

KEEGAN WERLIN LLP

ATTORNEYS AT LAW
265 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110-3113

(617) 951-1400

TELECOPIERS:
(617) 951- 1354
(617) 951- 0586

August 24, 2016

BY HAND DELIVERY

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

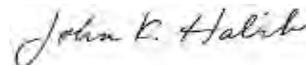
Re: Docket 4627 – In Re: Request for Approval of Firm Transportation Contracts
with Algonquin Gas Transmission, LLC for the Access Northeast Project
Responses to PUC Data Requests – Set 2

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed the responses to the Second Set of Data Requests issued by the Rhode Island Public Utilities Commission on August 10, 2016 in the above referenced matter.

Thank you for your attention to matter. If you have any questions, please contact me at (617) 951-1400, or Jennifer Brooks Hutchinson at 401-784-7685.

Very truly yours,



John K. Habib

¹ The Narragansett Electric Company d/b/a National Grid.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4627
National Grid's Request for Approval
Of a Gas Capacity Contract and Cost Recovery
Pursuant to R.I. Gen. Laws § 39-31-1 to 9
Responses to Commission's Second Set of Data Requests
Issued August 10, 2016

PUC 2-1

Request:

Please provide an organizational chart that lists each National Grid legal entity that is affected by the project. Please include ownership percentages where appropriate.

- (a) The chart should include National Grid plc, Narragansett Electric, National Grid Algonquin LLC and any other entities in between.
- (b) The source of any money collected (incentives, payments, etc.) by any National Grid entity as a result of the project.
- (c) The disposition of any money collected by any National Grid entity (incentives, payments, etc.) as a result of this project.

Response:

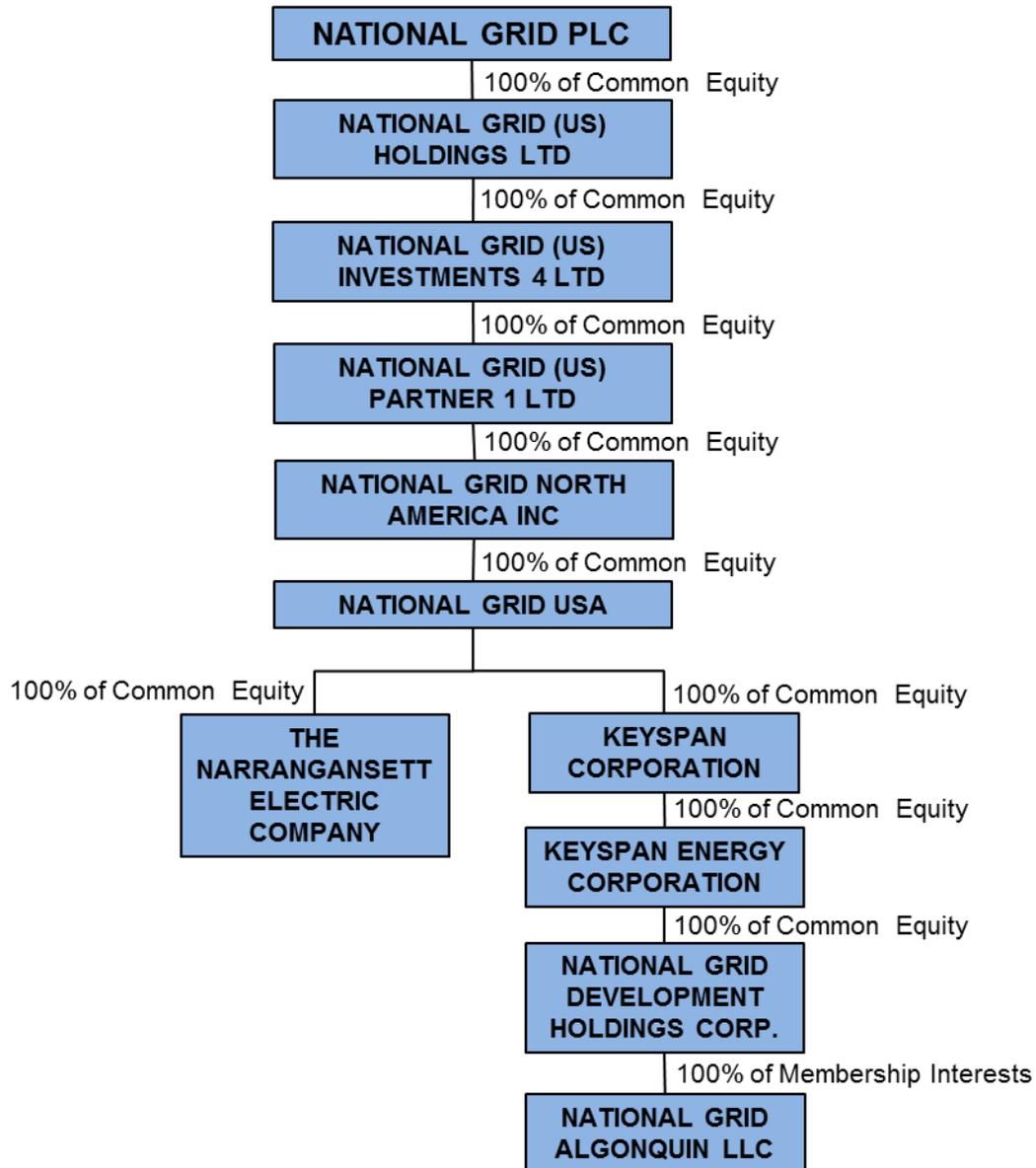
- (a) See Attachment PUC 2-1(a) which provides a chart depicting direct and indirect parent companies of The Narragansett Electric Company and National Grid Algonquin LLC (NGA).
- (b) NGA may receive cash distributions as available from its ownership in Algonquin Gas Transmission, LLC (AGT), which owns the project. Companies senior to NGA in the National Grid organizational structure may receive cash distributions or dividends from NGA and its direct and indirect parent companies as available and warranted.

