
OER 1-1

Request:

Please provide filings made by National Grid/Eversource/Algonquin with FERC regarding capacity release rules waivers for ANE capacity, including comments made by other parties, a schedule of the proceedings, technical session transcripts and an update of the status of the Companies' petition with FERC. If the current status changes, please provided an update to the status describing any changes as an ongoing request.

Response:

In FERC Docket No. RP16-618, Algonquin sought approval of a tariff amendment to the General Terms & Conditions (GT&C) of its FERC Gas Tariff to establish a process to release firm pipeline capacity to electric generators on a priority basis pursuant to a state-approved program. All documents filed in that docket are available by entering the docket No. provided above on FERC's web-site at:

http://elibrary.ferc.gov/idmws/docket_search.asp

OER 1-2

Request:

Please clarify if it is true that ANE capacity released to generators may not be re-released even if the generator subsequently does not expect to use it.

(a) If this is true, please explain if capacity then remains idle for the time period in which it is released. For example, generator acquires capacity for a year and needs to shut down for a week or two for maintenance- can the generator re-release the capacity?

(b) How does eliminating the ability for generators to re-release ANE capacity maximize the mitigation value to electric customers?

(c) If capacity is idle (not nominated) on a peak day, please describe how Algonquin might make that capacity available to the New England market under current FERC rules?

Response:

The electric distribution companies (EDCs) proposing to purchase ANE capacity have provided a series of program guidelines and policies under the proposed Electric Reliability Service Program (ERSP) to ensure that the capacity acquired by the EDCs is distributed to the intended user, the natural gas fired generator to produce reliability and cost savings for EDC customers who are paying for the service. One of the guidelines as part of the ERSP was to make the capacity "non-releasable" so that the capacity stayed with the generator that initially secured capacity. In the effort to develop a program taking as conservative an approach as possible under current market rules to ensure the capacity stayed with its intended user, the Company included this guideline to restrict the re-release of the capacity by generators so that the capacity would remain available at all times for reliability purposes. The EDCs recognize that this guideline may restrict some of the flexibility that generators seek. Therefore, the EDCs would consider eliminating this guideline as part of the program so long as it was acceptable to regulatory authorities.

a) If a generator acquires capacity and there is a period of time the generator cannot use the capacity in its facility, then the generator can use the capacity to make bundled sales to the market.

b) As stated above, eliminating the ability for generators to re-release the capacity ensures that the capacity is available for its intended purpose, which is to provide pipeline capacity to gas fired generation in the New England ISO region. Although this may reduce the value of the capacity on a short-term basis this restriction ensures the longer term strategy of the pipeline capacity being used to generate electricity for the ISO NE region.

c) Under current FERC rules firm capacity not used by the primary firm shipper must be made available to all other firm and interruptible shippers.

OER 1-3

Request:

The following request/questions pertain to the costs and benefits for the Acushnet LNG facility:

(a) Please provide a list of costs that will be included in LNG inventory costs.

(b) How will the capacity manager determine "market-based prices" for LNG?

(c) Will LNG sales from Acushnet have a cost-based floor price if "market-based prices" fall below the cost basis?

(d) What benefits /profits/ returns will accrue to the owners of Acushnet LNG and what benefits will be returned to customers to assist in mitigation of costs? Please provide a hypothetical example using one month of winter activity.

Response:

All responses that reference the Acushnet LNG facility pertain to the contract and services proposed in the ANE project for the EDCs. The responses to the following questions will only pertain to supplies injected into LNG storage capacity retained by the EDCs and not released to a generator or their agent.

(a) LNG inventory costs will include:
   a. Purchase price of supply injected into the LNG storage facility
   b. Variable fuel and commodity costs to transport the purchased supplies from the receipt point to the LNG facility.
   c. Variable costs to liquefy and store LNG in the facility.
   d. Boil off.
   e. Variable costs to vaporize the LNG for delivery away from the LNG facility.
   f. Variable fuel and commodity costs to transport the vaporized LNG from the facility to the delivery point.
   g. Inventory finance costs for LNG storage utilizing the Company's Weighted Pre-tax cost of capital.

(b) The supplies from the LNG facility will be sold in vapor form and not sold as LNG. The market based prices change constantly from day to day and sometimes from minute to

minute and will be dictated by the supply and demand balance at the time of the demand. It is expected that LNG will not be used until all other transportation capacity into the New England region is being fully utilized as a result of much higher costs to liquefy, store and vaporize LNG supplies. At a minimum LNG will not be sold until the market price exceeds either the inventory costs, which includes all of the variable costs listed above in (a), or the replacement LNG cost, which also includes all of the variable costs listed above in (a).

