Jennifer Brooks Hutchinson
Senior Counsel

June 2, 2015

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

RE: Gas Procurement Incentive Plan (GPIP)
Marcellus Hedge Proposal

Dear Ms. Massaro:

Enclosed for filing is National Grid's[1] request for approval for changes to its Gas Procurement Incentive Plan (GPIP). Attachment 1 of this filing consists of a redlined version of the proposed changes marked against the version of the GPIP currently in effect. Attachment 2 of this filing consists of a clean version.

The proposed changes to the GPIP incorporates the ability to use Marcellus region locational basis hedges in addition to the NYMEX Henry Hub hedges to ensure that purchases in the producing regions of the Gulf of Mexico, Marcellus and Canada are hedged effectively. The existing GPIP historically used NYMEX Henry Hub futures and swaps to hedge a portion of the purchases in these producing regions. As recently as mid-2014, the historical price movement of NYMEX Henry Hub was highly correlated to the price movement of supplies in these regions and, therefore, was an effective hedge. As of July 2014, the correlation between NYMEX Henry Hub and the supplies purchased in the Marcellus region of West Virginia and Pennsylvania dropped to a point such that the NYMEX Henry Hub is no longer an effective hedge for purchases in this region. Therefore, the Company is proposing to modify the GPIP to include the option to use additional purchases and/or hedges to fix the locational basis price risk at the forecasted receipt point locations. See Section III.A.3(f) and Section IV of the enclosed GPIP.

The Company is proposing these changes to the GPIP now as opposed to during its upcoming Gas Cost Recovery filing in order to execute the new locational basis hedges to ensure more price certainty for the upcoming winter season.

In addition, the Company is proposing certain clarifying changes to the GPIP, as shown in Attachment 1, to reflect the Company's current execution practice.

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

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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.

Gas Procurement Incentive Plan for National Grid

Revised Effective July 1, 2015~~1~~

I. Objective

To reduce the volatility of gas costs and to encourage National Grid (or “Company”) to achieve a lower hedged gas commodity cost for its customers.

II. Structure of the Gas Procurement Incentive Plan

A. The original Plan became effective June 1, 2003 and was most recently revised in Docket No. 4283. It will be reviewed with each gas cost recovery (“GCR”) filing. The cap on the amount of the incentive that may be earned by the Company was eliminated effective July 1, 2010 and approved by the Commission in D~~d~~ocket No. 4283. The Company will file the Plan results semi-annually on January 31~~st~~ and July 31 of each year. Effective January 2011, the quarterly reports were eliminated and the material was consolidated into the semi-annual report. These reports shall include reporting for all Plan activity and results through the end of the month prior to the filing.

~~1. The Gas Procurement Incentive Plan revised effective December 1, 2008 applied to discretionary hedges that settled up to June 2010.~~
~~2. This revised Plan will be effective for hedges that settle starting in July 2010.~~

B. The Company will file its forecasted normal weather natural gas purchase requirements with its annual GCR filing. The hedging plan volume will be adjusted based on this revised forecast. Changes to the hedged volume execution plan will become effective in November of each year. The Company will not unwind or sell any purchases or hedged positions without notifying the Commission and Division. If a midyear revision is warranted the Company will file support for the revised purchase forecast with the Commission and Division.

III. The Gas Procurement Incentive Program

A. The Company will make purchases of natural gas, natural gas swaps or natural gas futures which lock or hedge the NYMEX Henry Hub

(NYMEX) 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 in accordance with paragraph II.B. ~~Within the constraints of 10,000 Dth contract increments, t~~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.

   f. The Company and the Division may agree to accelerate a portion of the mandatory hedges. They will notify the Commission of any such plan and provide 3 business days for the Commission to object. Accelerated hedges will neither earn an incentive nor be used in the calculation of mandatory benchmark.

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 or benefit of any financial purchase and/or hedge will be included in the calculation of the average unit price.

   c. The total financial and physical hedged volume (planned mandatory plus accelerated plus discretionary), shall not exceed 95% of the forecasted normal weather requirements for a given supply month. Subsequent revisions to the forecast may impact the hedge percentage for existing deals.

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. Hedges specifically put in place as part of the Natural Gas Procurement Management Program to lock in optimization savings for customers.

   d. 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.

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

   ~~e.~~f. Purchases and/or hedges made to fix the locational basis price risk at the forecasted receipt point locations.

~~c.~~B. Producing Region Locational Basis Fixed Price Hedge

~~c.~~

~~c.~~As recently as mid-2014 the price movement of NYMEX was highly correlated to the price movement of supplies in the producing regions of the Gulf of Mexico, Marcellus and some Canadian supplies and therefore NYMEX was an effective hedge of the future gas prices purchased in those regions. As of July 2014 the correlation between NYMEX and the Marcellus locations such as Texas Eastern market area zone M2, Tennessee Gas Pipeline Zone 4, and Dominion South Point dropped to a point such that NYMEX Henry Hub was less effective at hedging the forecasted purchases in the Marcellus region.

~~c.~~

The Company has the option to use locational basis hedges to increase the effectiveness of the forecasted purchases.

The locational basis hedges do not have to be executed at the same time as the NYMEX hedges. Locational basis hedges are not included in the incentive calculation.

~~B.~~C. 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 and the volume weighted average cost per dekatherm of mandatory gas purchases, excluding any accelerated hedges for each 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 of the NYMEX futures contract.

