

September 24, 2019

VIA HAND DELIVERY & ELECTRONIC MAIL

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

Re: **Docket 4955 – Distribution Adjustment Charge (DAC)**
Revised testimony of Melissa A. Little and Schedule MAL-1

Dear Ms. Massaro:

On behalf of National Grid¹, I enclose for filing with the Rhode Island Public Utilities Commission (PUC) ten copies of the revised testimony of Melissa A. Little and accompanying Schedule MAL-1(R), which is being filed to correct an error the Company recently discovered in Ms. Little's testimony and schedule that the Company submitted to the PUC on August 1, 2019.

Specifically, the Division of Public Utilities and Carriers' (Division) Data Request 2-5 in the above-referenced docket brought to the Company's attention that the Company had not included the amortization of excess deferred income taxes in the Company's calculations of the net income tax expense, the rate base, and income statement relating to the Company's Gas Earnings Sharing Mechanism (ESM). Moreover, the Company also revised its calculation of cash working capital to accurately represent the number of net lag days determined in the Amended Settlement Agreement in RIPUC Docket No. 4770

When the excess deferred income tax amortization is included in these calculations and the cash working capital is corrected, the Company's return on equity increases from 8.99 percent to 9.01 percent. The return on equity remains below the 9.275 percent threshold that would trigger the ESM and therefore there are no changes to the Supplemental DAC filed on September 3, 2019.

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

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In addition to providing the corrected ESM calculation in the response to the Division's Data Request 2-5 filed with the PUC on September 4, 2019, the Company is also correcting the record via this separate filing. This letter contains three attachments:

Attachment A contains a redline of Melissa A. Little's testimony.

Attachment B contains a clean version of Melissa A. Little's revised testimony.

Attachment C contains the revised schedule to Melissa A. Little's testimony, marked as Schedule MAL-1(R). The changes to the schedule regarding the excess deferred income tax amortization consist of the added lines on pages 3 and 5 and adjustments to line 18 on page 2 and line 53 on page 14 of MAL-1(R). The changes to MAL-1(R) relating to cash working capital consists of an adjustment to line 13 on page 6. All revisions are highlighted in yellow. These revisions do not affect the factors proposed in the 2019 DAC and have no impact on customer bills.

The Company apologizes for any inconvenience that may have been caused because of these errors. Thank you for your attention to this matter. If you have any questions, please contact me at (401) 709-3337.

Sincerely,



Leticia C. Pimentel

Enclosure

cc: Docket 4955 Service List
John Bell, Division
Al Mancini, Division
Jerome Mierzwa,
Leo Wold, Esq.

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.



Brittney Keophoxay

September 24, 2019

Date

Docket No. 4955 – National Grid –2019 Annual Distribution Adjustment Charge Filing (DAC) - Service List as of 7/29/19

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Attachment A

REVISED DIRECT TESTIMONY

OF

MELISSA A. LITTLE

~~August 1~~September 24, 2019

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1 **I. Introduction**

2 **Q. Please state your full name and business address.**

3 A. My name is Melissa A. Little, and my business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am Director, New England Revenue Requirements for National Grid USA Service
8 Company, Inc. (the Service Company). The Service Company provides engineering,
9 financial, administrative, management, and other technical support to direct and indirect
10 subsidiary companies of National Grid USA (National Grid). My current duties include
11 revenue requirement responsibilities for National Grid's gas and electric distribution
12 activities in New England, including the operations of The Narragansett Electric
13 Company d/b/a National Grid (the Company).

14
15 **Q. Please describe your educational background and professional experience.**

16 A. In 2000, I earned a Bachelor of Science degree in Accounting Information Systems from
17 Bentley College (now Bentley University) in Waltham, Massachusetts. In September
18 2000, I joined PricewaterhouseCoopers LLP in Boston, Massachusetts, where I worked
19 as an associate in the Assurance practice. In November 2004, I joined National Grid as
20 an analyst in the General Accounting group. After the merger of National Grid and
21 KeySpan Corporation in 2007, I joined the Regulation and Pricing department as a Senior

1 Analyst in the Regulatory Accounting function and also supported the Revenue
2 Requirement team for the Company's upstate New York affiliate, Niagara Mohawk
3 Power Corporation. In 2011, I joined the New England Revenue Requirement team and
4 was promoted to Lead Specialist in the Regulation and Pricing department where my
5 duties included revenue requirement responsibilities for National Grid's electric and gas
6 distribution activities in New England, including the Company. In August 2017, I was
7 promoted to my current position.
8

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

11 A. Yes. I testified in support of the revenue requirement for the Company's Application to
12 Change Electric and Gas Base Distribution Rates in Docket No. 4770 and the Proposed
13 Power Sector Transformation (PST) Vision and Implementation Plan in Docket No. 4780
14 (2017 Rate Case). In addition, I have testified as the revenue requirement witness in
15 numerous Gas and Electric Infrastructure, Safety, and Reliability proceedings, and in
16 other matters before the PUC.
17

18 **II. Purpose of Testimony**

19 **Q. What is the purpose of your revised testimony in this proceeding?**

20 A. Pursuant to the Distribution Adjustment Clause provision of the Company's gas tariff,
21 RIPUC NG-GAS No. 101, Section 3, Schedule A, if there are any excess earnings to be

1 shared with customers, as I describe in more detail below, then any customer share of
2 those earnings will flow back to customers through the Distribution Adjustment Charge
3 (DAC). My testimony describes the Company's gas earnings subject to the Company's
4 earnings sharing mechanism (ESM) for the 12-month period ending December 31, 2018
5 in accordance with Article II, Section 10 of the Docket No. 4770 Amended Settlement
6 Agreement approved by the Rhode Island Public Utilities Commission (PUC) on August
7 24, 2018.

8
9 The revised testimony addresses the inclusion of excess deferred income tax amortization
10 in the revised gas earnings sharing mechanism. Amortization of the Company's excess
11 deferred income taxes should have been included in the calculation of net income tax
12 expense on Schedule MAL-1, Page 3, and in the calculation of rate base on Schedule
13 MAL-1, Page 5 effective with the commencement of base rates under Docket No. 4770
14 on September 1, 2018. The Company also should have included its portion of estimated
15 National Grid USA Service Company (Service Company) excess deferred income tax
16 amortization in its income statement on Schedule MAL-1, Page 2. In Docket No. 4770,
17 Service Company excess deferred income tax amortization was reflected in operating &
18 maintenance expense as a component of Service Company rent expense. With these
19 revisions, the calendar year 2018 Gas Earnings Sharing Mechanism better reflects the
20 methodology used in setting base rates in Docket No. 4770.

1 The revised testimony also addresses a formula error on Schedule MAL-1, Page 6 in the
2 calculation of cash working capital. Cash working capital is a component of rate base
3 and is also used to derive interest expense and preferred dividends in the calculation of
4 net income available for common equity.

5 **Q. Are there any schedules to your testimony?**

6 A. Yes, I am sponsoring the following schedule that accompanies my testimony:

7 Schedule MAL-1 ~~————~~ (R) Revised Calendar Year (CY) 2018 Gas Earnings
8 Report

9 ~~This schedule was~~ Schedule MAL-1(R) is intended to replace the earnings sharing
10 calculation originally submitted to the PUC on May 1, 2019 as part of Docket No. ~~4770. —~~
11 ~~————~~ 4770 and on August 1, 2019 as part of Docket No. 4955.

12
13 **III. Earnings Sharing Mechanism Results**

14 **Q. Please provide the background for the ESM.**

15 A. In the Company's general rate case filed in 2006 in Docket No. 3401, Order No. 17381,
16 the PUC approved a settlement agreement between the Division of Public Utilities and
17 Carriers, The Energy Council of RI, and the Company (Docket No. 3401 Settlement
18 Agreement) that required the former New England Gas Company to file an earnings
19 sharing calculation, based on a 12-month period ending June 30, by September 1 of each
20 year as part of an incentive-based ESM. The Company assumed the obligations of the
21 Docket No. 3401 Settlement Agreement in connection with National Grid's acquisition of

1 the regulated gas assets in Rhode Island from Southern Union Company (Southern
2 Union) in 2006. As part of the Company's 2017 Rate Case and the resulting Amended
3 Settlement Agreement in that proceeding (Docket No. 4770 Amended Settlement
4 Agreement), the Company continues to file an Earnings Report consistent with and in a
5 form similar to that which the Company has been filing for several years, most recently in
6 Docket No. 4323 (2012 Rate Case), calculating gas regulatory earnings for the calendar
7 year. The Earnings Report is based on the Company's gas annual report that it files with
8 the PUC for the 12 months ending December 31.¹

9
10 **Q. Has the Company prepared the current ESM in the same fashion as it has for prior**
11 **year ESM filings?**

12 A. Yes, it has. However, prior ESM filings were submitted to the PUC on September 1 and
13 covered earnings for the Company's fiscal year ending March 31. In accordance with the
14 Docket No. 4770 Amended Settlement Agreement, the current ESM filing was submitted
15 to the PUC on May 1, 2019 and covered earnings for the calendar year ending December
16 31, 2018. The impact of the Docket No. 4770 Amended Settlement Agreement on other
17 aspects of the filing are discussed in more detail below.

18
19 **Q. Has the Company calculated the earned return on equity for CY 2018?**

¹ The Company's gas annual report for the 12 months ending December 31, 2018 was filed with the PUC on April 26, 2019.

1 A. Yes. The Company's tariff, RIPUC NG-GAS No. 101, Section 3, Schedule A, Sheet 10,
2 sub-part 5.0, requires earnings to be calculated each year based on financial results for the
3 12-month period ending December 31. The determination of earnings subject to the ESM
4 is based on a benchmark return on equity of 9.275 percent as established in the Docket
5 No. 4770 Amended Settlement Agreement. The earnings sharing formula requires that
6 any annual earnings over a 9.275 percent return on equity, up to and including 100 basis
7 points (10.275 percent), will be shared with customers, with 50 percent to be credited to
8 customers and 50 percent to be retained by the Company. Any earnings in excess of a
9 10.275 percent return on equity will also be shared with customers, with 75 percent to be
10 credited to customers and 25 percent to be retained by the Company. As discussed later
11 in my testimony, the Company calculated a return on equity for CY 2018 of ~~8.999~~ 01
12 percent. As reflected on Schedule MAL-1, ~~(R)~~, Page 1, Line 17, the CY 2018 return is
13 below the 9.275 percent threshold, so it does not trigger ~~an~~ the earnings sharing
14 calculation.

