

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF THE  
STATE OF RHODE ISLAND

IN THE MATTER OF )  
THE NARRAGANSETT ELECTRIC COMPANY ) DOCKET NO. 5180  
D/B/A NATIONAL GRID 2021 GAS COST )  
RECOVERY FILING )

DIRECT TESTIMONY  
OF  
JEROME D. MIERZWA

ON BEHALF OF  
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

September 24, 2021

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**EXETER**

ASSOCIATES, INC.  
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**TESTIMONY OF JEROME D. MIERZWA**  
**Docket No. 5180**  
September 24, 2021

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**TESTIMONY OF JEROME D. MIERZWA**

**Docket No. 5180**

September 24, 2021

**I. INTRODUCTION**

1

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS  
3 ADDRESS?

4 A. My name is Jerome D. Mierzwa. I am a Principal with and President of Exeter  
5 Associates, Inc. ("Exeter"). My business address is 10480 Little Patuxent  
6 Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in  
7 providing public utility-related consulting services.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
9 EXPERIENCE.

10 A. I graduated from Canisius College in Buffalo, New York, in 1981 with a  
11 Bachelor of Science Degree in Marketing. In 1985, I received a Master's  
12 Degree in Business Administration with a concentration in finance, also from  
13 Canisius College. In July 1986, I joined National Fuel Gas Distribution  
14 Corporation ("NFG Distribution") as a Management Trainee in the Research  
15 and Statistical Services Department ("RSS"). I was promoted to Supervisor  
16 RSS in January 1987. While employed with NFG Distribution, I conducted  
17 various financial and statistical analyses related to the Company's market  
18 research activity and state regulatory affairs. In April 1987, as part of a  
19 corporate reorganization, I was transferred to National Fuel Gas Supply  
20 Corporation's ("NFG Supply") rate department where my responsibilities  
21 included utility cost of service and rate design analysis, expense and revenue  
22 requirement forecasting and activities related to federal regulation. I was also

1 responsible for preparing NFG Supply's Purchase Gas Adjustment ("PGA")  
2 filings and developing interstate pipeline and spot market supply gas price  
3 projections. These forecasts were utilized for internal planning purposes as  
4 well as in NFG Distribution's annual purchased gas cost review proceedings.

5 In April 1990, I accepted a position as a Utility Analyst with Exeter  
6 Associates, Inc. ("Exeter"). In December 1992, I was promoted to Senior  
7 Regulatory Analyst. Effective April 1, 1996, I became a principal of Exeter.  
8 Since joining Exeter, my assignments have included gas, electric, and water  
9 utility class cost of service and rate design analysis, evaluating the gas  
10 purchasing practices and policies of natural gas utilities, sales and rate  
11 forecasting, performance-based incentive regulation, revenue requirement  
12 analysis, the unbundling of utility services, and the evaluation of customer  
13 choice natural gas transportation programs.

14 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
15 PROCEEDINGS ON UTILITY RATES?

16 A. Yes. I have provided testimony on nearly 400 occasions in proceedings  
17 before the Federal Energy Regulatory Commission ("FERC"), utility regulatory  
18 commissions in Arkansas, Delaware, Georgia, Illinois, Indiana, Louisiana,  
19 Maine, Montana, Nevada, New Hampshire, New Jersey, Ohio, Pennsylvania,  
20 South Carolina, Texas, Utah, and Virginia, as well as before the Public  
21 Utilities Commission of Rhode Island ("Commission").

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23 A. Exeter was retained by the Division of Public Utilities and Carriers ("Division")  
24 to review the September 1, 2021 Annual Gas Cost Recovery ("GCR") filing of

1 the Narragansett Electric Company d/b/a National Grid (“National Grid” or “the  
2 Company”). My testimony presents the results of my review.

3 Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS  
4 COMMISSION?

5 A. Yes. I presented testimony on behalf of the Division in National Grid’s 2019  
6 GCR proceeding at Docket No. 4963, and National Grid’s 2020 GCR  
7 proceeding at Docket No. 5066. I have also previously testified before this  
8 Commission in the following water utility rate proceedings:

- 9 • City of Newport, Water Division Docket Nos. 2985, 4355, 4295, and  
10 4933;
- 11 • Providence Water Supply Board Docket Nos. 2048, 3163, 3832, 4406,  
12 4618, and 4994;
- 13 • Kent County Water Authority Docket Nos. 2555, 3311, and 4611;
- 14 • Pawtucket Water Supply Board Docket Nos. 2674 and 3945;
- 15 • Suez Water Rhode Island, Inc. Docket No. 4800; and
- 16 • Woonsocket Water Division Docket Nos. 4320 and 4879.

