

February 20, 2019

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4816 - Gas Long-Range Resource and Requirements Plan for the
Forecast Period 2017/18 to 2026/27
Joint Memorandum**

Dear Ms. Massaro:

On behalf of National Grid¹ and the Division of Public Utilities and Carriers (Division), I enclose for filing with the Public Utilities Commission (PUC) in the above-referenced docket ten (10) copies of the Company's and the Division's Joint Memorandum outlining the parties' joint recommendations for improving the Gas Long-Range Resource and Requirements Plan as it relates to the annual Gas Cost Recovery proceeding. This filing is made in compliance with the PUC's October 30, 2018 Open Meeting decision in Docket No. 4872.

Thank you for your attention to this filing. If you have any questions concerning this transmittal, please contact me at 781-907-2153 or Rob Humm at 401-784-7415.

Very truly yours,



Celia B. O'Brien

Enclosures

cc: Docket 4816 Service List
Kevin Lynch, Division
Jonathan Schrag, Division
Tom Kogut, Division
John Bell, Division
Leo Wold, Esq.

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

Joanne M. Scanlon

February 20, 2019
Date

**Docket No. 4816 – National Grid’s Gas Long-Range Resource Plan
Service List as of 2/5/2019**

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**JOINT MEMORANDUM OF
THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID
AND THE DIVISION OF PUBLIC UTILITIES AND CARRIERS**

Introduction

On October 30, 2018 in The Narragansett Electric Company d/b/a National Grid's (National Grid or the Company) 2018 Gas Cost Recovery (GCR) proceeding, Docket No. 4872, the Public Utilities Commission (PUC) ordered that National Grid and the Division of Public Utilities and Carriers (Division) (collectively, the Parties and, individually, a Party) submit a joint memorandum in Docket No. 4816 outlining each of their recommendations for improving the Long Range Gas Supply Plan (LRP) as it relates to the annual GCR filing. The Parties submit this Joint Memorandum in compliance with the PUC's October 30, 2018 ruling in Docket No. 4872.

In addition to the outline of joint recommendations below, the Parties also believe it is helpful to provide a "problem statement" and summarize the underlying causes of the problem.

Problem Statement

How can the current regulatory review processes be revised to:

- (i) provide the Company assurance that it has the support of its regulators before it makes substantial financial commitments that place the Company at prudency risk from after-the-fact regulatory challenges; and**
- (ii) provide regulators assurance that an unreasonable financial risk is not being placed on customers to bear the financial responsibility for long-term commitments that may turn out to be too conservative or unnecessary, when other reasonable alternatives at lower cost may have been available?**

Two competing interests drive the problem statement. On the one hand, the Company seeks to obtain the Division's support for commitment decisions in advance of the commitments being made. It is completely understandable to the Division why regulatory support is important, when the net present value of the commitments involve tens of millions of dollars and could put the Company at prudency risk if the Division later disagrees with the commitment decision after it is too late for the Company to shift course. On the other hand, the Division desires to have insight into the rationale and justification for these commitments, to assure that customers are not being over-committed, and stranded contract costs are not being created for the future. But the current processes do not provide enough time for the Division to adequately review the decisions in advance and the Division has not been comfortable with the level of detail provided by the Company to support the decisions in advance.

Causes of the Problem

The markets in New England have changed significantly because of capacity issues that impact the reliability and cost of gas supply. This is a very different market than what was in existence over the past two decades. In the past, the key procurement decisions have revolved around gas supply purchases that rarely gave rise to pipeline constraint issues. As a result, the types of decisions that needed to be made by the Company annually tended to relate to supply contracts and the question of whether the Company should be making short- or medium-term supply commitments, given the prevailing market conditions at the time.

However, the rising demand for natural gas has resulted in winter capacity constraints that have changed the Company's procurement decisions. As can be seen from the recent GCR dockets, as well as the Company's efforts to find a longer-term solution to substitute for the loss of the liquefied natural gas (LNG) tank in Cumberland, the Company has been faced with procurement decisions that contemplate long-term contractual commitments that will result in significant costs to customers.

In the past, the LRP filings were not controversial and tended to raise few complicated issues. But now, the Company needs to plan in a way that assures adequate capacity and delivery security under supply contracts, the magnitude and implications of which have grown substantially. As a result, the current framework and template for the Company's long-range planning is no longer sufficient for an appropriate regulatory review. Further, the short time allowed for review in the GCR docket is not conducive to a complete and reasonable review. Left in its current state of regulatory processes, the GCR could become an annual contentious process with the Division compelled to oppose Company cost-recovery on the grounds that the Company has not adequately supported its decisions. Such an annual contentious process is not in the best interest of customers or the Company.

