

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

**IN RE: THENARRAGANSETT ELECTRIC        :**  
**COMPANY d/b/a NATIONAL GRID            :**                   **DOCKET NO. 4647**  
**GAS COST RECOVERY CHARGE            :**

**ORDER**

On September 20, 2017, 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).<sup>1</sup> Last year in this same docket, 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 2016 through March 2017. This is the fourth proposed market area hedge. The Commission approved proposals for the last three winter periods. This request seeks a hedge proposal similar to what was previously approved. National Grid asked the Commission for an expedited approval, so the Company can execute additional hedges before December 1, 2017, in order to lock in these purchases prior to the winter season.

Mr. McCauley, Director of Wholesale Electric Supply and U.S. Commodity Hedging in the Energy Procurement organization of National Grid USA Service Company, Inc., provided prefiled testimony in support of the Company’s proposal. A basis hedge protects the price difference between NYMEX pricing and the market area. 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 and Columbia pipeline capacity.

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<sup>1</sup> National Grid Market Area Hedge Proposal (Sept. 20, 2017); [http://www.ripuc.org/eventsactions/docket/4647-NGrid-HedgeProposal\(9-20-17\).pdf](http://www.ripuc.org/eventsactions/docket/4647-NGrid-HedgeProposal(9-20-17).pdf).

The Company began adding market area hedges to the Gas Purchase Incentive Program (GPIP)<sup>2</sup> in the winter of 2013-2014 when Rhode Islanders experienced the polar vortex. In the Gas Cost Recovery (GCR) docket that year, the Commission directed National Grid to meet with the Division of Public Utilities and Carriers (Division) to review hedging strategies. The pricing concerns experienced during the polar vortex are still prevalent today. The benefits of hedging outweigh the potential incremental cost of baseloading<sup>3</sup>, because the closer in time the physical purchase, the more likely the price is to have increased.

National Grid's proposal recommends hedging specific volumes for January, February, and March. This strategy mitigates about 35% of the market area price risk. The Company does not recommend hedging market area purchases in December because then the load factor is low and risk to purchase supplies is small. The remainder of purchases will be unhedged, because the incremental cost to hedge does not outweigh the potential benefits to customers over a multi-year period. If approved, Company plans to execute before December 1.

The instant hedge proposal does not affect the GPIP as those hedges are in producing regions and the market area hedges are not included in the GPIP incentive calculation. The proposed hedges will increase gas costs by approximately \$1.1 million. But they are also expected to insure that the Company will not risk having to pay approximately \$11 million should it need to buy additional volumes during the three

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<sup>2</sup> The GPIP 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 twenty-four month horizon and to make these 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. National Grid gets an incentive when there are savings.

<sup>3</sup> Baseloading is the physical transaction of purchasing a fixed supply for every day of the month regardless of the weather and customer demand.

months expected to have the highest prices. The Company will modify its current GCR filing to reflect the increase.

If the Commission approves the request, the Company will execute the hedge volumes prior to December 1, 2017. Because the goal of the current filing is to protect against winter-season price increases similar to those experienced last year, National Grid did not request hedging market area supplies beyond March 2018,. The Company will perform another analysis subsequent to the 2018-2019 winter season.

The Division filed a memorandum stating that the proposal was reasonable and a prudent approach to provide a measure of price protection should prices spike under design winter conditions over the 2017-2018 winter period.

At its October 5, 2017 Open Meeting, the Commission voted unanimously to approve National Grid's request for the market area hedge. 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 weather this coming winter. Recognizing that previous years' hedging strategies significantly reduced the risk of the adverse impacts caused by price spikes due to extreme weather, 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 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 hereby

(23266) ORDERED:

National Grid's Market Area Hedge Proposal is approved.

EFFECTIVE OCTOBER 5, 2017 IN WARWICK, RHODE ISLAND,  
PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED  
AUGUST 30, 2018.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Marion S. Gold, Commissioner

Abigail Anthony, 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 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.