

January 27, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket No. 4647 – 2016 Gas Cost Recovery Filing
Report from National Grid and the Division of Public Utilities and Carriers**

Dear Ms. Massaro:

In connection with National Grid's¹ 2016 Gas Cost Recovery (GCR) filing in the above-referenced docket, National Grid and the Division of Public Utilities and Carriers (Division) agreed to work together, after the GCR hearing, to continue to discuss issues regarding National Grid's natural gas forecasting and planning process, the development of a process regarding National Grid's long-range plan, and the submission of precedent agreements for regulatory approval. The parties also agreed to submit a written report to the Public Utilities Commission (PUC) by January 17, 2017, which was later extended to January 27, 2017.² Accordingly, National Grid submits this report summarizing the parties' discussions. The Division has indicated its concurrence with the report.

After several phone conferences and exchanges of information, representatives from National Grid, the Division and the Division's consultant, Bruce Oliver, met in person on January 9, 2017. During the meeting, the parties had an open dialogue about National Grid's forecasting and planning methodology. As described in more detail below, National Grid and the Division reached an understanding on many of the issues, and will continue to exchange information and discuss certain other issues.

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

² During the GCR hearing, National Grid and the Division agreed, and the PUC approved, that the parties would submit the report by January 16, 2017, which is Martin Luther King, Jr. Day. Pursuant to PUC Rule 1.6(a), if the date for which an act ordered by the PUC falls on a legal holiday, then the period runs until the end of the next business day. As January 16, 2017 fell on a legal holiday, the deadline to file the report was January 17, 2017. The PUC later permitted an extension to January 27, 2017.

1. Gas Procurement Incentive Plan

During the 2016 GCR hearing, the PUC requested that National Grid and the Division discuss the coordination of the timing of National Grid's Gas Procurement Incentive Plan (GPIP) and Natural Gas Portfolio Management Plan (NGPMP) filings. Currently, the NGPMP incentive year starts April 1 and ends March 31, while the GPIP incentive year starts July 1 and ends June 30. The NGPMP requires quarterly reporting as of June 30, September 30, December 31 and March 31, due on the first business day one month after the end of the quarter, as well as an annual report filed by June 1. The GPIP currently requires semi-annual reports for all executed positions as of June 30 and December 31, and semi-annual reports are filed on January 25 and July 25 each year.

National Grid and the Division propose that the GPIP incentive year is changed to align with the NGPMP. As a result, the GPIP incentive year would run from April 1 to March 31. The semi-annual reporting periods would change to September 30, with a report due October 25; and March 31, with a report due April 25. There would be no change to the form or reporting information contained in the GPIP. The incentive period or reporting requirements for the NGPMP would not change.

To effectuate this change, National Grid will file testimony by January 31, 2017 recommending the change to the GPIP incentive year and the semi-annual reporting dates, and will request that the PUC approve the change by February 28, 2017, for an effective date of March 31, 2017. With respect to the GPIP filing moving forward, National Grid will file testimony on September 1, 2017 seeking approval of the GPIP incentive for the period of July 1, 2016 through March 31, 2017. For this year only, the incentive will be based on a truncated nine-month period to allow for the change in timing of the filing. Beginning next year, National Grid will file testimony on September 1, 2018 seeking approval of the GPIP incentive for the period of April 1, 2017 through March 31, 2018. Every year thereafter, National Grid will file testimony on September 1 seeking approval of the GPIP incentive for the period of April 1 through March 31.

2. Filing of Precedent Agreements³

National Grid and the Division agreed to propose a process by which contracts for the purchase of gas supplies, pipeline capacity or storage-related capacity covering a period two years or longer are filed with the PUC for approval and are assessed by the Division. Such contracts are typically referred to as "precedent agreements" and are negotiated and entered into using National Grid's forecast and planning methodology set forth in its most recent Gas Long-Range Resource and Requirements Plan (Long-Range Plan). Currently, the precedent agreements are discussed within National Grid's annual GCR filings, but there is no formal review or approval process for those agreements. Costs associated with agreements entered into by National Grid are ultimately subject to recovery through approved GCR factors. The proposed approval process for precedent agreements would take the review of those agreements and the associated costs out of the annual

³ "Precedent Agreements" are defined to include all agreements for gas supplies, pipeline capacity, natural gas or liquefied natural gas (LNG) storage, and/or LNG liquefaction services with contract periods of two years or greater.

GCR proceeding and would, instead, provide for an independent review and explicit approval of the precedent agreements subsequent to their execution. Typically, such agreements will be presented for review well before the costs associated with such agreements would be included in the GCR proceeding. The agreed upon process is also intended to allow sufficient time for a comprehensive review and analysis of National Grid's supply planning considerations, including: (a) National Grid's forecast(s) of supply requirements on which the decision to enter into the precedent agreement is premised; and (b) the characteristics and estimated costs for other gas supply, pipeline capacity, or storage capacity alternatives potentially available to National Grid. National Grid and the Division recognize that such review and analysis of proposed precedent agreements and the underlying support for National Grid's decisions to enter into such precedent agreements cannot otherwise be accomplished during the condensed timeframe of the GCR. This is also intended to streamline future annual GCR proceedings.

