STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NATIONAL GRID'S GAS COST RECOVERY CHARGE	: :	**DOCKET NO. 3982**

REPORT AND ORDER

I. NGRID'S SEPTEMBER 2, 2008 FILING

On September 2, 2008, National Grid ("NGrid") filed with the Public Utilities Commission ("Commission") a Gas Cost Recovery ("GCR") filing with decreased rates for effect November 1, 2008. The GCR is an annual filing that allows NGrid to reconcile and recover its estimated costs for gas supplies, including pipeline transportation and storage charges, for the GCR year beginning November 1. This filing proposes to decrease the rates approved by the Commission in Docket No. 3961 for the period November 1, 2008 through October 31, 2009. For a typical residential heating customer using 922 therms per year this will result in a decrease of approximately $72 or 4.6% per year over currently effective rates.

As part of its filing, NGrid filed a Motion for Protective Treatment of Confidential Information pursuant to Rule 1.2(g) of the Commission's Rules of Practice and Procedure.[1] Specifically, NGrid claimed that certain price terms contained in the Distrigas contract and the portfolio management fee found in the Merrill Lynch contract,

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[1] Rule 1.02 states in pertinent part that "[a]ny party submitting documents to the Commission may request a preliminary finding that some or all of the information is exempt from the mandatory public disclosure requirements of the Access to Public Records Act. A preliminary finding that some documents are privileged shall not preclude the Commission's release of those documents pursuant to a public request in accordance with R.I.G.L. §38-2-1 *et seq.*" and that "claims of privilege are made by filing a written request with the Commission. One copy of the original document, boldly indicating on the front page, "Contains Privileged Information - Do Not Release", shall be filed with a specific indication of the information for which the privilege is sought, as well as a description of the grounds upon which the party claims privilege."

are confidential, commercially sensitive and proprietary and are exceptions to the requirement of public disclosure as set forth in R.I.G.L. §38-2-1 *et seq.* NGrid asserted that public disclosure of this information would be commercially harmful to Distrigas and Merrill Lynch and that confidentiality is required to protect these companies' competitive position, bargaining latitude and negotiating leverage in the marketplace. Specifically, NGrid requests that the price terms and related calculations as set forth in Attachments GLB-2, GLB-5 and GLB-12 be given protective treatment.[2]

In support of its filing, NGrid submitted the pre-filed testimonies of Peter Czekanski, Manager of Pricing for NGrid Rhode Island, and Gary Beland, Manager of Gas Supply Regulatory for NGrid. Mr. Czekanski stated that the proposed GCR rates are intended to recover $306.7 million in costs from November 2008 through October 2009.[3]

Mr. Czekanski explained the five gas cost components for the GCR: (1) supply fixed costs - $0.80; (2) storage fixed costs - $0.34; (3) supply variable costs - $8.64; (4) storage variable product costs - $1.33; and (5) storage variable non-product costs - $0.11. He noted how those components, plus an uncollectible component of 2.10%, were derived to calculate the $11.47 per dekatherm ("Dth") GCR factor proposed for the Residential and Small C&I class by NGrid. He noted that the commodity charge of the Natural Gas Vehicle ("NGV") rate is based on the supply variable costs included in the GCR rate, and the NGV rate will be updated to reflect the supply variable costs. He also proposed changes to various gas marketer charges and factors, specifically, $0.0447 per therm for FT-2 Firm Transportation Marketer Gas Charge and $0.0025 per percentage of balancing elected per therm of throughput in the Marketer pool for pool balancing

[2] NGrid Exhibit 1, Gas Cost Recovery Filing, filed September 2, 2008.
[3] NGrid Exhibit 1a, Direct Testimony of Peter C. Czekanski at 2-4.

charges. Mr. Czekanski indicated that NGrid's weighted average pipeline cost is provided in Attachment 7 and that testimony regarding that calculation and the calculation of associated credits/surcharges applied to marketers for pipeline capacity assignments would be provided by Mr. Beland. Lastly, Mr. Czekanski identified the impact associated with NGrid's distribution rate case filing in Docket No. 3943 which proposed to consolidate the six gas cost factors into two, reconcile the estimated uncollectibles billed through the GCR to actual gas-related net write-offs and additional changes proposed to LNG costs. He noted that any impact as a result of these changes ranges from a decrease of $0.0301 per therm for a residential non-heating customer to an increase of $0.0168 per therm for the extra large high load customer.[4]

In his pre-filed testimony, Mr. Beland discussed the estimated gas costs and NGrid's forecasting methodology. Mr. Beland stated that the GCR factors are based on: 1) prices for gas purchases locked under the Gas Purchasing Incentive Program ("GPIP") as of July 31, 2008, 2) any non-locked purchases based on the NYMEX strip as of the close of trading on August 18, 2008, and 3) the difference between the futures contract purchases under the GPIP Plan as of July 31, 2008 and the August 18, 2008 NYMEX strip. He stated that the GPIP requires NGrid to lock-in future gas prices over a 24-month horizon and that these purchases are made in a structured series of monthly increments. Mr. Beland indicated that this dollar cost-averaging approach attempts to ensure that gas rates are less susceptible to substantial short-term price swings, but still gives NGrid the ability to make discretionary purchases when market prices appear favorable.[5]

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[4] *Id.* at 6-15, Attachments PCC-5, PCC-6, PCC-7.
[5] NGrid Exhibit 1b, Direct Testimony of Gary L. Beland at 3-5.

