STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NATIONAL GRID'S GAS	:	
COST RECOVERY CHARGE	:	**DOCKET NO. 4097**

REPORT AND ORDER

I. NGRID'S SEPTEMBER 2, 2009 FILING

On September 2, 2009, National Grid ("NGrid") filed with the Public Utilities Commission ("Commission") a Gas Cost Recovery ("GCR") filing with decreased rates for effect November 1, 2009. 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. 3982 for the period November 1, 2009 through October 31, 2010. For a typical residential heating customer using 922 therms per year this will result in a decrease of approximately $7.84 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 as well as forecast basis numbers, are confidential, commercially

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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."

sensitive and proprietary and are exceptions to the requirement of public disclosure as set forth in R.I.G.L. §38-2-2(4)(i)(B). NGrid asserted that public disclosure of this information would be commercially harmful and that a confidentiality agreement exists between the Company and Distrigas. Specifically, NGrid requests that the information set forth in Attachments EDA-2 and EDA-4 be given protective treatment.[2]

In support of its filing, NGrid submitted the pre-filed testimonies of Elizabeth Danehy Arangio, Director of Gas Supply Planning for NGrid, and Gary Beland, Manager of Gas Supply Regulatory for NGrid. Ms. Arangio stated that her testimony provides support for the estimated gas costs, assignment of pipeline capacity to marketers and other issues relating to the Company's proposed factors.

Ms. Arangio explained that the proposed GCR factors are based on the NYMEX strip as of the close of trading on August 24, 2009 and the difference between the futures contract purchases under the Gas Procurement Incentive Plan ("GPIP") as of July 31, 2008 and the August 24, 2009 NYMEX strip. The factors also reflect storage and inventory costs as of April 1, 2009 and the projected cost of purchasing gas ratably through the summer as provided for in the Natural Gas Portfolio Management Plan ("NGPMP"). Ms. Arangio noted that since last year's August 24 NYMEX, average gas prices have decrease $3.29 per Dth. She explained that since NGrid's May 2008 filing, the price of natural gas has dropped significantly due to an increase in domestic gas production. Additionally, she noted that there are several local projects in the Northeast that will be in-service during the 2009-2010 year.[3]

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[2] NGrid Exhibit 1, Gas Cost Recovery Filing, filed September 2, 2009.
[3] NGrid Exhibit 1(a) Gas Cost Recovery Filing, Direct Testimony of Elizabeth D. Arangio, filed September 2, 2009 at 1-6.

Ms. Arangio explained the five gas cost components for the GCR: (1) supply fixed costs; (2) storage fixed costs; (3) supply variable costs; (4) storage variable product costs; and (5) storage variable non-product costs. She described the calculation of the delivered cost for a particular gas supply and how pipeline capacity is assigned to marketers. Ms. Arangio noted that the 25,258 Dth per day capacity on six different pipeline paths available for marketers has not changed from last year.[4]

Ms. Arangio indicated that there are no changes to pipeline capacity, and there will be none until at least November 1, 2010 with the addition of the new Algonquin pipeline capacity. She noted that there are three other changes affecting supply portfolio and gas costs: 1) the termination of the Merrill Lynch asset management contract, 2) the new Natural Gas Portfolio Management Plan ("NGPMP") and 3) the termination of the LNG liquid supply contract with Distrigas of Massachusetts.[5]

Gary L. Beland also provided testimony to explain the calculation of the GCR charges for firm sales service customers in the 1) Residential Non-Heating and Heating rate classes as well as Commercial and Industrial ("C&I") customers in the Small, Medium, Large and Extra Large rate classes and 2) Gas Marketer Charges and factors associated with transportation services billed to Gas Marketers. Mr. Beland also provided testimony to address the Natural Gas Vehicle ("NGV") rate, certain updates to the Company's tariff and the GPIP and to present the results of the GPIP for July 1, 2008 through June 30, 2009. Mr. Beland noted that the GCR factors are intended to recover $290.4 million in costs over the period November 1, 2009 through October 31, 2010.[6]

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[4] *Id.* at 7-11.
[5] *Id.* at 13-15.
[6] NGrid Exhibit 1(b) Gas Cost Recovery Filing, Direct Testimony of Gary L. Beland, filed September 2, 2009 at 1-4.

