

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

IN RE: THE NARRAGANSETT	:	
ELECTRIC COMPANY	:	
d/b/a NATIONAL GRID	:	DOCKET NO. 4520
GAS PROCUREMENT INCENTIVE PLAN	:	
MARCELLUS HEDGE PROPOSAL	:	

ORDER

On June 2, 2015, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed a proposal requesting changes to its Gas Procurement Incentive Plan (GPIP)¹ with the Public Utilities Commission (PUC or Commission). Currently, the Company uses NYMEX Henry Hub futures prices to hedge a portion of its purchases in the Gulf of Mexico, Marcellus, and Canada. Until recently, the price movement of NYMEX Henry Hub was highly correlated to the price movement of supplies in these regions. As of July 2014, this correlation has dropped for supplies in the Marcellus region of West Virginia and Pennsylvania. Because of this drop, the Company is proposing modification of the GPIP to include the option to use these additional purchases and/or hedges to fix the locational basis price risk at the forecasted receipt point locations.²

The Division of Public Utilities and Carriers (Division) filed a Memorandum of its consultant, Bruce R. Oliver. Mr. Oliver verified the Company's assertion that since

¹ The Gas Procurement Incentive Plan encourages the Company to purchase supply in a way that will stabilize supply and reduce the risk of extreme price escalation. It requires National Grid to lock in future gas prices over a 24-month horizon and to make the purchases in a structured series of monthly increments. The difference between the average unit cost of the mandatory hedges and the average unit cost of discretionary purchases is multiplied by the discretionary volumes to calculate total savings or cost.

² National Grid Marcellus Hedge Proposal (June 3, 2015); [http://www.ripuc.org/eventsactions/docket/4520-NGrid-MarcellusHedgeProposal\(6-2-15\).pdf](http://www.ripuc.org/eventsactions/docket/4520-NGrid-MarcellusHedgeProposal(6-2-15).pdf).

the natural gas prices in the Marcellus region are no longer correlated to the NYMEX Henry Hub natural gas prices, they no longer serve as an effective hedge for gas procured in the Marcellus region. He discussed how the growth in the volumes in the Marcellus region warrants its reliance on hedging transactions as more reasonable and reliable indicators of natural gas prices for purchases in that area. He noted that the Company did not propose volume or percentage requirements of its portfolio that would be subject to locational hedging.³

Mr. Oliver opined that he expects the difference between NYMEX Henry Hub and Marcellus to remain for at least two to three years and will very likely continue for much longer than that. He expressed confidence that the use of Marcellus locational hedges will benefit Rhode Island's natural gas customers. He recommended Commission approval of the Company's proposed changes.⁴

Although not linked to the original hedging proposal, the final GPIIP document submitted by the Company eliminated existing language requiring execution of exact 10,000 dekatherm (Dth) increments.⁵ In response to a Commission data request inquiring as to the reason, the Company explained that previously NYMEX Henry Hub minimum contract size was 10,000 Dth. Now the Company has the ability to execute contracts in smaller increments so the 10,000 increment requirement in the GPIIP is no longer necessary.⁶

At an open meeting on June 29, 2015, the Commission considered and approved National Grid's proposed changes. The Commission finds that allowing the Company

³ Memorandum of the Division of Public Utilities and Carriers (June 17, 2015); http://www.ripuc.org/eventsactions/docket/4520-DPU-Memo-HedgeProposal_6-17-15.pdf.

⁴ *Id.*

⁵ Hedge Proposal.

⁶ National Grid Response to Commission's Second Set of Data Requests (June 16, 2015).

the option to use these additional purchases and/or hedges to fix the locational basis price risk at the forecasted receipt point locations will be beneficial to ratepayers.

Accordingly, it is

(22024) ORDERED:

National Grid's Marcellus Hedge Proposal is approved.

EFFECTIVE JULY 1, 2015 IN WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON JUNE 29, 2015. WRITTEN ORDER ISSUED AUGUST 6, 2015.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner*

Herbert F. DeSimone, Jr., Commissioner

*Commissioner Roberti did not participate in this decision.

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 Rhode Island Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.