(c) Please see part (b) above.

(d) The return on investment for the owners of the Acushnet facility are filed with and approved by FERC. The EDC customers will benefit in the form of lower electric prices as a result of the increase in transportation and LNG storage capacity into the New England region.

In Schedule AEL-2 to the Pre-filed Testimony of Ann E. Leary, the Company provides an illustrative example projecting that Rhode Island electric customers will experience a net reduction in electric commodity rates of $0.01407 per kWh. The Company did not include the costs associated with LNG in this analysis because specific information regarding LNG costs and price is not known at this time. However, the Company will only sell LNG at a price that exceeds the Company's total costs as described in part (b) above, and will then apply the margin (LNG revenue less LNG costs) generated from the sale of LNG to reduce the total costs to customers. Therefore, the Company anticipates that customers will experience a total price reduction equal to or greater than the $0.01407 per kWh savings described above.

OER 1-4

Request:

Please provide the dollar amount and percent return expected by NGRID over the life of the ANE and Acushnet LNG projects if the New England regulators approve the ANE contract. Please provide returns on the pipeline and the LNG facility separately.

Response:

National Grid objects to the question on grounds that income projections of National Grid Algonquin LLC, an unregulated project developer, are not relevant to the Commission's determination whether the proposed resource contracts should be approved in the public interest under applicable legal and regulatory standards.

Moreover, projections of the revenues for the ANE Project and LNG facility have not been finalized because the projections are dependent upon the final scope of the project, the commitments received from shippers who contract for service on the project and the rates that such shippers will agree to pay. Algonquin Gas Transmission LLC will submit detailed information on the costs and revenues for the project as part of its formal application to the Federal Energy Regulatory Commission (FERC) for a certificate of public convenience and necessity for the project. The project is currently in the pre-filing stage before FERC in Docket No. PF16-1 and Algonquin anticipates filing its formal application with FERC in November 2016.

OER 1-5

Request:

Would the Company withdraw its proposal if approval is given for the ANE contract, but not the LNG facility or vice versa?

Response:

The Access Northeast Project was designed and proposed as an integrated project including both mainline transportation capacity and LNG storage services. The Precedent Agreement does not allow the Company to obtain either of those services on a stand-alone basis. As a result, the Company would be unable to move forward with the proposal if approval were only given for the increased capacity, but not the LNG facility and vice versa.

Prepared by or under the supervision of: John E. Allocca

OER 1-6

Request:

Have the EDCs identified organizations that have the ability to manage 500,000/Dth/d of capacity into New England with no other potential conflicts? Please provide the names of such organizations.

Response:

The Company maintains a list of energy companies that provide asset management and gas supply services for its competitive solicitation processes. The current version of that list is provided as Attachment OER 1-6 (Confidential); the list of those companies that National Grid has predetermined are eligible to participate in its RFP process is considered confidential. The Company has not yet determined which of those entities may have potential conflicts. That information would be sought during the capacity manager solicitation process. During the solicitation process the Company will also establish qualification criteria.

RFP Recipient List

Counterparty/Company Name

[redacted]

RFP Recipient List

Counterparty/Company Name

[redacted]

OER 1-7

Request:

Under the Company's proposal, what incentives do the EDCs have to maximize the value of released capacity to the benefit of electric consumers?

Response:

See the Company's response to Data Request OER 1-8.

OER 1-8

Request:

How does the incentive proposed by the EDCs provide incentives for the EDCs to minimize costs to EDC customers and maximize the benefits to the EDC customers of the ANE and Acushnet agreements?

Response:

For clarification, while the question above refers to "the ANE and Acushnet agreements," as explained in the Joint Testimony of Timothy J. Brennan and John E. Allocca, at 21-23, the ANE Project consists of transportation and storage facilities that together "will provide … firm, incremental integrated transportation and LNG deliverability to multiple generators." Moreover, the Company executed a single Precedent Agreement with Algonquin covering the ANE Project's integrated transportation and LNG storage services.

Data Requests OER 1-7, OER 1-8, and DIV 1-21 address related issues pertaining to the Company's incentive related to capacity release, the Company's requested innovation incentive, and the benefits realized by customers from the ANE Project. Moreover, these same or similar issues were addressed in the Company's affiliates' related proceeding in Massachusetts (D.P.U. 16-05).

