STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NARRAGANSETT ELECTRIC :
d/b/a NATIONAL GRID : DOCKET NO. 4436
GAS COST RECOVERY CHARGE :

REPORT AND ORDER

On February 14, 2014, National Grid (National Grid or Company) submitted to the Public Utilities Commission (PUC or Commission) a revised Gas Cost Recovery (GCR) filing to increase rates as of April 1, 2014.[1] The GCR, which is filed annually, allows National Grid to reconcile and recover its estimated costs for gas supplies, including pipeline transportation and storage charges, for the GCR year beginning November 1. The Company's gas tariff provides that should a change occur subsequent to the November effective date causing the deferred gas cost balance to exceed 5% of the Company's gas revenues, the Company may file for an adjustment in rates to recoup this deferred gas cost balance.[2] The Company projected a deferred gas cost balance as of October 31, 2014 of approximately $34.5 million, 19% of total annual gas cost revenue. The Company attributed the increase costs in large part to the colder than normal weather. In its filing, National Grid proposed to recover $17.5 million of the projected under-collection between April 2014 and October 31, 2014, and the remaining $16.9 million during the next GCR year, November 2014 through October 31, 2015. The Company stated that its proposed, bipartite recovery was intended to moderate the immediate bill impact of the increases.

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[1] www.ripuc.org/eventsactions/docket/4436-NGrid-Revised-GCR(2-14-14).pdf.
[2] RIPUC NG-GAS No. 101, Sec. 2, Sched. A, Pt. 1.2; www.ripuc.ri.gov/utilityinfo/natgas/rigas_tariff.pdf.

In support of its request, National Grid presented the pre-filed testimony by Anne E. Leary, Elizabeth D. Arangio, and Stephen A. McCauley.[3] Ms. Leary provided testimony proposing the revised GCR rate commencing April 1, 2014, which she identified as a surcharge of $0.2582, including a gross up for uncollectibles, for National Grid's High Load and Low Load GCR factors. She indicated that without a revision, deferred gas costs would be approximately $34.5 million by October 31, 2014. That would create a substantial immediate impact on customer bills.[4]

Ms. Leary identified the major factors contributing to the projected deferred gas cost balance as the increases in actual and forecasted gas prices during the current GCR year, noting specifically that actual gas costs for the November 1, 2013 through January 2014 period were approximately $25 million more than National Grid had forecasted. She provided that the updated forecast for the February 2014 through October 2014 period was approximately $6 million higher than what had been forecast in the Company's September 2013 GCR filing. She expressed that instead of attempting to recover the entire $34.9 million under-collection by October 31, 2014, which would result in a total bill increase of approximately 32% for residential heating customers, the Company was proposing a surcharge to collect $17.5 million by October 2014, resulting in a 16.3% total bill increase or $0.2582 per therm grossed up for uncollectibles for the average residential heating customer, and collecting the remaining $16.9 million over the

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[3] Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at www.ripuc.org/eventsactions.html, organized by docket number.
[4] Leary Direct at 1-4, Feb. 14, 2014; www.ripuc.org/eventsactions/docket/4436-NGrid-Revised-GCR(2-14-14).pdf .

course of the November 2014 through October 2015 GCR year. Ms. Leary identified the total dollar increase for an average residential heating customer to be $68.63.[5]

Ms. Arangio provided testimony supporting the updated gas costs and other issues related to the proposed GCR factors. She explained how natural gas commodity prices have increased significantly since the Company submitted its original GCR filing in September 2013. She noted that periods of colder-than-normal weather, ongoing interstate pipeline constraints, compressor station outages, and limited LNG supplies all contributed to increased natural gas costs in the New England area. Ms. Arangio addressed the difference between the actual NYMEX prices, those projected in the Company's original filing in September, 2013 and those projected for March 2014 through October 2014. In one instance, the actual price was 125.5% higher than originally projected.[6]

