STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: THENARRAGANSETT ELECTRIC	**:**	
COMPANY d/b/a NATIONAL GRID	**:**	**DOCKET NO. 4520**
GAS COST RECOVERY CHARGE	**:**	

ORDER

On August 18, 2015, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed a Market Area Hedge Proposal with the Public Utilities Commission (PUC or Commission).[1] Previously, in last year's Gas Cost Recover (GCR) docket, No. 4436, the Company had requested and the Commission approved a one-year hedging strategy designed to mitigate a portion of the risk associated with market area purchases for the winter season, November 2014 through March 2015. This request seeks a hedge proposal similar to what was previously approved. The Company noted that the Division of Public Utilities and Carriers supports the proposal. National Grid requested Commission approval prior to October 1, 2015, so it can execute additional hedges before November 15, 2015 in order to lock in these purchases prior to the winter season.

Mr. McCauley, Director of Origination and Price Volatility Management in Energy Procurement, noted that a basis hedge protects the price difference between NYMEX pricing and the market area.[2] He related that the Company's proposal seeks to hedge a portion of its market area purchase price risk. The market areas are New York and New Jersey, where the Company purchases supplies to use Algonquin pipeline capacity, and the New England area, where the Company purchases supplies to use: 1)

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[1] National Grid Market Area Hedge Proposal (Aug. 18, 2015); http://www.ripuc.org/eventsactions/docket/4520-NGrid-HedgeProposal(8-18-15).pdf.
[2] National Grid Market Area Hedge Proposal, Testimony of Stephen A. McCauley at 2 (Aug. 18, 2015).

Tennessee pipeline capacity with receipt points at Dracut, MA; 2) Algonquin capacity with receipt points at Beverly, MA; and 3) supplies purchased directly at the city gate.[3] He explained that the reason for adding such hedges to the Company's current Gas Purchasing Incentive Plan was to balance the benefit of mitigating price risk for market area purchases and the incremental costs to provide price certainty. He discussed the Company's experience during the November 2013 through March 2014 winter period, when prolonged cold temperatures resulted in high demand and higher natural gas costs. He noted that the Company evaluated last year's market area hedge strategy and is making a similar proposal for the upcoming year.[4]

Mr. McCauley noted that Spectra's Algonquin AIM expansion planned for the New England region is expected in November 2016. He offered that should the weather be colder-than-normal, the Company expects a similar supply/demand imbalance during the upcoming winter season.[5] After identifying the purchase locations that caused the greatest impact on actual costs, Mr. McCauley noted that the Northeast region experienced the greatest volatility even though the impact to gas prices was not the same as during the 2013-2014 season.[6] He explained that because not all of the transportation capacity within its portfolio has access to purchase supplies in the producing regions, the Company has to purchase some supplies in the market area.[7]

Mr. McCauley addressed why market area prices were not initially hedged in the Gas Purchasing Incentive Plan (GPIP). He explained that market area purchases are usually the highest cost supplies and identified these as "swing" supplies that are needed

[3] *Id.* at 3.
[4] *Id.* at 3-4.
[5] *Id.* at 5.
[6] *Id.*
[7] *Id.* at 5-6.

on colder than normal and sometimes normal winter days. He stated that since market area supplies are not needed on all winter days, they are typically purchased one day in advance when the temperature forecast is more certain.[8] He noted that although the net result was a cost of $180,368 for the market area hedges during the 2014-2015 period, the hedged price was lower than the actual costs of similar purchases in 2013-2014.[9]

Mr. McCauley represented that the Company is recommending hedging for the same locations and monthly volumes as it did during the last winter season, specifically: Tetco M3, approximately 13,800 dt/day; Transco Non-NY Zone 6, approximately 3,800 dt/day for January through March 2015; and 3,000 dt/day of baseload supplies purchased at Beverly into the Algonquin Hubline capacity for December 2014 through February 2015.[10] He stated that the hedge for the 2014-2015 winter season resulted in incremental costs of approximately $1.5 million, which was higher than the eventual unhedged price. However, these costs were still $1.7 million lower than they were the for 2013-2014 winter season. He provided that, at the time of the filing, a similar Algonquin hedge was expected to be $1.2 million lower than 2014-2015 actual costs and $2.9 million lower than 2013-2014 actual costs.[11] He stated that the Company's analysis revealed the risk mitigated when hedging the Tetco M3 and Transco Non-NY Zone 6 supplies for January, February, and March is more than eight times greater than the cost of baseloading[12] the supplies. He provided that the forecasted 2015-2016 hedge price for these supplies was