15
16 **Q. How did the Company calculate the return on equity for purposes of the ESM?**

17 A. In accordance with the Docket No. 3401 Settlement Agreement, the return on equity is
18 calculated by dividing the net income available for common equity by the common
19 equity applicable to rate base. See Docket No. 3401 Settlement Agreement at Section
20 II.F.1. In accordance with the Docket No. 4770 Amended Settlement Agreement, the
21 Company will show the calculation of the regulatory earned return on distribution rate

1 base and the earned return on distribution common equity, in two ways (*See* Docket No.
2 4770 Amended Settlement Agreement at Section II.C.10.):

3 (1) Earnings including all Performance Incentives earned for the applicable calendar
4 year will be calculated by dividing the net income available for common equity
5 including incentives (Actual Total Earnings), by the common equity applicable to
6 rate base.

7 (2) Earnings excluding all Performance Incentives earned for the applicable calendar
8 year will be calculated by dividing the net income available for common equity as
9 shown on Schedule MAL-1-~~(R)~~, Page 2 (Base Earnings), by the common equity
10 applicable to rate base.

11 Performance Incentives refers to each of the following incentives:

- 12 (1) Energy Efficiency Program incentive;
- 13 (2) The Company's share of any incentive earned pursuant to the Natural Gas
14 Portfolio Management Plan recorded during the calendar year;
- 15 (3) The Company's share of any incentive earned or penalties incurred
16 pursuant to the Gas Procurement Incentive Plan recorded during the
17 calendar year; and
- 18 (4) Any other performance incentive that may be approved by the PUC in a
19 future proceeding that was earned and recorded by the Company for
20 performance applicable to the calendar year, unless the PUC determines at

1 the time of approval that any such future incentive should be included in
2 the calculation of Base Earnings.

3
4 **Q. Please explain the calculation of net income available for common equity for**
5 **purposes of the ESM.**

6 A. The Company calculated net income available for common equity based on operating
7 income for CY 2018, less applicable interest, and adjusted to reflect established PUC
8 ratemaking principles. The Company's calculation of net income available for common
9 equity is set forth in Schedule MAL-1;(R), Page 2. As shown on Line 46 of that page, for
10 CY 2018, the Company calculated net income available for common equity of
11 \$35,~~317,547~~668,457.

12 **Q. Did the Company make any adjustments to operating revenues, expenses, and/or**
13 **interest charges?**

14 A. Yes. The Company has reflected the following adjustments to operating revenues and
15 expenses on various line items on Page 2 of Schedule MAL-1;(R), as listed on Schedule
16 MAL-1;(R), Page 14, and described below:

17 *Operating Revenue Adjustments:*

18 (1) Energy Efficiency Shareholder Incentives: The Company is allowed to keep
19 shareholder incentives related to achieving approved energy efficiency targets.

1 This resulted in a decrease to total firm gas operating revenues of \$1,627,345 on
2 Page 2, Line 2. (Schedule MAL-1;(R), Page 14, Line 3)

3 (2) Unbilled Revenue Margins: The Company excluded unbilled revenue and the
4 associated cost of gas from the determination of earnings, which is consistent with
5 the methodology applied in Docket No. 3401. This resulted in a decrease to
6 operating revenues of \$122,078, comprised of a \$6,765,216 increase to total firm
7 gas revenues on Page 2, Line 2, a \$42,747 decrease to transportation revenues on
8 Page 2, Line 3, and a \$6,844,547 decrease to other revenues on Page 2, Line 4.
9 (Schedule MAL-1;(R), Page 14, Sum of Lines 4, 5, 9, 18, and 19)

10 (3) Off-System Gas Sales: The Company makes certain adjustments to its revenues
11 to eliminate the incentive provided to the Company to generate off-system gas
12 revenue and excess pipeline capacity revenue. The Company accomplishes this
13 by eliminating, or reversing, all revenues associated with off-system sales, as well
14 as the credits the Company provides to customers associated with those sales.
15 These adjustments net to a \$620,636 decrease to other revenues on Page 2, Line 4.
16 (Schedule MAL-1;(R), Page 14, Sum of Lines 15, 16, and 17)

17 (4) Miscellaneous Service Revenues: The Company removes miscellaneous service
18 revenues from its other revenues and shows them as non-operating
19 income/expense. The miscellaneous service revenues largely consist of credits to
20 customers for gas bill disputes. This is reflected as a \$376 increase to other
21 revenues on Page 2, Line 4. (Schedule MAL-1;(R), Page 14, Line 20)

- 1 (5) Interest on Customer Arrears: The Company removes interest accrued on
2 customer arrearage accounts from Account 419 – interest and dividend income –
3 and instead adds such interest to other revenues on Page 2, Line 4, resulting in an
4 increase to other revenues of \$319,761. (Schedule MAL-1;(R), Page 14, Line 21)
- 5 (6) Inventory Financing: The Company has removed stored gas inventory from rate
6 base and eliminated carrying costs on stored gas inventory from revenues. This
7 resulted in a decrease to operating revenues of \$929,960, representing the amount
8 of stored gas inventory carrying costs recorded as revenue during CY 2018, as
9 shown on Page 2, Line 8. (Schedule MAL-1;(R), Page 14, Line 24)

10
11 *Expense Adjustments:*

- 12 (1) Bad Debt Write-Offs: Bad debt expense is recorded in the Company's general
13 ledger based on the Company's best estimate during the year of amounts billed to
14 customers that will eventually become uncollectible. The Company recovers bad
15 debt expense from customers based on actual bad debt write-offs rather than
16 based on the Company's recorded estimates of bad debt expense. Accordingly,
17 the Customer Accounts on Page 2, Line 16 includes bad debt expense and was
18 decreased by \$3,106,787 to reflect actual bad debt net write-offs during the year.
19 (Schedule MAL-1;(R), Page 14, Sum of Lines 41 and 42)

1 (2) Advertising Expense: The Company has removed \$233,054 of sales and
2 advertising expenses, as shown on Page 2, Line 17. (Schedule MAL-1;(R), Page
3 14, Line 46)

4 (3) Donations: Charitable donations are recorded “below-the-line” in Other
5 Income/Expenses. However, such costs were treated as “above-the-line”
6 operating expenses for ratemaking purposes in Docket No. 4323, and below-the-
7 line in the Docket No. 4770 Amended Settlement Agreement. Consequently, the
8 Company moved donations from January 2018 to August 2018, from below-the-
9 line Account 426.1 to Administrative and General expense, resulting in a
10 \$324,271 increase on Page 2, Line 18. (Schedule MAL-1;(R), Page 14, Line 50)

11 (4) Variable Pay: The Company has reduced Administrative and General expense on
12 Page 2, Line 18 by \$260,147 to remove a portion of variable pay consistent with
13 the way this cost is excluded for ratemaking. (Schedule MAL-1;(R), Page 14,
14 Line 51)

15 (5) A&G Overhead Study: As the Company explained in more detail in its response
16 to Docket No. 4770, Data Request Division 21-10 (Supplemental), the Company
17 recorded an entry in March 2018 to reclassify a portion of its fiscal year ended
18 March 31, 2018 administrative and general costs from expense to capital.
19 Whereas many of these costs occurred in CY 2017, the Company reversed 75
20 percent of the entry, resulting in a \$1,543,836 increase to Page 2, Line 18.
21 (Schedule MAL-1;(R), Page 14, Line 52)

1 (6) Company's portion of Service Company Excess Deferred Income Taxes: In
2 Docket No. 4770, Service Company excess deferred income tax amortization was
3 reflected in operating and maintenance expense as a component of Service
4 Company rent expense. For the period September 1, 2018 through December 31,
5 2018, the Company's portion of Service Company excess deferred income tax
6 amortization totaled \$259,759, or one-third of its estimated annual Service
7 Company excess deferred income tax amortization of \$779,278 shown in RIPUC
8 Docket No. 4770 Compliance Attachment 2, Schedule 17 at Page 8. This
9 adjustment is reflected on Page 2, Line 18. (Schedule MAL-1(R), Page 14, Line
10 53)

11 ~~(6)~~(7) Savings Imputed in Base Rates: In accordance with Order No. 19563 in Docket
12 No. 3943, and with the Company's gas tariff, the Company included investors'
13 share of eight months net merger savings (from January through August 2018), or
14 \$1,633,333, in operating expenses (*see* Docket No. Order No. 19563 at Section
15 II.F.3; and RIPUC NG-GAS No. 101, Section 3, Schedule A, Sheet 11, sub-part
16 5.0), as shown on Page 2, Line 22.

18 Q. ~~What was the federal income tax rate used by~~ How did the Company ~~to~~ calculate
19 federal income tax on operating income before interest expense?

