-09 (m)	Total Dec-Oct (o)	Line No.
1	SALES (dth)													1
2	Residential Non-Heating	56,687	64,564	60,105	57,950	55,372	49,800	44,033	36,650	30,092	34,613	33,466	523,332	2
3	Residential Heating	2,161,773	2,914,739	3,070,998	2,808,834	2,148,904	1,211,919	734,882	469,333	378,980	444,060	528,984	16,873,407	3
4	Small C&I	282,121	396,526	444,457	401,070	280,876	135,298	81,371	51,712	46,472	51,801	63,181	2,234,886	4
5	Medium C&I	472,365	619,681	671,008	618,530	460,648	279,414	185,397	122,539	111,145	127,788	150,757	3,819,273	5
6	Large LLF	169,793	209,138	232,216	215,097	140,996	84,686	38,956	25,178	18,855	23,437	40,125	1,198,477	6
7	Large HLF	48,942	54,171	50,012	52,677	48,279	38,190	35,790	28,262	22,706	32,740	32,166	443,935	7
8	Extra Large LLF	22,393	24,636	22,118	21,583	11,875	8,039	3,071	1,219	1,803	2,303	6,172	125,212	8
9	Extra Large HLF	23,490	23,745	28,677	25,765	26,264	23,255	18,702	18,472	23,167	17,762	20,614	249,912	9
10	Total Sales	3,237,563	4,307,201	4,579,592	4,201,508	3,173,214	1,830,600	1,142,202	753,365	633,220	734,503	875,466	25,468,433	10
11	FT-2 TRANSPORTATION													11
12	FT-2 Medium	55,521	77,418	75,928	74,002	58,092	40,443	29,827	21,960	18,443	21,389	21,920	494,943	12
13	FT-2 Large LLF	34,439	54,435	52,059	44,823	32,688	20,161	12,984	3,728	3,424	4,444	8,515	271,700	13
14	FT-2 Large HLF	8,926	10,155	8,445	10,479	8,460	7,213	6,145	4,855	4,340	6,129	5,414	80,560	14
15	FT-2 Extra Large LLF	2,607	3,722	2,667	1,456	753	90	24	6	6	7	957	12,296	15
16	FT-2 Extra Large HLF	2,322	1,648	2,218	2,038	1,910	1,393	993	893	811	934	1,336	16,496	16
17	Total Transportation	103,814	147,377	141,316	132,799	101,904	69,299	49,972	31,443	27,024	32,903	38,143	875,995	17
18	Sales & FT-2 THROUGHPUT													18
19	Residential Non-Heating	56,687	64,564	60,105	57,950	55,372	49,800	44,033	36,650	30,092	34,613	33,466	523,332	19
20	Residential Heating	2,161,773	2,914,739	3,070,998	2,808,834	2,148,904	1,211,919	734,882	469,333	378,980	444,060	528,984	16,873,407	20
21	Small C&I	282,121	396,526	444,457	401,070	280,876	135,298	81,371	51,712	46,472	51,801	63,181	2,234,886	21
22	Medium C&I	527,886	697,099	746,935	692,533	518,741	319,856	215,223	144,500	129,588	149,177	172,678	4,314,216	22
23	Large LLF	204,231	263,573	284,275	259,921	173,684	104,847	51,940	28,906	22,279	27,881	48,641	1,470,177	23
