nationalgrid

Laura S. Olton
General Counsel
Rhode Island

November 15, 2007

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 3868 – Gas Cost Recovery Compliance Filing
Revisions

Dear Ms. Massaro:

Enclosed please find ten (10) copies of a revised Gas Procurement and Asset Management Incentive Plan for National Grid[1]. This filing incorporates two minor edits recommended by Commission Staff in section III, A,1. b and d to reflect use of purchases and/or hedges and corrects a typo in section III, A, 1.e. The revised Gas Procurement and Asset Management Incentive Plan provided herewith should replace the copy previously filed under cover letter dated November 8, 2007 in the above-referenced docket.

Thank you for your attention to this filing. If you have any question, please feel free to contact me at (401) 784-7667.

Very truly yours,

Laura S. Olton

Laura S. Olton

Enclosure

cc: Docket 3868 Service List

[1] Submitted on behalf of The Narragansett Electric Company, d/b/a National Grid ("the Company").

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Docket No. 3868 – National Grid – Annual Gas Cost Recovery Filing ("GCR") - Service List as of 9/12/07

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Gas Procurement and Asset Management Incentive Plan for National Grid

Revised Effective November 1, 2007

I. Objectives

A. To encourage National Grid (or "Company") to achieve lower overall gas commodity costs for its customers; and

B. To encourage the Company to minimize fixed costs and obtain the maximum value from its pipeline, storage and supply resources.

II. Structure of the Incentive Plan

A. The Incentive Plan ("Plan") has two components

1. A Gas Procurement Incentive Program ("GPIP"); and

2. An Asset Management Incentive Program ("AMIP").

B. This Plan became effective June 1, 2003. It will be reviewed with each gas cost recovery ("GCR") filing. The Company will file Plan results semi-annually at the end of January and July. These reports shall include reporting all Plan activity and results through the end of the month prior to the filing.

1. Gas Procurement Incentives apply only to discretionary purchases and/or hedges made on or after June 1, 2003. The first month for which the incentive will be calculated under the Plan will be November 2003.

2. Beginning in 2005, the AMIP applies to fixed gas supply expenditures for the 12-months ended June 30th of each year except for the 2004/2005 year, which will include the period from November 1, 2004 to June 30, 2005.

C. Limits on Incentives – Both the GPIP and the AMIP, will be subject to limits on the magnitude of incentives applicable to the Company in each fiscal year.

1. For the Gas Procurement Incentive Program limitations are placed on the maximum amount of incentives that can be earned or

penalties paid by National Grid for each fiscal year. For at least the first two years of the program (i.e., through June 30, 2005):

a. National Grid may not earn more than $1,000,000 in Gas Procurement Incentives in any fiscal year; and

b. National Grid may not be exposed to penalties of more than $500,000 in any fiscal year.

2. For the AMIP the maximum amount of incentive for the Company for a one-year period will be $400,000. Since the Rhode Island Public Utilities Commission ("Commission") annually reviews and can exercise control over the amount of fixed gas supply costs projected for the coming GCR period, no specific penalty structure is proposed to address unanticipated increases in Asset Management costs.

D. The Company will file its forecasted normal weather natural gas purchase requirements with its annual GCR filing. In addition, whenever the Company updates its annual forecast of projected purchases at the time of the annual update or in the event that an adjustment based on migration is warranted, it will file support for the revised purchase forecast with the Commission and Division.

III. <u>The Gas Procurement Incentive Program</u>

A. The Company will make purchases of natural gas or natural gas futures which lock or hedge the NYMEX Henry Hub portion of the variable cost. For any future gas supply month the Company will make three types of gas purchases:

1. Mandatory Purchases and/or Hedges

a. Are defined as mandatory monthly purchases of gas volumes or hedges made in approximately uniform monthly increments. (Mandatory purchases and/or hedges will vary as the forecast of purchases is updated periodically and in order to adjust for the rounding of the 10,000 Dth futures contract.)

b. Will equal 60% of forecasted normal weather gas purchase requirements for the April and October gas supply months and 70% of forecasted normal weather gas purchase requirements for the remaining ten months. Purchases and/or hedges will be based on the forecast of requirements in place when the purchases and/or hedges are made.

c. Will be purchased in approximately uniform monthly increments on a mandatory basis starting 24 months prior to the month of delivery and ending 4 months prior to the start of deliveries.

d. The first purchases and/or hedges made each month will be deemed the Company's mandatory hedge up to the amount of the Company's scheduled mandatory requirement for the month.

e. The Company will make the financial hedges in increments of one contract, 10,000 Dth. The Company will adjust the schedule of hedging to achieve the required mandatory level. Within the constraints of 10,000 Dth contract increments, the Company will seek to maximize the uniformity of monthly mandatory purchase/hedge volumes over the 20 month period specified in paragraph III.A.1.c.