Mr. Beland described how the GCR factor of $10.4017 per Dth was derived from the five-gas-cost components, Supply Fixed Costs $0.78 per Dth, Storage Fixed Costs $0.29 per Dth, Supply Variable Costs $8.87 per Dth, Storage Variable Product Costs $0.29 per Dth, and Storage Variable Non-Product Costs ($0.07) per Dth plus an uncollectible component. Mr. Beland explained how Supply Fixed Costs are derived and how they are allocated to the various rate classes based on their proportion of design-winter use. Residential, Large-HLF and Extra Large HLF design sales represent 3.6% of Design Winter Sales and thus a total of 3.6% of Supply Fixed Costs are allocated to these classes.[7]

Mr. Beland described how the Storage Fixed Costs factor was derived. He noted that 3.95% of total Storage Fixed Costs were allocated to the Residential and HLF classes. He pointed out that the difference between the allocation for Supply Fixed Costs and Storage Fixed Costs was that Storage Fixed Costs incorporated the FT-2 transportation customers consistent with the Commission's Order in Docket No. 2552. Mr. Beland described how the Supply Variable Costs were derived and noted that because these costs vary with the amount of gas actually used they are allocated to the various rate classes based on projected consumption. They are not allocated on the basis of design throughput such as Supply Fixed and Storage Fixed Costs which are incurred to ensure that the Company is able to meet customer requirements during design-winter conditions.[8]

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[7] *Id.* at 5-6.
[8] *Id.* at 6-9.

Mr. Beland also explained how the Storage Variable Product Cost Factor and the Storage Variable Non-Product Factor associated with the Residential and HLF classes were derived. He explained that the Storage Variable Non-Product Costs were divided by forecasted throughput as opposed to the Storage Variable Product Costs and Supply Variable Costs which were divided by forecasted sales, because the Storage Variable Non-Product Costs are assigned to FT-2 Marketers. Thus, the total of the components equals $10.1458 per Dth which is then adjusted by the 2.46 uncollectible percentage resulting in a GCR factor of $10.4017 per Dth or $1.0402 per therm. Mr. Beland noted that the GCR factors for the other classes are calculated in the same manner as the Residential and HLF classes.[9]

At the end of the current GCR period, Mr. Beland indicated that the current estimate of the deferred gas cost balance is an undercollection of approximately $11.7 million. Mr. Beland described how the forecasted throughput requirements were developed though the use of a regression analyses of daily send-out and degree days over the May 2008 through April 2009 time period. The Average residential heating customer using 922 therms per year will experience a decrease of approximately $7.00 or 0.5% per year over current rates.[10]

Mr. Beland 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 $0.9091 per therm to reflect the supply variable costs. He also proposed changes to various gas marketer charges and factors, specifically, $0.0337 per therm for FT-2 Firm Transportation Marketer Gas Charge, $0.0018 per percentage of balancing

[9] *Id.* at 9-11.
[10] *Id.* at 11-13.

elected per therm of throughput in the Marketer pool for pool balancing charges and $0.0999 per therm weighted average upstream pipeline transportation cost.[11]

Mr. Beland discussed the changes to the GCR tariff that resulted from the Commission's order in Docket No. 3943. One of the changes was to consolidate the six gas cost factors into two which is reflected in the calculated rates and in the discussion of the development of the rates for Residential and HLF classes. The DAC filing, Docket No. 4077, uses the approved 16.8% factor to allocate LNG costs associated with system pressure, LNG operating and maintenance costs and the capital structure and days-lag incorporated in the working capital to the DAC.[12]

In addition to the changes resulting from Docket No. 3943, Mr. Beland explained the Company's other changes proposed to its tariff. These changes include:

1. the elimination of references to the Asset Management Incentive Plan which was terminated by the Commission's order in Docket No. 3982;

2. the addition of terms needed to cover the changes related to the new Natural Gas Portfolio Management Plan ("NGPMP") changing the calculation of the supply Fixed Cost component of the GCR to provide that the amount guaranteed to customers under the NGPMP's terms be included in the GCR calculation prospectively while the remaining revenue from optimization transactions be flowed through the GCR subject to Commission approval;

3. upgrading and improving the credit standards for marketers providing gas supply service to transportation customers;

4. updating the communication options for marketers to reflect implementation of the Company's new electronic bulletin board (EBB); and

5. providing marketers with more timely estimates of the path costs, weighted average upstream pipeline cost and expected

[11] *Id.* at 13-15, Attachment GLB-6.
[12] *Id.* at 16.