24	Large HLF	57,868	64,326	58,457	63,156	56,738	45,402	41,935	33,117	27,045	38,869	37,580	524,495	24
25	Extra Large LLF	25,000	28,358	24,785	23,039	12,629	8,129	3,095	1,226	1,810	2,309	7,129	137,508	25
26	Extra Large HLF	25,812	25,393	30,895	27,803	28,174	24,648	19,695	19,364	23,978	18,696	21,950	266,408	26
27	Total Throughput	3,341,377	4,454,578	4,720,908	4,334,306	3,275,117	1,899,899	1,192,174	784,808	660,245	767,406	913,609	26,344,428	27
28	FT-1 TRANSPORTATION													28
29	FT-1 Medium	103,742	91,696	100,390	83,737	55,538	32,113	28,661	21,618	21,065	26,819	31,520	596,899	29
30	FT-1 Large LLF	169,977	184,530	172,315	164,311	99,864	43,799	27,007	18,071	17,338	24,053	46,119	967,385	30
31	FT-1 Large HLF	45,360	43,504	46,133	49,882	39,937	36,236	38,929	29,900	30,746	33,276	26,727	420,630	31
32	FT-1 Extra Large LLF	139,238	170,985	169,585	154,078	100,128	56,768	32,333	28,528	29,989	31,050	55,225	967,909	32
33	FT-1 Extra Large HLF	410,726	449,955	431,337	442,530	405,570	360,300	338,079	346,006	357,328	369,273	367,053	4,278,157	33
34	Total Transportation	869,044	940,670	919,760	894,538	701,037	529,217	465,009	444,124	456,466	484,472	526,644	7,230,979	34
35	Total THROUGHPUT													35
36	Residential Non-Heating	56,687	64,564	60,105	57,950	55,372	49,800	44,033	36,650	30,092	34,613	33,466	523,332	36
37	Residential Heating	2,161,773	2,914,739	3,070,998	2,808,834	2,148,904	1,211,919	734,882	469,333	378,980	444,060	528,984	16,873,407	37
38	Small C&I	282,121	396,526	444,457	401,070	280,876	135,298	81,371	51,712	46,472	51,801	63,181	2,234,886	38
39	Medium C&I	631,629	788,795	847,326	776,269	574,278	351,970	243,885	166,117	150,652	175,996	204,197	4,911,114	39
40	Large LLF	374,209	448,103	456,590	424,232	273,548	148,646	78,946	46,977	39,617	51,935	94,760	2,437,562	40
41	Large HLF	103,228	107,830	104,590	113,038	96,675	81,639	80,864	63,018	57,791	72,145	64,307	945,124	41
42	Extra Large LLF	164,238	199,344	194,370	177,116	112,756	64,897	35,429	29,754	31,799	33,359	62,354	1,105,416	42
43	Extra Large HLF	436,538	475,348	462,232	470,334	433,744	384,949	357,774	365,370	381,306	387,969	389,003	4,544,565	43
44	Total Throughput	4,210,421	5,395,248	5,640,668	5,228,844	3,976,154	2,429,116	1,657,183	1,228,932	1,116,710	1,251,878	1,440,252	33,575,407	44