Ms. Arangio's testimony included attachments identifying the original forecasted gas costs from the Company's September 2013 filing as well as the recalculated forecasts for the February 2014 through October 2014 period. As in the Company's original filing, gas costs were disaggregated into a Supply Fixed Cost Component and a Supply Variable Component. Ms. Arangio noted that since National Grid had not contracted for its LNG supplies for the upcoming off-peak season, pricing amounts used were based on the Company's previous contracts with GDF Suez NA and other LNG providers.[7]

Mr. McCauley's testimony explained how the Gas Purchase Incentive Plan would impact the actual cost of gas incurred by the Company and how the plan would mitigate

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[5] *Id.* at 4-7.
Arangio Direct at 1-4, Feb. 14, 2014; www.ripuc.org/eventsactions/docket/4436-NGrid-Revised-GCR(2-14-14).pdf.
[7] *Id.* at 5-7.

price volatility inherent in the cost of gas. The Gas Purchase Incentive Plan allows the Company to hedge up to 95% of forecasted normal requirements for the April to October period, but requires it to hedge a minimum of 75% of the forecasted requirements in November and March and a minimum of 80% in December, January, and February. Mr. McCauley noted that actual weather was colder than the forecasted normal weather. He provided that the Company hedged 99% of the forecasted requirements for November 2013, but the actual percentage hedged based on requirements was 77%. For December 2013, the Company hedged 84%, while the actual percentage hedged based on requirements was 90%. Finally, for January 2014, the Company hedged 82% and the actual percentage hedged based on requirements was 79%.[8]

Mr. McCauley explained that unhedged forecasted volumes can cause the actual cost of gas to be higher than those forecasted, if market prices are greater than those used in the forecast. Cold weather will raise supply requirements above the forecasted normal load, and ineffective hedging can also result in actual gas prices greater than those forecasted. Mr. McCauley noted that a large portion of the variance between the forecasted and actual costs for November, December, and January were due to increased cost and the volume of the supplies purchased at Beverly and Dracut, which are part of the unhedged volumes and susceptible to daily market prices. Also contributing to the increased cost of gas were the daily purchases on colder days in January from the mid-Atlantic region, when the Company's purchases were approximately $15.00 per

[8] McCauley Direct at 1-3, Feb. 14, 2014; www.ripuc.org/eventsactions/docket/4436-NGrid-Revised-GCR(2-14-14).pdf.

decatherm more than what it had forecast. Mr. McCauley identified the variance of the December and January purchases as totaling $26.13 million.[9]

On March 19, 2014, the Division of Public Utilities and Carriers (Division) filed a memorandum authored by its expert, Bruce Oliver. In addition to addressing the reasonableness of the Company's proposed surcharge and the factors contributing to the projected under-recovery, Mr. Oliver provided a list of issues warranting further review prior to National Grid's next GCR filing.[10]

Mr. Oliver noted that although the surcharge requested by National Grid will have a noticeable impact on customers' bills, it is necessary to reduce the deferred gas cost balance. He opined that pipeline constraints into New England will likely continue to cause high spot market prices during extreme cold weather for at least the next few years. He suggested a review of the Company's terms and conditions related to marketers might be warranted to ensure existing firm gas sales service customers are not subsidizing other natural gas users.[11]

Mr. Oliver related that the projected under-recovery of approximately $34.5 million, which significantly exceeded anticipated amounts due to extremely cold weather and a shortage of pipeline capacity, equated to approximately 19% of the Company's total annual gas costs. Mr. Oliver explained National Grid's proposal to recover $17.5 million of the projected under-collection would result in a 39% increase for a low load customer and a 40% increase for a high load customer over currently effective GCR

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[9] *Id.* at 3-6.
[10] Oliver Memorandum at 1, March 19, 2014; www.ripuc.org/eventsactions/docket/4436-DPU-Oliver_3-19-14.pdf.
[11] *Id.* at 1-2.

rates, or a 16.3% increase in the total charge for gas service for the average residential heating customer over the April to October 31, 2014 period.[12]

Mr. Oliver opined that recovery of approximately half of the deferred balance, coupled with the other anticipated increases, would likely result in an increase of a similar magnitude in National Grid's GCR filing for next year. He noted that uniform treatment of both high load and low load customers was reasonable, in that the cost increases are primarily, if not exclusively, in the variable cost category. He identified the two key factors for the increase in this winter's gas costs as (1) increased daily spot market prices for natural gas and (2) increased basis prices for unanticipated upward fluctuations in natural gas delivery requirements. He asserted that the Company's purchase of incremental volumes in short-term markets at significantly increased prices likely increased the deferred balance to an amount greater than what the Company identified in its February 14, 2014 filing.