20 A. The Company ~~applied~~ multiplied its operating income before interest expense by a federal
21 income tax rate of 21 percent for CY 2018, as shown on Schedule MAL-1-~~(R)~~ (R), Page 3,

1 Line 18. The Tax Cuts and Jobs Act reduced the federal income tax rate from 35 percent
2 to 21 percent, effective January 1, 2018. The Company has also included an adjustment
3 to reduce tax expense for the amortization of excess deferred income taxes generated
4 from the federal rate change which is discussed later in my testimony.
5

6 **Q. How did the Company calculate long-term debt interest, short-term debt interest,**
7 **and preferred stock dividends?**

8 A. The Docket No. 4770 Amended Settlement Agreement specifies the capital structure to
9 be used in computing the cost of capital. The imputed capital structure is as follows:

Short-term Debt	0.60 percent
Long-term Debt	48.35 percent
Preferred Equity	0.10 percent
Common Equity	50.95 percent

10
11 Further, the Docket No. 3401 Settlement Agreement requires the Company to use the
12 actual cost of long-term debt and the most recent 12-month average cost of short-term
13 debt in its earnings calculation. Therefore, as shown on Schedule MAL-1-(R), Page 4,
14 the Company computed the cost of long-term debt by multiplying rate base applicable to
15 long-term debt by the Company's actual long-term debt rate for CY 2018, or 4.94
16 percent, as calculated on Page 10. Likewise, the Company computed the cost of short-
17 term debt by multiplying rate base applicable to short-term debt by the 12-month average

1 cost of short-term debt, or 2.10 percent, as calculated on Page 11. This short-term debt
2 rate assumes average monthly National Grid money pool rates as applied to the
3 Company's monthly outstanding short-term debt balances for CY 2018. Finally, the
4 Company computed the cost of preferred stock by multiplying rate base applicable to
5 preferred stock by the cost rate of 4.50 percent established in the Docket No. 4770
6 Amended Settlement Agreement.

7
8 **Q. Did the Company make any other calculations to derive the total net income**
9 **available for common equity?**

10 A. Yes. In accordance with the Docket No. 3401 Settlement Agreement, the Company
11 included its allowance for funds used during construction in calculating operating income
12 (*see* Docket No. 3401 Settlement Agreement at Section II.F.1), as shown on Schedule
13 MAL-1;~~(R)~~, Page 2, Line 39.

14
15 **Q. How did the Company determine rate base in the Earnings Report?**

16 A. As required by the Docket No. 3401 Settlement Agreement, average rate base is to be
17 based on a five-quarter average. The CY 2018 rate base is set forth in Schedule MAL-
18 1;~~(R)~~, Page 5. *See* Docket No. 3401 Settlement Agreement at Section II.F.1. The
19 Company excluded from rate base environmental response costs, asset retirement
20 obligations, and prepaid taxes. However, the Company included construction-work-in-
21 progress in rate base. Consistent with prior Earnings Reports, the Company computed

1 the working capital allowance pursuant to the method approved in Docket No. 3943, at
2 Order No. 19563, as shown on Schedule MAL-1, (R), Page 6. Effective September 1,
3 2018, the deferred debits in rate base include the book value of GIS Smallworld, which is
4 amortized annually at \$426,180. The Company also excluded stored gas inventory and
5 customer deposits from the rate base calculation. In addition, a hold harmless rate base
6 credit is included as a reduction to rate base: as well as amortization of excess deferred
7 income taxes which reduces the Company's accumulated deferred income tax liability
8 therefore increasing rate base.
9

10 **Q. Please explain the adjustment to rate base for Excess Deferred Income Taxes.**

11 A. Effective December 31, 2017, the Company restated its deferred tax balances based on
12 the new 21 percent federal income tax rate because the Company will be paying income
13 taxes as the book/tax timing differences reverse at that 21 percent federal income tax rate.
14 However, because deferred taxes are an offset to rate base, reducing the deferred tax
15 balances based on the 21 percent federal income tax rate has the effect of artificially
16 increasing rate base. To counteract this artificial increase to rate base, a new line item
17 called Excess Deferred Income Taxes has been included in the rate base calculation
18 reflecting the value of the decrease to accumulated deferred income taxes as of December
19 31, 2017. These excess deferred income taxes represent the net benefit as of December
20 31, 2017 that will eventually be earned by the Company through reduced future income
21 taxes, and ultimately returned to customers through base distribution rates, pursuant to

1 the Docket No. 4770 Amended Settlement Agreement. As the return of excess deferred
2 income taxes to customers commenced with new base rates on September 1, 2018, the
3 rate base calculation includes four months of amortization of the excess deferred income
4 tax balance in the CY 2018 calculation of rate base.

5 **Q. Please describe the formula error on Schedule MAL-1, Page 6 in the calculation of**
6 **cash working capital.**

7 **A. Cash working capital represents the amount of funds the Company needs to keep**
8 **on hand to finance day-to-day operations. The calculation consists of the sum of the**
9 **commodity costs, operating expenses, and non-income taxes, then divides by 365 days of**
10 **the year to determine the daily cash requirement. This quotient is then multiplied by the**
11 **number of net lag days² to arrive at the Company's total working capital. The formula on**
12 **Schedule MAL-1, Page 6, Line 13 did not accurately reflect the number of net lag days**
13 **determined in the Docket No. 4770 Amended Settlement Agreement; this has been**
14 **corrected in Schedule MAL-1(R).**

15
16 **Q. What is the “hold harmless” adjustment the Company has made to its rate base**
17 **calculation?**

18 **A. As a result of National Grid's purchase of the regulated gas assets in Rhode Island from**
19 **Southern Union in 2006, the Company realized a tax basis step-up for the assets acquired.**

² Net lag days is calculated as “revenue lags” (the number of days between when a utility provides service and when its customers pay for that service), minus “expense leads” (the number of days between when a utility incurs expenses and when it must pay for those expenses).

1 This step-up in tax basis resulted in a total tax basis for the assets acquired, which
2 equaled the net book basis for those same assets. Consequently, at the time of
3 acquisition, the Company's book/tax timing difference, which gives rise to deferred tax
4 liabilities, was equal to zero. Therefore, the Company recorded no accumulated deferred
5 taxes on its balance sheet. Effective with Southern Union ownership in 2000, all deferred
6 tax provisions associated with New England Gas Company operations were recorded on
7 the books of the parent company and not on the balance sheet of New England Gas
8 Company. However, commencing with the National Grid acquisition of New England
9 Gas Company from Southern Union on August 24, 2006, the Company began recording
10 deferred tax liabilities, due primarily to the difference in book versus tax depreciation
11 rates. The Company will continue to record deferred tax provisions related to the assets
12 acquired, as well as on investments in Company assets post-acquisition. Therefore, the
13 Company's CY 2018 general ledger reflects actual deferred tax provisions recorded by
14 the Company through December 31, 2018, as reflected on Schedule MAL-1;(R), Page 5,
15 Line 16.

16 Consequently, the hold harmless adjustment, reflected on Schedule MAL-1;(R), Page 5,
17 Line ~~18~~ 19, is associated with National Grid's purchase of the regulated gas assets in
18 Rhode Island from Southern Union. This hold harmless adjustment provides customers
19 an economically equivalent rate base credit to offset the rate base increase that resulted
20 from National Grid's asset purchase, as agreed to and approved by the PUC in the 2007

1 Earnings Report in Docket No. 3859. Schedule MAL-1;(R), Page 13 demonstrates the
2 annual values of the hold harmless rate base adjustment, as approved in Docket No. 3859.

3
4 **Q. How did the Company determine common equity applicable to rate base?**

5 A. In accordance with the capital structures approved in Docket No. 4323 and in the Docket
6 No. 4770 Amended Settlement Agreement, the Company multiplied the five-quarter
7 average rate base at December 31, 2018, as I discussed earlier, by 50.95 percent to
8 determine common equity applicable to rate base of ~~\$392,731,598~~395,676,016, as shown
9 on Schedule MAL-1;(R), Page 4.

10
11 **Q. Please summarize the earnings sharing calculation on Schedule MAL-1;(R).**

12 A. Schedule MAL-1;(R), Page 1, calculates the earnings to be shared with customers based
13 on the sharing percentages required in the Company's gas tariff. Lines 1 through 3
14 summarize the calculation of average common equity. Line 5 is the Actual Total
15 Earnings as described above, and Line 6 is the return on common equity including all
16 performance incentives for CY 2018, or ~~9.58~~60 percent. Lines 9 through 11 show the
17 dollar value and earnings impact of each of the Company's incentives. Line 14 is the
18 Base Earnings as described above, and Line 15 is the return on common equity excluding
19 performance incentives for CY 2018, or ~~8.999~~.01 percent. Because Line 15 is less than
20 9.275 percent, the earned return on common equity for CY 2018 does not exceed the
21 threshold above which the Company's regulated earnings are shared with customers.

1 Therefore, there are no earnings available to be shared with customers associated with
2 CY 2018.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes.

Attachment B

REVISED DIRECT TESTIMONY

OF

MELISSA A. LITTLE

September 24, 2019

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1 **I. Introduction**

2 **Q. Please state your full name and business address.**

3 A. My name is Melissa A. Little, and my business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451.

5
6 **Q. By whom are you employed and in what capacity?**

7 A. I am Director, New England Revenue Requirements for National Grid USA Service
8 Company, Inc. (the Service Company). The Service Company provides engineering,
9 financial, administrative, management, and other technical support to direct and indirect
10 subsidiary companies of National Grid USA (National Grid). My current duties include
11 revenue requirement responsibilities for National Grid's gas and electric distribution
12 activities in New England, including the operations of The Narragansett Electric
13 Company d/b/a National Grid (the Company).

