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October 20, 2015

VIA ELECTRONIC MAIL and HAND DELIVERY

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

Re: ***2015 Gas Cost Recovery Filing – Docket No. 4576***

Dear Ms. Massaro:

Enclosed for filing in the above-referenced matter are an original and nine (9) copies of the Reply Comments in Lieu of Rebuttal Testimony Submitted by The Narragansett Electric Company d/b/a National Grid.

Thank you for your attention to this filing. If you have any questions, please contact me at (401) 457-5164.

Very truly yours,

Adam M. Ramos

AMR:cw
Enclosures

cc: Docket 4576 Service List (via electronic mail)

Docket No. 4576 – National Grid – 2015 Annual Gas Cost Recovery Filing ("GCR") - Service List as of 9/18/15

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

In Re: National Grid
2015 Annual Gas Cost Recovery Provision **Docket No. 4576**

REPLY COMMENTS IN LIEU OF REBUTTAL TESTIMONY SUBMITTED BY THE NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID

I. Introduction

National Grid[1] submits these reply comments in lieu of rebuttal testimony to the Rhode Island Public Utilities Commission (PUC) in response to the testimony of Bruce R. Oliver, which was filed on behalf of the Rhode Island Division of Public Utilities and Carriers (Division) on October 15, 2015. Mr. Oliver agrees that: (1) the projected 2015/2016 gas costs upon which the Company has premised its proposed GCR charges are reasonable; and (2) the GCR charges that National Grid proposes for 2015 can be accepted in the context of its annual reconciliation of gas costs and revenues. However, Mr. Oliver expresses certain reservations about: (1) the reasonableness of the Company's forecasts of sales and throughput volumes for the 2015/16 GCR year, and (2) the Company's forecasted monthly distribution of gas use by rate classification, which can affect the allocation of fixed cost responsibilities for High Load Factor and Low Load Factor rate classes. The Company submits these reply comments to address a few key points that Mr. Oliver presented in his testimony regarding the Company's gas load forecast,

[1] The Narragansett Electric Company d/b/a National Grid (referred to herein as National Grid or the Company).

and to clarify certain observations regarding the Company's gas cost reconciliations and marketer pricing for capacity assignment.

II. **Comments**

a. Gas Load Forecast

Beginning on page 29 of his testimony, Mr. Oliver makes several assertions regarding the reasonableness and reliability of National Grid's forecasts in this docket. The Company disagrees with many of these assertions:

1. Mr. Oliver asserts that Company Witness Theodore Poe, Jr.'s pre-filed direct testimony lacked the necessary support for the Company's forecasts and that the Company's new (2015Q2) forecast should be discarded. This suggestion is impractical because the 2015Q2 forms the basis for the calculation of the proposed GCR charges (which Mr. Oliver acknowledges are reasonable), and it contradicts Mr. Oliver's recommendation on page 2 of his testimony, in which he states "the projected 2015/16 gas cost upon which the Company has premised its proposed GCR charges appear reasonable."
2. Mr. Oliver states that the Company's forecasts lack credibility as a result of what he describes as substantial changes in forecasted load growth by rate class, as well as shifts in the distribution of volume requirements across the months of the year for nearly every rate class. He seems to assert that the Company did not derive its new forecast using the same basic methods and data sources relied upon for forecasts in previous GCR filings and the Company's March 2014 Long-Range Plan. He also states on page 24 of his testimony that "it now becomes apparent that National Grid considers the

forecast upon which it demonstrated the adequacy of its gas resource planning in March 2014 to be substantially out of date." Mr. Oliver's observations are incorrect.

The Company's planning process involves the five following discrete steps:

(i) Prepare Demand Forecast for Firm Service Requirements;

(ii) Convert Normal Weather Requirements to Design Weather Requirements;

(iii) Model Resources against Design Weather Requirements;

(iv) Evaluate Resource Portfolio and Determine Need for Incremental Capacity and/or Renewal of Existing Contracts; and

(v) Renew Existing Contract(s) and/or Contract for Incremental Resource(s).