> surcharge/credit that will be in effect for the upcoming GCR year.[13]

Mr. Beland also described the incentive portion of the Gas Procurement Incentive Plan ("GPIP"). He noted that the GPIP encourages the Company to purchase supply in a way that will reduce risk and stabilize supply. 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. The incentive or penalty is determined by multiplying the total savings or cost by 10% except for those discretionary purchases made at least 8 months prior to the month of gas flow where the unit cost savings is greater than 50 cents per dekatherm in which case the incentive applicable to those purchases is 20%. The Company calculated the incentive to be $1,097,727 but is unclear as to whether the Commission will limit the Company to the $1 million incentive for at least the first two years of the program as required by the GPIP Outline.[14]

Finally, Mr. Beland noted that NGrid is requesting that it be allowed to recover its short term borrowing cost, less any interest earnings it may receive on the collateral from the party that posted the collateral. NGrid believes that this will benefit customers in the future as the need to post collateral is expected to decline as gas costs rise above the price paid for existing hedges. Customers will be credited interest on the funds held by NGrid at the same short term rate.[15]

II. DIVISION

On October 16, 2009, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimony of Bruce R. Oliver, its consultant, to address NGrid's

[13] *Id.* at 17-20.
[14] *Id.* at 20-22.
[15] Id. at 23-24.

filing. Mr. Oliver identified the proposed percentage decreases that would affect the rate classes: 0.8% from $1.0975 per therm to $1.0892 per therm for Residential Heating customers, Small and Medium C&I customers, Low Load Factor Large C&I customers and Low Load Factor Extra Large C&I customers and 2.2% from $1.0636 per therm to $1.0402 per therm for Residential Non-Heating customers and High Load Factor Large and Extra Large C&I customers. Mr. Oliver indicated that NGrid's GCR rate for Natural Gas Vehicles would increase 8.4% from $0.8388 to $0.9091 per therm and the FT-2 Storage Charge would be lowered by 18.8% from $0.0415 to $0.0337 per therm.[16]

Mr. Oliver noted that the difference in the percentages assigned to the different rate classes is the result of three differences in: the rates of change in the size of the GCR cost components, the magnitude of over- or under-collection of costs by GCR component and the manner in which the five components of GCR costs are allocated among classes. Mr. Oliver pointed out that the changes in the individual cost components range from 24.5% to -40.4% even though gas costs have decrease by 4.6%. He noted that NGrid did not directly explain the large variations in the changes in the components, and he found that variations in the fixed components are primarily the result of the manner in which NGrid's gas assets are managed and that the changes in the variable components are less easily identified. He indicated that the approximate $5.8 million increase in the Supply Fixed Costs is primarily driven by the combined effects of the termination of the Company's asset management contract with Merrill Lynch and the Company assuming this function itself which resulted in a reduction of capacity release credits. He explained the reductions in the proposed GCR charges as being less than the 4.6% decrease in the cost of gas as a result of changes in the cost adjustments that are incorporated into the

[16] Division Exhibit 1, Testimony of Bruce R. Oliver, filed October 16, 2009 at 1-4.

GCR rate calculations. He noted that NGrid's calculations are consistent with its methods of computation previously used and accepted by the Commission in prior cases.[17]

Mr. Oliver found Ms. Arangio's portrayal of the benefits of anticipated gas supply options to be overly optimistic. He noted that in light of current market conditions, he does not expect significant expansion of gas supply into the Northeast over the next few years pointing out that LNG imports are down over the last year even though terminal capacity has doubled. He also pointed out that Canadian imports are at their lowest point since 1999. Additionally, Mr. Oliver pointed out that in light of the current economy, production from the North Texas Barnett Shale will be limited, and the costs for developing the Marcellus Shale formation are higher than the current market will support. Mr. Oliver does not anticipate further dramatic declines in natural gas prices. Regarding the NYMEX price data used by Ms. Arangio, Mr. Oliver noted that the August 24, 2009 strip reflects a pattern of continually increasing pricing over the November 2009 through October 2010 period. He noted the pattern to be very atypical and indicative of the fact that the industry is in transition.[18]

