Thomas R. Teehan
Senior Counsel

October 16, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 4436 - 2013 Gas Cost Recovery Filing
Rebuttal Testimony

Dear Ms. Massaro:

Enclosed please find ten (10) copies of the National Grid's[1] rebuttal testimony in the above-referenced proceeding.

Thank you for your attention to this filing. If you have any questions, please contact me at (401) 784-7667.

Very truly yours,

Thomas R. Teehan

Enclosures

cc: Docket 4436 Service List
Leo Wold, Esq.
Steve Scialabba
Bruce Oliver

[1] The Narragansett Electric Company d/b/a National Grid ("National Grid" or the "Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically transmitted to the individuals listed below. Copies of this filing were hand delivered to the RI Public Utilities Commission and the RI Division.

___________________________________ October 16, 2013

Joanne M. Scanlon Date

Docket No. 4436 – National Grid – 2013 Annual Gas Cost Recovery Filing ("GCR") - Service List as of 9/9/13

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REBUTTAL DIRECT TESTIMONY

OF

ANN E. LEARY

ELIZABETH D. ARANGIO

AND

STEPHEN A. MC CAULEY

OCTOBER 16, 2013

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I. Introduction

Q. Please state your names and business address.

A. My name is Ann E. Leary and my business address is Reservoir Woods, 40 Sylvan Road, Waltham, Massachusetts 02451.

My name is Elizabeth D. Arangio and my business address is also Reservoir Woods, 40 Sylvan Road, Waltham, Massachusetts 02451.

My name is Stephen A. Mc Cauley and my business address is 100 E. Old Country Road, Hicksville, NY 11801.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of this rebuttal testimony is to address the following areas discussed in the testimony of the Division's consultant, Mr. Bruce Oliver:

- The Company's recent Monthly GCR Deferred Balance reports showing comparatively large negative sales volumes in certain months for the Extra Large LLF and HLF sales service classifications.
- Projections of greater growth in winter month sales for the Residential Non-Heating class that could cause the percentage of gas use for that class

during the months May through October to fall below the 31% threshold for rate treatment as a high load factor rate classification.

- Increases in forecasted annual sales and throughput requirements as compared to the forecasted sales and throughput requirements in the Company's two preceding annual GCR filings.
- The increase in the Design Peak Day for the winter of 2013-2014 as compared to the Design Peak Day forecasted in the Company's 2012 Long-Range Plan and that forecasted for 2016.
- The Company's limited use of third-party Asset Management Agreements.

Q. Are you sponsoring any attachments with your rebuttal testimony?

A. No.

II. Forecasted Annual Sales and Throughput Requirements

Q. In his comments, Mr. Oliver notes that that after years of low or negative growth, there is a greater than 4 % increase in the Company's normal-weather sales and throughput forecast as compared to the previous year's forecast. What does this increase reflect?

A. The Company's econometric forecast is based on billing data from January 2005 through February 2013. Between 2009 and 2012, the effects of the economic downturn led to lower overall demand and lower forecasted demand. The sales and throughput requirements in the Company's 2013-2014 GCR filing in this docket does not show a growth in Rhode Island gas demand over the entire period as much as it shows a return of Rhode Island gas demand seen in the period 2006 through 2009.

Q. Please discuss the increase in projected sales to Residential Non-Heating customers in reference to the general decline in the number of those customers over the past two decades.

A. Residential Non-Heating[1] gas demand continues to show seasonal characteristics. After two years of reduced demand attributed to both the economic downturn as well as warmer-than-normal winters, the 2012-2013 gas consumption for this rate class has returned to levels seen in 2008-2009 and 2009-2010. The Company's forecast actually predicts a slow decline in Residential Non-Heating gas consumption from that observed in 2012-2013.

[1] Residential Non-Heating customers receive service on Rate Class 10 as contained in the Company's tariff and its forecast is reflected as that of rate class 401.

Q. In his comments, Mr. Oliver suggests that the increase in the Company's design peak day requirements in the current GCR filing as compared to peak day requirements forecasted in the Company's March 12, 2012 Long-Range Supply Plan suggest that the Company should submit a new long-range gas supply plan every three years instead of every five years. Could you comment on this suggestion?

A. Each year the Company updates both its normal and design year and design day forecast incorporating the most recent historical internal (volume and meter counts) and external (econometric and demographic) data. These annual forecasts utilize the same forecasting and planning process documented in its 2012 Long Range Plan filed on March 8, 2012. In the Company's 2012 Long Range Plan, the Company utilized data from the period 2008 through 2011 which was unique in the depth and severity of the economic recession and its after effects. Forecasting of the timing of the economic recovery, on which the Company's forecasts have been based, was extremely difficult for all economists. The projected 2014 design day utilized in this GCR forecast incorporates internal and external data through the first quarter of 2013 which includes the more recent positive trends which the Company has observed in the Rhode Island economy. As changes occur in the gas supply requirements of its customers, the Company will continue to pursue the least-cost, reliable options to provide natural gas service. When the Company reaches a decision point in additions to or changes in its gas supply portfolio, it will continue to keep the Commission informed as to its plans, regardless of the schedule of its Long Range Plan submissions.