National Grid proposes, and the Division has indicated its concurrence with, the following approval process for the precedent agreements.⁴ First, National Grid would execute a precedent agreement for the purchase of natural gas supplies, pipeline capacity, or storage-related capacity. Next, National Grid would file with the PUC a petition to approve the precedent agreement, along with National Grid testimony and supporting analysis for the decision to enter into such agreement, as well as a copy of the confidential precedent agreement. National Grid represents that the precedent agreements it enters into typically include "regulatory out" clauses that allow approximately six to nine months for National Grid to obtain required regulatory approvals. Within that timeframe, the Division, its consultant, and interveners would be provided the opportunity to undertake and complete their review of the precedent agreement, including full discovery. The Division would then submit testimony or comments as appropriate, which would include a recommendation to the PUC. Thereafter, the PUC would conduct an evidentiary hearing, if necessary, and/or rule on the precedent agreement at an open meeting. The PUC's ruling would come at the end of the six to nine month period.

3. GCR

National Grid will continue to file its annual GCR reconciliation by July 1 to allow the Division time to review and verify the reconciliation before the next GCR filing. National Grid will continue to submit its annual GCR filing on September 1. The annual GCR filing review will be limited to consideration of: (1) forecasted changes in gas commodity costs; (2) pass through of FERC-approved changes in pipeline and/or storage contract prices; (3) costs for new short-term (i.e., less than two-year) contracts for pipeline and/or storage capacity; (4) prior period gas cost and revenue reconciliations; (5) forecasted normal weather throughput and design winter sales for the coming GCR year; and (6) cost allocations and GCR rate calculations. This structure will facilitate the Division's review of GCR filings within the limited timeframe provided for approval of new GCR factors.

⁴ The treatment of precedent agreements as proposed by National Grid and the Division is similar to the approval process required in Massachusetts pursuant to M.G.L. c. 164 § 94A.

It is generally expected that new precedent agreements when filed will not impact costs for the upcoming GCR year, but will impact GCR costs in future filings. If any new agreement⁵ that has been executed, but has not yet been approved by the PUC through the above-referenced approval process, will impact National Grid's GCR costs in the upcoming GCR period, then National Grid's GCR filing will explain that such agreement is currently under review and will reflect its potential impact on the GCR costs. Subsequent to PUC approval of such a precedent agreement, National Grid may file for an interim adjustment to its GCR or request that current period costs incurred under the precedent agreement be considered for inclusion in National Grid's deferred gas cost balance for recovery through adjustments to its charges in its next annual GCR filing. While National Grid anticipates such a situation to occur infrequently, it is possible that a precedent agreement could be pending PUC approval at the time National Grid submits its and September 1 GCR filing.

4. Long-Range Plan

National Grid will continue to file its Long-Range Plan every two years for a five-year planning period in accordance with R.I. Gen. Laws § 39-24-2. However, National Grid has agreed to provide the Division with an informal update of the forecast set forth using the forecast methodologies as described in National Grid's most recent Long-Range Plan once the forecast is finalized in June of each year and then vetted by National Grid. National Grid and the Division are not proposing any formal changes to the Long-Range Plan filing process at this time, although the Division continues to express concerns regarding the relevance of such filings. National Grid and the Division agree that no dockets will be opened for review of Long-Range Plan filings unless the PUC determines otherwise. The methodology for the Long-Range Plan and the documentation to be provided in Long-Range Plan filings is discussed in more detail below.

5. Forecasting and Planning Methodology

The parties have made progress in terms addressing outstanding issues regarding National Grid's forecasting and planning methodologies for Rhode Island. Notably, the parties agreed that National Grid's continued use heating degree day (HDD) measures for its forecasting and weather normalization analyses appears reasonable, finding no compelling reason to switch to effective degree day (EDD) measures as the Company has done in Massachusetts. National Grid will also include more detail in its annual GCR filing to document its treatment of zero-capacity customers; its meter count data; and the year-to-year changes in usage by month and by rate class. The parties are continuing to exchange information and discuss issues such as the cost-benefit analysis in National Grid's forecasting and planning process; the statistical measures for its regression analysis; its cold snap analysis; and its design day standard of 68 heating degree days. The parties propose that they report back to the PUC regarding the outstanding issues within 60 days.

⁵ This applies to any agreement, not just precedent agreements.

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Thank you for your attention to this matter. If you have any questions, please contact me at 401-784-7415.

Very truly yours,

A handwritten signature in blue ink, appearing to read 'R. Humm', with a long horizontal flourish extending to the right.

Robert J. Humm

cc: Docket 4647 Service List
Leo Wold, Esq.
Steve Scialabba, Division

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

Joanne M. Scanlon

Date

Docket No. 4647 – National Grid – 2016 Annual Gas Cost Recovery Filing (GCR) - Service List as of 9/2/16

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