

March 21, 2016

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4038 - Natural Gas Portfolio Management Plan (NGPMP)
Supplemental Filing**

Dear Ms. Massaro:

Enclosed for filing are two additional attachments to the pre-filed testimony of Stephen A. McCauley in the above-referenced docket, which National Grid¹ submitted to the Public Utilities Commission (PUC) on March 3, 2016. In the Company's original filing, the Company requested approval for changes to its Natural Gas Portfolio Management Plan (NGPMP) incentive sharing mechanism, effective April 1, 2016. That filing consisted of Attachments SAM-1, SAM-2, and SAM-3. The Company inadvertently omitted a copy of the revised NGPMP from the original filing. The Company wishes to supplement its original filing to include Attachment SAM-4 and Attachment SAM-5 to Mr. McCauley's pre-filed testimony. Attachment SAM-4 consists of a redlined version of the NGPMP, marked to show the proposed changes against the existing NGPMP. Attachment SAM-5 consists of a clean version of the revised NGPMP.

In addition to the changes to the NGPMP that are discussed in Mr. McCauley's testimony, the Company has also modified the Reporting Requirements in Section VII.A of the NGPMP to reflect the new schedule for submitting the quarterly NGPMP reports, as approved by the PUC during the Company's most recent Gas Cost Recovery proceeding in Docket No. 4576.

Thank you for your attention to this matter. If you have any questions, please contact Stephen McCauley at (516) 545-5403 or me at (401) 784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Steve Scialabba, Division
Bruce Oliver, Division
Leo Wold, Esq.

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

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**National Grid
Natural Gas Portfolio Management Plan**

Effective April 1, ~~2016~~2009

I. Objectives

To encourage the Company to minimize gas costs to customers by coupling a least-cost dispatch with an asset optimization program designed to obtain the maximum value from the gas supply portfolio resources.

II. Structure of the Incentive Plan (“Plan”)

- A. This Plan will become effective April 1, ~~2016~~2009. It will be reviewed with each Gas Cost Recovery (GCR) filing. The Company will file its Report on the Plan on June 1st each year showing the results of the Plan for the prior year, April 1 to March 31.
- B. Under this Plan, the Company will discontinue contracting with an asset manager as a full outsource supplier and will undertake the functions previously performed by the asset manager using Company resources.
- C. To measure the Company’s performance under the Plan and the benefits to customers, the Company will operate under the Plan in a way that parallels ~~the current practices embedded in its~~ previous asset management contracts with ~~its~~ outsource suppliers (e.g., Merrill Lynch, ConocoPhillips).
- D. The starting point for the measurement of the optimization benefits will be based on a least cost dispatch order of the available resources in the supply portfolio coupled with a one-seventh ratable storage refill plan. The Company will receive a sharing of the benefits under this incentive plan to the extent it reduces costs below the level obtainable through purchasing under the least cost purchase dispatch order and ratable storage fill plan.
- E. This Plan will not be affected by or interact with the Gas Purchase Incentive Plan (“GPIP”) in any way. Because GPIP utilizes the purchase of future contracts for hedging, the GPIP does not affect the direct purchasing of supplies or the use of storage in any way, making the two plans entirely independent. The Company will operate under the Plan in a way that parallels the current practice; therefore the effectiveness of the GPIP will not be affected in any way.

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III. Revenue Sharing

A. Rhode Island Customer Threshold Guarantee

~~The Rhode Island customers will receive 100% of the first \$2,000,000 of Company will guarantee an annual gas cost optimization benefits to Rhode Island customers. If the total annual gas cost optimization benefits do not exceed \$2,000,000 then the Rhode Island customers will only receive 100% of the actual total benefit of \$1,000,000 regardless of the total net proceeds realized from optimizing the portfolio during twelve month period commencing each April 1. Rhode Island customers will receive 1/12th of the \$1,000,000 (83,333.33/month) guarantee in each month. The remaining revenue sharing benefit to the customers will be applied to the GCR following the calculation period.~~

B. Sharing of Net Proceeds ~~above the first \$1,000,000~~ between \$2,000,000 and \$5,000,000.

Rhode Island customers will receive 80% of all net proceeds ~~above the between first \$2,000,000 and \$5,000,000~~ and the Company will receive 20% of the net proceeds ~~above the first~~ between \$2,000,000 and \$5,000,000.

C. Sharing of Net Proceeds between \$5,000,000 and \$10,000,000

Rhode Island customers will receive 90% of all net proceeds between \$5,000,000 and \$10,000,000 and the Company will receive 10% of the net proceeds between \$5,000,000 and \$10,000,000.

D. Sharing of Net Proceeds above \$10,000,000

Rhode Island customers will receive 94% of all net proceeds above the \$10,000,000 and the Company will receive 6% of the net proceeds above \$10,000,000.

~~C.~~ E. Calculation of Optimization Benefits

The optimization benefit will be calculated annually for the optimization activity executed during the year. The optimization benefit for revenue sharing will be calculated as the positive value of; the revenue from sales to the Rhode Island customers at the citygate and storage facilities, plus the revenue from sales to third parties, less the costs to procure all supplies as well as all variable costs associated with the purchase, delivery and storage.