Mr. Beland explained that since NGrid's May 23, 2008 filing, in Docket No. 3961, natural gas prices have dropped significantly. He noted that while domestic gas production continues to increase, LNG and Canadian imports have decreased. In addition, higher prices in Europe and Asia have caused LNG cargoes to be delivered there instead of to the United States.[6]

Mr. Beland described the model used by NGrid to calculate gas costs. He noted that when the Company purchases supply, the actual cost varies by location or source of the gas supply, but the cost is based on the NYMEX price at the Henry Hub location. For purchases of supply at locations other than the Henry Hub, the Company uses the historical differential to the Henry Hub price to determine the expected difference. Applying this difference to the NYMEX pricing creates a reasonable estimate of the expected invoice cost of the supply. To forecast future supply costs, the Company uses the average difference over the last three years. NGrid categorized the projected gas cost components into five areas: (1) supply fixed costs; (2) storage fixed costs; (3) supply variable costs; (4) storage variable product costs; and (5) storage variable non-product costs. Mr. Beland explained how pipeline capacity is assigned to marketers. He noted that the supply portfolio allows for a pipeline capacity assignment equal to 122.1% of each customer's normal average winter day's usage. NGrid has made available 25,258 Dth per day of capacity on six different pipeline paths that will be available for assignment to marketers, which is the same as last year.[7]

In discussing the GPIP, Mr. Beland stated that NGrid makes mandatory purchases over a moving 24 month period beginning 24 months prior to the start of the month of

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[6] *Id.* at 6-7.
[7] *Id.* at 7-12.

delivery and ending four months before the month of delivery. The average cost of mandatory purchases forms the benchmark price for the incentive calculation. He stated that in all months, with the exception of April and October, 70% of all projected purchases must be locked in or covered by financial hedges four months before the month of delivery; the quantity is 60% for the months of April and October. If the average cost of discretionary purchases is below the benchmark price, NGrid receives an incentive, but if the cost of discretionary purchases is made above the benchmark, NGrid incurs a penalty. Mr. Beland estimated a $950,502 incentive was earned for the 12 month period ending June 30, 2008, because the average cost of discretionary purchases was $1.501 per Dth less than the mandatory locks. Mr. Beland also calculated the estimated reduction in fixed costs to be $610,153 which results in an asset management incentive of $61,015 for NGrid.[8]

Mr. Beland noted that the Company is proposing to increase the minimum inventory levels for December 1, January 1, and February 1 and to reduce the minimum inventory levels for March 1 and April 1 which will effectively increase the storage availability in the mid-winter months. Mr. Beland indicated that there were no changes proposed to NGrid's default transportation service or its pipeline capacity. He noted that there were two significant changes affecting the supply portfolio and gas costs: the new supply and asset management contract with Merrill Lynch and the existing LNG liquid supply contract with Distrigas which ends October 31, 2008. Finally, Mr. Beland pointed out that NGrid is assuming that no LNG will be used on an economic dispatch basis, and

[8] Id. at 15-17.

therefore, either the 20.39% factor, or the 16.8% factor incorporated in NGrid's rate filing, will to be used as the cost allocation factor for pressure support costs.[9]

On October 31, 2008, NGrid filed the Supplemental Testimonies of Mr. Czekanski and Mr. Beland to reflect the recent reductions of natural gas costs as reflected in the futures listed on the NYMEX to better align the rates being paid by customers this winter with the actual costs being incurred to meet their energy needs. Mr. Czekanski described NGrid's proposed one month delay of implementation of the new rate as necessary to capture the impact of the reduced gas costs and to provide the other parties sufficient time to review the updated filing. He noted that the updated calculation is based on proposed rates for an eleven month period to recover projected gas costs from December 2008 through October 2009.[10]

Mr. Czekanski identified the proposed GCR rate for residential customers to be $1.0883 per therm as opposed to the current rate of $1.2269 per therm. The bill impact of the proposed changes for a residential heating customer using 860 therms over the 11 month period will be an 8.3 percent decrease or approximately $120. NGrid also updated the NGV commodity charge to reflect the Supply Variable Costs and updated the gas marketer charges and factors, specifically, the FT-2 firm transportation marketer gas charges; the Pool Balancing Service charges; and the weighted average pipeline cost and associated credits/surcharges applied to marketers for pipeline capacity assignments. Lastly, Mr. Czekanski noted that the September 2nd filing included a calculation of GCR