~~C.~~D. 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.~~E. The timing of discretionary purchases and/or hedges is left solely to the discretion of the Company. However, beginning in November 2005 the Company was required to~~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

REDLINED VERSION

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, ~~—,~~ LNG supplies and storage supplies.

~~E~~F. After all purchases and/or hedges for forecasted gas requirements for a given gas supply month are completed, the volume-weighted average cost of mandatory purchases and/or hedges will be computed. That volume weighted average cost for mandatory purchases and/or hedges will then be compared against the actual cost of each discretionary purchases and/or hedge made for the same gas supply month.

1. For all discretionary purchases and/or hedges executed more than eight months prior to the start of the gas supply month, the Company will be provided a positive incentive equal to 10% of the difference between the cost of each discretionary purchase and the volume-weighted average cost for mandatory purchases and/or hedges for the same gas supply month if the cost of the discretionary purchase and/or hedge is less than the volume weighted average cost of mandatory purchases and/or hedges for the same gas supply month. In the event that the cost of the discretionary purchases/hedges is at least 50 cents less than the cost of the mandatory purchases/hedges, the incentive will be 20%.

2. For all discretionary purchases and/or hedges executed within the last five to eight months prior to the start of the gas supply month, the Company will be provided as positive incentive equal to 10% of the difference between the cost of each discretionary purchase and the volume-weighted average cost for mandatory purchases and/or hedges for the same gas supply month if the cost of the discretionary purchase and/or hedge is less than the volume weighted average cost of mandatory purchases for the same gas supply month.

3. For all discretionary purchases and/or hedges executed within the last four months prior to the start of the gas supply month, the Company will be provided as positive incentive equal to 5% of the difference between the cost of each discretionary purchase and the volume-weighted average cost for mandatory purchases and/or hedges for the same gas supply month if the cost of the discretionary purchase and/or hedge is less than the volume

weighted average of mandatory purchases for the same gas supply month.

4. For any and all discretionary purchases and/or hedges that are made at a cost which is greater than the volume-weighted average cost for mandatory purchases and/or hedges, made for the same gas supply month, regardless of when they occur prior to the start of the gas supply month, the Company will be assessed a penalty equal to 10% of the difference between the volume-weighted average cost for mandatory purchases and/or hedges and the cost of the each such discretionary purchase,

5. The net incentive/penalty for the Company for each gas supply month shall equal the sum of the incentives/penalties calculated for all individual discretionary purchases and/or hedges executed for the subject gas supply month.

Gas Procurement Incentive Plan for National Grid

Revised Effective July 1, 2015

I. Objective

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B. The Company will file its forecasted normal weather natural gas purchase requirements with its annual GCR filing. The hedging plan volume will be adjusted based on this revised forecast. Changes to the hedged volume execution plan will become effective in November of each year. The Company will not unwind or sell any purchases or hedged positions without notifying the Commission and Division. If a midyear revision is warranted the Company will file support for the revised purchase forecast with the Commission and Division.

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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 adjust the schedule of hedging to achieve the required mandatory level in accordance with paragraph II.B. 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.

f. The Company and the Division may agree to accelerate a portion of the mandatory hedges. They will notify the Commission of any such plan and provide 3 business days for the Commission to object. Accelerated hedges will neither earn an incentive nor be used in the calculation of mandatory benchmark.

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 or benefit of any financial purchase and/or hedge will be included in the calculation of the average unit price.

c. The total financial and physical hedged volume (planned mandatory plus accelerated plus discretionary), shall not exceed 95% of the forecasted normal weather requirements for a given supply month. Subsequent revisions to the forecast may impact the hedge percentage for existing deals.

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. Hedges specifically put in place as part of the Natural Gas Procurement Management Program to lock in optimization savings for customers.

d. 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.

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

f. Purchases and/or hedges made to fix the locational basis price risk at the forecasted receipt point locations.

B. Producing Region Locational Basis Fixed Price Hedge

As recently as mid-2014 the price movement of NYMEX was highly correlated to the price movement of supplies in the producing regions of the Gulf of Mexico, Marcellus and some Canadian supplies and therefore NYMEX was an effective hedge of the future gas prices purchased in those regions. As of July 2014 the correlation between NYMEX and the

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The Company has the option to use locational basis hedges to increase the effectiveness of the forecasted purchases.

The locational basis hedges do not have to be executed at the same time as the NYMEX hedges. Locational basis hedges are not included in the incentive calculation.

C. 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 and the volume weighted average cost per dekatherm of mandatory gas purchases, excluding any accelerated hedges for each 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 of the NYMEX futures contract.

D. 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.

E. The timing of discretionary purchases and/or hedges is left solely to the discretion of the Company. However, beginning in November 2005 the Company was required to 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, LNG supplies and storage supplies.

F. After all purchases and/or hedges for forecasted gas requirements for a given gas supply month are completed, the volume-weighted average cost of mandatory purchases and/or hedges will be computed. That volume weighted average cost for mandatory purchases and/or hedges will then be compared against the actual cost of each discretionary purchases and/or hedge made for the same gas supply month.

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4. For any and all discretionary purchases and/or hedges that are made at a cost which is greater than the volume-weighted average cost for mandatory purchases and/or hedges, made for the same gas supply month, regardless of when they occur prior to the start of the gas supply month, the Company will be assessed a penalty equal to 10% of the difference between the volume-weighted

average cost for mandatory purchases and/or hedges and the cost of the each such discretionary purchase,

5. The net incentive/penalty for the Company for each gas supply month shall equal the sum of the incentives/penalties calculated for all individual discretionary purchases and/or hedges executed for the subject gas supply month.