Robert J. Humm
Senior Counsel

January 31, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: The Narragansett Electric Company d/b/a National Grid
Gas Procurement Incentive Plan
Docket No. _____**

Dear Ms. Massaro:

Enclosed please find 10 copies of National Grid's[1] Gas Procurement Incentive Plan filing. The purpose of this filing is to effectuate the change of the GPIP incentive year from a July to June reporting period to an April to March reporting period to align the incentive periods for the GPIP and the Natural Gas Portfolio Management Plan (NGPMP). During hearing on National Grid's 2016 Gas Cost Recovery filing in Docket No. 4647, the Public Utilities Commission (PUC) requested that National Grid and the Division of Public Utilities and Carriers discuss the coordination of the timing of the GPIP and NGPMP filings. National Grid and the Division have discussed the timing of these filings, and the Division concurs that the GPIP incentive year be changed to align with the NGPMP as outlined in the pre-filed direct testimony of Stephen A. McCauley. National Grid requests that the PUC approve an effective date for this change of March 31, 2017, so that the change may take effect in time for National Grid's next GPIP incentive filing on September 1, 2017.

As a result of the proposed change, the GPIP incentive year would run from April 1 to March 31. The semi-annual reporting periods for the GPIP would change to September 30, with a report due October 25; and March 31, with a report due April 25. There would be no change to the form or reporting information contained in the GPIP. The NGPMP incentive period, which begins April 1 and ends March 31, and NGPMP reporting requirements would not change.

Due to the proposed change in the timing of the GPIP filing, for this year only the incentive will be based on a truncated nine-month period of July 1, 2016 through March 31, 2017. Beginning next year and for every year thereafter, National Grid will file testimony on September 1 seeking approval of the GPIP incentive for the period of April 1 through March 31.

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

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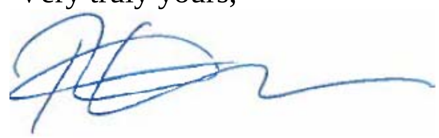
Thank you for your attention to this matter. If you have any questions, please contact me at 401-784-7415.

Very truly yours,



Robert J. Humm

Enclosures

cc: Leo Wold, Esq. (Rhode Island Office of Attorney General)
Steve Scialabba (Division)
Patricia S. Lucarelli, Esq. (Division)

DIRECT TESTIMONY

OF

STEPHEN A. MCCAULEY

January 31, 2017

Table of Contents

I. Introduction

Q. Please state your name and business address.

A. My name is Stephen A. McCauley. My business address is 100 E. Old Country Road, Hicksville, NY 11801.

Q. What is your position and responsibilities?

A. I am the Director of Origination and Price Volatility Management in the Energy Procurement organization of National Grid USA Service Company, Inc. (National Grid). As Director, I am responsible for all financial hedging activity for the National Grid regulated natural gas and electric utilities, including The Narragansett Electric Company (Company). I am also responsible for structuring and optimizing the natural gas assets to help return the most value to the regulated entities.

Q. Please describe your educational background.

A. I graduated from the United States Merchant Marine Academy in 1984 with a Bachelor of Science degree in Marine Engineering Systems.

Q. Please describe your professional experience.

A. I joined National Grid in 1992 as an engineer for the gas peak-shaving plants and the gas-regulator and telemetering stations. In 1996, I joined the gas supply group as a trader responsible for purchasing the natural gas supply requirements for both the firm gas customers and the Long Island Lighting Company generation facilities. In 1999, my responsibilities were changed to managing the emissions-allowance portfolio and the financial-hedging activities of the regulated utilities. In 2002, I was promoted to my current position as Director.

Q. Have you previously testified before the Rhode Island Public Utilities Commission (PUC)?

A. Yes, I have testified before the PUC on several occasions involving gas costs, portfolio management under the Natural Gas Portfolio Management Plan (NGPMP) and volatility management of gas prices under its Gas Procurement Incentive Plan (GPIP).

Q. Are you sponsoring any Attachments?

A. Yes. I am sponsoring the following attachments:

Attachment SAM-1 Gas Procurement Incentive Plan (GPIP) Redline

Attachment SAM-2 Gas Procurement Incentive Plan (GPIP) Clean

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to discuss the change of the GPIP incentive year from a July to June reporting period to an April to March reporting period. This change is the result of a request by the Public Utilities Commission (PUC) for the Company to explore aligning the incentive periods of the GPIP and the Natural Gas Portfolio Management Plan (NGPMP).