Mr. Oliver noted that NGrid did not explain the manner in which it determined forecasted design-winter throughput requirements. He pointed out that there are large variations in projected sales and throughput growth by rate class. He further stated that Residential Heating sales are forecasted to decline by 5% on an annual weather-normalized basis while sales for most other classes show double digit increases, emphasizing an 11.3% increase in the forecasted requirements for October. Mr. Oliver

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[17] *Id.* at 4-8.
[18] *Id.* at 8-12.

opined that there was a large shift in forecasted Design Winter Sales requirements from January, February and March to November and December with no explanation of any impacts that result from this change. Mr. Oliver recommends that the Commission question the forecasted design winter requirements as they are not adequately explained, justified or consistent with the changes in Normal Weather Throughput.[19]

Mr. Oliver found no reason to dispute the calculation of the Company's GPIP incentive calculation but recommends revisions to the current incentive structure. He noted that the $1 million cap should not be waived and that if the Company took issue as to whether the cap continued to apply, it should have addressed that in advance or separate to this matter. He stated that other changes should occur to the GPIP especially in light of the fact that during the last two years, the Company's discretionary purchases would have been undertaken in a declining price market regardless of whether the incentives were in place. Mr. Oliver pointed out that even though the GPIP was modified last year to provide for increased incentives for the Company to make discretionary purchases early in the procurement cycle for each gas supply month, NGrid has not taken advantage of this opportunity and appears typically focused on making purchases after determining that no risk inures to the Company. He described NGrid's approach to discretionary purchases as diluting any value that firm gas sales service customers derive from the offered incentives and recommends either eliminating or substantially reducing the incentives. He pointed out that since the current incentives did not work as intended, elimination of them will not be disadvantageous to ratepayers if the market trends upward. Mr. Oliver found the Company's request for recovery of short-term borrowing costs associated with collateral requirement on financial hedges to be reasonable as long

[19] *Id.* at 13-15.

as the terms of the cost recovery are balanced with provisions that provide ratepayers the benefit of the interest earned on collateral received from other parties. He suggested that the Commission only allow recovery when the collateral is in the form of cash. If a letter of credit is used for collateral then Mr. Oliver recommends that the costs subject to recovery should be the lesser of either the costs of securing and maintaining the letter of credit or the costs of an equivalent amount of short-term borrowing.[20]

Regarding the Natural Gas Portfolio Management Plan ("NGPMP"), Mr. Oliver indicated that although sufficient time has not passed to properly evaluate it, he found no reason to doubt its reasonableness. He noted that the NGPMP affects the GCR rate in two places: a pro-rated portion of the $1 million annual minimum credit is reflected in each month of FY 2009 in which the NGPMP was in effect and the credits are reflected in a $250,000 credit to the projected Supply Fixed Costs for the 2009-2010 GCR period. Mr. Oliver stated that the value of future asset management transactions is uncertain, so NGrid has only included the $1 million of guaranteed NGPMP benefit in this case. Additionally, the level of credit is significantly lower than the $11.4 million of capacity release credits in last year's Supply Fixed Costs, as the credits for capacity released to marketers of $5,242,797 plus the $1 million of guaranteed credit, is 45% less than the level forecasted for the 2008-2009 GCR year. He recommended that the Commission assume a level of not less than $3.4 million annually of NGPMP credits to ratepayers, noting that this is consistent with the $4 million of annual net asset management revenues.[21]

[20] *Id.* at 16-21.
[21] *Id.* at 22-25.

After reviewing the Gas Cost Reconciliations, Mr. Oliver noted that he was comfortable with the accuracy and reliability of those reconciliations and recommended that they be accepted. He also reviewed the tariff edits and amendments and found them reasonable and appropriate.[22]

In conclusion, Mr. Oliver summarized his recommendations to the Commission to be as follows: to reduce or eliminate the current GPIP purchasing incentives, to assume annual NGPMP credits to ratepayers of not less than $3.4 million for the 2009-2010 period and make the appropriate reduction to the GCR charge; to require more explanation of the year to year changes in forecasted Normal Weather and Design Winter Sales and Throughput requirements in future proceedings and to address the implications of changes in annual forecasts on both near-term and long-term gas supply planning; to accept as reasonable the annual reconciliations; and to approve the proposed tariff edits and amendments. If adopted his recommendations would result in a GCR charge for Residential Heating customers, Small and Medium C&I customers, Large Low Load Factor and Extra Large Low Load Factor customers of $1.0801 per therm, and for Residential Non-Heating customers, Large High Load Factor customers and Extra Large High Load Factor customers a charge of $1.0338 per therm.[23]

III. DIRECT ENERGY SERVICES, LLC

On October 19, 2009, Direct Energy Services, LLC ("Direct"), an intervenor, filed the Direct Testimony of Rebecca Bachelder. Ms. Bachelder provided testimony on the increase in the path costs. She noted that Direct was surprised with the increase considering the fact that market costs have decreased considerably over the past year.