17 Q. WHAT IS YOUR EXPERIENCE WITH RESPECT TO EVALUATING  
18 THE GAS PROCUREMENT PRACTICES OF NATURAL GAS LOCAL  
19 DISTRIBUTION COMPANIES (“LDCs”) LIKE NATIONAL GRID?

20 A. Over the last 30 years, I have reviewed and assessed the gas procurement  
21 practices and policies of approximately 40 different LDCs. For many of these  
22 LDCs, I have performed gas procurement reviews on an annual basis. In  
23 total, I estimate that I have performed approximately 200 such reviews. These  
24 assessments include review of an LDC’s capacity and gas supply resource  
25 portfolios.

1 Q. HAS THE COMPANY SUBSEQUENTLY REVISED THE RATES  
2 INITIALLY REFLECTED IN ITS SEPTEMBER 1, 2020 GCR FILING?

3 A. Yes. One of the interstate pipelines providing service to National Grid is  
4 Texas Eastern Transmission, LP (“TETCO”).<sup>1</sup> TETCO filed an application with  
5 the FERC to increase its rates on July 30, 2021 (Docket No. RP21-1001-000).  
6 The Company prepared its initial September 1, 2021 GCR filings anticipating  
7 that the FERC would issue an order suspending TETCO’s proposed rates for  
8 the maximum allowed period of five months and that the new rates proposed  
9 by TETCO would take effect February 1, 2022, subject to refund. However,  
10 on August 31, 2021, the FERC issued an “Order Rejecting Tariff Records and  
11 Directing to Show Cause” (176 FERC 961, 138). As a result of the FERC’s  
12 Order, TETCO’s proposed rate increase will not take effect as National Grid  
13 had anticipated. On September 10, 2021, National Grid submitted a revised  
14 2021 Gas Cost Recovery Filing eliminating the anticipated February 1, 2022  
15 increase in TETCO’s rates.

16 Q. PLEASE SUMMARIZE NATIONAL GRID’S CURRENT GCR RATES  
17 AND THE RATES PROPOSED IN THE COMPANY’S INITIAL AND  
18 REVISED GCR FILINGS.

19 A. The current High Load Factor GCR rate is \$0.4940 per therm and the current  
20 Low Load factor GCR rate is \$0.5562 per therm. The Company initially  
21 proposed an increase in the High Load Factor GCR rate of \$0.0612 per therm  
22 to \$0.5552 per therm, or 12.4 percent, and an increase in the Low Load  
23 Factor GCR rate of \$0.0761 per therm to \$0.6323 per therm, or 13.7 percent.

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<sup>1</sup> National Grid maintains firm transportation contracts with TETCO that provide for the upstream delivery of gas supplies to Algonquin Gas Transmission, LLC which is directly connected to National Grid.

1 In its revised GCR filing, the Company has proposed an increase in the  
2 current High Load Factor GCR rate of \$0.0473 per therm to \$0.5413 per  
3 therm, or 9.6 percent, and an increase of \$0.0575 per therm in the current  
4 Low Load Factor GCR rate to \$0.6137 per therm, or 10.3 percent.