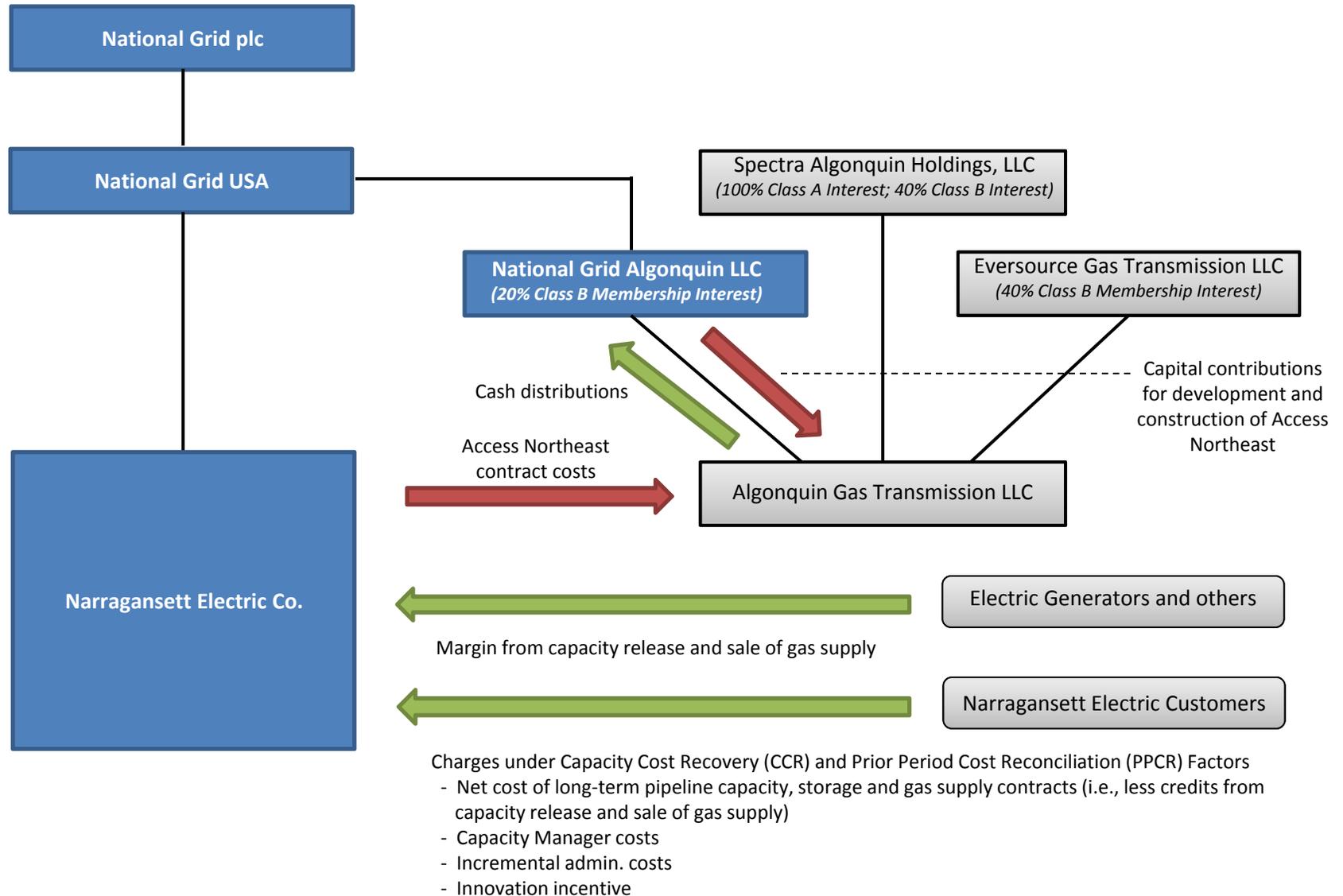
The Narragansett Electric Company (NECO) may receive revenue collected from its customers as a result of the project. Companies senior to NECO in the National Grid organizational structure may receive dividends from NECO and its direct and indirect parent companies as available and warranted.