[8] *Id.* at 6.
[9] *Id.* at 6-7.
[10] *Id.* at 7-8.
[11] *Id.* at 8.
[12] "Baseloading" was defined by Mr. McCauley in his testimony at page 7 as the "purchase [of] a fixed volume of supply for delivery each and every day of the month regardless of the weather or customer demand."

approximately the same as it was for the 2014-2015 winter season and approximately $10.6 million less than actual costs for the 2013-2014 winter season.[13]

Mr. McCauley explained that the Company did not recommend additional hedging for the Algonquin or Tennessee Zone 6 supplies because the Company's Rhode Island customers would have to experience extreme weather and price spikes at least every two to three years in order for such a hedge to be beneficial. Additionally, because the load factor is low at the purchase locations and the risk to purchase is small during the months of November 2015 and December 2015, Mr. McCauley represented that the Company did not recommend hedging for those months.[14]

If the Commission approved the request, he noted, the Company would execute the hedge volumes prior to November 15, 2015. Mr. McCauley also provided that National Grid did not ask to hedge market area supplies beyond March 2016 because the goal of this filing was simply to protect against price increases during the winter season similar to those experienced last year. He expressed that the Company will perform another analysis subsequent to the 2015-2016 winter season.[15]

Finally, Mr. McCauley explained that total commodity price is comprised of two components: a producing region price component and a transportation price component. He noted that the Company's instant proposal is to hedge a portion of the transportation component. He pointed out that the market area basis hedges will be excluded from the GPIP incentive calculation.[16]

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[13] McCauley Testimony at 9-10 (Aug. 18, 2015).
[14] *Id.* at 10-11.
[15] *Id.* at 12.
[16] *Id.* at 13.

Bruce Oliver, the Division of Public Utilities and Carriers' (Division) consultant, filed a memorandum on behalf of the Division. Mr. Oliver explained that the extremely cold weather and pipeline constraints experienced by the Company during the winter of 2013-2014 resulted in high demand for natural gas and corresponding high prices for daily purchases. Although the volumes purchased were not significant, he noted, the prices paid for these volumes amounted to more than two and a half times the forecasted average and contributed significantly to the Company's under-collection and high deferred gas cost balances.[17] While the Company's hedging of basis costs for the last winter season added approximately $667,000 to the Company's forecasted gas costs, Mr. Oliver stated that it reduced Rhode Island customers' exposure to increased costs of more than $10 million.[18]

Mr. Oliver characterized the Company's proposal as appropriate at this time and opined that the addition of the Algonquin Incremental Market (AIM) project anticipated for November 2016, as well as other changes, should mitigate the factors that have contributed to price volatility. He suggested that an annual re-evaluation of basis price hedges is warranted. He observed that forecasted hedge costs for this winter are almost $1.6 million lower than the Company's actual hedge costs for last year. He recommended approval of the proposed Market Area Hedging Plan for 2015-2016.[19]

At its September 22, 2015 open meeting, the Commission voted unanimously to approve National Grid's request for a one-time additional hedge to its Gas Purchasing Incentive Plan. The PUC found it to be a prudent measure by the Company to reduce the risk to its customers of high daily spot market prices in the event of colder than normal

[17] Oliver Memorandum at 1-2 (Sept. 16, 2015).
[18] *Id.* at 2.
[19] *Id.* at 4.

weather this coming winter. Cognizant of the fact that National Grid's 2013 Gas Cost Recovery filing reflected a large under-collection caused primarily by the Company having to purchase large volumes on the daily spot market in response to colder than normal weather last winter and recognizing last year's hedging strategy significantly reduced the risk of a similar experience, the Commission found the instant proposal to be a continued proactive measure that will protect ratepayers from the potential price volatility that could ensue this coming winter as a result of cold weather-induced pipeline constraints into the New England region. Because the Company's strategy represents a low-cost hedge against the potential for substantially high prices that are expected to occur during colder than normal weather events, the Commission deemed the proposal to be in the best interests of National Grid's customers.

ACCORDINGLY, it is

(22146) ORDERED:

National Grid's Market Area Hedge Proposal is approved.

EFFECTIVE SEPTEMBER 22, 2015 IN WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON SEPTEMBER 22, 2015. WRITTEN ORDER ISSUED OCTOBER 13, 2015.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Commissioner

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 (7) 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.