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## Memorandum

To: Alberico Mancini, Chief Regulatory Analyst  
Division of Public Utilities & Carriers

From: Lafayette Morgan, Jr.  
Exeter Associates, Inc.  
Consultant to the Division of Public Utilities and Carriers

Date: September 29, 2022

Subject: Review of The Narragansett Electric Company d/b/a Rhode Island Energy's 2022 DAC Filing, Docket No. 22-13-NG

## Introduction

The purpose of this memorandum is to discuss my review of the 2022 Annual Gas Distribution Adjustment Clause (DAC) and Revenue Decoupling Mechanism Reconciliation filings (RDM) by Rhode Island Energy (the Company) in this proceeding.

The changes that support the Annual DAC components that Rhode Island Energy proposes to become effective on November 1, 2022 were presented in several filings. The first filing, which was made on July 1, 2022, presented the 2022 RDM reconciliation balance for the period April 1, 2021 to March 31, 2022. The filing was supported by the testimony of Rhode Island Energy witness Peter R. Blazunas. The RDM reconciliation filing presents the Company's March 31, 2022 RDM reconciliation balance that is used in the computation of the Revenue Decoupling Adjustment (RDA) Factor, which is one of the components incorporated in the annual DAC filing. The RDM reconciliation filing shows that the Company under-recovered its target revenue per customer by a total of approximately \$7.8 million.

On July 29, 2022, Rhode Island Energy filed its annual Environmental Report for its Gas Service in Rhode Island for the period April 1, 2021 through March 31, 2022. The report provides a description of the various environmental remediation sites and the expenses incurred

during the reporting period. These costs are included in the Environmental Response Cost Factor that is included in the DAC.

On August 1, 2022, Rhode Island Energy made its third filing in which it presented the initial calculation of the 2022 DAC. This filing included the direct testimony of Peter R. Blazunas who presents the reconciliation of the various components of the DAC and proposed the new factors to become effective November 1, 2022; the joint direct testimony of Jeffrey D. Oliveira and James H. Allen, who present the Pension and Postretirement Benefits Other than Pensions (PBOP) expense reconciliation and provide the calculation of the Pension and PBOP costs reconciliation for recovery in base distribution rates; and the direct testimony of Stephanie A. Briggs, whose testimony describes the Company's gas earnings for the 12-month period ended December 31, 2021 that are subject to the Earnings Sharing Mechanism (ESM).

On September 1, 2022, Rhode Island Energy filed the supplemental testimony of Peter R. Blazunas. The supplemental testimony updates the initial DAC filing to incorporate data that were either not available when the initial DAC filing was made in August, or where preliminary amounts were provided pending the finalization of other costs components. Specifically, the System Pressure Factor; Infrastructure, Safety, and Reliability Reconciliation Factors; Reconciliation Factors; the Low-Income Discount Recovery Factor (LIDRF); and the Bill Impact Analysis were presented or revised in the supplemental filing. The System Pressure Factor was not previously presented because the system pressure costs are determined after the hourly peaking asset costs are determined as part of the Gas Cost Recovery (GCR) filing. The LIDRF was also not presented in the initial DAC filing because it is dependent upon the GCR factors from the GCR filing that were not available until September 1, 2022.

In this memorandum, I will primarily address the DAC factors as presented in the testimony of witness Blazunas. Also, I will address certain issues related to the Earnings Sharing Mechanism that were presented in the August 1<sup>st</sup> testimony of witness Briggs. It should be noted that the Pension Adjustment Factor and the ISR Reconciliation Factor contained in Rhode Island Energy's filings have been addressed by Mr. Alberico Mancini, Chief Regulatory Analyst for the Division. A discussion of those issues is not repeated here. However, when taken in aggregate, the issues addressed by other Division experts and my discussion here provide the Division's position on Rhode Island Energy's DAC filing.