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
Design Winter Period Throughput (Dth)

Line No.	Rate Class (a)	Nov-08 (b)	Dec-08 (c)	Jan-09 (d)	Feb-09 (e)	Mar-09 (f)	Total (h)	% (i)	Line No.
1	<u>SALES (dth)</u>								1
2	Residential Non-Heating	46,372	58,250	72,994	64,276	64,050	305,942	1.49%	2
3	Residential Heating	1,142,336	2,289,716	3,594,591	3,453,404	3,354,765	13,834,811	67.20%	3
4	Small C&I	131,132	299,292	491,413	501,383	481,389	1,904,609	9.25%	4
5	Medium C&I	268,394	497,928	754,608	750,283	731,485	3,002,699	14.58%	5
6	Large LLF	91,605	180,660	259,794	262,663	259,434	1,054,154	5.12%	6
7	Large HLF	39,231	50,456	61,414	53,524	58,758	263,383	1.28%	7
8	Extra Large LLF	7,874	22,393	24,636	22,118	21,583	98,603	0.48%	8
9	Extra Large HLF	22,991	23,490	23,745	28,677	25,765	124,667	0.61%	9
10	Total Sales	1,749,934	3,422,185	5,283,194	5,136,327	4,997,229	20,588,869	100.00%	10
11	<u>FT-2 TRANSPORTATION</u>								11
12	FT-2 Medium	35,318	57,993	92,782	84,077	86,285	356,455		12
13	FT-2 Large LLF	16,003	36,780	68,621	59,070	54,482	234,957		13
14	FT-2 Large HLF	6,453	9,146	11,301	8,910	11,607	47,417		14
15	FT-2 Extra Large LLF	1,735	2,607	3,722	2,667	1,456	12,187		15
16	FT-2 Extra Large HLF	544	2,322	1,648	2,218	2,038	8,770		16
17	Total Transportation	60,053	108,848	178,075	156,942	155,868	659,786		17
18	<u>Sales & FT-2 THROUGHPUT</u>								18
19	Residential Non-Heating	46,372	58,250	72,994	64,276	64,050	305,942	1.44%	19
20	Residential Heating	1,142,336	2,289,716	3,594,591	3,453,404	3,354,765	13,834,811	65.11%	20
21	Small C&I	131,132	299,292	491,413	501,383	481,389	1,904,609	8.96%	21
22	Medium C&I	303,712	555,922	847,390	834,360	817,770	3,359,154	15.81%	22
23	Large LLF	107,608	217,440	328,414	321,733	313,916	1,289,111	6.07%	23
24	Large HLF	45,684	59,601	72,716	62,434	70,365	310,800	1.46%	24
25	Extra Large LLF	9,609	25,000	28,358	24,785	23,039	110,790	0.52%	25
26	Extra Large HLF	23,535	25,812	25,393	30,895	27,803	133,438	0.63%	26
27	Total Throughput	1,809,987	3,531,033	5,461,269	5,293,269	5,153,097	21,248,655	100.00%	27

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
December 2008 - October 2009

Summary of Marketer Transportation Factors

Item	Reference	Proposed	Billing Units
FT-2 Firm Transportation Marketer Gas Charge	pg 15	\$0.0415	Therms throughput of Marketer Pool
Pool Balancing Charge	pg 16	\$0.0024	Per % of balancing elected per Therm throughput of Marketer Pool
Weighted Average Upstream Pipeline Transportation Cost	GLB - 5	\$0.0944	Per Therm of capacity

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
December 2008 - October 2009

Calculation of FT-2 Marketer Gas Charge

I. Determination of FT-2 Storage Fixed Cost Factor

1	Allocated Storage Fixed Costs	reference	
2	C & I Medium	PCC 7, pg 3	\$1,264,122
3	C & I Large LLF	PCC 7, pg 3	\$485,120
4	C & I Large HLF	PCC 7, pg 3	\$116,961
5	C & I Extra Large LLF	PCC 7, pg 3	\$41,693
6	C & I Extra Large HLF	PCC 7, pg 3	<u>\$50,215</u>
7	sub-total	sum ([1]:[6])	\$1,958,111
8	Through-put (dth)	PCC 7, pg 12	6,712,803
9	Storage Fixed Factor	[7] / [8]	\$0.2917
II. Storage Variable Cost Factor		PCC 7, pg 1	\$0.1129
TOTAL FT-2 Gas Marketer Charge (per Dth)			\$0.4046
	Uncollectible %	Dkt 3943	2.46%
TOTAL FT-2 Gas Marketer Charge adj for uncollectible (\$/dth)			\$0.4148

Gas Cost Recovery (GCR)
With Docket No. 3943 Factors and Tariff
December 2008 - October 2009

