

DIVISION OF PUBLIC UTILITIES AND CARRIERS

MEMORANDUM

TO: LULY MASSARO, CLERK
PUBLIC UTILITIES COMMISSION

DATE: 9/28/17

FROM: STEVE SCIALABBA
DPUC

SUBJECT: NATIONAL GRID MARKET AREA HEDGE PROPOSAL, DOCKET 4647.

On September 20, 2017, National Grid submitted a request for Commission approval for an additional hedge to the Gas Procurement Incentive Plan (GPIP) for the upcoming winter heating season, November 2017-March 2018. The pending hedging proposal is similar to the hedging strategies approved in the prior three winter heating seasons. On August 18, 2017 National Grid met with the Division staff and its consultant Bruce Oliver and discussed their proposal to hedge a portion of their winter supply requirements for the 2017-2018 winter, as a price spike mitigation strategy associated with market area purchases made under design winter conditions. This strategy was first implemented after the experience of the winter price spike that occurred in the 2013-2014 winter, which resulted in a mid-year increase to the GCR rate, and recovery of millions of dollars of deferred gas costs over an extended period¹.

To briefly summarize the hedging proposal, the Company proposes to hedge approximately 35% of the market area price risk that would occur under design weather conditions. The hedges would be in place for January-March of 2018. The incremental cost of executing the recommended hedges is calculated to be \$1.1 million. The hedged supplies in the market area would replace other lower cost baseload supplies and are, under normal conditions, not needed each day in the winter. The potential savings from the hedged volumes in a design winter scenario is calculated to be \$11 million. As indicated by the Company, the risk mitigated is 9.6 times greater than the cost to baseloading these market area supplies. The cost of executing additional market area hedges (beyond the proposed hedges) was deemed too costly relative to the potential savings from those hedges, under design winter condition.

The Division, after due consideration and after consultation with Mr. Oliver, believes the National Grid one year winter hedging strategy proposal is a reasonable and prudent approach to provide a measure of price protection should prices spike under design winter conditions over the 2017-2018 winter period.

¹ In Order No. 21465 in Docket 4436, the PUC directed the Company to review options for limiting daily spot purchases during periods of extreme weather.