The DAC was established in Docket No. 3401 to provide for the annual reconciliation and recovery of the costs of specific programs that have been identified for annual reconciliation and recovery. In this year's DAC filing, the following supporting schedules have been presented:

1. Schedule PRB-1 Summary of DAC Factors
2. Schedule PRB-2 System Pressure Factor

3. Schedule PRB-3 Environmental Response Cost Factor
4. Schedule PRB-4 Pensions and Postretirement Benefits Other than Pension Adjustment Factor
5. Schedule PRB-5 Arrearage Management Adjustment Factor
6. Schedule PRB-6 Revenue Decoupling Adjustment Factor
7. Schedule PRB-7 Infrastructure, Safety, and Reliability Reconciliation Factor
8. Schedule PRB-8 Service Quality Performance Factor
9. Schedule PRB-9 Reconciliation Factors
10. Schedule PRB-10 Reconciliations for FY 21
11. Schedule PRB-11 Earnings Sharing Mechanism Factor
12. Schedule PRB-12 Low Income Discount Recovery Factor
13. Schedule PRB-13 Storm Net Revenue Factor

### **System Pressure Factor**

In Rhode Island Energy's September 1, 2022, supplemental DAC filing, the Company proposed to recover approximately \$68.7 million in hourly peaking fixed costs from the GCR Factor Filing (Docket No. 22-20-NG). The proposed System Pressure factor is calculated by dividing the total hourly peaking supply costs by the forecasted throughput of 39,896,251 dth for the 12-month period. This result is then divided by 10 to derive a System Pressure factor of \$0.1720 per therm. I have reviewed the calculation of the System Pressure Factor, as calculated by the Company, and recommend it's approval by the Commission.

In Rhode Island Energy's GCR Filing (Docket No. 22-20-NG), Division witness Jerome D. Mierzwa has reviewed the gas costs Rhode Island Energy incurs to meet the design peak hour demands. In his testimony in that proceeding, he provides a discussion on the costs to be recovered in the System Pressure Factor.

### **Environmental Response Costs**

According to Rhode Island Energy, the Environmental Response Cost Factor (ERCF) is designed to provide the Company recovery of its reasonable and prudently incurred costs in excess of the annual amount (\$1,310,000) recovered in base distribution rates for evaluation, remediation, and clean-up of sites associated with the Company's ownership and/or operation of manufactured gas plants (MGP), manufactured gas storage facilities, and MGP-related off-site waste disposal locations.

I have reviewed the calculations supporting Rhode Island Energy's computed ERCF in this proceeding and conclude that the Company's claimed ERCF costs are presented in a manner consistent with previous DAC filings. From our examination of the information the Company has provided, no costs were identified for which recovery through the ERCF appear to be inappropriate. Based on these observations, the Company's ERCF appears to be appropriate for approval by the Commission as proposed.

### **Arrearage Management Program Costs**

The Arrearage Management Adjustment Factor (AMAF) is designed to recover the arrears forgiven that are associated with the Arrearage Management Program participants who have not satisfied the conditions of R.I. Gen. Laws § 39-2-1(d)(2) in the calendar year, as well as the value of arrearages forgiven for customers who have successfully satisfied the conditions of R.I. Gen. Laws § 39-2-1(d)(2).

Based on our overall review of the arrearage forgiveness amount for calendar year 2021, I did not find any issues which would lead us to disagree with the amount claimed by the Company. Therefore, I recommend the Company's AMAF of \$0.0002 per term be approved.

### **Revenue Decoupling Adjustment**

The Revenue Decoupling Adjustment is an annual reconciliation component of the RDM which is determined through a comparison by rate class, between a target level of base distribution revenue and actual base distribution revenue billed during the reconciliation period. The comparison of the Actual Revenue-Per-Customer and the Target Revenue-Per-Customer produces an over- or under-recovery of the target revenue which was established by the Commission. For Rhode Island Energy, the Target Revenue per Customer was established in Docket No. 4770.

Under the RDM, customers subject to the RDM are credited any net over-recovery of target revenue and are surcharged for any net under-recovery of target revenue through the RDA factor, which is one of several components of the DAC. The current Revenue Decoupling reconciliation period is the twelve months ended March 31, 2022. For this period, the Company calculated a net under-recovery of \$7,804,264. Rhode Island Energy's computed over/under-recovery by rate class is as follows:

**Rhode Island Energy's Under (Over) Recovery of RDM Target Revenues by Rate Class**

Residential Non-Heat (incl Low Income)	\$ (204,070)
Residential Heat (incl Low Income)	5,631,730
Small C&I	1,522,126
Medium C&I	<u>854,477</u>
Net Under-Recovery of Target Revenue	<u>\$ 7,804,264</u>

The net under-recovery appears to be caused by the warmer than normal weather for the 12-month period ended March 31, 2022. During the period there was a -9.6 percent Degree Day Difference when the actual billing degree days are compared to normal degree days. I have reviewed the amount of the under-collection and recommend the Commission accept the Net Under-Recovery of Target Revenue of \$7,804,264.