The Company uses the SENDOUT® model developed by New Energy Associates, now Ventyx, as its primary analytical tool in the portfolio design process. The SENDOUT® model is a linear-programming optimization software tool used to assist in evaluating, selecting and explaining long-term portfolio strategies. Using the SENDOUT® model, which is populated with forecasted customer requirements, along with all resources contained within the portfolio, nothing incremental, the Company is able to (a) determine the least-cost portfolio that will meet forecasted customer demand, and (b) test the sensitivity of the portfolio to key inputs and assumptions, as well as its ability to meet all the Company's planning standards and contingencies. Based on the results of this analysis, the Company is able to make preliminary decisions on the adequacy of the resource portfolio and its ability to meet system requirements for the upcoming year, as well as over the longer term. The Company's planning process is an iterative one, which is employed *each year* and more often if necessary. In fact, the Company's GCR Filing for the 2014/15 period was based on a new forecast produced in the spring of 2014 following the exact methodology described in the Company's March 2014 Long-Range Plan. It is necessary to develop a gas load forecast each year in order to, among other things, make both short-term and long-term portfolio decisions with the best information possible. The gas load forecasts in this proceeding were produced following the same *exact* methodology described in the Company's March 2014 Long-Range Plan.

3. Mr. Oliver states on pages 39-40 of his testimony that it is not possible to verify the treatment of Capacity Exempt customers within National Grid's forecasts for Rhode Island.[2] However, Company Witness Poe included this information in an Excel file as Attachment DIV 3-1. This capacity exempt customer detail can be found under Tab 2015Q2-RI-Volume, columns AQ-AU.

4. Mr. Oliver expresses concern with the lack of timely updates of National Grid's long-range planning analyses, which he states leaves "unacceptable gaps between National Grid's forecasts and its long-range planning decisions" and "renders the Company's biennial filing of long-range planning reports a rather meaningless exercise." The Company's biennial Long-Range Plan

[2] Mr. Oliver also incorrectly states on page 40 of his testimony that the Company is required to include capacity exempt customers' requirements in its forecasts and capacity planning in Massachusetts. This is not true.

> documents the *process* employed by the Company which results in, among other things, an updated gas load forecast. Historically, the PUC has not taken any action on this filing.
>
> If the PUC believes that it is appropriate to evaluate and analyze the Company's long-range planning decisions and forecasts, the review and approval of the GCR, with its condensed time period, is not the appropriate time. The review of the GCR addresses the reasonableness of the proposed charges on the basis of the Company's forecasts, developed using the Company's historical forecasting methods. Consideration of changes to the forecasting methods would be more appropriate in a different docket, such as the filing of the Long-Range Plan, to allow sufficient time for a comprehensive analysis and consideration of the current methodology as compared to any proposed replacement methodology.

This was the first year in which the Company submitted pre-filed direct testimony regarding its forecast in the GCR proceeding, and it did so based on observations that Mr. Oliver made in last year's GCR proceeding regarding the Company's forecasting. The 2015/2016 forecast is reasonable, in total, and the PUC should accept it for purposes of the GCR charges proposed in this filing. The Company is amenable to working with the Division and Mr. Oliver in the future to address his observations and concerns regarding the Company's forecasts.

b. Long-Term Portfolio Planning

On page 4 of his testimony, Mr. Oliver recommends that the PUC should not take any action with respect to accepting or approving National Grid's plans for adding additional long-term natural gas pipeline capacity and/or LNG Liquefaction capability, or the associated costs, until a more comprehensive review and evaluation of the Company's new ten-year forecast can be completed. For the same reasons as discussed in subsection a., above, with respect to the Company's gas load forecast for 2015/2016, the Company agrees with Mr. Oliver that this docket is not the appropriate time in which to undertake a comprehensive review of the Company's ten-year forecast (should the PUC determine that such a review is warranted).

However, the Company notes that it has already entered into conditional long-term planning commitments based on its ten-year forecast as discussed in the pre-filed direct testimony of Company Witness Elizabeth D. Arangio.[3] This is consistent with the Company's past planning decisions, and the Company includes a summary of its gas supply portfolio operations in the annual GCR as a way for the PUC to review the reasonableness of the gas costs that will make up the proposed charges. The basis for this review is the Company's forecast. As discussed above, the Company has used the same forecasting methodology for its long-term planning decisions that it presented in the Company's March 2014 Long-Range Plan.