Additionally, there are two more specific items directly affecting the Company that stem from the regional capacity constraints. First, the Company's Capacity Exempt Transportation-only customers who rely on gas suppliers to deliver firm gas supply on interstate pipeline capacity that is held by third parties now assume more risk because their gas suppliers do not have access to interstate pipeline capacity due to regional constraints. Third-party suppliers are typically unwilling to make long-term (20-year) commitments to interstate pipeline companies that are necessary to build new pipeline projects. Second, due to on-system limitations, gas growth on the Company's system has resulted in the need to deliver gas to specific take stations fed by either Tennessee Pipeline Company or Algonquin Gas Transmission. This poses challenges that need to be addressed, such as limitations for gas supply options to meet gas growth.

Outline of Potential Solution

The Parties provide the following outline to address the LRP requirements and review and the annual GCR docket:

- (1) The LRP filing should take place after the winter period, using the same forecasts that will be used for the GCR docket in that year;
- (2) The LRP should no longer be limited to a foundation for planning that shows how the Company plans, but should also include concrete information about how the Company is planning to address supply and capacity needs over the five-year period;
- (3) The LRP should be subject to approval by the PUC;
- (4) If there is a material change to the LRP after approval, the Company should be required to make a supplemental filing with the PUC with notice to the Division;
- (5) A new requirement should be established through which the Company is required to seek advance approval through a filing and proceeding at the PUC for long-term commitments that meet certain triggering criteria relating to the net present value of the cost and term of commitment; and
- (6) To the extent that the larger-impact commitments are addressed through the new pre-approval process and the official approval of the LRP, this should reduce the number of litigated issues that occur in the GCR. In other words, the GCR should become a proceeding that effectively reconciles costs from known and supported commitments, rather than first-impression review of decisions that create an “all-or-nothing” financial risk for either the Company or customers.

Specific elements of this proposed solution are described in more detail below.

Long-Term Commitments:

The Parties strongly believe that item No. 5 above is a critical step in providing resolution to the long-term planning issue. The Parties believe that adoption of a “Review and Approval” mechanism in connection with long-term gas supply and/or gas transportation commitments would be beneficial. Such a mechanism would:

- Allow the Company to provide the PUC and Division with a detailed description of the proposed transaction, what gives rise to the propose transaction, what alternatives have or have not been studied and why, prior to commitment;

- Provide for formal discovery so that the PUC and Division have an opportunity to fully understand the proposed transaction;
- Provide for approval by the PUC and consent from the Division (to the extent deemed to be prudent and in the best interests of the Company's customers); and
- Upon receipt of such approval, provide the Company with assurance of recovery of the proposed costs and price structure associated with such transaction.

In furtherance of the development of such a mechanism, the Parties propose the following process:

Criteria Applicable to Commitments Greater than One Year in Duration – The Parties propose that the Review and Approval mechanism would be applicable to any gas supply and/or gas transportation commitment that will have a duration in excess of one year.

Filing – Prior to committing to any such transaction, the Company shall submit a filing to the PUC, seeking approval, and to the Division, seeking consent, to any such transaction. Such filing shall include (1) a detailed description of such transaction (including term and estimated cost); (2) a description of the customer need that such transaction is intended to address; (3) a description of the range of viable alternatives that could address the customer need; (4) a description of the alternative transactions that the Company evaluated with the results of the evaluations; and (5) such other information as may be useful to the PUC and Division in connection with their evaluation of the proposed transaction.

Discovery – Following submission of the filing, the Company shall respond to discovery requests from the PUC and Division.

Timing – The Company shall make its filing at least six months prior to the date by which it seeks approval of any transaction. Discovery shall occur, at the discretion of the PUC and Division, any time following the date of such filing until the date that is one month prior to the requested approval date. The Company shall provide written responses to the discovery requests on a rolling basis as soon as possible, and no later than 14 business days of receipt of any such request. The Division shall decide on the Company's request for consent by the requested date. The PUC shall rule on the Company's request for approval by the requested date.

Short-Term Commitments:

Notification of Short Term Commitments – Any gas supply or gas transportation commitments that have a duration of one year or less and have a reservation charge or demand charge that is \$1 million or greater will be submitted to the Division, accompanied by a brief description of the context for the commitment, within 15 business days of the commitment being made, to give the Division time to commence its review prior to the annual GCR filing.

Comprehensive LRP:

The Company's bi-annual LRP filing submitted in March 2018 (Docket No. 4816) needs to be fully reviewed and approved to be able to move forward with certainty on long-term planning. For example, design planning standards and related forecasting are fundamental drivers to long-term planning, and they can potentially lead to significant cost decisions. The Company and the Division will meet to review its design planning and related forecasting methodologies. If these can be approved in a timely manner, such standards and related forecasts will be used in the Company's 2019 LRP and GCR submissions. Otherwise, the Company will use its current standards and related forecasting methods in its 2019 LRP and GCR submissions while the Company and Division continue their discussions, and any modifications or updates will appear in the Company's LRP and GCR submissions in 2020 and beyond, subject to each Party's right to take whatever position it deems appropriate in any related PUC proceedings if agreement cannot be reached.