**Service Quality Plan**

Rhode Island Energy's Service Quality Plan requires it to report the results of its service quality metrics on a quarterly basis. The Company's incurred a penalty of \$75,000 related to its performance for meter testing during CY 2021 and two penalties of \$300,000 each for its performance related to the leak call response metrics.

Therefore, the Company has proposed a Service Quality Performance Factor of \$0.0016 per therm to be credited to customers effective November 1, 2022. I have reviewed the calculation of the Service Quality Performance credit factor, and recommend the Commission approve the Company's proposed \$0.0016 per therm credit.

**Earnings Sharing Mechanism**

The Company's Gas Earnings Report for the 12 months ended December 31, 2021 reflects a return on equity below the earnings sharing threshold. Consequently, the Company is not proposing an ESM Factor in this year's DAC. I have reviewed the Company's earnings report and found no issues with the Company's claim. Therefore, I recommend the Commission approve the Company's ESM proposal.

**The Low-Income Discount Recovery Factor**

The Low-Income Discount Recovery Factor (LIDRF) is determined annually based upon the estimated annual amount of low-income discounts applied to the bills of eligible customers receiving service on Rates 11 and 13. The estimated discount is based on applying a 25.6 percent discount to Rate 11 and 25.7 percent discount to Rate 13 customer bills. The LIDRF is derived

by dividing the estimated annual total low income discount by the forecasted therms for the rate year. The Company is proposing a LIDRF of \$0.0236 per therm charge. I recommend the Commission approve this charge to recover the cost of this program.

### **Storm Net Revenue Credit**

In the Amended Settlement Agreement in Docket No. 4770, the Storm Net Revenue Factor was conceived to provide a credit to customers for the value of services performed by the Company's employees in other jurisdictions. The Company has calculated the customer share of \$168,824 that it proposes to credit customers. This amounts to a \$0.0004 per therm credit. I recommend the Commission approve the credit as proposed.

### **Reconciliation Factors**

On page 3 of Company witness Blazunas' August 1, 2022 testimony, he provides a list of the various schedules that are incorporated to form the DAC rates. Both Schedules PRB-9 (Reconciliation Factors) and PRB-10 (Reconciliation for FY 2021) present the reconciliation of costs. However, only the costs presented in Schedule PRB-9 are used to calculate factors that are included in the DAC.

The Reconciliation Factors presented in Schedule PRB-9 is designed to reconcile the amounts approved to be reflected in the DAC factors from the prior year with actual amounts that were billed as revenue through the DAC. Schedule PRB-9 also allows for a true-up of costs that were forecasted through October 31 of the previous year when the DAC factors effective November 1 were established. I have reviewed the calculations and recommend the Commission approve the factors. It should be noted that the calculation of the Revenue Decoupling Mechanism reconciliation, which would normally be included in the DAC, is an under-recovery of \$5,751. According to the Company, this under-recovery is too small to generate a billable credit factor, so it recommends that this amount, including accrued interest, be carried forward to next year's DAC. I am recommending the Commission accept this proposal.

Regarding the Schedule PRB-10 (Reconciliation for FY 2021), these amounts are provided for informational purposes and are not incorporated in the DAC. The Company explains that the amounts on this schedule provide the Non-Base Rate components, the RDM, and the ISR Plan reconciliations, presented on the basis of the fiscal year ended March 31, 2022.

**Bill Impact**

The chart below shows the annual impact of the changes in the DAC Factors, as proposed by Rhode Island Energy. For the average Residential Heating customer utilizing 845 therms annually, the impact of the proposed residential DAC Factor results in a 10 percent annual increase. This equates to an increase of \$151.25 (\$146.71 in the DAC Factor + \$4.54 in Gross Earnings Tax).

The Narragansett Electric Company  
d/b/a Rhode Island Energy  
Distribution Adjustment Charge (DAC)

Annual Consumption (Therms)	Proposed Rates	Current Rates	Difference	% Chg	Base DAC	GET
845	\$1,665.93	\$1,514.68	\$151.25	10.00%	\$146.71	\$4.54

**Recommendation**

Based on my review of the 2022 Annual Gas Distribution Adjustment Clause and Revenue Decoupling Mechanism Reconciliation filings by Rhode Island Energy, the Division recommends that the Commission approve the proposed rates as filed.