[22] *Id.* at 25-27.
[23] *Id.* at 28-29.

Ms. Bachelder noted two concerns of Direct: the change in methodology used to calculate the basis portion of the path costs and the composition of the costs used to determine the basis portion of the WACOG. She pointed out that a historical average methodology has been in place since the inception of the capacity release program and that it is relied on by marketers to estimate costs in entering into multiple year contracts with their customers. She noted that NGrid is now using a one-year forward looking forecast of prices using the NYMEX strip from August 24, 2009.[24]

Ms. Bachelder asserts that this approach creates problems for ratemaking purposes because it requires reconciling in the future to the actual costs experienced. Without a reconciliation feature, using forecast data can cause unwanted subsidization of sales customers by transportation customers or vice versa. She noted that the one year forecast will result in greater variances than the three year historical moving average that will make it difficult for marketers to forecast costs and manage the risks associated with multiple year contracts. Ultimately this can cause customers to leave the competitive market if the value of what marketers can offer customers is limited. Ms. Bachelder pointed out that the three year moving average of actual data makes it easier to predict costs used in multiple year contracts. Direct is requesting that the Commission order NGrid to continue to use the three year moving average method to calculate the 2009-2010 WACOG.[25]

Regarding the second concern, specifically the composition of the costs used to determine the basis portion of the WACOG, Ms. Bachelder noted that she is not able to determine that hedging costs are not included in the $0.3614 per Dth Average System

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[24] Direct Exhibit 1, Direct Testimony of Rebecca Bachelder, filed October 19, 2009 at 2-4.
[25] *Id.* at 4-6.

Variable Unit Value in Ms. Arangio's Revised Attachment EDA-4, page 10 of 18. She stated that once Direct receives a response to its outstanding Data Request to NGrid, it will be in a better position to make a recommendation concerning this issue. However, if the WAGOC includes hedging costs, Direct recommends that those costs be removed as they are supply-related and do not belong in the transportation rate.[26]

IV. NATIONAL GRID OCTOBER 23, 2009 REBUTTAL

On October 23, 2009, NGrid filed the Rebuttal Testimonies of Gary Beland, Stephen McCauley and Elizabeth Arangio. Mr. Beland addressed Mr. Oliver's concerns about the recovery of the short-term borrowing costs associated with the collateral requirements for hedging, the design-winter throughput used to develop the GCR rate, and the bill impacts associated with Mr. Oliver's proposed changes to the NGPMP. Mr. Beland described how the Company proposes to calculate the carrying costs which are added to the Tariff, RIPUC NG-GAS No. 101, Section 1, Schedule B. Mr. Beland noted that the change in the forecasted design-winter sales requirements are shifted from January, February and March to November and December because of a change in methodology, whereby the Company is using calendar-month design-degree days instead of billing cycle design-days which were used in previous filings. The reason for the change was to eliminate the source of variation from year to year based on changes in the billing cycle and to ensure that cost allocation is based on peak season demand responsibility. Mr. Beland represented that NGrid accepts Mr. Oliver's recommendation to increase the level of NGPMP credits which would result in a 1.6% or $16.08 annual decrease for an average residential heating customer using 922 therms per year.[27]

[26] *Id.* at 6-7.
[27] NGrid Exhibit 4a, Rebuttal Testimony of Gary L. Beland, filed October 23, 2009 at 1-5.