The high prices resulted from a shortage of interstate gas pipeline capacity which was attributable to the unwillingness of gas-fired electric generation operators to make the long-term commitments that would justify building additional pipeline. Mr. Oliver also suggested that marketers might have been using the Company's policies to allow additional costs to be inappropriately placed on the firm gas sales customers. Further, customers who had left firm service were seeking to return. Mr. Oliver noted that even though the number of residential non-heating accounts has continued to decline, the sales volumes for that class for December 2013 and January 2014 were 36% above what the Company had projected in its annual GCR filing in September 2013. Because the

[12] *Id.* at 2.

residential non-heating customers' usage has an adverse impact on the Company's supply planning, he recommended a review of this class.[13]

Mr. Oliver provided that the continuation of high demands and high daily prices will contribute further to the Company's projected deferred gas cost balance, resulting in: (1) that balance having to be recovered in its next GCR filing, (2) added pressure on the Company to do more to lock-in gas prices and interstate gas pipeline capacity, and (3) requiring the natural gas storage injections to replace depleted volumes for next winter. He reiterated that much of the increased demand for daily supplies was attributable to electric generators. They have no requirement or incentive to enter into long-term commitments for pipeline capacity and their demands have a substantial impact on gas pricing during cold days. He advised that higher gas cost increases for the current year and high gas costs in next year's GCR filing will reflect the increased costs for gas-price hedging transactions, as well as for gas injected into storage. Finally, Mr. Oliver recommended that National Grid might need to increase the percentages of its forecasted monthly gas supply requirements for which hedging is required. He suggested review of (1) other means of limiting requirements for daily spot purchases of natural gas during periods of extreme weather, (2) the terms under which gas marketers deliver gas to National Grid, (3) pricing for customers who return to gas supply service provided by National Grid, and (4) non-firm customer compliance with service interruption requests and the adequacy of penalties for non-compliance given current market conditions.[14]

The Commission conducted a hearing on March 24, 2014. National Grid presented a panel of Ms. Arangio, Ms. Leary, and Mr. McCauley to respond to inquiries

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[13] *Id.* at 3-5.
[14] *Id.* at 5-8.

regarding their prefiled testimonies. Ms. Arangio began by relating that the Company was amenable to working with Mr. Oliver to address the issues raised in his prefiled testimony that he asserted needed further review. She provided that the Company had already begun reviewing of the customer choice program and would review the other issues after the winter season. Asked how the Company determined that approximately half of the under-collection should be recouped during the summer months and the remaining portion recouped in the next GCR year, Ms. Leary explained it related to both the deferred balance and the bill impact. She noted that collection of the entire amount would have resulted in a significant bill impact. After consulting with the Division, the Company concluded that recovery of approximately half of the under-collection during the summer months was reasonable. The Company also considered recovering the deferred costs over next winter in an effort to minimize the magnitude of the rate increase. Evaluating prior years, moreover, she found that the 2008 and 2009 customer bills were significantly higher than the proposed current bills, even after the proposed increases were added.[15]

Ms. Arangio explained that colder weather resulted in higher than forecasted volumes, forcing the Company to purchase more gas on the daily market at higher prices caused by competition, especially with power generators. She noted that National Grid is endeavoring to ensure additional capacity for the future by signing up for capacity on Algonquin's AIM project. When questioned about his forecast for next winter with regard to pricing and potential shortages, Mr. McCauley stated that if the region experiences similar weather without securing increased incremental pipeline capacity, ratepayers will likely experience higher prices once again. He represented that the

[15] Hr'g Tr. 11, 19-24 March 24, 2014.