Please see also Attachment PUC 2-1(b).

- (c) See response to part (b), above.

ATTACHMENT 2-1(a)
**Chart Depicting Direct and Indirect Parent Companies of The Narragansett
Electric Company and National Grid Algonquin LLC**





Note: Monetary flows depicted are specific to Rhode Island and are for National Grid affiliates only. Narragansett Electric has contracted for a portion of Access Northeast capacity equivalent to its percentage share of New England electric load. There is no direct interaction with regard to the Access Northeast project between National Grid's regulated and unregulated affiliates.

PUC 2-2

Request:

In Narragansett Electric d/b/a National Grid's (the Company's) response to PUC 1-1, Massachusetts Electric Company/Nantucket Electric Company's (MECo/NECo's) responses to Massachusetts AG Information Request AG 1-15 in Docket No. D.P.U. 16-05. MECo/NECo's response indicates that National Grid Algonquin LLC (National Grid Algonquin), a subsidiary of National Grid USA, holds a twenty percent Class B membership interest in Algonquin Gas Transmission LLC, which is responsible for the development of the proposed Access Northeast Project.

- (a) Please confirm the above relationships are still in effect.
- (b) Please explain what a Class B membership interest is, and what relationship this has to other investors' memberships or ownerships of the Algonquin Gas Transmission LLC.
- (c) Does National Grid Algonquin and/or National Grid USA stand to earn a return for their membership interest in Algonquin Gas Transmission LLC? If the answer is "yes":
 - i. What is/are the expected earnings rate and annual income?
 - ii. Would the cost of any such earnings be recovered through the annual fixed contract payments under the proposed agreement between Algonquin Gas Transmission LLC and the Company?
 - iii. Would a portion of the Company's proposed incentive (2.75% of the annual fixed contract payments) be a function of the payments made to National Grid Algonquin and/or National Grid USA by Narragansett Electric Company?
 - iv. Please provide an illustrative example of the transaction that is taking place in PUC-2-2(c)(iii).

Response:

- (a) Yes, this relationship is still in effect.
- (b) National Grid Algonquin owns 20 percent of the Class B membership interests of Algonquin Gas Transmission LLC (AGT). The Class B membership interests of AGT provide their owners with all proportional rights and obligations associated with the Access Northeast project.
- (c) (i) Projections of the costs and revenues for the ANE project 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.

(ii) Any earnings or losses at National Grid Algonquin LLC would result only from increases or losses in its investment in Algonquin Gas Transmission LLC. A portion of the earnings or losses at National Grid USA may result from earnings or losses at National Grid Algonquin LLC.

(iii) The Company's proposed innovation incentive is dependent only upon the fixed contract payments made by the Company, pursuant to the contract, to Algonquin Gas Transmission LLC.

(iv) Please see Attachment PUC 2-1(b).

