

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

THE NARRAGANSETT ELECTRIC COMPANY :
d/b/a/ NATIONAL GRID - NATURAL GAS : **DOCKET NO. 4038**
PORTFOLIO MANAGEMENT PLAN :

ORDER

On March 3, 2016, the Narragansett Electric Company d/b/a National Grid (National Grid or the Company) filed a request for approval of proposed changes to the sharing mechanism of its Natural Gas Portfolio Management Plan (NGPMP).¹ As part of the filing, National Grid submitted written testimony of Stephen A. McCauley, Director of Origination and Price Volatility Management in Energy Procurement of National Grid USA Service Company, Inc., to describe the proposed changes.

Mr. McCauley stated that in April of 2009, the Company began to manage the large majority of its portfolio rather than have an external third party manage those assets.² He explained that under the current sharing mechanism, customers are guaranteed \$1 million each fiscal year and then 80% of everything in excess of \$1 million.³ The Company retains the remaining 20%. Mr. McCauley provided an attachment showing the revenue generated each year since the inception of the NGPMP.⁴ The attachment showed revenues generated just under \$3 million in 2010 to more than \$11 million in 2015.⁵

Mr. McCauley described how the new sharing mechanism would eliminate the guaranteed \$1 million to customers and replace that with a threshold of \$2 million.⁶ He noted that if margins

¹ Filings made in the instant matter are available at the Public Utilities Commission (PUC) offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <http://www.ripuc.org/eventsactions/docket/4038page.html>.

² McCauley Test. at 3-4 (Mar. 4, 2016).

³ *Id.* National Grid's fiscal year is April 1 through March 30.

⁴ *Id.* at SAM-1.

⁵ *Id.*

⁶ *Id.* at 5.

were less than \$2 million, the Company would not have to make up the difference between the actual margins generated and the \$2 million threshold, as it did previously when the threshold was \$1 million.⁷ In addition to increasing the threshold and eliminating the guarantee, Mr. McCauley explained that when margins are between \$2 million and \$5 million, customers will receive 80% of the excess margins; between \$5 million and \$10 million, customers will receive 90% of excess margins; and in excess of \$10 million, customers will receive 94% of excess margins with the Company retaining the differences.⁸

Mr. McCauley provided graphs showing the increase in customer benefit resulting from the proposed sharing mechanism.⁹ He noted that when the NGPMP was first proposed, margins were in the \$2 million to \$4 million range.¹⁰ He explained that margins had increased partly because of existing pipeline capacity restraints which created a market variable that afforded National Grid opportunities for greater optimization and yielded higher incentives.¹¹ In 2015, the Company's incentive was approximately \$2.1 million.¹² Because the intent of the program was never to provide the Company with high incentive payments, National Grid and the Division of Public Utilities and Carriers (Division) agreed to revise the incentive structure in a way that continued to encourage the Company to maximize savings for customers but limited the amount of incentive the Company would receive.¹³ National Grid requested the changes be effective April 1, 2016.¹⁴ The Company represented that the Division concurs with its proposed modifications.¹⁵

⁷ *Id.*

⁸ *Id.* at 5-7.

⁹ *Id.* at SAM-2.

¹⁰ *Id.* at 5.

¹¹ *Id.* at 7.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.*

¹⁵ *Id.*

On March 21, 2016, the Company provided a supplemental filing containing red-lined and clean versions of the NGPMP, reflecting the proposed changes. Additionally, the supplemental filing included the modifications to National Grid's quarterly reporting requirement approved by the Commission in Docket No. 4576, specifically that reports be on the first day of the second month following the end of the fiscal quarter.¹⁶

On March 22, 2016, the Division filed a memorandum from Bruce Oliver, its consultant. Mr. Oliver outlined the history of the NGPMP, noting that Rhode Island ratepayers have accrued more than a \$34.3 million benefit since its inception in 2010.¹⁷ He provided a table showing that total net asset management revenue has increased since 2010, as has the benefit to ratepayers and the Company.¹⁸ Mr. Oliver outlined the Company's proposal and provided a table comparing the current sharing arrangement with what the Company was proposing.¹⁹ His analysis of the Company's proposal revealed that ratepayers would have received approximately \$2.6 million more of benefits over the course of the program's life had the proposed sharing mechanism been in place.²⁰ Mr. Oliver opined that the Company's planned addition of the Tennessee Gas Pipeline Northeast Direct capacity will provide the Company with greater pipeline resources. It will market those resources to third parties, resulting in an increase of net asset management revenues beyond levels previously achieved.²¹ He provided that the increase in the dollar amount of the Company's share of revenues from its asset optimization activities is attributable, in part, to its management of capacity resources. It is also a result of extreme weather conditions and the increased use of natural gas for electric generation in New England.²² Mr. Oliver concluded that the proposed

¹⁶ Supplemental Filing (Mar. 21, 2016).

¹⁷ Oliver Mem. at 1 (Mar. 23, 2016).

¹⁸ *Id.* at 2.

¹⁹ *Id.* at 3.

²⁰ *Id.* at 4.

²¹ *Id.* at 5.

²² *Id.*

modification was in the best interest of ratepayers and would maintain a reasonable incentive for National Grid to continue to maximize its asset management optimization benefits for ratepayers.²³

At an Open Meeting on March 30, 2016, the Commission deliberated on National Grid's proposal. Finding that the proposed changes were reasonable and in the best interests of ratepayers, the Commission approved the proposal.

Accordingly, it is

(22418) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid's proposed changes to its Natural Gas Portfolio Management Plan as set forth above are approved for effect April 1, 2016.
2. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE APRIL 1, 2016 IN WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON MARCH 30, 2016. WRITTEN ORDER ISSUED MAY 24, 2016.



PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner*

Herbert F. DeSimone, Jr., Commissioner

*Commissioner Roberti was not present at the Open Meeting.

²³ *Id.*

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.