Another item that needs to be reviewed is the impact to the portfolio from the Company's largest customers (FT-1), including those that the Company partially plans for as well those that the Company does not plan for (capacity exempt customers). These important items need to be fully vetted so that both the Company and the Division are comfortable using them in the forecasting and planning process going forward.

Once the forecasting and planning process is fully reviewed and vetted, the Company will be able to incorporate the agreed-upon results into the future annual process described below, resulting in a comprehensive LRP (Comprehensive LRP).

Subsequent Annual LRP Filings:

Once the Comprehensive LRP is fully vetted and approved, the Company will incorporate all elements of the Comprehensive LRP into subsequent annual LRP filings, which will be scaled-down versions of the Comprehensive LRP, but will include concrete information about how the Company is planning to address supply and capacity needs for the upcoming winter season as well as what the Company is pursuing for the remaining four-year period.

The annual LRP filings would be submitted in June, as soon as practical, following the release of the Company's annual forecast, permitting the Company to base its annual forecast on the most recent customer usage data and prior to the Company's annual GCR filing. These annual LRP filings will include such information as:

- Retail volume forecast by rate group for normal weather;
- Retail meter count forecast by rate group for normal weather;
- Rhode Island Economic Forecast variables for normal weather;
- Wholesale volume forecast by rate group for normal and design weather;
- SENDOUT[®] forecasts (normal and design weather) for capacity planning purposes for volumes and costs;
- Updated portfolio information showing all changes to the portfolio (capacity/supply/LNG), including:
 - Updated Chart IV-C-2 (schematic) if any changes have occurred;
 - Updated Chart IV-C-3 (a description of the contracts within the portfolio, including expiration date and evergreen provisions);
 - A consolidated version of Sections IV.C. (Available Resources), IV.C.2. (Underground Storage Services), and IV.C.3. (Peaking Resources); and
 - A consolidated version of Section IV.C.3.b. (e.g., LNG and/or CNG Contracts);
- Detailed information on needs for upcoming winter season, including SENDOUT[®] analysis showing derivation of need;
- Discussion of subsequent four-years and associated need and what the Company is pursuing with potential suppliers and pipelines to meet customer requirements, as well as expected costs of options;
- Provide historic (5-10 years) and projected (out 5 years) annual wholesale load duration curves showing the following:
- Stack existing supply resources (by path) against the daily wholesale load duration curve for historic period;
 - Stack proposed supply resources (by path) against the daily wholesale load duration curves for the projected periods;
 - Stack existing supply resources (by path) against the daily wholesale load duration curves for the historic November-March period;
 - Stack proposed supply resources (by path) against the wholesale load duration curves for the projected November-March periods; and
 - The Company will endeavor to develop equivalent hourly wholesale load duration curves;

- For individually metered high load factor Transportation customers, the Company will develop aggregated annual historic (5-10 years) and projected (out 5 years) load duration curves. For those customers with hourly metering, the Company will endeavor to provide the historic (5 years) aggregated hourly load duration curve;
- The Company will provide fixed cost of existing supply resources on a dollar per dekatherm (Dth) per day basis (annualized). Once individualized, then the Company will provide the same annualized information by path;
- For each existing supply resource (by path), the Company will provide an estimated effective Fixed Cost (on a Dth per day basis) (i.e., taking into account load factor utilization) for the current period and forecasted time periods for both its normal and design weather scenario, which is the basis of the Company's decision-making;
- For each proposed supply resource (by path), the Company will provide an estimated effective Fixed Cost (on a Dth per day basis) (i.e., taking into account load factor utilization) for the current period and forecasted time periods both for its normal and design weather scenario, which is the basis of the Company's decision-making; and
- For the gas commodity for each of the next five years of projected periods (annual and November through March), the Company will provide, by month for each projected period, the dollar per Dth for the gas estimated to be used on each path under both normal and design weather. The Company will also present the effective citygate gas (variable) cost by month of each path accounting for usage rates and fuel under both normal and design weather.

Subsequent to the annual LRP submission, the Company and the Division will jointly review the LRP submission, and the Company will keep the Division abreast of its plans for the portfolio for the upcoming GCR year.

With a firm basis founded in the review of the Comprehensive LRP filing, the Parties believe that these annual LRP filings would satisfy the statutory requirement of biannual submissions and will provide the Division with sufficient time to review the GCR filing without the need to seek additional time past the GCR hearing to investigate gas costs.

GCR Filing:

The annual GCR filing will reflect the final costs and volumes that are derived from the annual LRP filings. The Company will prepare a comparison of volumes and costs presented in its GCR filing in the same form (i.e., presentation format) as its annual LRP filing from June of the same year and identify any differences. By the time the GCR is filed, these items found in the Company's LRP submission will have already been fully vetted, and the Division will only

need to review any changes that have occurred in the interim or are projected by Company to occur during the upcoming GCR period, subject to the Division's right to review and dispute any costs in the GCR that were not approved in accordance with the process identified in this Joint Memorandum or otherwise.