II. <u>Recommended GPIP Revisions</u>

Q. What is the Company requesting approval of from the PUC?

A. The Company is requesting that the PUC approve a change to the end date of the GPIP incentive year from June 30 to March 31, and to change the semi-annual reporting dates from January 31 and July 31 of each year to April 30 and September 30 of each year. A redline version of the GPIP showing the recommended changes is attached as Attachment SAM-1. A clean version of the revised GPIP is attached as SAM-2.

Q. Does the change of the GPIP reporting year change the calculation of the Company's GPIP incentive?

A. No, there are no changes to the calculation methodology of the Company's GPIP incentive. The incentive calculation is explained in Attachment SAM-1 at Section III.F. Due to the change in timing of the filing, the first year of the new annual reporting period will have a truncated nine month period. Each year thereafter will include a full 12 months for the annual reporting period.

Q. When will the Company file the first report under the new reporting period?

A. If the PUC approves the recommended changes for an effective date of March 31, 2017, the Company will file the first report by April 30, 2017 for the nine month period beginning July 2016 and ending March 2017. If the effective date is after

March 31, 2017, the first reporting year will be for the period July 2017 through March 2018.

Q. Will there be any changes to the GPIP report?

A. Yes, in addition to the shift of reporting an annual incentive period from July to June to reporting the incentive year from April to March, the Company has made minor grammatical changes to the GPIP report. However, no substantive changes have been made to the GPIP report.

Q. Does changing the reporting period of either the GPIP or NGPMP have any impact on how the Company would manage either plan?

A. No, a change to either reporting periods would have no effect on the management of the GPIP or NGPMP.

Q. Did the Company consider changing the reporting period of the NGPMP to match the reporting period of the GPIP?

A. Yes, the Company did consider changing the reporting period of the NGPMP to match the GPIP, but a change to the GPIP reporting period had minimal impact. Since the GPIP incentive is calculated for each month separately and then aggregated for a 12 month period, it does not matter which 12 month period is used in the GPIP report. The only change will occur in the first fiscal year the Company reports earnings, when a truncated nine month incentive period will be booked to earnings. On the other hand, the NGPMP reporting year is better suited to end on March 31 than on June 30, because March 31 is the typical transition from a withdrawal season to the injection season for storage and, therefore, is the more natural date to begin and end a reporting period. For these two reasons, the Company decided to change the incentive year of the GPIP, and not the NGPMP.

Q. Will there be any changes to the NGPMP

A. No.

Q. Has the Company discussed the proposed changes to the GPIP reporting period with the Division of Public Utilities and Carriers (Division)?

A. Yes. During the hearing on the Company's 2016 Gas Cost Recovery filing in Docket No. 4647, the PUC requested that the Company and the Division discuss the coordination of the timing of the GPIP and NGPMP filings. The Company and the Division have discussed the timing of these filings, and the Division concurs that the GPIP incentive year be changed to align with the NGPMP in the manner outlined in my testimony.

Q. Does this conclude your testimony?

A. Yes.

Attachments of Stephen A. McCauley

Attachment SAM-1

Gas Procurement Incentive Plan (GPIP) Redline

Gas Procurement Incentive Plan (GPIP) for National Grid

Revised Effective April~~July~~ 1, 2017~~5~~

I. Objective

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

II. Structure of the Gas Procurement Incentive Plan (“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 annual 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 Public Utilities Commission (“PUC”) in ~~d~~Docket No. 4283. ~~–~~The Company will file the Plan results semi-annually on ~~January~~April 30~~1~~~~sth~~ and ~~July~~September 30~~1~~ 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.

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~~ PUC and Division. If a midyear revision is warranted the Company will file support for the revised purchase forecast with the ~~Commission~~ PUC and Division.

III The Gas Procurement Incentive Plan~~rogram~~

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.)

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 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~~ PUC of any such plan and provide ~~3~~three business days for the ~~Commission~~ PUC 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~~six 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. Liquefied natural gas (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~~six 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 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.

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. The Company is 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.

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.

Attachment SAM-2

Gas Procurement Incentive Plan (GPIP) Clean

Gas Procurement Incentive Plan (GPIP) for National Grid

Revised Effective April 1, 2017

I. Objective

To reduce the volatility of gas costs and to encourage The Narragansett Electric Company d/b/a National Grid (National Grid or "Company") to achieve a lower hedged gas commodity cost for its customers.

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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 PUC and Division. If a midyear revision is warranted the Company will file support for the revised purchase forecast with the PUC and Division.

III The Gas Procurement Incentive Plan

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:

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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 PUC of any such plan and provide three business days for the PUC 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 six 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. Liquefied natural gas (LNG).

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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.

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.

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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. The Company is 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.

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.