

Information Request DPU-ANE-3-1

Request:

Refer to Exhibits NG TJB/JEA-1 (CONFIDENTIAL)(Revised May 16, 2016), at 21, lines 1-7 and NG- TJB/JEA-3 (CONFIDENTIAL) at 54-55. Please identify the interest(s) those upper and lower boundaries are intended to protect and/or benefit. Explain the rationale for developing these boundaries.

Response:

The upper boundary is intended to protect and benefit the Company and its customers by insulating them from cost overruns beyond those implicit in the rate cap. The lower boundary was agreed to in the course of negotiations.

Information Request DPU-ANE-3-2

Request:

Refer to Exhibits NG TJB/JEA-1 (CONFIDENTIAL)(Revised May 16, 2016), at 21, lines 1-7 and NG- TJB/JEA-3 (CONFIDENTIAL) at 54- 55. Please describe the relationship between the rate negotiated by the parties and the Federal Energy Regulatory Commission ("FERC") recourse rate. In particular, discuss whether National Grid will be required to pay the negotiated contract rate in the event that the FERC recourse rate is lower than the "lower bandwidth" rate.

Response:

Under the FERC's negotiated rate policy, FERC allows pipelines and shippers to negotiate rates that may be above, below or equal to the maximum recourse reservation rate at any point in time. The Project shippers and Algonquin negotiated the reservation rate for Project shippers on the Access Northeast Project that is subject to adjustment for changes in the capital cost of the Project but the negotiated rate is not tied to the Project recourse reservation rate itself. In the event that the initial recourse rate is less than the negotiated rate, National Grid would be required to pay the negotiated rate. However, such an outcome is extremely unlikely and could only occur if the actual cost of construction comes in well below 65% of the estimated cost.

Information Request DPU-ANE-3-3

Request:

Refer to Exhibit NG-TJB/JEA-1 (Redacted)(Revised May 16, 2016), at 74-75, where National Grid proposes a 2.75 percent margin on the cost of the capacity. Please discuss the following:

- (a) Provide the estimated annual revenue that this provision will generate for the Companies;
- (b) Discuss whether the Company considered a margin sharing mechanism similar to the one approved by the Department in Investigation into Margin-Sharing Arrangements of Local Gas Distribution Companies, DPU 10-62-A (2013) (allowing Company to retain ten percent of the margins generated by the release of capacity);
- (c) Calculate the estimated annual revenue that application of the ten percent margin sharing provision would generate for the Companies; and
- (d) Provide a table comparing the Companies' 2.75 percent margin retention proposal to the ten percent margin sharing provision established in DPU 10-62-A. Please provide all calculations and assumptions.

Response:

- (a) Attachment DPU-ANE-3-3 (Highly Sensitive Confidential Information) presents the estimated annual revenue that this provision will generate for National Grid.
- (b) In Exhibit DPU-Comm-1-6, the Company explained that "the objective of maximizing value for the capacity [which is what a margin sharing mechanism is designed to promote] 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" and 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." As such, a margin sharing mechanism like that approved in D.P.U. 10-62-A would not serve the purpose of promoting innovation by utilities to deliver customer benefits as effectively as the Company's proposed 2.75 percent incentive. The rationale for the proposed 2.75 percent incentive is provided in Exhibit NG-MCC-1 and Exhibit DPU-Comm-1-17.
- (c) Given the uncertainty of the factors that will determine the value of any sales of LNG and the overall capacity release, National Grid has not projected the value of LNG sales or capacity

release revenue during the term of the agreement as it does not believe that they can be accurately predicted.

Some of the main variables that will impact the market revenues for LNG sales and the overall capacity release include: the amount of capacity that is ultimately built in New England; the impact of weather variations; and the amount of LNG imported to New England. Colder than normal weather provides the opportunity to generate greater revenues and margins, but even when weather averages to be normal, weather with greater variations can generate greater revenues and margins than normal weather with lesser variability. For example, the winter period could have normal temperatures for an entire winter period but have some very cold days (which generate high margins) as well as much warmer than normal weather with little to no margins. A normal period that includes some very cold weather with offsetting warmer periods would generate greater revenues and margins than a normal winter with less dramatic variability. The amount of imported LNG that is delivered to New England, which is a function of world market LNG prices relative to delivered gas prices in New England, will also impact revenues and margins. All of these factors will fluctuate each year depending on the particular circumstances at that time.

The net benefits analysis that was performed by Black & Veatch justifies the investment in the ANE capacity infrastructure for Massachusetts electric customers absent any offsetting revenues from capacity release or off-system sales (see Exhibit NEER-1-45 and Exhibit AG-1-48).

- (d) As explained above, in light of the substantial uncertainty regarding projecting LNG sales and capacity release revenue, National Grid has made no such projections and thus cannot compare margin sharing with the requested 2.75 percent innovation incentive.

REDACTED

Massachusetts Electric Company
 Nantucket Electric Company
 d/b/a National Grid
 D.P.U. 16-05
 Attachment DPU-ANE-3-3
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(Million)	[1]	[2]	[3]	[4]	[5]	[6]
Year	Access Northeast Total Annual Costs	National Grid Cost Share (%) [a]	National Grid Annual Cost [b]	Innovation Incentive (%)	Innovation Incentive [c]	
2019		20.1%		2.75%		
2020		20.1%		2.75%		
2021		20.1%		2.75%		
2022		20.1%		2.75%		
2023		20.1%		2.75%		
2024		20.1%		2.75%		
2025		20.1%		2.75%		
2026		20.1%		2.75%		
2027		20.1%		2.75%		
2028		20.1%		2.75%		
2029		20.1%		2.75%		
2030		20.1%		2.75%		
2031		20.1%		2.75%		
2032		20.1%		2.75%		
2033		20.1%		2.75%		
2034		20.1%		2.75%		
2035		20.1%		2.75%		
2036		20.1%		2.75%		
2037		20.1%		2.75%		
2038		20.1%		2.75%		

Notes:

- [a] Massachusetts Electric and Nantucket Electric share of ANE costs. See Exhibit DPU-Comm-1-20
- [b] Col. [2] x Col. [3]
- [c] Col. [4] x Col. [5]