STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS
MEMORANDUM

TO: LULY MASSARO DATE: JUNE 26, 2012

FROM: STEPHEN SCIALABBA
CHIEF ACCOUNTANT, DPUC

SUBJECT: NATIONAL GRID DOCKET 4333, REVISIONS TO THE ON-SYSTEM MARGIN CREDIT PROVISION OF THE DAC.

On May 31, 2012, and as subsequently corrected on June 5, 2012, National Grid filed revisions to the On-System Margin Credit provision of the DAC. The modified tariff provisions have been the subject of discussions among TEC-RI, the Division, and National Grid, and the proposed revisions are supported by the Division as well as TEC-RI.

By way of background, the current On-System Margin Credit provisions stemming from Docket 3943, are based on National Grid recovering $2.8 million in revenue from 64 dual-fuel customers. Firm distribution rates were designed with the assumption that Grid will recover the $2.8 million from dual-fuel customers, and therefore in designing the distribution rates, the revenue required from firm, non dual-fuel customers was reduced by that amount. Any shortfall on an annual basis in actual dual-fuel revenues from the $2.8 million threshold is recovered through the DAC. Conversely, any revenues from dual-fuel customers in excess of the $2.8 million threshold are credited back 100% to firm customers, also through the DAC.

As discussed in the Company's letter accompanying the tariff advice filing, under present tariff language, if a dual-fuel customer wants to expand its gas service and new capital investment by the Company is required to provide additional natural gas throughput, the additional revenues produced by the customer's expanded service would not be considered in the determination of the customer's required Contribution in Aid of Construction (CIAC). Since the present tariff requires that all revenues in excess of the $2.8 million tariff threshold must be credited to firm customers through the DAC, no additional revenue margins would accrue to the Company, and therefore, no incremental revenues would be factored into the CIAC calculation. This means that the customer pays for all CIAC for the project without any revenue offset, and that acts as a disincentive or economic barrier to the customer's expansion of gas service.

As a means to address this, the parties developed the proposed tariff revision. Simply put, the customer is required to provide a written minimum take commitment for a period not to exceed five years. In the DAC, the original initial threshold of $2.8 million will be increased by the amount of the minimum take commitments applicable for a given DAC reconciliation period.[1] Under this proposed change, the Company can rely on the additional revenue from the minimum take commitment and factor the additional revenue in the CIAC calculation. During the minimum-take commitment period, non-dual fuel customers are not harmed, and economic barriers to customers' gas service expansion are mitigated. In the longer term, the gas system will experience additional utilization and financial support from the customers who expanded their gas utilization. The Division therefore supports the tariff advice filing and the modification to the DAC tariff language as it pertains to the On-System Margin Credits.

---

[1] If there are multiple customers providing minimum take commitments, the commitments will be summed to determine the adjusted threshold.