Stephen McCauley provided testimony to address Mr. Oliver's recommendation that NGrid not be granted the full amount of benefits under the GPIP and that NGrid's incentives should be eliminated or significantly modified going forward. Mr. McCauley noted that in the last six years the Company has only once exceeded the limits of the trial period limits on the incentives. Mr. McCauley disagreed that the adoption of the NGPMP negates the continuation of the GPIP. He also discussed Mr. Oliver's observation that changes to the GPIP were ineffective in encouraging NGrid to execute hedges in months that were greater than 8 months in the future, pointing out that 89% of discretionary hedges were executed for months greater than 8 months prior to delivery. He noted that for the last three years there has been over a $20 million benefit to customers and that customer benefits are aligned with the incentive in times of falling market prices. Mr. McCauley recommended that rather than eliminating or modifying the GPIP, the Commission should allow NGrid and the Division time to review the current incentive parameters and discuss modifications to the GPIP.[28]

Finally, Elizabeth Arangio filed rebuttal testimony to respond to the Direct Testimony of Rebecca Bachelder. Ms. Arangio noted that NGrid is willing to use the three-year moving average method to calculate the 2009/2010 WACOG and will work with the marketers to understand the ramifications of using the forward basis NYMEX strip methodology in subsequent annual filings.[29]

[28] NGrid Exhibit 4b, Rebuttal Testimony of Stephen McCauley, filed October 23, 2009 at 1-5.
[29] NGrid Exhibit 4c, Rebuttal Testimony of Elizabeth Arangio, filed October 23, 2009 at 1-2.

V. HEARING

Following published notice, a public hearing was conducted on October 26, 2009 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:	Leo Wold, Esq. Assistant Attorney General
FOR THE COMMISSION:	Patricia S. Lucarelli Chief of Legal Services

Prior to the beginning of the presentation of evidence by the parties, the Commission 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 schedules EDA-2, EDA-4 and EDA-4R, which are attachments to the testimonies of Elizabeth Arangio. Additionally, NGrid requested that its response to Direct Data Request 1-2 and Attachment 2 of Direct Data Request 1-4 be given such protective treatment as it includes confidential information. The Commission granted these requests authorizing protective treatment of certain pricing terms contained in NGrid's FCS contract with Distrigas as well as forecast basis numbers which are subject to a contractual confidentiality agreement. 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 the details of its contractual negotiations.

At the hearing, NGrid presented Ms. Arangio, Mr. Beland and Mr. McCauley as its witnesses. Ms. Arangio reiterated that the Company agreed with Direct that it would not make changes to the three-year rolling average methodology unless there were discussions with marketers prior to any change. Mr. McCauley noted that all mandatory volumes have been executed and that NGrid has hedged discretionary and accelerated volumes. Mr. Beland described the annual incentive and explained how the million dollar incentive accrued. He pointed out that from the period of July 1, 2008 through June 30, 2009, the Company accumulated a little over $1 million.[30]

Mr. Beland noted that there was no economic dispatch of LNG during the past winter and pointed out that last winter the weather was not severe and there was plenty of supply that could be obtained at lower prices. When asked about the outcome of turning the NGPMP back over to the Company to manage, Mr. McCauley responded that it was still too soon to judge the value of NGrid's assumption of this responsibility. He noted that this would best be judged when a full year of the program is complete.[31]

Mr. McCauley responded to a question of whether there has been a change in circumstances requiring the Commission to rethink the Gas Purchasing Plan. He responded while there have been changes in market conditions this will not change the fact that gas prices will still be volatile. He pointed out that he believes that discretionary purchases still provide benefits to customers in lower price environments. He also noted that he believes gas prices will continue to rise and continue to be volatile. He identified that the primary purpose of the gas buying program as price stability.[32]

The Division presented Mr. Oliver as its witness. Mr. Oliver urged the Commission not to modify the gas purchasing program until the Company and the Division had the opportunity to work together to evaluate the incentive program. Mr.

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[30] Transcript of Hearing, October 26, 2009 at 8-20.
[31] *Id.* at 34-41.
[32] *Id.* at 46-56.

Oliver pointed out that there are changes in circumstances as Mr. McCauley indicated that have affected the market in recent periods. He noted that the most sensitive area will be supply and demand, pointing out that demand for domestic industrial gas is down and residential and commercial use is flat. He stated that what is driving the price of natural gas is industrial use and electric generation use which is also down. He pointed out that the electric generation portion of demand is highly weather sensitive. Mr. Oliver testified that weather conditions would have to be extreme for there to be any substantial change in the supply and demand balance for this coming winter. He predicted a softening of gas prices this winter.[33]

Mr. Oliver also testified that he accepted Mr. Beland's presentation of design-winter planning and adopted the sendout model proposed by the Company rather than the sales or billing data that was previously used. He noted that the sendout data more accurately reflects the weather in the month the Company needs to plan for. He also discussed the concerns of Direct and testified that while the Company's proposed change in methodology may be worthwhile, it is appropriate for the Company to sit with marketers to provide reasonable advance notice of changes.[34]

Ms. Bachelder testified that after review of the rebuttal testimony, she was satisfied that her concerns regarding the methodology regarding the calculation of the basis portion of the marketer path had been addressed. She explained for the Commission how the proposal to implement a forecast methodology would affect Direct's ability to provide multi-year contracts.[35]

[33] *Id.* at 59-69.
[34] *Id.* at 74-77.
[35] *Id.* at 98-103.