5 Q. PLEASE SUMMARIZE YOUR FINDINGS AND  
6 RECOMMENDATIONS.

7 A. My findings and recommendations are as follows:

- 8 • The costs National Grid incurs to meet the design peak hour demands  
9 of its customers are currently removed from the GCR and recovered  
10 through the System Pressure factor component of the Distribution  
11 Adjustment Charge (“DAC”). The design peak hour costs National Grid  
12 has proposed to remove from the GCR and recover through the DAC  
13 in this proceeding are reasonable;
- 14 • The Company should track the actual incremental variable costs it  
15 incurs to meet hourly peak demands and report those costs in its 2022  
16 GCR and DAC filings. Should those costs be significant, those costs  
17 should be included in the DAC reconciliation process next year and  
18 removed from the GCR reconciliation process;
- 19 • National Grid currently maintains a gas supply contract for 20,000 Dth  
20 per day to fill a portion of its Everett, MA firm transportation contract  
21 with Tennessee Gas Pipeline (“Tennessee”). This contract expires at  
22 the conclusion the 2021 - 2022 winter season. If National Grid  
23 National Grid executes a replacement agreement, it should evaluate  
24 whether the replacement agreement is necessary to meet design peak  
25 hour demands, and if it is, the fixed reservation charges associated  
26 with replacement agreement should be included in the DAC;
- 27 • In National Grid’s 2020 GCR proceeding at Docket No. 5066, the  
28 Commission directed the Company to continue to work with the  
29 Division to develop data exchange protocols for the Natural Gas

1 Portfolio Management Plan (“NGPMP”). The Company has complied  
2 with the Commission directive in Docket No. 5066 and data exchange  
3 protocols which provide for additional transparency and more efficient  
4 auditing have been developed;

- 5 • In Docket No. 5066 the Commission also directed the Company to  
6 work with the Division to develop a plan to diversify advance hedge  
7 purchases to ensure the Company will accelerate purchases when gas  
8 prices are low. The Company has complied with this directive. Based  
9 on the Company’s and Division’s evaluation and analysis which is  
10 discussed in greater detail in my testimony, the Company and Division  
11 have agreed that the Company’s accelerated hedge purchase  
12 practices should remain in place. The Division will continue to monitor  
13 those practices to determine if future changes are warranted; and
- 14 • The Company should update its GCR rate projections in its rebuttal  
15 testimony to reflect the most recent projections of gas supply  
16 commodity prices, if doing so results in a material change in GCR  
17 rates.

18 Q. BEFORE CONTINUING, GENERALLY DESCRIBE THE TYPES OF  
19 CUSTOMERS SERVED BY NATIONAL GRID AND THE SERVICES  
20 PROVIDED TO THOSE CUSTOMERS.

21 A. National Grid provides firm sales service to retail GCR customers. This is a  
22 bundled service under which the Company arranges for the delivery of gas  
23 supplies to its citygate and provides for the delivery of these arranged  
24 supplies across its distribution system to end-use customers. National Grid  
25 contracts for interstate pipeline capacity, storage, peaking, and gas supply  
26 resources to serve retail GCR customers.

27 National Grid also provides unbundled transportation service under its  
28 Gas Customer Choice Program. Under this program, end use customers



1 purchase their gas supplies from third-party marketers or suppliers  
2 (collectively “Marketers”) which arrange for the delivery of the gas supplies  
3 necessary to serve their customers to National Grid’s citygate. National Grid  
4 provides for the delivery of the Marketer-arranged supplies from its citygate to  
5 end-use customers. National Grid offers two primary types of firm  
6 transportation service — FT-1 and FT-2. Under FT-1 service, a customer’s  
7 gas usage is measured on a daily basis. Under FT-2 service, a customer’s  
8 gas usage is generally measured on a monthly rather than daily basis.

9 There are two categories of FT-1 customers — capacity assigned and  
10 capacity exempt customers. Marketers serving capacity assigned FT-1  
11 customers receive an assignment of the Company’s interstate pipeline firm  
12 transportation capacity to meet a portion of their customer’s gas supply  
13 requirements. The remainder of a capacity assigned FT-1 customer’s  
14 requirements would be met by other capacity and gas supply resources  
15 acquired by the Marketer serving the customer. Marketers serving capacity  
16 exempt FT-1 customers are not assigned any of the Company’s interstate  
17 pipeline firm transportation capacity resources. Marketers serving capacity  
18 assigned and capacity exempt FT-1 customers are required to deliver the gas  
19 supply requirements of their customers on a daily basis within the imbalance  
20 tolerances permitted under National Grid’s tariff.

21 Marketers serving FT-2 customers also receive an assignment of  
22 National Grid’s interstate pipeline firm transportation capacity to meet a  
23 portion of their customers’ gas supply requirements. Marketers serving FT-2  
24 customers would use this capacity to arrange and provide for the delivery of  
25 gas supplies to National Grid’s citygate. FT-2 Marketers are also provided

1 access to a portion of the Company's storage and peaking resources which  
2 the Marketer may use to meet the daily gas supply requirements of its  
3 customers that is not met by the assigned interstate pipeline firm  
4 transportation capacity. The storage and peaking resources are not directly  
5 assigned to Marketers, but are managed by the Company.