PUC 2-3

Request:

In the Company's filing, the Testimony of Michael C. Calviou describes various incentive mechanisms used in Rhode Island related to utility regulation. These incentives related to the Gas Procurement Incentive Plan, the Natural Gas Portfolio Management Plan, the Energy Efficiency Program Plan, Long-Term Contracting Standard for Renewable Energy, Distributed Generation Standard Contracts, and the Renewable Energy Growth Program.

- (a) Which, if any of these incentives, are set by statute and do not allow for a performance standard on the earned incentive?
- (b) Which, if any of these incentives, can be set based on a performance standard set by the PUC?
- (c) Does the Company's proposed incentive include a performance standard?
- (d) If the PUC were to approve the proposed agreement and proposed incentive mechanism, and subsequent changes to the regional electric market were to render the proposed agreement to have net costs rather than net benefits to electric ratepayers, would the Company still earn an incentive under the proposed incentive mechanism?

Response:

(a,b) Please see the Company's response to Division Data Request 1-20 for a description of all incentives currently provided for, either by statute or by the PUC, and a description of how each is determined. Of the incentives available, the incentives for long-term contracts for renewable energy resources and distributed generation standard contracts, established under R.I. Gen. Laws §39-26.1 and § 39-26.2, respectively, are set by statute and do not allow for a performance standard on the earned incentive.¹ The statutory provisions that provide for the Renewable

¹ R.I. Gen. Laws §39-26.1-4 provides that "electric distribution companies shall be entitled to financial remuneration and incentives for long-term contracts for newly developed renewable energy resources" and that "[t]he financial remuneration and incentives shall be in the form of annual compensation, equal to two and three quarters percent (2.75%) of the actual annual payments made under the contracts for those projects that are commercially operating." Distributed generation standard contracts are treated as long-term contracts for purposes of this incentive. See R.I. Gen. Laws §39-26.2-9.

Energy Growth Program's remuneration, R.I. Gen. Laws § 39-26.6-12, also allow the PUC to develop performance standards for the Company to meet targets for the program as determined by the PUC and for timely and prudent processing of applications and completions of interconnections in determining the level of the Company's remuneration.² All of the other incentives, i.e. energy efficiency, Natural Gas Portfolio Management Plan, and Gas Procurement Incentive Plan, can be set based on a performance standard approved by the PUC.

(c) The Company's proposed incentive does not include a performance standard. Please see the Company's response to Division Data Request 1-21 for an explanation of why its proposed incentive is structured as it is, specifically how the proposed incentive fairly balances risk and return between customers and shareholders.

(d) While hypothetically the Company would still earn an incentive under the proposed mechanism if the ANE Project were to have net costs rather than net benefits to electric ratepayers, the Company structured the proposed incentive as it did because, in addition to the rationales explained in the Company's response to Division Data Request 1-21, the Company fully expects that the ANE Project will deliver net benefit to Rhode Island electricity customers as evidenced by the economic analysis conducted by Black & Veatch. Specifically, Schedule GJW-3 explains the substantial net benefits projected from the ANE Project and shows how the projection of net benefits from the ANE Project is robust to sensitivity analyses that include incremental clean energy generation in future years over and above what is required to meet New England states' RPS requirements.

² The Renewable Energy Growth Program provides for financial remuneration to the Company tied to payments made to participants in the program for eligible distributed-generation projects, where "[t]he incentive shall be one and three-quarters percent (1.75%) of the annual value of performance-based incentives." R.I. Gen. Laws §39-26.6-12.

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PUC 2-4

Request:

Has Narragansett Electric Company conducted any analysis of the costs or benefits on customers of its gas operations in Rhode Island? If so, please provide the analysis. If not, why not?

Response:

No. The New England gas LDCs were assumed to continue to contract for their own firm capacity as needed throughout the analysis period to serve firm loads on their distribution systems under design day conditions.

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PUC 2-5

Request:

Calculation of costs and benefits:

- (a) Will customers that take Standard Offer Service energy supply receive the same benefits as customers that have a competitive energy supplier?
- (b) Does the Company's estimate of costs and benefits account for existing Standard Offer Service portfolio, which will include contracts that cannot be altered?
- (c) Given the proposed in-service date of the project and the Company's current, approved SOS procurement plan, when, and at what level, will benefits begin flowing to SOS customers?