Calculation of Pool Balancing Charge

	reference	Medium <u>C&I</u>	Large <u>LLF</u>	Large <u>HLF</u>	Extra Large <u>LLF</u>	Extra Large <u>HLF</u>	<u>Total</u>	
1	Throughput (dth)	PCC - 7, pg 12	4,314,216	1,470,177	524,495	137,508	266,408	6,712,803
2	% allocation		64.27%	21.90%	7.81%	2.05%	3.97%	100.00%
3	Supply Fixed Cost Factor	PCC - 7, pg 1	\$0.7783	\$0.7783	\$0.5409	\$0.7783	\$0.5409	
4	Storage Fixed Cost Factor	PCC - 7, pg 1	\$0.3082	\$0.3082	\$0.2148	\$0.3082	\$0.2148	
5	Storage Variable Cost Factor	PCC - 7, pg 1	\$1.3244	\$1.3244	\$1.3244	\$1.3244	\$1.3244	
6	Class Specific Pool Balancing Charge	$([3]+[4]+[5]) \times 1\%$	\$0.0241	\$0.0241	\$0.0208	\$0.0241	\$0.0208	
7	Class Specific Weighted Average (\$/dth)	$[6] \times [2]$	\$0.0155	\$0.0053	\$0.0016	\$0.0005	\$0.0008	\$0.0237
8	Uncollectible %	Docket 3943	2.46%	2.46%	2.46%	2.46%	2.46%	
9	Pool Balancing Charge adjusted for Uncollectible	$([7] / (1-[8]))$	\$0.0159	\$0.0054	\$0.0017	\$0.0005	\$0.0008	\$0.0243
10	Per Therm Pool Balancing Charge	$[9] / 10$						\$0.0024

Gas Procurement Incentive Plan for National Grid

Revised Effective December 1, 2008

I. Objective

To encourage National Grid (or “Company”) to achieve lower overall gas commodity costs for its customers.

II. Structure of the Gas Procurement Incentive Plan

A. This Plan became effective June 1, 2003. It will be reviewed with each gas cost recovery (“GCR”) filing. The Company will file Plan results semi-annually at the end of January and July. These reports shall include reporting all Plan activity and results through the end of the month prior to the filing.

1. Gas Procurement Incentives apply only to discretionary purchases and/or hedges made on or after June 1, 2003. The first month for which the incentive will be calculated under the Plan will be November 2003.

B. The GPIIP will be subject to limits on the magnitude of incentives applicable to the Company in each fiscal year.

1. For the Gas Procurement Incentive Program limitations are placed on the maximum amount of incentives that can be earned or penalties paid by National Grid for each fiscal year. For at least the first two years of the program (i.e., through June 30, 2005):

a. National Grid may not earn more than \$1,000,000 in Gas Procurement Incentives in any fiscal year; and

b. National Grid may not be exposed to penalties of more than \$500,000 in any fiscal year.

C. The Company will file its forecasted normal weather natural gas purchase requirements with its annual GCR filing. In addition, whenever the Company updates its annual forecast of projected purchases at the time of the annual update or in the event that an adjustment based on migration is

warranted, it will file support for the revised purchase forecast with the Commission and Division.

III The Gas Procurement Incentive Program

D. The Company will make purchases of natural gas or natural gas futures which lock or hedge the NYMEX Henry Hub portion of the variable cost. For any future gas supply month the Company will make three types of gas purchases:

1. **Mandatory Purchases and/or Hedges**

- a. Are defined as mandatory monthly purchases of gas volumes or hedges made in approximately uniform monthly increments. (Mandatory purchases and/or hedges will vary as the forecast of purchases is updated periodically and in order to adjust for the rounding of the 10,000 Dth futures contract.)
- b. Will equal 60% of forecasted normal weather gas purchase requirements for the April and October gas supply months and 70% of forecasted normal weather gas purchase requirements for the remaining ten months. Purchases and/or hedges will be based on the forecast of requirements in place when the purchases and/or hedges are made.
- c. Will be purchased in approximately uniform monthly increments on a mandatory basis starting 24 months prior to the month of delivery and ending 4 months prior to the start of deliveries.
- d. The first purchases and/or hedges made each month will be deemed the Company's mandatory hedge up to the amount of the Company's scheduled mandatory requirement for the month.
- e. The Company will make the financial hedges in increments of one contract, 10,000 Dth. The Company will adjust the schedule of hedging to achieve the required mandatory level. Within the constraints of 10,000 Dth contract increments, the Company will seek to maximize the

uniformity of monthly mandatory purchase/hedge volumes over the 20 month period specified in paragraph III.A.1.c.