6 In summary, National Grid secures the interstate pipeline firm  
7 transportation capacity, storage, peaking, and gas supply resources  
8 necessary to meet the requirements of its retail GCR sales customers, the  
9 interstate pipeline firm transportation capacity resources assigned to FT-1  
10 and FT-2 Marketers, and the storage and peaking resource requirements of  
11 FT-2 customers. These requirements are commonly referred to as National  
12 Grid's planning load.

## 13 II. DESIGN PEAK HOUR COSTS

14 Q. THE COSTS THAT NATIONAL GRID INCURS TO MEET THE  
15 DESIGN PEAK HOUR PEAK DEMANDS OF ITS CUSTOMERS ARE  
16 CURRENTLY REMOVED FROM THE GCR AND RECOVERED  
17 THROUGH THE SYSTEM PRESSURE FACTOR COMPONENT OF  
18 THE DAC. PLEASE PROVIDE A HISTORY OF HOW THIS  
19 RECOVERY MECHANISM FOR DESIGN PEAK HOUR DEMAND  
20 COSTS WAS ESTABLISHED.

21 A. In National Grid's 2019 GCR proceeding in Docket No. 4963, the Division  
22 expressed concerns with respect to the recovery of the costs incurred by the  
23 Company to meet design peak hour peak demands. Those concerns were as  
24 follows.

1 National Grid is directly served by two interstate pipelines —  
2 Tennessee and Algonquin Gas Transmission, LLC (“Algonquin”). While the  
3 Company’s firm transportation contracts with Tennessee and Algonquin  
4 specify maximum daily delivery quantities (“MDQ”), Tennessee and Algonquin  
5 may impose hourly flow restrictions under these contracts. Because the  
6 design peak hour demands of the Company’s customers are greater than the  
7 limits which may be imposed by Tennessee and/or Algonquin, in Docket No.  
8 4963 the Company proposed to acquire incremental resources to meet the  
9 design peak hour demands of its customers. The Company proposed to  
10 recover the costs associated with these incremental resources from only GCR  
11 and FT-2 transportation customers. The concern raised by the Division in  
12 Docket No. 4963 was that the additional resources acquired by the Company  
13 would be available to meet the design peak hour demands of all customers  
14 and, therefore, benefit all customers served by National Grid including  
15 capacity assigned FT-1 and capacity exempt FT-1 customers. The Division  
16 found that it would be appropriate for FT-1 customers to contribute to the  
17 recovery of the costs associated with the incremental design peak hour  
18 demand resources. In its order in Docket No. 4963, the Commission directed  
19 the Company to work with the Division to develop appropriate cost allocation  
20 procedures for the recovery of design peak hour demand costs.

21 In consultation with the Division, National Grid made its Annual Gas  
22 DAC filing on August 3, 2020 in Docket No. 5040 proposing to recover the  
23 incremental fixed costs associated with maintaining design peak hour  
24 demand resources from all customers through the System Pressure factor  
25 component of its DAC. In its DAC filing, the Company estimated these fixed

1 costs to be \$5.2 million for the period November 1, 2020 through October 31,  
2 2020, and these fixed costs were removed from the GCR rates initially  
3 reflected in the Company's September 1, 2020 GCR filing in Docket No.  
4 5066. However, National Grid's August 3, 2020 DAC filing in Docket No. 5040  
5 did not fully resolve the Division's concerns regarding the recovery of  
6 incremental design peak hour costs.