Response:

- (a) Yes, all Rhode Island customers will receive the same benefits on average over the life of the project regardless of their supplier choice for commodity service.
- (b) The Company's estimate of costs and benefits does not account for the existing Standard Offer Service (SOS) contracts. The costs and benefits were estimated for all distribution customers, not just Standard Offer Service customers, over the full twenty year analysis period for the project expected to provide service beginning in 2018.
- (c) The first phase of the project is expected to go into service November 1, 2018. To the extent that contracts are executed after this date, or even at a prior date by which time the project and associated benefits are anticipated by the market, SOS Residential and Commercial customers will benefit from lower electric forward prices as a result of increased gas supply. Moreover, regardless of execution dates of such contracts, SOS Residential and Commercial Customers would also benefit from the 10% spot market purchases included as part of the SOS portfolio.

PUC 2-6

Request:

If the project lowers wholesale electric prices, how will the costs of long-term contracts for renewable energy be expected to shift between distribution and Standard Offer Service customers? Please account for all market products (e.g., energy, capacity, RECs, etc.) separately in your analysis.

Response:

It is not anticipated that there will be a shift in costs between distribution and Standard Offer Service customers. Rather, it is expected that there will be a shift in costs on customers' bills from one side of the bill to the other, as supply costs decrease and distribution costs increase. Specifically, Generation Service costs on the supply side of the bill may be lower for all customers while charges on the distribution side of the bill, including the Long-Term Contracting for Renewable Energy Recovery (LTCRER) Factor and the Renewable Energy Growth (RE Growth) Factor, may be higher.

The project is expected to lower wholesale electric prices, which will benefit all customers through lower Generation Service rates from either the Company or non-regulated power producers. The 2015 Generation Service load in Rhode Island was approximately 8 million MWh. Thus, in aggregate, all Rhode Island customers will pay less for the approximately 8 million MWh they consume annually.

Generation output from renewable energy contracts and program¹ is expected to be approximately 1 million MWh annually. The Company receives market products (e.g., energy, capacity, RECs) from these contracts and program. Any revenue associated with these market products will be credited to reconciliation accounts to offset the contracts and program costs. Any over- or under-collection in the reconciliation accounts will flow through to all distribution customers through the LTCRER Factor and the Renewable Energy Growth Program recovery factor.

The pipeline project is not anticipated to impact revenues associated with RECs or capacity. However, the project is expected to lower wholesale electric prices, which will decrease the

¹ Long-Term Contracting Standard for Renewable Energy, Distributed Generation Standards Contracts Act, and The Renewable Energy Growth Program

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Responses to Commission's Second Set of Data Requests
Issued August 10, 2016
Page 2 of 2

revenue received from the ISO-NE for generation, thus there will be a larger under-recovery in the reconciliation accounts.

This increase in cost for the renewable energy contracts and program would be applied to approximately 1 million MWh and anticipated to be more than offset by the decrease in Generation Service cost applied to approximately 8 million MWh for all customers.

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PUC 2-7

Request:

Please provide, in a public form, the following, or explain why each is considered competitively sensitive information:

- (a) The total aggregate cost of the project,
- (b) AEL-3,
- (c) Bill impacts in the form used by Adam Crary in other rate-setting dockets (e.g., see ASC-19 in Docket No. 4599),
- (d) A per-bill fixed charge to recover the costs of the project, and
- (e) A per-SOS-kWh charge to recover the costs of the project.

Response:

- (a) The total aggregate cost of the project is \$3.2 billion.
- (b) The Company cannot provide Schedule AEL-3 in a public form because it would be possible to derive the confidential Reservation Rate for the ANE Contract if the CCR factor is made public.
- (c) The Company cannot provide in a public form the bill impacts traditionally used by Mr. Crary in other recent rate setting dockets because to do so, the Company would need to show the CCR factor included in the Distribution Energy Charge and the Energy Savings Factor included in the Standard Offer Service rate. As described above in the response to part (b), it would be possible to calculate the confidential Reservation Rate for the ANE Contract if the CCR factor is made public.
- (d) As described above, the Company cannot calculate in a public form a per-bill fixed charge to recover the costs of the project because it would then be possible to derive the costs of the contract and, consequently, the confidential Reservation Rate for the ANE contract.
- (e) As described above, the Company cannot calculate in a public form a per-kWh Standard Offer Service rate to recover the costs of the project because it would then be possible to derive the costs of the contract and, consequently, the confidential Reservation Rate for the ANE contract.