Company's gas purchasing program is working as envisioned. Ms. Leary explained that the reason for the 13 to 31% range of increases for the commercial and industrial customers is because the total bill impact depends on what percent of their bill is gas-cost related.[16]

Mr. Oliver testified that the biggest factor driving the change in demand was cold weather. He stated that dependence on gas-fired electric generation to provide marginal supplies of electricity and the volatile electricity demand for gas, coupled with increased weather sensitivity of demand and the fact that electric generators have no incentive to commit to purchasing pipeline capacity on a long-term basis, all accentuate the demand for daily supply resulting in price spikes. While other jurisdictions allow price fluctuations on a monthly basis, Mr. Oliver opined that that would not be in the best interest of Rhode Island customers and that achieving rate stability was consistent with the public interest.[17]

Mr. Oliver stressed that the Company should further investigate the effect that marketers' activities are having on the Company's operations and determine whether changes should be made to existing marketer policies. He stressed that Rhode Islanders need more pipeline capacity in the region. He agreed that the two-phased rate recovery proposed would moderate the overall impacts on customers.[18]

Immediately following the conclusion of testimony, the Commission deliberated on National Grid's request. Noting that there was no evidence presented to suggest that the calculations performed or the timing of the request were unreasonable, a motion was made to approve a factor of $0.8963 per therm for high-load customers and $0.9208 per

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[16] *Id.* at 25, 35-36, 46-48, 51-52.
[17] *Id.* at 81-84.
[18] *Id.* at 84-86, 91, 104-108.

therm for low-load customers. Commissioner DeSimone commented that he understood the difficulty customers would face as a result of the increase but found there was no other alternative. He expressed that delaying the increase would only result in a larger increase later in the year which would likely be more difficult for customers to handle. He noted that the Division and its expert had carefully vetted the information provided by National Grid. The Commission found National Grid's proposal to be fair and reasonable and in the best interests of ratepayers. Accordingly, the Commission unanimously approved the request.

The Commission also approved the BTU conversion factor of 1.034. Additionally, the Commission found Mr. Oliver's suggestion for further review of (1) the Company's gas hedging program; (2) other means of limiting requirements for daily spot purchases of natural gas during periods of extreme weather; (3) the terms under which gas marketers deliver gas to National Grid; (4) pricing for customers who return to gas supply service; and (5) non-firm customer compliance with service interruption requests and the adequacy of penalties for non-compliance given current market conditions to be justified and worthy of further analysis. The Commission ordered the additional review and monthly reporting of the status of such review.

ACCORDINGLY, it is

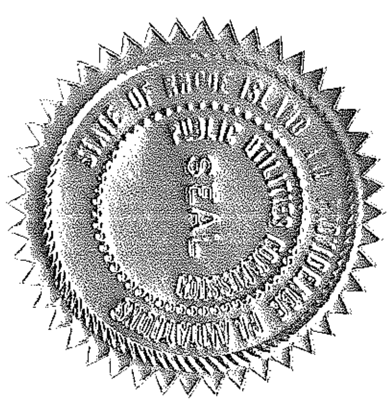
(21465) <u>ORDERED</u>:

1. The Gas Cost Recovery factors of: $0.8963 per therm for Residential Non-Heating customers, Large and Extra Large High Load Factor customers, and $0.9208 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 April 1, 2014.