2. Discretionary Purchases and/or Hedges

a. Are defined as the purchases and/or hedges established at least 6 business days prior to the start of the delivery month for delivery to the system or storage in excess of the mandatory hedging requirements in a month.

b. The cost and benefit of any financial purchases and/or hedges will be included in the calculation of the average unit price.

c. May not cause the total (mandatory plus discretionary), fixed price purchases and financial purchases and/or hedges to exceed 95% of the forecasted normal weather requirements for a given supply month.

3. Other Discretionary Purchases and/or Hedges Not Subject To Incentives

a. LNG

b. Supplies that lock in price but are not part of the program.

c. Purchases and/or hedges made less than 6 business days prior to the beginning of the month, during the month or under a contract which does not allow for the locking of the price.

d. Purchases and/or hedges made due to updated levels of forecasted migration of throughput volumes from transportation service to sales service.

B. Computation of Gas Procurement Incentives

Gas Procurement Incentives will be determined on the basis of comparisons of the volume-weighted average cost per dekatherm of discretionary purchases and/or hedges made after June 1, 2003, and the volume weighted average cost per dekatherm of mandatory gas purchases and/or hedges made after June 1, 2003 for the same gas supply month. All comparisons will be based on the NYMEX portion of the variable cost per dekatherm of the purchased gas supply or the price, including fees, of the NYMEX futures contract.

C. Any purchases and/or hedges made for a future gas supply month, excluding other discretionary purchases and/or hedges not subject to incentives as shown in III.A.3, that are in excess of the mandatory purchases and/or hedges requirement for the month, will be deemed discretionary purchases and/or hedges.

D. The timing of discretionary purchases and/or hedges is left solely to the discretion of the Company. However, beginning in November 2005 the Company will make sufficient discretionary purchases and/or hedges by November 1st of each year, such that a minimum of 80% of supply needed for December, January and February and 75% of supply needed for a normal November and March will be at a fixed or capped price. The fixed and capped supplies will include all forward purchases, financially based purchases and/or hedges, DOMAC FCS contract purchases fixed in price, LNG supplies and storage supplies.

E. After all purchases for forecasted gas requirements for a given gas supply month are completed, the volume-weighted average cost of discretionary purchases and/or hedges is computed.

1. If the weighted average cost of discretionary purchases and/or hedges is less than that for mandatory purchases and/or hedges, National Grid earns a positive incentive equal to 10% of the difference between the weighted average cost of discretionary purchases and/or hedges and the weighted average cost of mandatory purchases and/or hedges in dollars per dekatherm multiplied by the actual volume of discretionary purchases and/or hedges.

2. If the weighted average cost of discretionary purchases and/or hedges is greater than that for mandatory purchases and/or hedges, the Company will be assessed a penalty (i.e., negative incentive) equal to 10% of the difference in dollars per dekatherm between the weighted average cost of discretionary purchases and/or hedges and the weighted average cost of mandatory purchases and/or hedges for the same gas supply month multiplied by the actual volume of discretionary purchases and/or hedges.

3. If the weighted average cost of discretionary purchases and/or hedges is more than $0.50 below the weighted average cost of mandatory purchases and/or hedges then National Grid will receive a Meritorious Performance Bonus equal to 10% of the difference between the weighted average cost of discretionary purchases and/or hedges and the weighted average cost of Mandatory purchases and/or hedges multiplied by the actual volumes of discretionary purchases and/or hedges.

IV. The Asset Management Incentive

A. For each gas supply year during the effective period of this incentive program, National Grid will earn a dollar incentive based on reductions achieved in fixed gas supply and fixed storage costs from the amounts projected as accepted by the Commission for each gas supply year. The net effect of fixed costs recovered from marketers under the capacity assignment feature of the Company's transportation program will not be counted in the calculation of the incentive. The calculation will include all fixed costs associated with gas supply, asset management fees or credits, capacity release credits and off-system sales margins.

B. To discourage achievement of fixed costs savings through the manipulation of gas commodity purchases, the amount of the Asset Management Incentive shall be dependent upon the Company’s success in its Gas Procurement activities.

1. If the Company's actual gas procurement costs at the time of the Company's last annual GCR filing are **below** its projected gas procurement costs on a dollars per dekatherm basis, then National Grid shall be provided an Asset Management incentive equal to 20% of the amount by which the sum of the Company's actual fixed gas supply costs and fixed storage costs are below the projected fixed gas supply and fixed storage costs accepted by the Commission for the gas supply year.

2. If the Company's actual gas procurement costs at the time of the Company's last annual GCR filing are **above** its projected gas procurement costs on a dollars per dekatherm basis, then National Grid shall be provided an Asset Management incentive equal 10% of the amount by which the sum of the Company's actual fixed gas supply costs and fixed storage costs are below the projected fixed gas supply and fixed storage costs accepted by the Commission for the gas supply year.