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IV. Description of the Least Cost Dispatch Order

- A. The least cost dispatch order, by which natural gas will be priced for Rhode Island customers for baseload and daily nominations will be based on published index prices, ~~as it is in the current contract~~. An index price is a published price for gas supply at a particular location, in this case, the point of receipt for the Company's pipeline capacity where it purchases supply to transport on its pipeline transportation capacity. Each year, the Company will analyze the historic [and forward](#) reference index price for each receipt point and each asset path's delivered price to the citygate. Based on these historical [and forward](#) index prices and the delivered cost of each path, the Company will establish an order from the least cost to the highest cost path. To establish a least cost dispatch, the Company will match the index price order with the available assets for each month. This process will be performed more frequently if changes occur to the portfolio (*e.g.*, new pipeline services are added to the portfolio) or changes occur in the wholesale market that would impact the least cost dispatch. The Company will notify the Division of the least cost dispatch order prior to the start of the year and inform it of any changes during the year.
- B. An index price formula will not be used in non-standard transactions. Examples of non-standard transactions are intraday purchases, non-ratable weekend purchases, fixed price, fixed basis transactions at a location that does not have a published index, or other Additional Company Assets described below in section VI. For non-standard transactions, the actual purchase price, plus variable costs to deliver, will be charged to the Rhode Island customers.
- C. The Index Pricing formula uses Platts "Inside FERC's Gas Market Report, Prices of Spot Gas Delivered to Pipelines", for baseload gas purchases for any month (FOM). The Index Pricing formula uses Platts "Gas Daily, Daily price survey", Midpoint prices for gas purchased for next day or ratable deliveries over the weekend (Gas Daily).

VI. Baseload and Daily Nominations

- A. Baseload Nominations - Each month, at least six business days prior to the start of the month of flow, the Company will nominate a separate baseload volume for deliveries at the Tennessee Gas Pipeline citygates and the Algonquin Gas Transmission citygates as under the current practice. This volume will be priced to the Rhode Island customers based on the least cost dispatch as described above in Section IV.

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- B. Daily Nominations – Each day, prior to 8:30AM EST, the Company will nominate a separate, incremental daily volume for deliveries at the Tennessee Gas Pipeline (TGP) citygates and the Algonquin Gas Transmission (AGT) citygates as under the current practice. To fill this incremental daily need, the Company will dispatch supply from any or any combination of the available sources below:
- a. Transportation capacity – The Company nominates volumes from the remaining transportation capacity at each pipeline citygate. This volume is priced to the Rhode Island customers based on the next available asset path under a least cost dispatch as described in Section IV.
 - b. Storage – The Company may nominate supply from each storage facility ~~as is the current practice~~ subject to contractual limitations. Intraday injections or withdrawals will be subjected to the remaining capabilities of each storage facility and may be affected by certain pipeline and/or storage facility restrictions;
 - c. Citygate purchases – At times, the Company may nominate volumes to be purchased at its citygates. This volume will be priced to the Rhode Island customers based on the actual purchase price and will be a direct pass through; and
 - d. Additional Company Assets – The Company may nominate volumes from any other available asset at its disposal. These include, but are not limited to peaking supplies or any liquid/vapor ~~such as the FLS and FCS contracts with Distrigas~~. This volume will be priced to the Rhode Island customers based on the actual contract price or inventory cost plus variable delivery costs.
- C. Storage Injections
- a. During the months of April through and including October, Storage injection quantities will be calculated as 95% of the total storage Maximum Storage Quantity (MSQ), less the ending inventory on March 31. As is the practice today, this quantity will be deemed to be injected ratably over the seven month period. Any Rhode Island customer withdrawals in April will be deemed to be injected ratably over the next six months, May through October period; and
 - b. The price of the April through October injections is set in accordance with the Index Pricing formula using the FOM index pricing for each of the seven injection months.

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VI. The Company as Gas Portfolio Manager

A. Optimizing the Gas Portfolio

As asset manager, the Company will dedicate the resources to recognize and realize arbitrage and optimization opportunities by structuring a combination of transactions using the portfolio of assets and its flexibility to take advantage of opportunities that arise in the marketplace to reduce gas costs. Optimization of the assets will be performed as a secondary process after the Company has met the load requirements of the Rhode Island customers through the least cost dispatch of all required assets.

B. Typical optimization strategies are:

- a. Transportation capacity – the Company will lock-in the price difference between two locations with the use of temporarily idle transportation capacity;
- b. Citygate exchanges – the Company will use its citygate receipt flexibility to capture price differences between the two delivering upstream pipelines, Tennessee Gas Pipeline and Algonquin Gas Transmission;
- c. Storage – The Company will use the temporarily idle capacity, injections or withdrawal rights to capture the price difference between two time periods; and
- d. Purchase Replacement - The Company will look to resource purchase obligations to effectuate a lower delivered price.

VII. Reporting Requirements

- A. Quarterly reports – The Company will provide quarterly reports showing the realized and unrealized margins associated with the portfolio optimization value. Reports will be provided on the first business day ~~in the second month after the 25th of the month~~ following the end of each fiscal quarter.
- B. Annual Report – The Company will provide an annual report showing the total realized and unrealized margins generated through portfolio optimization in addition to the distribution of the sharing between the Rhode Island customers and National Grid. This report will be provided on the first business day following June 1 of each year.

National Grid
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