Q. When does the Company plan on filing its next Long Range Plan with the Commission?

A. The Company plans on filing its next Long Rang Plan in March 2014.

III. <u>Asset Management Agreements</u>

Q. Please describe the extent of the Company's use of Asset Management Agreements in the Natural Gas Portfolio Management Plan ("NGPMP").

A. To date, under the NGPMP, the Company has utilized Asset Management Agreements in only two discreet situations—management of the Canadian assets from Dawn to Washington and management of East-to-West capacity on Algonquin. As Mr. Oliver notes in his comments, the portion of the gas portfolio assets for which the Company obtains Asset Management Agreements is very limited. The Canadian assets comprise only 0.7% of the total capacity in the Company's gas portfolio, while the East-to-West capacity on Algonquin comprises only 3.7% of the total capacity in that gas portfolio. Thus, for the upcoming year, the total amount of incentives that would be attributable to those combined portions of the portfolio is only $42,000.

Q. Although the portion of the gas portfolio assets for which the Company obtains Asset Management Agreements is minimal, why does the Company derive an incentive on revenues those agreements produce?

A. Since its implementation in 2009, the NGPMP has included an incentive structure that is intended to properly align the interests of the Company and its customers. When properly aligned, an incentive should motivate the Company to efficiently and effectively maximize the total value of the portfolio for the mutual benefit of both the customers and Company. In the case of the Asset Management Agreement for the Canadian assets from Dawn to Waddington, the Company acted in the interest of efficiently maximizing the Canadian assets, recognizing that transacting in Canada involves differing gas import requirements, differing heat value units, and currency differences. Indeed, because of the differences between the U.S. and Canadian markets, many third-party marketing companies have created separate entities to transact in the U.S and Canadian Markets. In the case of the East-to-West capacity on Algonquin, the Company used an Asset Management Agreement in order to lock in portfolio value in a situation where the receipt point for these assets is not very liquid. Nevertheless, the Company has worked to structure this agreement (and the Canadian Asset Management

Agreement) in such a way that secures a reliable least-cost supply when needed for customers' use yet allows the Company to lock in the forward value during non-peak periods. The Company should be incented to objectively identify these discreet situations and act to obtain an efficient, cost-effective third-party management agreement in those limited situations when to do so would be in the best interests of customers.

Q. Does the Company plan to expand its use of Asset Management Agreements?

A. No. The Company expects that its approach toward Asset Management Agreements will remain consistent with its current limited use of third-party managers for distinct asset paths and targeted situations. The Company agrees with Mr. Oliver that a change in this approach should be subject to re-examination by the Division and approval by the Commission.

III. <u>Gas Costs Deferred Balances and Residential Non-Heating Class Rate Treatment</u>

Q. In his comments, Mr. Oliver indicated the projected load factor for Residential Non-Heating customers will fall below 31% and would no longer meet the threshold for GCR rate treatment as a high load factor rate classification. He recommends that this situation should be closely

monitored and that the Commission should require the Company to investigate the factors causing the identified change in Residential Non-Heating characteristics. Does the Company agree with this proposal?

A. The Company agrees to monitor the usage and load factor of its Residential Non-Heating rate class and, should the rate class's load factor fall below 31%, to work with the Division and Commission to evaluate the appropriate rate treatment of this rate class in the design of its GCR factors. The Company notes that its tariff does not specify a load factor percentage that defines its residential rate classes as high load or low load in calculating the GCR factors.

Q. In his comments, Mr. Oliver indicated this is the second time in two years that National Grid has made upward changes to its deferred gas cost that include adjustment to costs that were subject to prior gas cost reconciliation filings . Does the Company agree with this statement?

A. As Mr. Oliver has indicated, the Company has made revisions to the deferred gas costs included in its Annual Gas Cost Reconciliation filing. Each month, the Company submits a Monthly Deferred Gas Cost Report detailing actual and projected gas costs and gas cost revenues. In the Company's May 2013 report, the Company indicated that it had revised the gas costs for the period April 2012 through March 2013. Since this period coincides with the Annual Reconciliation

Filing submitted for approval to the Commission on July 1, 2013, all gas cost revisions were within the current approval period. The Company does acknowledge that the 2011-2012 Annual Reconciliation submitted on August 1, 2012 did contain both upward and downward prior period adjustments (i.e., adjustments outside the current reconciliation period of April 2011 through March 2012). However, these prior period adjustments ultimately led to an overall net decrease in the total deferred gas cost balance ending March 2012.

Q. Mr. Oliver indicated that in May 2013 the Company experienced negative sales volume for the Extra Large Low Load factor rate class of 71,711 Dktherms. Please explain the reason for this negative value.

A. The May 2013 sales volume for the Extra Large Low Load Factor rate class is negative because it includes adjustments associated with two prior months' billings (February 2013 and April 2013).

Q. Does this conclude your testimony?

A. Yes, it does.