14
15 **Q. Please describe your educational background and professional experience.**

16 A. In 2000, I earned a Bachelor of Science degree in Accounting Information Systems from
17 Bentley College (now Bentley University) in Waltham, Massachusetts. In September
18 2000, I joined PricewaterhouseCoopers LLP in Boston, Massachusetts, where I worked
19 as an associate in the Assurance practice. In November 2004, I joined National Grid as
20 an analyst in the General Accounting group. After the merger of National Grid and
21 KeySpan Corporation in 2007, I joined the Regulation and Pricing department as a Senior

1 Analyst in the Regulatory Accounting function and also supported the Revenue
2 Requirement team for the Company's upstate New York affiliate, Niagara Mohawk
3 Power Corporation. In 2011, I joined the New England Revenue Requirement team and
4 was promoted to Lead Specialist in the Regulation and Pricing department where my
5 duties included revenue requirement responsibilities for National Grid's electric and gas
6 distribution activities in New England, including the Company. In August 2017, I was
7 promoted to my current position.
8

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

11 A. Yes. I testified in support of the revenue requirement for the Company's Application to
12 Change Electric and Gas Base Distribution Rates in Docket No. 4770 and the Proposed
13 Power Sector Transformation (PST) Vision and Implementation Plan in Docket No. 4780
14 (2017 Rate Case). In addition, I have testified as the revenue requirement witness in
15 numerous Gas and Electric Infrastructure, Safety, and Reliability proceedings, and in
16 other matters before the PUC.
17

18 **II. Purpose of Testimony**

19 **Q. What is the purpose of your revised testimony in this proceeding?**

20 A. Pursuant to the Distribution Adjustment Clause provision of the Company's gas tariff,
21 RIPUC NG-GAS No. 101, Section 3, Schedule A, if there are any excess earnings to be

1 shared with customers, as I describe in more detail below, then any customer share of
2 those earnings will flow back to customers through the Distribution Adjustment Charge
3 (DAC). My testimony describes the Company's gas earnings subject to the Company's
4 earnings sharing mechanism (ESM) for the 12-month period ending December 31, 2018
5 in accordance with Article II, Section 10 of the Docket No. 4770 Amended Settlement
6 Agreement approved by the Rhode Island Public Utilities Commission (PUC) on August
7 24, 2018.

8 The revised testimony addresses the inclusion of excess deferred income tax amortization
9 in the revised gas earnings sharing mechanism. Amortization of the Company's excess
10 deferred income taxes should have been included in the calculation of net income tax
11 expense on Schedule MAL-1, Page 3, and in the calculation of rate base on Schedule
12 MAL-1, Page 5 effective with the commencement of base rates under Docket No. 4770
13 on September 1, 2018. The Company also should have included its portion of estimated
14 National Grid USA Service Company (Service Company) excess deferred income tax
15 amortization in its income statement on Schedule MAL-1, Page 2. In Docket No. 4770,
16 Service Company excess deferred income tax amortization was reflected in operating &
17 maintenance expense as a component of Service Company rent expense. With these
18 revisions, the calendar year 2018 Gas Earnings Sharing Mechanism better reflects the
19 methodology used in setting base rates in Docket No. 4770.

20 The revised testimony also addresses a formula error on Schedule MAL-1, Page 6 in the
21 calculation of cash working capital. Cash working capital is a component of rate base

1 and is also used to derive interest expense and preferred dividends in the calculation of
2 net income available for common equity.

3 **Q. Are there any schedules to your testimony?**

4 A. Yes, I am sponsoring the following schedule that accompanies my testimony:

5 Schedule MAL-1(R) Revised Calendar Year (CY) 2018 Gas Earnings Report

6 Schedule MAL-1(R) is intended to replace the earnings sharing calculation originally
7 submitted to the PUC on May 1, 2019 as part of Docket No. 4770 and on August 1, 2019
8 as part of Docket No. 4955.

9
10 **III. Earnings Sharing Mechanism Results**

11 **Q. Please provide the background for the ESM.**

12 A. In the Company's general rate case filed in 2006 in Docket No. 3401, Order No. 17381,
13 the PUC approved a settlement agreement between the Division of Public Utilities and
14 Carriers, The Energy Council of RI, and the Company (Docket No. 3401 Settlement
15 Agreement) that required the former New England Gas Company to file an earnings
16 sharing calculation, based on a 12-month period ending June 30, by September 1 of each
17 year as part of an incentive-based ESM. The Company assumed the obligations of the
18 Docket No. 3401 Settlement Agreement in connection with National Grid's acquisition of
19 the regulated gas assets in Rhode Island from Southern Union Company (Southern
20 Union) in 2006. As part of the Company's 2017 Rate Case and the resulting Amended
21 Settlement Agreement in that proceeding (Docket No. 4770 Amended Settlement

1 Agreement), the Company continues to file an Earnings Report consistent with and in a
2 form similar to that which the Company has been filing for several years, most recently in
3 Docket No. 4323 (2012 Rate Case), calculating gas regulatory earnings for the calendar
4 year. The Earnings Report is based on the Company's gas annual report that it files with
5 the PUC for the 12 months ending December 31.¹
6

7 **Q. Has the Company prepared the current ESM in the same fashion as it has for prior**
8 **year ESM filings?**

9 A. Yes, it has. However, prior ESM filings were submitted to the PUC on September 1 and
10 covered earnings for the Company's fiscal year ending March 31. In accordance with the
11 Docket No. 4770 Amended Settlement Agreement, the current ESM filing was submitted
12 to the PUC on May 1, 2019 and covered earnings for the calendar year ending December
13 31, 2018. The impact of the Docket No. 4770 Amended Settlement Agreement on other
14 aspects of the filing are discussed in more detail below.
15

16 **Q. Has the Company calculated the earned return on equity for CY 2018?**

17 A. Yes. The Company's tariff, RIPUC NG-GAS No. 101, Section 3, Schedule A, Sheet 10,
18 sub-part 5.0, requires earnings to be calculated each year based on financial results for the
19 12-month period ending December 31. The determination of earnings subject to the ESM

¹ The Company's gas annual report for the 12 months ending December 31, 2018 was filed with the PUC on April 26, 2019.

1 is based on a benchmark return on equity of 9.275 percent as established in the Docket
2 No. 4770 Amended Settlement Agreement. The earnings sharing formula requires that
3 any annual earnings over a 9.275 percent return on equity, up to and including 100 basis
4 points (10.275 percent), will be shared with customers, with 50 percent to be credited to
5 customers and 50 percent to be retained by the Company. Any earnings in excess of a
6 10.275 percent return on equity will also be shared with customers, with 75 percent to be
7 credited to customers and 25 percent to be retained by the Company. As discussed later
8 in my testimony, the Company calculated a return on equity for CY 2018 of 9.01 percent.
9 As reflected on Schedule MAL-1(R), Page 1, Line 17, the CY 2018 return is below the
10 9.275 percent threshold, so it does not trigger the earnings sharing calculation.

11
12 **Q. How did the Company calculate the return on equity for purposes of the ESM?**

13 A. In accordance with the Docket No. 3401 Settlement Agreement, the return on equity is
14 calculated by dividing the net income available for common equity by the common
15 equity applicable to rate base. *See* Docket No. 3401 Settlement Agreement at Section
16 II.F.1. In accordance with the Docket No. 4770 Amended Settlement Agreement, the
17 Company will show the calculation of the regulatory earned return on distribution rate
18 base and the earned return on distribution common equity, in two ways (*See* Docket No.
19 4770 Amended Settlement Agreement at Section II.C.10.):

20 (1) Earnings including all Performance Incentives earned for the applicable calendar
21 year will be calculated by dividing the net income available for common equity

1 including incentives (Actual Total Earnings), by the common equity applicable to
2 rate base.

3 (2) Earnings excluding all Performance Incentives earned for the applicable calendar
4 year will be calculated by dividing the net income available for common equity as
5 shown on Schedule MAL-1(R), Page 2 (Base Earnings), by the common equity
6 applicable to rate base.

7 Performance Incentives refers to each of the following incentives:

- 8 (1) Energy Efficiency Program incentive;
- 9 (2) The Company's share of any incentive earned pursuant to the Natural Gas
10 Portfolio Management Plan recorded during the calendar year;
- 11 (3) The Company's share of any incentive earned or penalties incurred
12 pursuant to the Gas Procurement Incentive Plan recorded during the
13 calendar year; and
- 14 (4) Any other performance incentive that may be approved by the PUC in a
15 future proceeding that was earned and recorded by the Company for
16 performance applicable to the calendar year, unless the PUC determines at
17 the time of approval that any such future incentive should be included in
18 the calculation of Base Earnings.

19
20 **Q. Please explain the calculation of net income available for common equity for**
21 **purposes of the ESM.**

1 A. The Company calculated net income available for common equity based on operating
2 income for CY 2018, less applicable interest, and adjusted to reflect established PUC
3 ratemaking principles. The Company's calculation of net income available for common
4 equity is set forth in Schedule MAL-1(R), Page 2. As shown on Line 46 of that page, for
5 CY 2018, the Company calculated net income available for common equity of
6 \$35,668,457.

7 **Q. Did the Company make any adjustments to operating revenues, expenses, and/or**
8 **interest charges?**

9 A. Yes. The Company has reflected the following adjustments to operating revenues and
10 expenses on various line items on Page 2 of Schedule MAL-1(R), as listed on Schedule
11 MAL-1(R), Page 14, and described below:

12 *Operating Revenue Adjustments:*

13 (1) Energy Efficiency Shareholder Incentives: The Company is allowed to keep
14 shareholder incentives related to achieving approved energy efficiency targets.