2. Discretionary Purchases and/or Hedges

- a. Are defined as the purchases and/or hedges established at least 6 business days prior to the start of the delivery month for delivery to the system or storage in excess of the mandatory hedging requirements in a month.
- b. The cost and benefit of any financial purchases and/or hedges will be included in the calculation of the average unit price.
- c. May not cause the total (mandatory plus discretionary), fixed price purchases and financial purchases and/or hedges to exceed 95% of the forecasted normal weather requirements for a given supply month.

3. Other Discretionary Purchases and/or Hedges Not Subject To Incentives

- a. LNG
- b. Supplies that lock in price but are not part of the program.
- c. Purchases and/or hedges made less than 6 business days prior to the beginning of the month, during the month or under a contract which does not allow for the locking of the price.
- d. Purchases and/or hedges made due to updated levels of forecasted migration of throughput volumes from transportation service to sales service.

E. Computation of Gas Procurement Incentives

Gas Procurement Incentives will be determined on the basis of comparisons of the volume-weighted average cost per dekatherm of discretionary purchases and/or hedges made after June 1, 2003, and the

volume weighted average cost per dekatherm of mandatory gas purchases and/or hedges made after June 1, 2003 for the same gas supply month. All comparisons will be based on the NYMEX portion of the variable cost per dekatherm of the purchased gas supply or the price, including fees, of the NYMEX futures contract.

- F. Any purchases and/or hedges made for a future gas supply month, excluding other discretionary purchases and/or hedges not subject to incentives as shown in III.A.3, that are in excess of the mandatory purchases and/or hedges requirement for the month, will be deemed discretionary purchases and/or hedges.
- G. The timing of discretionary purchases and/or hedges is left solely to the discretion of the Company. However, beginning in November 2005 the Company will make sufficient discretionary purchases and/or hedges by November 1st of each year, such that a minimum of 80% of supply needed for December, January and February and 75% of supply needed for a normal November and March will be at a fixed or capped price. The fixed and capped supplies will include all forward purchases, financially based purchases and/or hedges, DOMAC FCS contract purchases fixed in price, LNG supplies and storage supplies.
- E. After all purchases and/or hedges for forecasted gas requirements for a given gas supply month are completed, the volume-weighted average cost of mandatory purchases and/or hedges will be computed. That volume weighted average cost for mandatory purchases and/or hedges will then be compared against the actual cost of each discretionary purchase and/or hedge made for the same gas supply month.
 - 1. For all discretionary purchases and/or hedges executed more than eight months prior to the start of the gas supply month, the Company will be provided a positive incentive equal to 20% of the difference between the cost of each discretionary purchase and the volume-weighted average cost for mandatory purchases and/or hedges for the same gas supply month if the cost of the discretionary purchase and/or hedge is less than the volume weighted average of mandatory purchases and/or hedges for the same gas supply month.
 - 2. For all discretionary purchases and/or hedges executed within the last eight months prior to the start of the gas supply month, the

Company will be provided as positive incentive equal to 10% of the difference between the cost of each discretionary purchase and the volume-weighted average cost for mandatory purchases and/or hedges for the same gas supply month if the cost of the discretionary purchase and/or hedge is less than the volume weighted average of mandatory purchases for the same gas supply month.

3. For any and all discretionary purchases and/or hedges that are made at a cost which is greater than the volume-weighted average cost for mandatory purchases and/or hedges, made for the same gas supply month, regardless of when they occur prior to the start of the gas supply month, the Company will be assess a penalty equal to 10% of the difference between the volume-weighted average cost for mandatory purchases and/or hedges and the cost of the each such discretionary purchase,
4. The net incentive/penalty for the Company for each gas supply month shall equal the sum of the incentives/penalties calculated for all individual discretionary purchases and/or hedges executed for the subject gas supply month.