[9] *Id.* at 18-21.
[10] NGrid Exhibit 2a, Supplemental Testimony of Peter C. Czekanski at 1-4.

rates reflecting the changes being proposed in NGrid's base gas distribution rate case filing, Docket No. 3943.[11]

Mr. Beland also filed updated exhibits to reflect changes in the natural gas prices and other gas cost information. Particularly, he updated the NYMEX strip, the hedges to include all hedging activity through October 17, 2008 and estimate of costs to reflect the initial preliminary results of negotiation for a contract to replace the Distrigas contract.[12]

II. DIVISION

On November 14, 2008, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimony of Bruce R. Oliver, its consultant, to address NGrid's filing. Mr. Oliver identified the proposed percentage decreases that would affect the rate classes: 11.3% for Residential and Small C&I customers and 11.6% to 12.4% for medium, large and extra large C&I customers. He noted that the net decrease in total GCR costs of 5.3% appears to be the result of the large decrease in Fixed Costs, Supply Fixed Costs by 31.2% and Storage Fixed Costs by 26.8%, and a small decrease in Supply Variable Costs, Supply Variable Costs by 0.5%. This was offset by an increase in Storage Variable Non-Product Costs of 25.3%. Mr. Oliver indicated that NGrid's GCR charges appear to be calculated accurately.[13]

Mr. Oliver noted that natural gas prices have declined since mid-July and that at this point in time, NGrid's updated prices appear to properly represent what gas prices will be during the period for which the Commission will set the GCR. He stated that the Commission should accept NGrid's update of the NYMEX natural gas prices used in NGrid's calculations. Regarding the evaluation of sales projections, Mr. Oliver noted

[11] *Id.* at 5-6.
[12] NGrid Exhibit 2b, Supplemental Testimony of Gary L. Beland at 1-2.
[13] Division Exhibit 1, Testimony of Bruce R. Oliver at 1-7.

that he found no reason to question the reasonableness of NGrid's use of the volumes it forecasted for Docket No. 3943 as the basis for its GCR calculations in this docket. He found that in light of the agreement to defer implementation of new GCR charges by one month to correspond to the Commission's decision in Docket No. 3943, NGrid's adjustment of its sales and throughput to reflect an 11-month forecast is reasonable and appropriate.[14]

Mr. Oliver noted that the $950,502 net gas procurement incentive was properly calculated but suggested revisions to the current incentive structure. He supported this recommendation by pointing out that even late discretionary purchases can provide savings for NGrid. He noted that NGrid focuses its discretionary gas purchases on easily obtained savings after the average cost of discretionary purchases is sufficiently known to substantially eliminate any risk the Company might otherwise face related to discretionary purchase decisions. Mr. Oliver proposed language to replace the existing language in the GPIP that eliminates the 20% incentive for purchases at a cost more than $0.50 below the weighted average cost of mandatory purchases for the last eight months prior to the start of the gas supply month for which such purchases are made. He estimated that NGrid's accelerated mandatory purchases, those that reflect decisions to advance the timing of some or all of the mandatory gas purchase volumes for a gas supply month to take advantage of what is perceived to be favorable market conditions, saved NGrid's Firm Gas Sales Service customers $1,041,210.[15]

As for the asset management incentive, Mr. Oliver stated that the Company's calculation of the incentive was correct. However, he recommended that the Commission

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[14] *Id.* at 7-10.
[15] *Id.* at 11-16.

not accept NGrid's computed asset management incentive of FY 2008 and terminate the provisions of the plan, because there has been no development of data and methods for assessing the reasonableness of NGrid's Fixed Supply and Fixed Storage costs. Absent this data and methods, the Commission lacks the ability to determine the reasonableness of these fixed costs and thus computing Asset Management Incentives.[16]

Finally, Mr. Oliver reviewed the Company's reconciliation of gas costs for the twelve months ending June 30, 2008 and noted that they appear to be reasonable and appropriately computed. His one concern was that the Non-Firm Gas Costs by month in this docket do not match those in Docket No. 3977 which NGrid used to compute its Net Non-Firm Margins and On-System Margin from Non-Firm Service for FY 2008. He found the total in Docket No. 3977 to exceed those in this docket by $1,144,365. He also pointed out that in Docket No. 3977, NGrid increased the gas costs assigned to Non-Firm Gas Sales Service by $163,395, but provides no evidence that those revisions to the FY 2007 volumes and gas costs have been properly reflected in its gas costs reconciliation and deferred gas cost balance for Firm Service customers.[17]

IV. HEARING

Following published notice, a public hearing was conducted on November 21, 2008 at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

FOR NGRID:	Thomas Teehan, Esq.
FOR THE DIVISION:	Paul Roberti, Esq. Assistant Attorney General

[16] *Id.* at 16-18.
[17] *Id.* at 18-20.