15 This resulted in a decrease to total firm gas operating revenues of \$1,627,345 on
16 Page 2, Line 2. (Schedule MAL-1(R), Page 14, Line 3)

17 (2) Unbilled Revenue Margins: The Company excluded unbilled revenue and the
18 associated cost of gas from the determination of earnings, which is consistent with
19 the methodology applied in Docket No. 3401. This resulted in a decrease to
20 operating revenues of \$122,078, comprised of a \$6,765,216 increase to total firm

1 gas revenues on Page 2, Line 2, a \$42,747 decrease to transportation revenues on
2 Page 2, Line 3, and a \$6,844,547 decrease to other revenues on Page 2, Line 4.
3 (Schedule MAL-1(R), Page 14, Sum of Lines 4, 5, 9, 18, and 19)

4 (3) Off-System Gas Sales: The Company makes certain adjustments to its revenues
5 to eliminate the incentive provided to the Company to generate off-system gas
6 revenue and excess pipeline capacity revenue. The Company accomplishes this
7 by eliminating, or reversing, all revenues associated with off-system sales, as well
8 as the credits the Company provides to customers associated with those sales.
9 These adjustments net to a \$620,636 decrease to other revenues on Page 2, Line 4.
10 (Schedule MAL-1(R), Page 14, Sum of Lines 15, 16, and 17)

11 (4) Miscellaneous Service Revenues: The Company removes miscellaneous service
12 revenues from its other revenues and shows them as non-operating
13 income/expense. The miscellaneous service revenues largely consist of credits to
14 customers for gas bill disputes. This is reflected as a \$376 increase to other
15 revenues on Page 2, Line 4. (Schedule MAL-1(R), Page 14, Line 20)

16 (5) Interest on Customer Arrears: The Company removes interest accrued on
17 customer arrearage accounts from Account 419 – interest and dividend income –
18 and instead adds such interest to other revenues on Page 2, Line 4, resulting in an
19 increase to other revenues of \$319,761. (Schedule MAL-1(R), Page 14, Line 21)

20 (6) Inventory Financing: The Company has removed stored gas inventory from rate
21 base and eliminated carrying costs on stored gas inventory from revenues. This

1 resulted in a decrease to operating revenues of \$929,960, representing the amount
2 of stored gas inventory carrying costs recorded as revenue during CY 2018, as
3 shown on Page 2, Line 8. (Schedule MAL-1(R), Page 14, Line 24)

4
5 *Expense Adjustments:*

6 (1) Bad Debt Write-Offs: Bad debt expense is recorded in the Company's general
7 ledger based on the Company's best estimate during the year of amounts billed to
8 customers that will eventually become uncollectible. The Company recovers bad
9 debt expense from customers based on actual bad debt write-offs rather than
10 based on the Company's recorded estimates of bad debt expense. Accordingly,
11 the Customer Accounts on Page 2, Line 16 includes bad debt expense and was
12 decreased by \$3,106,787 to reflect actual bad debt net write-offs during the year.
13 (Schedule MAL-1(R), Page 14, Sum of Lines 41 and 42)

14 (2) Advertising Expense: The Company has removed \$233,054 of sales and
15 advertising expenses, as shown on Page 2, Line 17. (Schedule MAL-1(R), Page
16 14, Line 46)

17 (3) Donations: Charitable donations are recorded "below-the-line" in Other
18 Income/Expenses. However, such costs were treated as "above-the-line"
19 operating expenses for ratemaking purposes in Docket No. 4323, and below-the-
20 line in the Docket No. 4770 Amended Settlement Agreement. Consequently, the
21 Company moved donations from January 2018 to August 2018, from below-the-

1 line Account 426.1 to Administrative and General expense, resulting in a
2 \$324,271 increase on Page 2, Line 18. (Schedule MAL-1(R), Page 14, Line 50)

3 (4) Variable Pay: The Company has reduced Administrative and General expense on
4 Page 2, Line 18 by \$260,147 to remove a portion of variable pay consistent with
5 the way this cost is excluded for ratemaking. (Schedule MAL-1(R), Page 14, Line
6 51)

7 (5) A&G Overhead Study: As the Company explained in more detail in its response
8 to Docket No. 4770, Data Request Division 21-10 (Supplemental), the Company
9 recorded an entry in March 2018 to reclassify a portion of its fiscal year ended
10 March 31, 2018 administrative and general costs from expense to capital.

11 Whereas many of these costs occurred in CY 2017, the Company reversed 75
12 percent of the entry, resulting in a \$1,543,836 increase to Page 2, Line 18.
13 (Schedule MAL-1(R), Page 14, Line 52)

14 (6) Company's portion of Service Company Excess Deferred Income Taxes: In
15 Docket No. 4770, Service Company excess deferred income tax amortization was
16 reflected in operating and maintenance expense as a component of Service
17 Company rent expense. For the period September 1, 2018 through December 31,
18 2018, the Company's portion of Service Company excess deferred income tax
19 amortization totaled \$259,759, or one-third of its estimated annual Service
20 Company excess deferred income tax amortization of \$779,278 shown in RIPUC
21 Docket No. 4770 Compliance Attachment 2, Schedule 17 at Page 8. This

1 adjustment is reflected on Page 2, Line 18. (Schedule MAL-1(R), Page 14, Line
2 53)

3 (7) Savings Imputed in Base Rates: In accordance with Order No. 19563 in Docket
4 No. 3943, and with the Company's gas tariff, the Company included investors'
5 share of eight months net merger savings (from January through August 2018), or
6 \$1,633,333, in operating expenses (*see* Docket No. Order No. 19563 at Section
7 II.F.3; and RIPUC NG-GAS No. 101, Section 3, Schedule A, Sheet 11, sub-part
8 5.0), as shown on Page 2, Line 22.

9
10 **Q. How did the Company calculate federal income tax on operating income before**
11 **interest expense?**

12 A. The Company multiplied its operating income before interest expense by a federal
13 income tax rate of 21 percent for CY 2018, as shown on Schedule MAL-1(R), Page 3,
14 Line 18. The Tax Cuts and Jobs Act reduced the federal income tax rate from 35 percent
15 to 21 percent, effective January 1, 2018. The Company has also included an adjustment
16 to reduce tax expense for the amortization of excess deferred income taxes generated
17 from the federal rate change which is discussed later in my testimony.

18
19 **Q. How did the Company calculate long-term debt interest, short-term debt interest,**
20 **and preferred stock dividends?**

- 1 A. The Docket No. 4770 Amended Settlement Agreement specifies the capital structure to
2 be used in computing the cost of capital. The imputed capital structure is as follows:

Short-term Debt	0.60 percent
Long-term Debt	48.35 percent
Preferred Equity	0.10 percent
Common Equity	50.95 percent

3
4 Further, the Docket No. 3401 Settlement Agreement requires the Company to use the
5 actual cost of long-term debt and the most recent 12-month average cost of short-term
6 debt in its earnings calculation. Therefore, as shown on Schedule MAL-1(R), Page 4, the
7 Company computed the cost of long-term debt by multiplying rate base applicable to
8 long-term debt by the Company's actual long-term debt rate for CY 2018, or 4.94
9 percent, as calculated on Page 10. Likewise, the Company computed the cost of short-
10 term debt by multiplying rate base applicable to short-term debt by the 12-month average
11 cost of short-term debt, or 2.10 percent, as calculated on Page 11. This short-term debt
12 rate assumes average monthly National Grid money pool rates as applied to the
13 Company's monthly outstanding short-term debt balances for CY 2018. Finally, the
14 Company computed the cost of preferred stock by multiplying rate base applicable to
15 preferred stock by the cost rate of 4.50 percent established in the Docket No. 4770
16 Amended Settlement Agreement.

17

1 **Q. Did the Company make any other calculations to derive the total net income**
2 **available for common equity?**

3 A. Yes. In accordance with the Docket No. 3401 Settlement Agreement, the Company
4 included its allowance for funds used during construction in calculating operating income
5 (*see* Docket No. 3401 Settlement Agreement at Section II.F.1), as shown on Schedule
6 MAL-1(R), Page 2, Line 39.

7
8 **Q. How did the Company determine rate base in the Earnings Report?**

9 A. As required by the Docket No. 3401 Settlement Agreement, average rate base is to be
10 based on a five-quarter average. The CY 2018 rate base is set forth in Schedule MAL-
11 1(R), Page 5. *See* Docket No. 3401 Settlement Agreement at Section II.F.1. The
12 Company excluded from rate base environmental response costs, asset retirement
13 obligations, and prepaid taxes. However, the Company included construction-work-in-
14 progress in rate base. Consistent with prior Earnings Reports, the Company computed
15 the working capital allowance pursuant to the method approved in Docket No. 3943, at
16 Order No. 19563, as shown on Schedule MAL-1(R), Page 6. Effective September 1,
17 2018, the deferred debits in rate base include the book value of GIS Smallworld, which is
18 amortized annually at \$426,180. The Company also excluded stored gas inventory and
19 customer deposits from the rate base calculation. In addition, a hold harmless rate base
20 credit is included as a reduction to rate base as well as amortization of excess deferred

1 income taxes which reduces the Company's accumulated deferred income tax liability
2 therefore increasing rate base.
3

4 **Q. Please explain the adjustment to rate base for Excess Deferred Income Taxes.**

5 A. Effective December 31, 2017, the Company restated its deferred tax balances based on
6 the new 21 percent federal income tax rate because the Company will be paying income
7 taxes as the book/tax timing differences reverse at that 21 percent federal income tax rate.
8 However, because deferred taxes are an offset to rate base, reducing the deferred tax
9 balances based on the 21 percent federal income tax rate has the effect of artificially
10 increasing rate base. To counteract this artificial increase to rate base, a new line item
11 called Excess Deferred Income Taxes has been included in the rate base calculation
12 reflecting the value of the decrease to accumulated deferred income taxes as of December
13 31, 2017. These excess deferred income taxes represent the net benefit as of December
14 31, 2017 that will eventually be earned by the Company through reduced future income
15 taxes, and ultimately returned to customers through base distribution rates, pursuant to
16 the Docket No. 4770 Amended Settlement Agreement. As the return of excess deferred
17 income taxes to customers commenced with new base rates on September 1, 2018, the
18 rate base calculation includes four months of amortization of the excess deferred income
19 tax balance in the CY 2018 calculation of rate base.

20 **Q. Please describe the formula error on Schedule MAL-1, Page 6 in the calculation of**
21 **cash working capital.**

1 A. Cash working capital represents the amount of funds the Company needs to keep
2 on hand to finance day-to-day operations. The calculation consists of the sum of the
3 commodity costs, operating expenses, and non-income taxes, then divides by 365 days of
4 the year to determine the daily cash requirement. This quotient is then multiplied by the
5 number of net lag days² to arrive at the Company's total working capital. The formula on
6 Schedule MAL-1, Page 6, Line 13 did not accurately reflect the number of net lag days
7 determined in the Docket No. 4770 Amended Settlement Agreement; this has been
8 corrected in Schedule MAL-1(R).

9
10 **Q. What is the "hold harmless" adjustment the Company has made to its rate base**
11 **calculation?**

12 A. As a result of National Grid's purchase of the regulated gas assets in Rhode Island from
13 Southern Union in 2006, the Company realized a tax basis step-up for the assets acquired.
14 This step-up in tax basis resulted in a total tax basis for the assets acquired, which
15 equaled the net book basis for those same assets. Consequently, at the time of
16 acquisition, the Company's book/tax timing difference, which gives rise to deferred tax
17 liabilities, was equal to zero. Therefore, the Company recorded no accumulated deferred
18 taxes on its balance sheet. Effective with Southern Union ownership in 2000, all deferred
19 tax provisions associated with New England Gas Company operations were recorded on

² Net lag days is calculated as "revenue lags" (the number of days between when a utility provides service and when its customers pay for that service), minus "expense leads" (the number of days between when a utility incurs expenses and when it must pay for those expenses).

1 the books of the parent company and not on the balance sheet of New England Gas
2 Company. However, commencing with the National Grid acquisition of New England
3 Gas Company from Southern Union on August 24, 2006, the Company began recording
4 deferred tax liabilities, due primarily to the difference in book versus tax depreciation
5 rates. The Company will continue to record deferred tax provisions related to the assets
6 acquired, as well as on investments in Company assets post-acquisition. Therefore, the
7 Company's CY 2018 general ledger reflects actual deferred tax provisions recorded by
8 the Company through December 31, 2018, as reflected on Schedule MAL-1(R), Page 5,
9 Line 16.

10 Consequently, the hold harmless adjustment, reflected on Schedule MAL-1(R), Page 5,
11 Line 19, is associated with National Grid's purchase of the regulated gas assets in Rhode
12 Island from Southern Union. This hold harmless adjustment provides customers an
13 economically equivalent rate base credit to offset the rate base increase that resulted from
14 National Grid's asset purchase, as agreed to and approved by the PUC in the 2007
15 Earnings Report in Docket No. 3859. Schedule MAL-1(R), Page 13 demonstrates the
16 annual values of the hold harmless rate base adjustment, as approved in Docket No. 3859.

17
18 **Q. How did the Company determine common equity applicable to rate base?**

19 A. In accordance with the capital structures approved in Docket No. 4323 and in the Docket
20 No. 4770 Amended Settlement Agreement, the Company multiplied the five-quarter
21 average rate base at December 31, 2018, as I discussed earlier, by 50.95 percent to

1 determine common equity applicable to rate base of \$395,676,016, as shown on Schedule
2 MAL-1(R), Page 4.

3

4 **Q. Please summarize the earnings sharing calculation on Schedule MAL-1(R).**

5 A. Schedule MAL-1(R), Page 1, calculates the earnings to be shared with customers based
6 on the sharing percentages required in the Company's gas tariff. Lines 1 through 3
7 summarize the calculation of average common equity. Line 5 is the Actual Total
8 Earnings as described above, and Line 6 is the return on common equity including all
9 performance incentives for CY 2018, or 9.60 percent. Lines 9 through 11 show the dollar
10 value and earnings impact of each of the Company's incentives. Line 14 is the Base
11 Earnings as described above, and Line 15 is the return on common equity excluding
12 performance incentives for CY 2018, or 9.01 percent. Because Line 15 is less than 9.275
13 percent, the earned return on common equity for CY 2018 does not exceed the threshold
14 above which the Company's regulated earnings are shared with customers. Therefore,
15 there are no earnings available to be shared with customers associated with CY 2018.

16

17 **Q. Does this conclude your testimony?**

18 A. Yes.

Attachment C

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4955
DISTRIBUTION ADJUSTMENT CHARGE FILING
WITNESS: MELISSA A. LITTLE
SEPTEMBER 24, 2019**

Schedule MAL-1(R)

Revised CY 2018 Gas Earnings Report

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)

National Grid - RI Gas
Corrected Earnings Sharing Calculation
For the Twelve Months ended December 31, 2018

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The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 1 of 14

National Grid - RI Gas
Corrected Earnings Sharing Calculation
For the Twelve Months ended December 31, 2018

1	Average Rate Base	\$776,596,694	
2	Equity Component of Rate Base	50.95%	
3	Average Common Equity	<u>\$395,676,016</u>	
4			
5	Actual Total Earnings	\$37,971,054	
6	Return on Common Equity before Incentives	9.60%	
7			
8	Less incentives:		
9	Energy Efficiency shareholder incentive	\$1,627,345	0.41%
10	Natural Gas Portfolio Management Plan	\$620,636	0.16%
11	Gas Procurement Incentive Plan	<u>\$54,616</u>	0.01%
12		\$2,302,597	
13			
14	Base Earnings	\$35,668,457	
15	Return on Common Equity after Incentives	<u>9.01%</u>	
16			
17	<u>Return on Equity > 9.275% and < 10.275%</u>	0.00%	
18	Earnings to be Shared	<u>\$0</u>	
19	Earnings to Customers - 50%	<u>\$0</u>	
20			
21	Return on Equity > 10.275%	0.00%	
22	Earnings to be Shared	<u>\$0</u>	
23	Earnings to Customers - 75%	<u>\$0</u>	
24			
25	Total After tax Earnings Credited to Customers	<u>\$0</u>	
26			
27	Total Earnings Credited to DAC	<u>\$0</u>	

Notes:

- 1 From Page 5 of 14 line 24(f)
- 2 From Page 4 of 14 line 8(a)
- 3 Line 1 times line 2
- 5 Line 12 plus line 14
- 6 Line 5 divided by line 3
- 9 Line 9 divided by line 3
- 10 Line 10 divided by line 3
- 11 Line 11 divided by line 3
- 14 From Page 2 of 14 line 46
- 15 Line 14 divided by line 3
- 17 Smaller of 10.275% or Line 15 minus 9.275%.
- 18 Line 3 times line 17
- 19 Line 18 times 50%
- 21 If Line 15 is greater than 10.275%
- 22 Line 3 times line 21
- 23 Line 22 times 75%
- 25 Line 19 plus line 23
- 27 Line 25 divided by 79%

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 2 of 14

**National Grid - RI Gas
Income Statement
For the Twelve Months ended December 31, 2018**

	<u>2018</u>
1 <u>Operating Revenues</u>	
2 Total Firm Gas	\$399,470,253
3 Transportation	\$45,239,575
4 Other Revenues	(\$10,714,584)
5 Total Operating Revenues	<u>\$433,995,243</u>
6	
7 <i>Adjustment to Operating Revenue:</i>	
8 Inventory Financing	(\$929,960)
9 Total Adjusted Operating Revenues	<u>\$433,065,283</u>
10	
11 <u>Operating Expenses</u>	
12 Production (Gas Costs)	\$180,027,225
13 Storage	\$5,917,311
14 Transmission	\$1,140,245
15 Distribution	\$29,303,308
16 Customer Accounts	\$40,559,678
17 Sales	\$0
18 Administrative and General	\$39,502,394
19 Total Operating Expenses	<u>\$296,450,161</u>
20	
21 <i>Adjustments to Operating Expense:</i>	
22 Savings Imputed in Base Rates	\$1,633,333
23 Total Adjusted Operating Expenses	<u>\$298,083,494</u>
24	
25 <u>Other Expenses</u>	
26 Depreciation and Amortization	\$35,164,510
27 Local and Other Taxes	\$25,648,707
28 Revenue Related Taxes (Gross Earnings Tax - GET)	\$12,651,187
29 Federal Income Taxes @ 21%	\$8,647,740
30 Total Other Expenses	<u>\$82,112,144</u>
31	
32 Income Before Interest Expense	<u>\$52,869,645</u>
33	
34 <u>Interest Expense</u>	
35 Other Income/Expenses	\$0
36 Short-Term Debt	\$97,851
37 Long-Term Debt	\$18,548,934
38 Other Interest Expense	\$42,195
39 AFUDC	(\$1,522,739)
40 Total Interest Expense	<u>\$17,166,241</u>
41	
42 Net Income / (Loss)	<u>\$35,703,403</u>
43	
44 Preferred Dividends	\$34,947
45	
46 Net Income / (Loss) Applicable to Common Equity	<u>\$35,668,457</u>
47	
48	

Notes:

- 4 From Page 7 of 14 line 10
- 22 Docket No. 3943 (4/4/2008) Attachment NG-MDL-4 Page 1 of 6 Line 7 (8 months)
- 27 From Page 6 of 14 sum of line 3 through line 5
- 29 From Page 3 of 14 line 20
- 36 From Page 4 of 14 line 25(b)
- 37 From Page 4 of 14 line 17(b)
- 38 From Page 8 of 14 line 3
- 44 From Page 4 of 14 line 34(b)

**The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 3 of 14**

**National Grid - RI Gas
Federal Income Tax Calculation
For the Twelve Months ended December 31, 2018**

1	Operating Revenues	\$433,065,283
2		
3	Less:	
4		
5	Operating Expenses	\$298,083,494
6	Depreciation and Amortization	\$35,164,510
7	Local and Other Taxes	\$25,648,707
8	Revenue Related Taxes (GET)	\$12,651,187
9	Interest - Short-Term Debt	\$97,851
10	Interest - Long-Term Debt	\$18,548,934
11	Other Interest	\$42,195
12	AFUDC	<u>(\$1,522,739)</u>
13		
14	Total Deductions	<u>\$388,714,140</u>
15		
16	Taxable Income	\$44,351,143
17		
18	Federal Income Tax Rate	<u>21.00%</u>
19		
20	Imputed Federal Income Tax Expense	\$9,313,740
21		
22	Amortization of EDIT (Sept-Dec)	(\$666,000)
23		
24	Net Federal Income Tax Expense	<u><u>\$8,647,740</u></u>

Notes:

- 1 From Page 2 of 14 line 9
- 5 From Page 2 of 14 line 23
- 6 From Page 2 of 14 line 26
- 7 From Page 2 of 14 line 27
- 8 From Page 2 of 14 line 28
- 9 From Page 2 of 14 line 36
- 10 From Page 2 of 14 line 37
- 11 From Page 2 of 14 line 38
- 12 From Page 2 of 14 line 39
- 14 Sum of Line 5 through line 12
- 16 Line 1 minus line 14
- 18 Federal income Tax Rate: rate of 21%
- 20 Line 16 times Line 18
- 22 Docket No. 4770, Compliance Attachment 2, Schedule 10-GAS, Page 1, Line 20
- 24 Line 20 plus Line 22