With regard to capacity release, the EDCs' intention is for the incremental natural gas capacity provided by the ANE Project to generate the maximum value for their customers, primarily by relieving winter-time natural gas capacity constraints and ameliorating the high and volatile natural gas prices faced by electricity generators in ISO-NE, which the testimony and schedules of Gary J. Wilmes of Black & Veatch demonstrate will deliver substantial net economic benefits to Rhode Island customers through resultant lower electricity costs. The Joint Testimony of Timothy J. Brennan and John E. Allocca, at 66-70, explains how the EDCs will use a capacity manager to administer the release of contracted gas capacity to the electric generation market to further this intention.

In Exhibit DPU-Comm-1-6 filed in D.P.U. 16-05 and provided in this proceeding in response to Data Request PUC 1-1, the Company's affiliates explained why, while the EDCs will seek to obtain value for released capacity, the primary goal is "simply getting gas capacity to the electric generators more reliably and economically for the benefit of the electric markets and customers" and "optimizing capacity release revenues may be a secondary objective in many cases as

compared to the higher priority of encouraging efficient capacity utilization by electric generators." Exhibit DPU-Comm-1-6 explains that:

> The EDCs contemplate that the Capacity Manager agreement will contain a fixed fee for services provided, subject to certain pre-designated operating parameters to ensure reliable supply is available for electric power generators. It is possible that performance targets or incentives would make sense within the contemplated structure; however, the EDCs have not yet identified any specific mechanisms. Part of the difficulty is that the objective of maximizing value for the capacity (which is the typical role of a capacity manager optimizing capacity assets for natural gas local distribution companies) may be at odds with the objective of simply getting gas capacity to the electric generators more reliably and economically for the benefit of the electric markets and customers. The net benefits computed by the Company are derived through use of the gas capacity in the marketplace. Optimization revenues are not included in the net benefits analysis given that optimizing capacity release revenues may be a secondary objective in many cases as compared to the higher priority of encouraging efficient capacity utilization by electric generators.

The Massachusetts Department of Public Utilities' staff asked the Company's Massachusetts affiliates in D.P.U. 16-05 whether they had considered in the context of the ANE Project a margin sharing mechanism like those approved for Massachusetts natural gas distribution companies, which are broadly similar to the Company's Natural Gas Portfolio Management Plan (NGPMP) incentive approved by the Commission.[1] In D.P.U. 16-05, , the Company's affiliates explained that, because of the aforementioned potential lack of alignment between capacity release revenue maximization and maximization of total benefits to electricity customers, "a margin sharing mechanism … would not serve the purpose of promoting innovation by utilities to deliver customer benefits as effectively as the … proposed 2.75 percent incentive."[2]

The Company's response to Data Request DIV 1-21 explains how the Company's requested innovation incentive is consistent with the three principles enumerated in the Testimony of Michael C. Calviou, at 19, as a suggested guide for the approval and design of utility shareholder

[1] See Exhibit DPU-ANE-3-3 filed in D.P.U. 16-05 and provided in response to Data Request PUC 1-1.

[2] See Exhibit DPU-ANE-3-3 filed in D.P.U. 16-05 and provided in response to Data Request PUC 1-1.

incentives in the current context. As explained in more detail in the Company's response to Data Request DIV 1-21, while an incentive tied specifically to actual market outcomes directly related to the goal to "minimize costs to EDC customers and maximize the benefits to the EDC customers of the ANE and Acushnet agreements" has at least superficial appeal, practical considerations make such an incentive extremely impractical if not impossible to implement. Rather, the Company's requested incentive mechanism comports with the proposed principles for appropriate incentives by allocating only a small fraction of net economic benefits to the EDC (see Testimony of Michael C. Calviou, at 28) while also providing for an administratively practicable incentive mechanism that fairly balances risk and return between customers and shareholders.

OER 1-9

Request:

Will the ANE capacity procured by the EDCs and targeted for generators defer the permanent acquisition of capacity by generators or their fuel suppliers in a competitive market?

Response:

National Grid has no reason to believe the proposed ANE Project will defer the permanent acquisition of capacity by generators or their fuel suppliers in a competitive market. There have been an insufficient number of these participants in the competitive market willing to sign the long-term contracts with the interstate pipelines to achieve the construction of the incremental pipeline capacity required by the region to alleviate the significant reliability and cost concerns for electricity customers. With no indication or expectation that the inaction of these competitive market participants are about to change, the EDCs, on behalf of their electricity customers, are proposing to be the creditworthy parties and enter into the long-term capacity contracts required by the pipeline companies in order to address the existing natural gas infrastructure inadequacies. Of course, this necessary procurement of the ANE capacity by the EDCs at this time should not defer any permanent acquisition of capacity by generators of their fuel supplies at some time in the future should these competitive market participants then become willing and/or able and find it in their interests to acquire such capacity.