For these reasons, the PUC should accept the Company's current forecasting methodology as reasonable, and the PUC also should find that the Company's long-term planning commitments as presented in this filing are reasonable.

c. <u>Gas Cost Reconciliation</u>

On page 16 of his testimony, Mr. Oliver observed that there were significant differences in the projected and actual variable gas costs for August 2015, which he states warrants additional review by the PUC. While the Company is always willing to respond to questions

[3] One such commitment is the Tennessee Gas Pipeline Northeast Direct Project (NED), which is summarized in Ms. Arangio's pre-filed direct testimony and is not expected to be in service until the Fall of 2018. This agreement requires that the Company "shall use commercially reasonable efforts to obtain any and all necessary authorizations, including any input, guidance and/or informal or formal approvals and orders or other authorizations or consents as determined to be acceptable by Shipper in its commercially reasonable discretion from the Rhode Island Public Utilities Commission and any other federal, state or local authorities having jurisdiction to proceed under the Agreement."

raised by the Division and the PUC, there is nothing of concern regarding the actual versus projected variable gas costs for August 2015.

There is a mismatch in how the Marketer capacity release credits are presented in the forecast and the actual data. For forecasted months, the Company reduces the fixed costs by the projected Marketer Releases priced out at the Company Weighted System Average Pipeline Capacity. However, for the actual months, the Company reduces the fixed costs by the actual marketer capacity releases, while including the true-up (the difference between the System Average Pipeline capacity cost and the specific Pipeline path capacity price) in the variable costs. When the Company reassigns the Marketer Pipeline Surcharge/Credit from the variable to the fixed costs, the variable actual costs are now only 16% (and not 49% as stated by Mr. Oliver) higher than the forecasted costs.

The PUC should accept the projected Annual Gas Cost Recovery Reconciliation of $8,277,655 filed in Attachment AEL-1 page 6. As indicated, this is a projection of the Gas Cost Recovery Reconciliation as of October 31, 2015 and the Company will true-up any variance with the actual in next year's filing.

d. <u>Pricing of Capacity Assignment to Marketers</u>

Mr. Oliver states that the Company's reconciliation process has two perceived vulnerabilities: (1) the initial surcharges and credits are computed on the assumption that assigned capacity will be utilized at a 100% load factor, but the reconciliation amounts are computed on actual marketer activity (throughput volumes) not assumed 100% load factor operations; and (2) the computed reconciliation adjustment is applied in a manner that implicitly assumes the adjustment is reflective of an error in the Company's projection of its system average cost for capacity for the individual pipelines with little or no impact on the Company's overall average pipeline costs. In fact, the Company's calculations are calculated precisely how Mr. Oliver suggests they should be – assuming 100% load factor values in both the initial computation of the surcharges and credits, as well as the reconciliation. Furthermore, as shown in Attachment AEL-7, lines 14-19, the Company recalculates both the overall average pipeline cost (see System Average Line 17), as well as the individual pipeline costs (see Path line 18) in accordance with the Settlement Agreement in Docket No. 4199.

Mr. Oliver also states on page 12 of his testimony that the Company's initial reconciliation analyses are premised on partially forecasted data and that the initial reconciliation for the November 2014 through October 2015 period did not include actual costs and usage information for the last three months of the 2014/2015 GCR year. In fact, this reconciliation includes estimates for August through October, which the Company will true up in next year's filing. Attachment AEL-7, page 2 shows how the Company updated last year's reconciliation for the period November 13 through October 14. Mr. Oliver acknowledges that the Company performs this true-up at Page 12, Lines 11-13 of his testimony.

III. <u>Conclusion</u>

Mr. Oliver agrees that the GCR charges proposed in this docket are reasonable based on the Company's forecasts. His assessments of the reasonableness of the forecasts are both inaccurate and irrelevant to the issues in this docket. Therefore, the PUC should approve all the Company's proposed GCR charges and disregard Mr. Oliver's testimony regarding the reasonableness of the forecasts for purposes of this docket. If the PUC wishes to explore the Company's forecasting methodology, it should do so in another docket, such as in connection with the Company's submission of its Long-Range Plan.

Respectfully submitted,

The Narragansett Electric Company
d/b/a National Grid

By its attorney,

____
Jennifer Brooks Hutchinson (RI Bar #6176)

Dated: October 20, 2015