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 4 of 14

National Grid - RI Gas
Applicable Capital Structure, Interest Expense and Preferred Dividends
For the Twelve Months ended December 31, 2018

	%	\$
	(a)	(b)
1		\$776,596,694
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
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30		
31		
32		
33		
34		

Notes:

- 1(b) From Page 5 of 14 line 24(f)
- 5(a)-8(a) Docket 4770, Compliance Filing Attachment 2, Schedule 1-GAS, Page 4 of 4
- 5(b)-8(b) Line 1(b) times Line 5(a) through Line 8(a)
- 13 Line 1(b) times Line 13(a)
- 15 From Page 10 of 14 line 12(g)
- 17 Line 13(b) times line 15(b)
- 21 Line 1(b) times Line 21(a)
- 23 From Page 11 Line 14(b)
- 25 Line 21(b) times line 23(b)
- 30 Line 1(b) times Line 30(a)
- 32 Cost rate per Docket No. 4770, Compliance Attachment 2, Schedule 1-GAS, Page 4 Line 5
- 34 Line 30(b) times line 32(b)

National Grid - RI Gas
Rate Base
For the Twelve Months ended December 31, 2018

	December 2017 (a)	March 2018 (b)	June 2018 (c)	September 2018 (d)	December 2018 (e)	5 Quarter Average December 2018 (f)
1 Gas Plant In Service	\$1,153,416,688	\$1,196,039,463	\$1,216,320,455	\$1,244,302,519	\$1,270,410,017	\$1,216,097,828
2 CWIP	\$76,022,283	\$52,548,788	\$62,799,396	\$69,056,353	\$75,391,908	\$67,163,746
3 Less: Accumulated Depreciation	\$381,913,835	\$388,566,984	\$392,205,142	\$395,245,923	\$399,108,875	\$391,408,152
4 Less: Contribution in Aid of Construction	\$38	\$38	\$38	\$38	\$38	\$38
5						
6 Net Plant	\$847,525,098	\$860,021,229	\$886,914,671	\$918,112,911	\$946,693,012	\$891,853,384
7						
8 Materials and Supplies	\$3,580,099	\$3,981,153	\$4,425,685	\$4,593,747	\$4,724,404	\$4,261,017
9 Prepaid Expenses, Excluding Taxes	\$864,353	\$1,811,623	\$128,359	\$267,841	\$4,774	\$615,390
10 Deferred Debits	\$0	\$0	\$0	\$1,793,454	\$1,686,909	\$696,073
11 Unamortized debt expense and Interest Rate Lock	\$1,727,831	\$1,697,996	\$1,668,162	\$2,113,277	\$2,071,368	\$1,855,727
12 Cash Working Capital	\$19,692,717	\$30,219,217	\$30,219,217	\$30,219,217	\$30,219,217	\$28,113,917
13						
14 Subtotal	\$25,865,000	\$37,709,989	\$36,441,423	\$38,987,537	\$38,706,672	\$35,542,124
15						
16 Accumulated Deferred FIT	\$87,805,880	\$69,153,777	\$74,302,956	\$77,337,699	\$79,976,277	\$77,715,318
17 Excess Deferred Tax	\$51,547,315	\$48,219,314	\$48,219,314	\$48,219,314	\$58,151,908	\$50,871,433
18 Excess Deferred Tax Amortization	\$0	\$0	\$0	(\$166,500)	(\$666,000)	(\$166,500)
19 Hold Harmless	\$20,773,882	\$20,335,534	\$19,897,186	\$19,458,837	\$19,020,489	\$19,897,186
20 Customer Deposits	\$1,840,627	\$1,857,003	\$1,830,117	\$1,875,748	\$1,982,743	\$1,877,248
21 Injuries and Damages Reserve	\$1,065,107	\$1,007,021	\$948,521	\$0	\$0	\$604,130
22						
23 Subtotal	\$163,032,811	\$140,572,649	\$145,198,094	\$146,725,099	\$158,465,417	\$150,798,814
24						
25 Rate Base	\$710,357,287	\$757,158,569	\$778,158,000	\$810,375,348	\$826,934,267	\$776,596,694

Notes:

- 1(a)-4(c) From Company Financial Statements
- 1(f)-4(f) Average of Column (a) through Column (e)
- 6(a)-6(e) Line 1 plus line 2 minus line 3 minus line 4
- 6(f) Average of Column (a) through Column (e)
- 8(a)-11(e) From Company Financial Statements
- 8(f)-11(f) Average of Column (a) through Column (e)
- 12(b)-12(e) From Page 6 of 14 Line 13
- 14 Sum of Line 8 through Line 12
- 16(a)-21(e) From Company Financial Statements
- 16(f)-21(f) Average of Column (a) through Column (e)
- 17 Excess Deferred Tax for change in tax rate from 35% to 21%
- 18 Amortization of Excess Deferred Tax per Docket 4770, Compliance Attachment 2, Schedule 11-Gas, Page 11, Line 51
- 19 Hold Harmless rate base credit per Docket No. 3859
- 23 Sum of Line 16 through Line 21
- 25 Line 6 + Line 14 - Line 23

**The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 6 of 14**

**National Grid - RI Gas
Cash Working Capital Calculation
For the Twelve Months ended December 31, 2018**

1	Gas Costs	\$180,027,225
2	Operating Expenses	\$116,422,936
3	Payroll Taxes	\$2,502,790
4	Property Taxes	\$23,065,094
5	State Taxes Other	\$80,823
6	Revenue Related Taxes (GET)	\$12,651,187
7	Total	\$334,750,055
8		
9	Daily Cash Requirement	\$917,123
10		
11	Net Lag Days	32.95
12		
13	Total Working Capital	\$30,219,217

Notes:

- 1 From Page 2 of 14 line 12
- 2 From Page 2 of 14 lines 13-18
- 3-5 From Company Financial Statements
- 6 From Page 2 of 14 line 28
- 7 Sum of Lines 1 through line 6
- 9 Line 7 divided by 365 days
- 11 Per Docket No. 4770, Schedule MAL-42-GAS,
(Page 3 of 29, Line 18 - Page 2 of 29, Line 1)
- 13 Line 9 times line 11

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 7 of 14

National Grid - RI Gas
Detail Other Revenue/(Expense)
For the Twelve Months ended December 31, 2018

1	Rent from Gas Property	\$675,018
2	Other Revenue	(\$2,115,622)
3	Recovery of Supervision & Administrative Costs	(\$29,462)
4	RDM Revenue	(\$9,368,557)
5	DAC Revenue	\$188,781
6	LIHEAP Revenue	(\$384,504)
7	Misc Revenue	\$0
8	Interest on Customer Arrears	\$319,761
9		
10	Total Other Revenue	<u><u>(\$10,714,585)</u></u>

Notes:

- 1-8 From Company Financial Statements
- 10 Sum of line 1 through line 8

National Grid - RI Gas
Detail Other Interest Expense
For the Twelve Months ended December 31, 2018

1	Interest on Customer Deposits	\$42,195
2		
3	Total Other Interest Expense	<u>\$42,195</u>

Notes:

- 1 From Company Financial Statements
- 3 Line 1

National Grid - RI Gas
Detail Non-Operating Income / (Expense)
For the Twelve Months ended December 31, 2018

1	Service Contract Revenue	\$167,650
2	Share Awards	(\$169,346)
3	Interest on Over / (Under) Collections, primarily Deferred Gas Costs	\$45,128
4	Deferred Compensation - Life Insurance	(\$16,913)
5	Federal Income Taxes on Non-Operating Income	(\$859,958)
6	NGPMP per Docket 4038	\$0
7	Lobbying / Legal and Political Expense	\$526,601
8	Penalties	\$175,400
9	Other	\$2,935,897
10	Total Non-Operating Income/(Expense)	<u>\$2,804,459</u>

Notes:

- 1-9 From Company Financial Statements
- 10 Sum of line 1 through line 9

National Grid - RI Gas
Calculation of Average Long-Term Debt Interest Rate
For the Twelve Months ended December 31, 2018

	(a)	(b)	(c)	(d)	(e)	(f)	(g)
Series	Percent	Due	Amount	Annual Interest	Annual Amortization of DD&E	Total Expense	Cost of Debt
1	<u>Senior Unsecured Notes</u>						
2	4.534%	15-Mar-2020	\$250,000,000	\$11,335,000	\$664,600	\$11,999,600	4.80%
3	5.638%	15-Mar-2040	\$300,000,000	\$16,914,000	\$279,300	\$17,193,300	5.73%
4	4.170%	10-Dec-2042	\$250,000,000	\$10,425,000	\$75,000	\$10,500,000	4.20%
5	3.919%	1-Aug-2028	\$148,750,000	\$5,829,513	\$61,185	\$5,890,698	3.96%
6	<u>First Mortgage Bonds (*)</u>						
7	6.820%	1-Apr-2018	\$3,616,000	\$246,611	\$7,000	\$253,611	7.01%
8	9.630%	30-May-2020	\$10,000,000	\$963,000	\$4,100	\$967,100	9.67%
9	8.460%	30-Sep-2022	\$12,500,000	\$1,057,500	\$4,300	\$1,061,800	8.49%
10	8.090%	30-Sep-2022	\$2,968,750	\$240,172	\$3,500	\$243,672	8.21%
11	7.500%	15-Dec-2025	\$5,968,750	\$447,656	\$4,100	\$451,756	7.57%
12	Total		\$983,803,500	\$47,458,452	\$1,103,085	\$48,561,537	4.94%

Notes:

1-11 From Financial Statements

1(c)-11(c) *Average amounts represent The Narragansett Electric Company consolidated amounts as the Gas division is not a legal entity.