COMMISSION FINDINGS

At its open meeting, on October 27, 2009, 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 the contracts, but the ratepayers whose interests could be compromised or adversely affected should NGrid be required to make this information public.

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 finds that the Gas Cost Recovery factors proposed by NGrid and supported by the Division, set forth on a per therm basis, of: $1.0338 for residential non-heating customers, large and extra large high load factor and $1.0801 for residential heating customers, small and medium commercial customers, and large and extra large low load factor customers were reasonable and justified. Further, the Commission finds the Natural Gas Vehicle Rate of $0.9091 per therm, the pipeline path credits of $0.0981[36] per therm of capacity, the FT-2 Marketer Rate of $0.0337 per therm and the pool balancing charge of $0.0018 per percent of balancing were reasonable and justified.[37]

The Commission further finds that the Company should be allowed to collect the gas procurement incentive but that this incentive be capped at $1 million. Furthermore, NGrid is encouraged to engage in further discussions with the Division about the GPIP and the Gas Purchasing Plan to evaluate whether they are working in a manner that is in

[36] This modification was made in EDA-4R.
[37] The rates reflect the change in the uncollectible percentage of 2.46% approved in Docket No. 3943.

the best interests of the Company and its ratepayers or whether modifications are necessary. The Commission orders the Company to submit a written report to the Commission detailing the findings and conclusions of the evaluation and discussions with the Division within ninety days of the Open Meeting decision. The Commission accepts the recommendation of Mr. Oliver to approve the proposed changes to the tariff language set forth by the Company in GLB-7 and GLB-1R with the condition that the word "exchange" in GLB-1R be capitalized as to avoid ambiguity.

The Commission appreciates the participation of Direct and the testimony it provided regarding the issue of the calculation of path costs. The Commission was satisfied with NGrid's agreement with Direct that the Company will continue to use the three-year historical average to calculate the basis portion of the path costs and the composition of the costs used to determine the basis portion of the WACOG. The Commission strongly encourages the Company not to propose changing this methodology absent discussion with marketers of any proposed change to allow for concerns to be addressed and any ramifications to be discussed with those groups that may be affected by such a change.

The Commission is satisfied with the Company's explanation and the Division's acceptance of the change in methodology for determining forecasted design-winter requirements from billing cycle design days to calendar month design-degree days and thus finds such change to be acceptable. Finally, the BTU factor of 1.028 is approved.

Accordingly, it is

(19832) ORDERED:

1. The Gas Cost Recovery Factors, the Natural Gas Vehicle Commodity Rate, the Gas Marketer Charges agreed to by the parties and set forth below are hereby approved.
2. The Gas Cost Recovery factors, set forth on a per therm basis, of: $1.0338 per therm for residential non-heating customers, large and extra large high load factor and $1.0801 per therm for residential heating customers, small and medium and large and extra large low load factor customers are approved for usage on and after November 1, 2009.
3. The Natural Gas Vehicle Rate of $0.9091 per therm is approved for usage on and after November 1, 2009.
4. The Gas Marketer Transportation factors of: $0.0337 per therm for the FT-2 Firm Transportation Marketer Gas Charge; $0.0018 per percent of balancing elected per therm for Pool Balancing Charge; and a weighted average upstream pipeline transportation cost of $0.0981 per therm of capacity are approved for usage on and after November 1, 2009.
5. The Gas Procurement incentive of $1 million is approved.
6. National Grid shall file a written report with the Commission within ninety days detailing the findings and conclusions that result from its discussions with the Division regarding evaluation of the Gas Procurement Incentive Program and the Gas Purchasing Plan.
7. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND PURSUANT TO OPEN MEETING DECISION ON OCTOBER 27, 2009. WRITTEN ORDER ISSUED NOVEMBER 20, 2009 .

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner