

**State of Rhode Island and Providence Plantations**

**Public Utilities Commission  
Minutes of Open Meeting Held November 25, 2008**

**Attendees: Chairman Elia Germani, Commissioner Robert Holbrook, Commissioner Bray, Patricia Lucarelli, Alan Nault, Jeff Gladstone, Rob Taylor and Luly Massaro. Staff members Cindy Wilson-Frias, Sharon Colby Camara and Nick Ucci were not present.**

**Chairman Germani called the open meeting to order at 10:00 A.M. in the first-floor hearing room of the Public Utilities Commission. A quorum was present.**

**3877 – National Grid Gas** – The Commission reviewed the record relating to National Grid's Distribution Adjustment Clause (DAC) filing. After review, the following motions were made:

- Chairman Germani moved to approve a System Pressure Factor of \$.00037 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to adopt the Division's recommendation that the Gas Technology Factor be set to offset the amount of the AGT program fund that would otherwise be collected through base rates of the next year. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve an Environmental Cost Factor of \$0.0020 per therm and accepted the Division's recommendation that the Company provide information on the cost for mercury replacement and status of the replacement program. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to adopt the Division's position for an On-System Credit Factor of \$0.80 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve a Reconciliation Factor of \$0.0010 per therm. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**
- Chairman Germani moved to approve a DAC factor credit of (\$0.0061) per therm for effect December 1, 2008. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

**3982 – National Grid Gas** – The Commission reviewed the record relating to National Grid's proposed Gas Cost Recovery (GCR) filing. After review, the following motions were made:

- Chairman Germani entertained a motion to approve revised GCR factors as contained in Schedule PPC-1 for effect December 1, 2008. The GCR factors on a per therm cost basis are: \$1.0883 for Residential and Small C&I customers; \$1.0839 for Medium C&I customers; \$1.0996 for Large Low Load Factor C&I customers; \$1.0583 for Large High Load Factor customers; \$1.0850 for Extra Large Low Load Factor customers; and \$1.0457 for Extra Large High Load Factor customers, \$0.8332 per therm for Natural Gas Vehicles. Commissioner

Holbrook moved to approve the revised GCR factors. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

- Chairman Germani entertained a motion to approve proposed changes to the Company's gas procurement and asset management incentive plan as recommended by the Division. Commissioner Holbrook moved to approve. Commissioner Bray seconded the motion and the motion was unanimously passed. **Vote 3-0.**

**3943 – National Grid Gas** - The Commission reviewed the record relating to National Grid's application to increase revenues. After review, the Commission deliberated on the outstanding issues outlined below:

<b><u>Decoupling</u></b>		
1.	Revenue Decoupling – Commissioner Bray moved reject the Company's proposal for revenue decoupling. Chairman Germani seconded the motion. Commissioner Holbrook opposed the motion. <b>Vote 2-1.</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
<b><u>Revenue Requirement Issues</u></b>		
2.	Capital Structure – Percentage of Equity - Commissioner Holbrook moved to approve a Percentage of Equity of 47.71%. Chairman Germani seconded the motion. Commissioner Bray supported a percentage of 37.7% on equity and opposed the motion. Motion to approve a Percentage of Equity of 47.71% passed. <b>Vote 2-1.</b>	47.71 %
3.	Return on Equity - Commissioner Holbrook moved to approve a Return on Equity (ROE) of 10.5%. Commissioner Bray moved to approve an ROE of 9.95%. Chairman Germani seconded Commissioner Holbrook's motion. the motion. Commissioner Bray opposed the motion. Motion to approve an ROE of 10.5% passed. <b>Vote 2-1.</b>	10.5%
4.	Size of Rate Base - Commissioner Holbrook moved to a rate base of \$285,241,458. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. Motion to approve a rate base of \$285,241,458 passed. <b>Vote 2-1.</b>	\$285,241,458 (Subject to annual review and adjustments)
<b><u>Operating Expenses (Cost of Service)</u></b>		
5.	Health Care Costs – Chairman Germani moved to allow an expense of \$3,706,544. Commissioner Holbrook seconded the motion and the motion was unanimously passed. <b>Vote 3-0.</b>	\$3,706,544
6.	FAS 112 Expense	\$ 740,000
7.	Southern Union Merger Synergy Savings	\$ 0
	a. FAS 71 Regulatory Asset Approval	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
8.	Keyspan Merger Synergy Savings	\$2,450,000 (rate reduction)
	a. FAS 71 Regulatory Asset Approval	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
9.	Gas Marketing Program Approved Expenses	\$ 0
	a. Adjustment to New Customer Revenues	\$ 0
10.	Uncollectible Expense	\$
11.	Rate Case Expense: All Company, Division and Commission Expenses to be recovered through base rates	<input type="checkbox"/> Yes <input type="checkbox"/> No

12.	Encroachment Expense <sup>1</sup>	\$ _____
13.	Distribution Maintenance <sup>2</sup>	\$ _____
<b><u>Revenue Reconciliation Proposals</u></b>		
14.	Accelerated Capital Replacement Program (ARP) <sup>3</sup>	___ Yes ___ No
15.	Gas-Supply Related Bad Debt Cost	___ Yes ___ No
16.	Reconciliation of Pension and PBOP	___ Yes ___ No
<b><u>Low Income Discount</u></b>		
17.	Low Income Discount at 10%	___ Yes ___ No ___ Modified Approach
<b><u>Non-Firm Tariff Issues</u></b>		
18.	Pricing for Non-Firm Transportation Customers	___ Cost of Service (discount below firm) ___ Value of Service
	a. Pricing Structure	_____
	b. Sharing of Non-Firm Revenues (sharing mechanism)	_____
	c. Stipulation Regarding Migration of Customers	___ Yes ___ No
19.	Enlarge the Time Within Which Non-Firm Transportation Customers May Lock in Rates From 5 to 10 Days	___ Yes ___ No
20.	Introduce Flexible Firm Service, Under Which Customers Electing That Service Would Negotiate Rates With the Company	___ Yes ___ No
21.	Eliminate the Non-Firm Sales Service Tariff	___ Yes ___ No
<b><u>Firm Service Base Charge</u></b>		
22.	Firm Service Base Charge	\$ _____ (determine for each rate class) OR increase by _____ % (determine for each rate class)
<b><u>Other Rate Design Issues</u></b>		
23.	Consolidation of Gas Cost Recovery Rates from 6 to 2	___ Yes ___ No
24.	DAC Adjustments	
	a. Accelerated Pipe Replacement program cost recovery mechanism as modified by agreement between the Division and the Company (if ARP is approved)	___ Yes ___ No ___ Modification
	b. Pension and PBOP Reconciliation Mechanism (if Reconciliation is Approved)	___ Yes ___ No ___ Modification
	c. Recovery of DAC-related Bad Debt	___ Yes ___ No ___ Modification
	d. Establishment of a Revenue Decoupling Mechanism (if Decoupling is Approved)	___ Yes ___ No ___ Modification
	e. Elimination of Weather Normalization Adjustment as applied to rate classes subject to Decoupling (if Decoupling is Approved)	___ Yes ___ No ___ Modification

<sup>1</sup> The Division and Company have agreed to a reduction of \$756,000 to pro forma test year operation and maintenance expense for encroachment.

<sup>2</sup> The Division and Company have agreed to a reduction of \$539,000 to pro forma test year operation and maintenance expense for distribution maintenance.

<sup>3</sup> The Division and Company have agreed that only the incremental cost of the accelerated replacement program, above pipeline replacement costs that would be incurred in the ordinary course, should be reconciled. It also agreed to limit upward rate adjustments for the accelerated replacement program if the Company's earnings are at or above its approved return on investment.

	f. Elimination of the Consolidated Mitigation and ERI adjustments	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Modification
	g. Allocation Method	<input type="checkbox"/> Class Consumption <input type="checkbox"/> Class Revenues
25.	Three Year Rate Plan Proposal	<input type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> Modification

Revenue Decoupling – Commissioner Bray moved reject the Company’s proposal for revenue decoupling. Chairman Germani seconded the motion. Commissioner Holbrook opposed the motion. **Vote 2-1.**

**Revenue Requirement Issues**

Capital Structure – Commissioner Holbrook moved to approve a Percentage of Equity of 47.71%. Chairman Germani seconded the motion. Commissioner Bray supported a percentage of 37.7 on equity and opposed the motion. Motion to approve a Percentage of Equity of 47.71% passed. **Vote 2-1.**

Return on Equity – Commissioner Holbrook moved to approve a Return on Equity (ROE) of 10.5%. Commissioner Bray moved to approve an ROE of 9.95%. Chairman Germani seconded Commissioner Holbrook’s motion. the motion. Commissioner Bray opposed the motion. Motion to approve an ROE of 10.5% passed. **Vote 2-1.**

Based on the Size of Rate Base - Commissioner Holbrook moved to a rate base of \$285,241,458. Chairman Germani seconded the motion. Commissioner Bray opposed the motion. Motion approve a rate base of \$285,241,458 passed. **Vote 2-1.**

**Operating Expenses (Cost of Service)**

Health Care Costs – Chairman Germani moved to approve  
FAS 112 Expense  
Southern Union Merger Synergy Savings  
a. FAS 71 Regulatory Asset Approval  
Keyspan Merger Synergy Savings  
a. FAS 71 Regulatory Asset Approval  
Gas Marketing Program Approved Expenses  
a. Adjustment to New Customer Revenues  
Uncollectible Expense  
Rate Case Expense:  
All Company, Division and Commission Expenses to be recovered through base rates  
Encroachment Expense<sup>4</sup>  
Distribution Maintenance<sup>5</sup>

**Revenue Reconciliation Proposals**

Accelerated Capital Replacement Program (ARP)<sup>6</sup>  
Gas-Supply Related Bad Debt Cost  
Reconciliation of Pension and PBOP

<sup>4</sup> The Division and Company have agreed to a reduction of \$756,000 to pro forma test year operation and maintenance expense for encroachment.

<sup>5</sup> The Division and Company have agreed to a reduction of \$539,000 to pro forma test year operation and maintenance expense for distribution maintenance.

<sup>6</sup> The Division and Company have agreed that only the incremental cost of the accelerated replacement program, above pipeline replacement costs that would be incurred in the ordinary course, should be reconciled. It also agreed to limit upward rate adjustments for the accelerated replacement program if the Company’s earnings are at or above its approved return on investment.

**Low Income Discount**

Low Income Discount at 10%

**Non-Firm Tariff Issues**

Pricing for Non-Firm Transportation Customers

- a. Pricing Structure
- b. Sharing of Non-Firm Revenues (sharing mechanism)
- c. Stipulation Regarding Migration of Customers

Enlarge the Time Within Which Non-Firm Transportation Customers May Lock in Rates From 5 to 10 Days

Introduce Flexible Firm Service, Under Which Customers Electing That Service Would Negotiate Rates With the Company

Eliminate the Non-Firm Sales Service Tariff

**Firm Service Base Charge**

Firm Service Base Charge

**Other Rate Design Issues**

Consolidation of Gas Cost Recovery Rates from 6 to 2

DAC Adjustments

- a. Accelerated Pipe Replacement program cost recovery mechanism as modified by agreement between the Division and the Company (if ARP is approved)
- b. Pension and PBOP Reconciliation Mechanism (if Reconciliation is Approved)
- c. Recovery of DAC-related Bad Debt
- d. Establishment of a Revenue Decoupling Mechanism (if Decoupling is Approved)
- e. Elimination of Weather Normalization Adjustment as applied to rate classes subject to Decoupling (if Decoupling is Approved)
- f. Elimination of the Consolidated Mitigation and ERI adjustments
- g. Allocation Method

Three Year Rate Plan Proposal

The open meeting adjourned at XXX P.M.