7 In the Division's September 23, 2020 memorandum to the Commission  
8 addressing National Grid's Annual Gas DAC filing in Docket No. 5040, the  
9 Division found the Company's proposal to recover the incremental fixed costs  
10 associated with maintaining design peak hour demand resources to generally  
11 be reasonable. However, two modifications to the Company's proposal were  
12 required to fully address the Division's concerns. The Division's review of  
13 National Grid's GCR filing in Docket No. 5066 and subsequent discussions  
14 with the Company indicated that there were additional fixed costs that would  
15 be incurred to meet design day peak hour demands that should be included in  
16 the DAC. More specifically, it appeared that a share of the Company's  
17 Tennessee firm transportation contracts that provided for the delivery of gas  
18 from Everett, MA ("Everett FT contracts) to National Grid and the fixed  
19 reservation charges associated gas supply contracts that would provide for  
20 the gas supplies to be delivered under the Everett FT contracts would be  
21 incurred and were necessary to meet design peak hour demands. National  
22 Grid maintains two Everett FT contracts with a total MDQ of 25,000 Dth per  
23 day and the Company had entered into two gas supply arrangements to fill  
24 the 25,000 Dth per day of Everett FT contract capacity. One of the gas supply  
25 contracts, which was for 20,000 Dth per day, was entered into several years

1 ago prior to the need for National Grid to address hourly peak demands and  
2 expires at the end of the winter of 2021/2022. The other gas supply contract  
3 was recently executed. The fixed reservation charges associated with the gas  
4 supply contracts are significantly greater than the fixed demand charges  
5 associated with the Everett FT contracts. Under the Company's initial  
6 proposal to recover design peak hour demand costs through the DAC, the  
7 fixed costs associated with the Everett FT contracts and gas supply  
8 arrangements would be recovered from FT-2 Marketers and sales customers.  
9 Absent the need to address the potential design peak hour deficiency, a  
10 share of the Everett FT contracts and gas supply arrangements would not be  
11 required to meet customer requirements. In its September 23, 2020 DAC  
12 memorandum, the Division recommended that the calculation of the DAC be  
13 revised to reflect the fixed reservation charges associated with the recently  
14 executed Everett gas supply arrangement for 5,000 Dth per day. The Division  
15 found this appropriate since this arrangement was executed to meet design  
16 peak hour demands, and the arrangement would be unnecessary if FT-1  
17 Marketers were not assigned capacity by National Grid. The Division also  
18 recommended that the recovery of the fixed demand charges associated with  
19 the gas supply arrangement for 20,000 Dth per day should be revisited when  
20 the contract expires if the Company executes a replacement arrangement.

21 The Division also recommended in its September 23, 2020 DAC  
22 memorandum that in addition to including the incremental fixed costs  
23 associated with the design peak hour demand resources in the DAC, if  
24 significant, the incremental variable costs should also be included. Since the  
25 incremental variable costs were not known at that time, the Division

1 recommended that the Company report in its 2021 DAC filing the incremental  
2 variable costs incurred during the winter of 2020/2021. A determination could  
3 then be made whether the costs are significant and whether the actual  
4 incremental variable costs should be included in the DAC reconciliation  
5 process.

6 On September 28, 2020, National Grid made a revised DAC filing in  
7 Docket No. 5040 in which the fixed gas supply reservation charges  
8 associated with the Everett gas supply arrangement for 5,000 Dth per day  
9 and the fixed demand charges associated with 5,000 Dth per day of Everett  
10 FT contract capacity were reflected in the DAC and removed from the GCR.  
11 National Grid also made a revised GCR filing on September 28, 2020 to  
12 reflect this change. Design peak hour fixed costs included in the Company's  
13 DAC which were removed from GCR rates for the period November 1, 2020  
14 through October 31, 2021 were revised to \$8.50 million in these filings. On  
15 October 9, 2020, National Grid again revised its GCR and DAC filings to  
16 correct an error which reduced the design peak hour demand fixed costs to  
17 \$6.11 million. In its Orders in the 2020 GCR and DAC proceedings, the  
18 Commission approved the inclusion of the \$6.11 million in the DAC System  
19 Pressure factor and the removal of those costs from the GCR.

20 Q. DOES THE COMPANY'S CURRENT GCR FILING IN THIS DOCKET  
21 REFLECT THE REMOVAL OF DESIGN PEAK HOUR DEMAND  
22 COSTS CONSISTENT WITH THE APPROACH APPROVED IN  
23 DOCKET NO. 5066 AND DOES THAT APPROACH REMAIN  
24 REASONABLE?

1 A. Yes. In this proceeding the Company has removed from the GCR the costs  
2 associated with the same capacity and gas supply resources that were  
3 removed in Docket No. 5066. The design peak hour demand costs removed  
4 from the GCR in this proceeding total \$6.69 million.