OER 1-10

Request:

Would the EDCs consider permanent releases (at Max rates) of the ANE capacity to generators or their wholesale marketers?

(a) What risks, if any, would a permanent release of ANE capacity (at max rates) to marketers or generators present to regional reliability?

(b) What benefits could a permanent release have?

Response:

The Company would consider permanent, max rate releases of ANE capacity to generators or their wholesale marketers. The Company would need to consider the impact to reliability and electric prices before it would permanently release the capacity.

(a) With a permanent release the Company would no longer have recall rights. The new shipper may decide to release or use the capacity to serve a load outside the New England region.
(b) A permanent release at max rate eliminates the cost associated with the released capacity and if it is used to generate electricity in New England will have the effect of increasing reliability and lowering the cost and volatility of electric production. The reason the EDCs have embarked on this effort to increase pipeline capacity to the New England region is the inability or desire on the part of generators to contract for long term pipeline capacity to meet their fuel needs. A permanent release to a generator would accomplish this ultimate goal.

OER 1-11

Request:

What percent of capacity is expected to be released for 1 year, 1 quarter, 1 month, less than one month or daily?

(a) At what point will the EDCs determine it is appropriate to release capacity to the competitive market? Please discuss. I.e. how far in advance and for what quantities and what duration?

Response:

Schedule TJB/JEA-4, Figure 1 of the Electric Reliability Service Plan (ERSP) shows the initial estimate of the timing and quantity of capacity releases. This plan dictating the timing and volume schedule will evolve as more EDCs join the EDC-Working Committee and with experience of actual releases. The EDC-Working Committee will also seek input from the generators in the region to help match the capacity releases with the generators fuel purchasing plans.

(a) The EDCs will determine capacity releases to all market participants based on the forecasted need by the electric generation market. The quantity and timing will be determined by the confidence in the forecast and potential error of the forecast. This is a similar process the LDCs use in determining available excess capacity. It is anticipated that there may be some shoulder months when some quantity will not be needed for generation and therefore released a few months in advance of flow and some quantity of capacity that can only be release a few days in advance of flow.

OER 1-12

Request:

If FERC denies preferential treatment for electric generators for released ANE capacity, will NGRID withdraw its filing in this proceeding?

Response:

As noted by the Company's Massachusetts affiliates in Exhibit AG-5-5(c),[1] the Company's participation in the ANE Project has one overriding objective, which is to serve the interests of customers by enabling the construction of incremental pipeline capacity to mitigate high and volatile natural gas prices and achieve electric price relief and reliability for electric retail customers. The Company's participation in the ANE Project is contingent upon a number of factors, but most significantly, upon confirmation by the Commission that the investment required for construction of incremental pipeline capacity is warranted and appropriate for customers to bear based on a determination that the costs of such investment would be offset by the benefits of the ANE Project. The most direct path to achieve this identified objective is to have a system in place to allow for the release of the incremental pipeline capacity to electric generators that elect to use or maintain access to that capacity. Because the release of interstate pipeline capacity is a FERC-jurisdictional matter, the EDCs view FERC's action to review and approve AGT's proposed tariff amendment as a critical step in putting the pieces in place to further the project objective. FERC action before state approval of the proposed contracts is critically important to the EDCs because the EDCs' expectation is that the state public-utility commissions with jurisdiction over ANE Project contract approval will want to confirm the details of whether and how the capacity will be released into the marketplace, including the process for access to the capacity by electric generators, before granting approval. Thus, a FERC decision to deny the tariff would be an important factor for consideration in state regulatory proceedings and would need to be assessed by each respective state commission as an explicit component of contract approval.

[1] A copy of this Exhibit was provided in this proceeding in response to Data Request PUC 1-1.

OER 1-13

Request:

If a generator prefers to procure its fuel from a wholesale marketer would the wholesale marketer be able to acquire ANE capacity as part of the waiver program?

Response:

The generator can designate a wholesale marketer as its agent and have the wholesale marketer purchase and deliver the supply to the generator's facilities.

Prepared by or under the supervision of: Stephen A. McCauley