FOR THE COMMISSION: Patricia S. Lucarelli
Chief of Legal Services

Prior to the beginning of the presentation of evidence by the parties, the Commission took public comment. It also ruled to grant NGrid's Motion for Protective Treatment in accordance with Rule 1.2(g) of its Rules of Practice and Procedure and to protect as confidential the pricing terms and calculations of the Distrigas contract and the Merrill Lynch contract contained in GLB-2, GLB-5 and GLB-12 of Gary Beland testimonies. Additionally, NGrid requested that its responses to Division Data Requests 1-5, 1-6 and 1-16 be given such protective treatment as it includes information regarding the two above-noted contracts. Finally, NGrid requested protective treatment for its responses to Division Data Request 1-14 and 1-15 which provided going forwards contract strategy with Distrigas. The Commission also granted these requests. The protection of this information is necessary to protect not only the companies that are parties to contracts, but also the ratepayers whose interests could be compromised or adversely affected should NGrid be required to make public details of its contractual negotiations.

At the hearing, NGrid presented Mr. Czekanski and Mr. Beland as its witnesses. Mr. Czekanski corrected his pre-filed testimony to reflect the decrease in gas prices and modify NGrid's proposed rate to better match the Company's forecasted costs. He noted that this will result in an approximate 11% reduction to an average residential heating customer's bill. Mr. Beland also testified for NGrid. He noted that NGrid was not opposed to Mr. Oliver's recommendation that the Commission disallow the twenty percent incentive if it is associated with a purchase made within the last eight months prior to the start of the supply month. The Division presented Mr. Oliver as its witness who adopted his pre-filed testimony as his sworn testimony.[18]

IV. COMMISSION FINDINGS

At its open meeting, on November 24, 2008, the Commission considered NGrid's request to decrease the GCR rate. It was not necessary for the Commission to rule on NGrid's Motion for Protective Treatment as it had granted this Motion at the commencement of the hearing. At the hearing, the Commission found that protection of this information was necessary to protect not only the companies, that are parties to contracts, but the ratepayers, whose interests could be compromised or adversely affected should NGrid be required to make public details of its contractual negotiations.

The Commission is relieved that the Company was able to lower rates, especially after the increase necessary in July of this year. The Commission is satisfied that the rates proposed by NGrid and supported by the Division will ensure that customers pay a just and reasonable rate. The Commission believes that disallowing the twenty percent incentive if it is associated with a purchase made within the last eight months prior to the start of the supply month as recommended by the Division and agreed to by the Company is in the best interest of ratepayers. The Commission finds that the Gas Cost Recovery factors proposed by NGrid and supported by the Division, set forth on a per therm basis, of: $1.0636 for residential non-heating customers, large and extra large high factor load and $1.0975 for residential heating customers, small and medium and large and extra large low factor load customers were reasonable and justified. Further, the Commission

[18] Transcript of Hearing, November 21, 2008 at 8-51.

finds the Natural Gas Vehicle Rate of $0.8388 per therm and the FT-2 Marketer Rate of $0.0415 per therm were reasonable and justified.[19]

Accordingly, it is

(19582) ORDERED:

1. The Gas Cost Recovery Factors, the Natural Gas Vehicle Commodity Rate, the Gas Marketer Charges filed by the Company on October 31, 2008 are hereby approved.
2. The Gas Cost Recovery factors, set forth on a per therm basis, of: $1.0636 for residential non-heating customers, large and extra large high factor load and $1.0975 for residential heating customers, small and medium and large and extra large low factor load customers are approved for usage on and after December 1, 2008.
3. The Natural Gas Vehicle Rate of $0.8388 per therm is approved for usage on and after December 1, 2008.
4. The FT-2 Marketer Rate of $0.0415 per therm is approved for usage on December 1, 2008.
5. The Motion for Protective Treatment to protect as confidential the pricing terms and calculations of the Distrigas contract and the Merrill Lynch contract contained in GLB-2, GLB-5 and GLB-12 of Gary Beland's testimonies and NGrid's responses to Division Data Requests 1-5, 1-6, 1-14, 1-15 and 1-16 is approved.
6. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

[19] The rates reflect the change in the uncollectible percentage in Docket No. 3943 from 2.10% to 2.46%.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISIONS ON NOVEMBER 24, 2008 and DECEMBER 1, 2008. WRITTEN ORDER ISSUED FEBRUARY 26, 2009.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner

*Chairman Germani concurs but is unavailable for signature.