5 Q. THE ORDER IN GCR DOCKET NO. 5066 DIRECTED THE  
6 COMPANY TO REVISIT WHETHER THE EVERETT GAS SUPPLY  
7 CONTRACT FOR 20,000 DTH PER DAY SHOULD BE INCLUDED IN  
8 THE SYSTEM PRESSURE FACTOR AS DESIGN PEAK HOUR  
9 DEMAND COSTS WHEN THE CONTRACT EXPIRES. DID THE  
10 COMPANY FOLLOW THIS DIRECTIVE?

11 A. The Everett gas supply contract does not expire until the end of the 2021-  
12 2022 winter season. Therefore, the Company has not yet revisited this issue.

13 Q. THE ORDER IN GCR DOCKET NO. 5066 ALSO DIRECTED THE  
14 COMPANY TO REPORT WHETHER IT INCURRED ANY  
15 INCREMENTAL VARIABLE COSTS TO MEET PEAK HOUR  
16 DEMANDS DURING THE 2020-2021 WINTER SEASON. DID THE  
17 COMPANY INCUR ANY INCREMENTAL VARIABLE COSTS TO  
18 MEET PEAK HOUR DEMANDS DURING THE WINTER 2020-2021?

19 A. No, the Company reported that it incurred no incremental variable costs to  
20 meet peak hour demands during the 2020-2021 winter season and my review  
21 identified no such costs.

22 Q. SHOULD THE COMPANY REPORT WHETHER IT INCURS ANY  
23 INCREMENTAL COSTS TO MET PEAK HOUR DEMANDS DURING  
24 THE WINTER OF 2021-2022 IN NEXT YEAR'S GCR AND DAC  
25 PROCEEDINGS?

1 A. Yes. Should those costs be significant, those costs should be included in the  
2 DAC reconciliation process next year and removed from the GCR  
3 reconciliation process.

4  
5 **IV. NATURAL GAS PORTFOLIO MANAGEMENT PLAN AND GAS**  
6 **PROCUREMENT INCENTIVE PLAN**

7 Q. BRIEFLY DESCRIBE THE COMPANY'S NGPMP AND GPIIP.

8 A. Under the NGPMP, the Company uses its interstate pipeline firm  
9 transportation contracts, underground storage contracts, peaking supplies,  
10 and gas supply contracts, when not required to meet GCR customer  
11 requirements to generate incremental revenue generally through off-system  
12 transactions. The Company is provided an incentive to engage in these  
13 activities under the NGPMP. The details of the NGPMP are provided in  
14 Attachment JMP-3 of the Company's GCR filing.

15 The GPIIP is a hedging program designed to mitigate the volatility of  
16 National Grid's natural gas costs and to encourage the Company to achieve  
17 lower-hedged commodity costs for GCR customers. The details of the GPIIP  
18 are provided in Attachment JMP-1 of the Company's GCR filing.

19 Q. DID YOU REVIEW THE RESULTS OF THE COMPANY'S NGPMP  
20 AND GPIIP?

21 A. Yes.

22 Q. DID YOUR REVIEW IDENTIFY ANY CONCERNS WITHIN THE  
23 INCENTIVE AWARDS CALCULATED BY THE COMPANY UNDER  
24 EACH PLAN?

25 A. No, it did not.



1 Q. DID NATIONAL GRID WORK WITH THE DIVISION TO DEVELOP  
2 DATA EXCHANGE PROTOCOLS FOR THE NGPMP AS DIRECTED  
3 BY THE COMMISSION IN DOCKET NO. 5066?

4 A. Yes. The Company has complied with this Commission directive and data  
5 exchange protocols which provide for additional transparency and more  
6 efficient auditing have been developed.

7 Q. IN ITS ORDER IN DOCKET NO. 5066, THE COMMISSION  
8 DIRECTED THE COMPANY TO WORK WITH THE DIVISION TO  
9 DEVELOP A PLAN TO DIVERSIFY ADVANCE HEDGE PURCHASES  
10 TO ENSURE THE COMPANY WILL ACCELERATE GAS  
11 PURCHASES WHEN GAS PRICES ARE LOW. PLEASE EXPLAIN  
12 THE CONCERN RAISED BY THE DIVISION IN DOCKET NO. 5066  
13 WITH RESPECT TO THE COMPANY'S ADVANCE HEDGE  
14 PURCHASES.