National Grid - RI Gas
Calculation of Average Short-Term Debt Interest Rate
For the Twelve Months ended December 31, 2018

	(a)	(b)	(c)	
<u>Month</u>	<u>Average Short-Term Debt Balance</u>	<u>Weighted Cost Rate</u>	<u>Short-Term Interest Expense</u>	
1	Jan-18	\$188,410,097	1.73%	\$272,423
2	Feb-18	\$207,257,672	1.88%	\$287,680
3	Mar-18	\$266,688,204	1.91%	\$427,366
4	Apr-18	\$289,320,538	2.23%	\$524,088
5	May-18	\$256,154,242	2.32%	\$499,462
6	Jun-18	\$279,330,467	2.25%	\$512,578
7	Jul-18	\$241,974,306	2.31%	\$499,785
8	Aug-18	-	2.28%	-
9	Sep-18	-	2.24%	-
10	Oct-18	-	2.36%	-
11	Nov-18	-	2.48%	-
12	Dec-18	-	2.59%	-
13				
14	Average	\$144,094,627	2.10%	\$3,023,383

Notes:

- 1(a)-12(a) Average amounts represent The Narragansett Electric Company consolidated amounts as the Gas division is not a legal entity and participates in the National Grid money pool as a division of The Narragansett Electric.
- 14(b) Line 14 (c) divided by Line 14 (a)

National Grid - RI Gas
Merger Hold Harmless Rate Base Credit
For the Twelve Months ended December 31, 2018

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket No. 4770
Schedule MAL-11-GAS
Page 9 of 23

The Narragansett Electric Company d/b/a National Grid
Merger Hold Harmless Rate Base Credit Adjustments To Rate Base
Test Year Ending June 31, 2017 through Rate Year 1 Ending August 31, 2019

	Description	Period (a)	Monthly Expense (b)	Merger Hold Harmless Rate Base Credit (c)
1	Balance at June 30, 2017			\$21,532,971
2				
3	Subsequent 2 months			(\$253,030)
4				
5	Balance at August 31, 2017			\$21,279,942
6				
7				
8	Increase/(Decrease) 12 Months Ended	08/31/18		(\$1,674,988.40)
9				
10	Balance at August 31, 2018			\$19,604,953
11		09/30/18	(\$146,116)	\$19,458,837
12		10/31/18	(\$146,116)	\$19,312,721
13		11/30/18	(\$146,116)	\$19,166,605
14		12/31/18	(\$146,116)	\$19,020,489
15		01/31/19	(\$167,950)	\$18,852,539
16		02/28/19	(\$167,950)	\$18,684,590
17		03/31/19	(\$167,950)	\$18,516,640
18		04/30/19	(\$167,950)	\$18,348,691
19		05/31/19	(\$167,950)	\$18,180,741
20		06/30/19	(\$167,950)	\$18,012,792
21		07/31/19	(\$167,950)	\$17,844,842
22	Balance at August 31, 2019	08/31/19	(\$167,950)	\$17,676,893
23				
24	Rate Year 1 Merger Hold Harmless - 5 Quarter Average			\$18,662,756

Line Notes

- 1(c) Page 21 of 23 Line 5 Column (e)
- 3(c) Page 21 of 23 Line 6 Column (f) divide by 3 times 2
- 5(c) Line 1 + Line 8
- 11(b) Page 21 of 23 Line 10 Column (f) divide by 3 times 1
- 12(b) Page 21 of 23 Line 11 Column (f) divide by 3 times 1
- 13(b) Page 21 of 23 Line 11 Column (f) divide by 3 times 1
- 14(b) Page 21 of 23 Line 11 Column (f) divide by 3 times 1
- 15(b) Page 21 of 23 Line 12 Column (f) divide by 3 times 1
- 16(b) Page 21 of 23 Line 12 Column (f) divide by 3 times 1
- 17(b) Page 21 of 23 Line 12 Column (f) divide by 3 times 1
- 18(b) Page 21 of 23 Line 13 Column (f) divide by 3 times 1
- 19(b) Page 21 of 23 Line 13 Column (f) divide by 3 times 1
- 20(b) Page 21 of 23 Line 13 Column (f) divide by 3 times 1
- 21(b) Page 21 of 23 Line 14 Column (f) divide by 3 times 1
- 22(b) Page 21 of 23 Line 14 Column (f) divide by 3 times 1

**The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 13 of 14**

Schedule DJE-2
Revised

NATIONAL GRID
MERGER ADJUSTMENT TO ADIT
Projected Deferred Tax Schedule
(\$000)

<u>As of 31-Dec</u>	<u>Southern Union ADIT</u>	<u>National Grid ADIT</u>	<u>Difference</u>	<u>Southern Union ADITC</u>	<u>ADIT Merger Adjustment</u>
2006	\$ 34,845	\$ 214	\$ 34,631	\$ 1,133	\$ 35,764
2007	\$ 33,908	\$ 1,238	\$ 32,670	\$ 928	\$ 33,598
2008	\$ 32,170	\$ 2,073	\$ 30,097	\$ 724	\$ 30,821
2009	\$ 30,086	\$ 1,859	\$ 28,227	\$ 519	\$ 28,746
2010	\$ 29,473	\$ 2,238	\$ 27,235	\$ 315	\$ 27,549
2011	\$ 29,632	\$ 3,184	\$ 26,448	\$ 110	\$ 26,558
2012	\$ 29,583	\$ 3,760	\$ 25,823		\$ 25,823
2013	\$ 29,515	\$ 4,286	\$ 25,229		\$ 25,229
2014	\$ 29,199	\$ 4,628	\$ 24,572		\$ 24,572
2015	\$ 29,095	\$ 5,530	\$ 23,566		\$ 23,566
2016	\$ 28,823	\$ 6,531	\$ 22,292		\$ 22,292
2017	\$ 28,342	\$ 7,568	\$ 20,774		\$ 20,774
2018	\$ 27,627	\$ 8,606	\$ 19,020		\$ 19,020
2019	\$ 26,847	\$ 9,842	\$ 17,005		\$ 17,005
2020	\$ 25,922	\$ 11,305	\$ 14,617		\$ 14,617
2021	\$ 24,732	\$ 12,797	\$ 11,934		\$ 11,934
2022	\$ 23,374	\$ 14,311	\$ 9,064		\$ 9,064

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4955
Gas Earnings Sharing Mechanism
Schedule MAL-1(R)
Page 14 of 14

National Grid - RI Gas
Reconciliation of Corrected Gas Earnings Sharing Mechanism to Annual Report
For the Twelve Months ended December 31, 2018

1	Operating Revenues	
2	Gas Operating Revenues shown on Page 301, Line 1(f) of the Annual Report	\$394,332,382
3	1 Remove Energy Efficiency Incentives	(\$1,627,345)
4	2 Unbilled Revenue Net Margin	\$7,726,911
5	3 Unbilled Energy Efficiency	(\$961,695)
6	Gas Earnings Sharing Mechanism, Page 2, Total Firm Gas Revenues	\$399,470,253
7		
8	Revenues from Transportation shown on Page 301, Line 7(f) of the Annual Report	\$45,282,322
9	1 Unbilled Transportation	(\$42,747)
10	Gas Earnings Sharing Mechanism, Page 2, Transportation Revenues	\$45,239,575
11		
12	Miscellaneous Service Revenues shown on Page 301, Line 4(f) of the Annual Report	(\$376)
13	Rent from Gas Property shown on Page 301, Line 12(f) of the Annual Report	\$675,018
14	Other Gas Revenues shown on Page 301, Line 14(f) of the Annual Report	(\$4,244,179)
15	1 Excess Sharing	\$4,482,546
16	2 Off System Gas Sales	(\$5,248,914)
17	3 Contract Sharing	\$145,732
18	4 Unbilled DAC	(\$6,103,929)
19	5 Unbilled RDM	(\$740,618)
20	6 Miscellaneous Service Revenues	\$376
21	7 CSS Revenue - Customer Arrears	\$319,761
22	Gas Earnings Sharing Mechanism, Page 2, Other Revenues	(\$10,714,583)
23		
24	Inventory Financing	(\$929,960)
25		
26		
27	Operating Expenses	
28	Production expenses shown on Page 320 of the Annual Report	\$180,027,225
29	Gas Earnings Sharing Mechanism, Page 2, Production (Gas Costs)	\$180,027,225
30		
31	Natural Gas Storage expenses shown on Page 322 of the Annual Report	\$5,917,312
32	Gas Earnings Sharing Mechanism, Page 2, Storage	\$5,917,312
33		
34	Transmission expenses shown on Page 323 of the Annual Report	\$1,140,244
35	Gas Earnings Sharing Mechanism, Page 2, Transmission	\$1,140,244
36		
37	Distribution expenses shown on Page 324 of the Annual Report	\$29,303,308
38	Gas Earnings Sharing Mechanism, Page 2, Distribution	\$29,303,308
39		
40	Customer Accounts expenses shown on Pages 324-325 of the Annual Report	\$43,666,463
41	1 Zero out Uncollectible Accounts per books	(\$8,721,968)
42	2 Add Bad Debt Write-Offs	\$5,615,181
43	Gas Earnings Sharing Mechanism, Page 2, Customer Accounts	\$40,559,676
44		
45	Sales expenses shown on Page 325 of the Annual Report	\$233,055
46	1 Remove Sales expenses	(\$233,055)
47	Gas Earnings Sharing Mechanism, Page 2, Sales	\$0
48		
49	Administrative and General expenses shown on Page 325 of the Annual Report	\$37,634,675
50	1 Reclassify Donations to A&G expense from Account 426.1	\$324,271
51	2 Exclude Executive Variable Compensation not charged to customers	(\$260,147)
52	3 Normalize out of period adjustment for A&G OH Study reclassification to capital	\$1,543,836
53	4 Estimated Service Company excess deferred federal income taxes (Sept - Dec) per Docket No. 4770, Compliance Attachment 2, Schedule 17, Page 6, Line 24	\$259,759
54	Gas Earnings Sharing Mechanism, Page 2, Administrative and General	\$39,502,394