2. The BTU factor of 1.034 is approved.
3. National Grid shall review (1) its gas hedging program, (2) other means of limiting requirements for daily spot purchases of natural gas during periods of extreme weather, (3) the terms under which gas marketers deliver gas to National Grid, (4) pricing for customers who return to gas supply service, and (5) non-firm customer compliance with service interruption requests and the adequacy of penalties for non-compliance.
4. National Grid shall provide monthly reports to the Commission on the status of the review set forth in paragraph 3 and provide copies of such reports to the Division.
5. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE APRIL 1, 2014 IN WARWICK, RHODE ISLAND PURSUANT TO A BENCH DECISION ON MARCH 24, 2014. WRITTEN ORDER ISSUED MAY 15, 2014.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Jr., Commissioner

Attachment A

National Grid - RI Gas

Docket No. 4431

*DAC Summary & Comparison to National Grid's Updated DAC**

Line No.		Current	AS AGREED TO BY THE PARTIES Residential/Small Medium C&I	Large/X-Large C&I
1 System Pressure (SP) Factor		$ 0.0030	$ 0.0038	$ 0.0038
2 Advanced Gas Technology (AGT) Factor		$ 0.0000	$ 0.0000	$ 0.0000
3 Low Income Assistance Program (LIAP) Factor		$ 0.0000	$ 0.0000	$ 0.0000
4 Environmental Response Cost (ERC) Factor		$ (0.0019)	$ 0.0001	$ 0.0001
5 Pension and Post-Retirement Benefits (PBOP) Factor		$ 0.0056	$ 0.0024	$ 0.0024
6 Capital Expenditures Tracker (CXT)/Accelerated Replacement Program (ARP)		$ 0.0005	$ 0.0000	$ 0.0000
7 On-System Margin Credit (MC) Factor		$ (0.0021)	($ 0.0012)	($ 0.0012)
8 Service Quality Performance (SQP)		$ (0.0004)	$ 0.0000	$ 0.0000
9 Earnings Sharing Mechanism (ESM)		$ 0.0000	$ 0.0000	$ 0.0000
10 Reconciliation (R) Factor		$ 0.0014-0.0020	$ 0.0041	$ 0.0039
12 Subtotal		**$ 0.0060-0.0067**	**$ 0.0092**	**$ 0.0090**
13 Uncollectible Percentage	2.46%		3.18%	
14 **DAC Adjusted for Uncollectibles**		**$ 0.0063-0.0069**	**$ 0.0095**	**$ 0.0092**
15 Revenue Decoupling Adjustment		$ 0,0413	$ 0.0280	$ 0.0000
16 Revenue Decoupling Adjustment Reconciliation			$ 0.0026	$ 0.0000
DAC Factor		**$ 0.0476-0.0069**	**$ 0.0401**	**$ 0.0092**

***All figures are per therm.**

Attachment B

Docket No. 4431

DAC Factors including annual ISR component

	ISR Reconciliation w/o uncollectible	Uncollectible Percentage	ISR Reconciliation	Base DAC Component	DAC Component Subtotal Rates	ISR Component	November 1, 2012 DAC Rates
	(therms)		(therms) (A)	(therms) (B)	(therms) (C) =(A) + (B)	(therms) (D)	(therms) (E) = (C)+(D)
Res-NH	($0.0241)	3.18%	($0.0249)	$0.0401	$0.0152	$0.0045	$0.0197
Res-NH-LI	($0.0241)	3.18%	($0.0249)	$0.0401	$0.0152	$0.0045	$0.0197
Res-H	$0.0000	3.18%	$0.0000	$0.0401	$0.0401	$0.0024	$0.0425
Res-H-LI	$0.0000	3.18%	$0.0000	$0.0401	$0.0401	$0.0024	$0.0425
Small	$0.0016	3.18%	$0.0017	$0.0401	$0.0418	$0.0024	$0.0442
Medium	$0.0010	3.18%	$0.0010	$0.0401	$0.0411	$0.0018	$0.0429
Large LL	$0.0001	3.18%	$0.0001	$0.0092	$0.0093	$0.0014	$0.0107
Large HL	$0.0020	3.18%	$0.0021	$0.0092	$0.0113	$0.0018	$0.0131
XL-LL	($0.0014)	3.18%	($0.0014)	$0.0092	$0.0078	$0.0005	$0.0083
XL-HL	($0.0002)	3.18%	($0.0002)	$0.0092	$0.0090	$0.0005	$0.0095

*Factors Include Uncollectible Allowance