15 A. The purpose of the GPIIP hedging program is to mitigate gas cost volatility. As  
16 explained in greater detail in Attachment JMP-1, this is accomplished by  
17 requiring the Company to purchase a portion of its gas in approximately  
18 uniform monthly increments on a mandatory basis starting 24 months prior to  
19 the month of delivery (mandatory hedges). However, the Company and the  
20 Division may agree to accelerate a portion of the mandatory hedges. In  
21 Docket No. 5066, the Division's review of National Grid's GPIIP activity  
22 indicated that the Company had adopted a policy of accelerating  
23 approximately one-third of its mandatory purchases and making those  
24 purchases all on one day two years prior to the month of delivery. The  
25 Division recommended that the Company further diversify the timing of its

1 accelerated purchases and limit the use of accelerated purchases to a period  
2 when current NYMEX prices are lower than average historic prices.

3 Q. DID THE COMPANY WORK WITH THE DIVISION TO EVALUATE  
4 DIVERSIFYING ADVANCE HEDGE PURCHASES AS DIRECTED BY  
5 THE COMMISSION IN DOCKET NO. 5066?

6 A. Yes. In Docket No. 5066, the Division expressed concern that National Grid's  
7 practice of accelerated hedge purchases may be resulting in higher costs to  
8 customers than if no accelerated hedges were made. To address this  
9 uncertainty regarding the efficacy of National Grid's hedging practices, the  
10 Division and Company reviewed other LDCs' hedging programs and analyzed  
11 the relative performance of National Grid's hedging program against historical  
12 market prices. Regarding the historical market price analyses, the Division  
13 and Company analyzed hedge prices relative to prevailing market prices at  
14 the time the hedges were purchased (i.e., then current prices versus future or  
15 hedge prices), and hedge prices relative to settlement prices (i.e., historical  
16 futures prices versus current prices). The former analysis represents a look  
17 at the shape of the forward price curve and whether that curve is upward or  
18 downward sloping, or relatively flat. The latter analysis addresses the cost to  
19 customers for the accelerated hedges before any transaction costs.

20 Together, those analyses indicated that whether an accelerated hedge price  
21 was above or below the prevailing market price did not increase the likelihood  
22 that the accelerated hedge price would be similarly above or below the  
23 market price of gas at the time the hedge settled. The Company also  
24 explained that it was able to achieve lower hedge prices with its accelerated  
25 purchases because the quantities purchased at specific points in time were

1 greater than purchasing those same quantities over multiple months. Those  
2 savings are passed through to sales customers. Finally, and without getting  
3 into the specifics of other LDCs' hedging programs, aspects of which may be  
4 confidential, the Division and Company determined that the Company's  
5 accelerated hedging program was not unreasonable relative to other hedging  
6 programs that were reviewed. Therefore, the Company requested, and the  
7 Division agreed, that the Company's accelerated hedging practices should  
8 continue. The Division will continue to periodically evaluate the relative value  
9 the Company's hedging practices provide for customers.

#### 10 **V. UPDATED COST PROJECTIONS**

11  
12 Q. HOW DID NATIONAL GRID DEVELOP THE GAS SUPPLY  
13 COMMODITY COST PROJECTIONS INCLUDED IN ITS GCR  
14 FILING?

15 A. The proposed GCR factors are based on the NYMEX forward curves as of  
16 the close of trading on August 3, 2021.

17 Q. HAVE NYMEX PRICES CHANGED SINCE AUGUST 3, 2021?

18 A. Yes. NYMEX prices for the November 1, 2021 through October 31, 2022  
19 GCR period have increased somewhat since August 3, 2021. For example,  
20 as of August 3, 2021 the average NYMEX price for the winter of 2021/2022  
21 was \$4.13 per Dth. Currently the average NYMEX price for the winter of  
22 2021/2022 is \$5.50 per Dth. Therefore, the Division recommends that the  
23 Company update its GCR rate projections in its rebuttal testimony to reflect  
24 the most recent projections of gas supply commodity prices if doing so results

1 in a material change in GCR rates (e.g., 5 percent). Updating the Company's  
2 GCR rate projections will assist in minimizing potential over/under collections.

3 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

4 A. Yes, it does.