STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES & CARRIERS

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October 13, 2023

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

Re: Docket No. 23-23-NG

Dear Ms. Massaro,

Enclosed please find a revised Memorandum from Lafayette Morgan, Jr. for filing with the Commission in the above-entitled matter. The Revised Memorandum additionally provides the Division's review of the Reconciliation Factors that was inadvertently omitted from the Division's original Memorandum.

Very truly yours,

/s/ Leo J. Wold
Leo J. Wold
Chief of Legal Services, DPUC

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Memorandum

To: Alberico Mancini
Chief Regulatory Analyst, DPUC

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

Date: October 13, 2023 **(Revised)**

Subject: Review of The Narragansett Electric Company d/b/a Rhode Island Energy's 2023 DAC and RDM Filings, Docket No. 23-23-NG

Introduction

The purpose of this memorandum is to discuss my review of the 2023 Annual Gas Distribution Adjustment Clause (DAC) and Revenue Decoupling Mechanism Reconciliation (RDM) filings 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, 2023 were presented in several filings. On June 30, 2023, the first filing was made. It presented the 2023 RDM reconciliation balance for the period April 1, 2022 to March 31, 2023. The filing was supported by the testimony of Rhode Island Energy witness Tyler G. Shields. The RDM reconciliation filing presents the Company's March 31, 2023 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 $15.8 million.

On July 31, 2023, Rhode Island Energy filed its annual Environmental Report for its Gas Service in Rhode Island for the period April 1, 2022 through March 31, 2023. The report provides a description of the various environmental remediation sites and the related 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, 2023, Rhode Island Energy made its third filing in which it presented the initial calculation of the 2023 DAC. This filing included the direct testimony of Peter R. Blazunas and Tyler G. Shields who present the reconciliation of the various components of the DAC and proposed the new factors to become effective November 1, 2023 and the joint direct testimony of Jeffrey D. Oliveira and Stephanie A. Briggs, who present testimony which describes the Company's gas earnings that are subject to the Earnings Sharing Mechanism (ESM) for the 12-month period ended December 31, 2022.

On September 1, 2023, Rhode Island Energy filed the supplemental testimony of Messrs. Blazunas and Shields. The supplemental testimony updates the initial DAC factors to incorporate data that was either not available when the initial DAC filing was made in August, or where preliminary amounts provided were pending the finalization of other costs components. Specifically, the System Pressure Factor; Pension Adjustment Factor; Infrastructure, Safety, and Reliability Reconciliation Factor; Reconciliation Factors; the Low-Income Discount Recovery Factor; Storm Net Revenue Factor; the Bill Impact Analysis; and the Low-Income Customer Charge Deferral Recovery were presented or revised in the supplemental filing.

The September 1, 2023 filing also included the direct testimony of Jeffrey D. Oliveira and George R. Sunder addressing the Pension and Postretirement Benefits Other than Pensions (PBOP) expense reconciliation and provides the calculation of the Pension and PBOP expenses reconciliation for recovery in distribution rates.

On September 15, 2023, Rhode Island Energy filed the revised supplemental testimony of Messrs. Blazunas and Shields. In the revised supplemental testimony, Messrs. Blazunas and Shields explained that the Company detected certain errors in the gas sales forecast data utilized in its annual GCR Factor filing submitted on September 1, 2023. Consequently, the gas costs, gas rates, and bill impacts presented in the September 1, 2023 supplemental DAC filing required revision. Additionally, the System Pressure Factor and the Low-Income Discount Recovery Factor components of the DAC were also revised because they are calculated using outputs from the Company's GCR filing.

In this memorandum, I will primarily address the DAC and RDM factors as presented in the testimony of the Company's witnesses. It should be noted that the Infrastructure, Safety, and Reliability Reconciliation Factors (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 which the Division recommends to the Commission.

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/TGS-1	Summary of DAC Factors
2.	Schedule PRB/TGS-2	System Pressure Factor
3.	Schedule PRB/TGS-3	Environmental Response Cost Factor
4.	Schedule PRB/TGS-4	Pensions and Postretirement Benefits Other than Pension Adjustment Factor
5.	Schedule PRB/TGS-5	Arrearage Management Adjustment Factor
6.	Schedule PRB/TGS-6	Revenue Decoupling Adjustment Factor
7.	Schedule PRB/TGS-7	Infrastructure, Safety, and Reliability Reconciliation Factors
8.	Schedule PRB/TGS-8	Service Quality Performance Factor
9.	Schedule PRB/TGS-9	Reconciliation Factors
10.	Schedule PRB/TGS-10	Reconciliations for FY 2023
11.	Schedule PRB/TGS-11	Earnings Sharing Mechanism Factor
12.	Schedule PRB/TGS-12	Low Income Discount Recovery Factor
13.	Schedule PRB/TGS-13	Storm Net Revenue Factor
14.	Schedule PRB/TGS-14	Bill Impact Analysis
15.	Schedule PRB/TGS-15[1]	Low Income Customer Charge Deferral Recovery

System Pressure Factor

In Rhode Island Energy's September 1, 2023 supplemental DAC filing, the Company proposed to recover approximately $25.8 million in hourly peaking fixed costs from this year's

[1] Although this schedule is included in the DAC filing, the recovery of the deferred amount is not included as a component of the proposed 2023 DAC rate. The Company proposes a separate recovery mechanism. This is explained more fully later in this memorandum.

GCR Factor Filing (Docket No. 23-23-NG). The proposed System Pressure factor is calculated by dividing the total hourly peaking supply costs by the forecasted throughput of 39,576,910 dth for the 12-month period. This result is then divided by 10 to derive a System Pressure factor of $0.0652 per therm. I have reviewed the calculation of the System Pressure Factor, as calculated by the Company, and recommend its approval by the Commission on behalf of the Division.

In Rhode Island Energy's current GCR Filing, 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. In this year's DAC filing, the Company is claiming costs of $484,956 in excess of the $1,310,000 annual allowance.

I have reviewed the calculations supporting Rhode Island Energy's proposed ERCF in this proceeding and conclude that the Company's claimed ERCF costs are presented in a manner consistent with previous DAC filings. From my examination of the information the Company 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.

Pension Adjustment Factor

The Pension Adjustment Factor allows for the recovery or refund of the difference between actual Pension and Post-retirement Benefits Other Than Pension (PBOP) expenses from the Company's prior fiscal year with the annual expense allowed in distribution rates.

I have reviewed the calculations supporting the Pension Adjustment Factor that Rhode Island Energy is claiming in this proceeding and conclude that the Company's claimed ERCF costs are presented in a manner consistent with previous DAC filings. Based on my review of the Company's filings and the responses to associated data requests, I am not recommending any adjustments to the Company's Pension Adjustment Factor and recommend its approval.

It is worth noting that in the testimony of Messrs. Oliveira and Sunder, the witnesses mention that there were changes to the Company's Pension and PBOP expense calculations. However, these changes are all primarily linked to PPL's acquisition of The Narragansett Electric Company's service territory in Rhode Island. From the explanation provided by the Company, the changes involve organizational changes affecting the aggregation of the expenses since some expenses were recorded before and after the acquisition. Also, employees and retirees were shifted between National Grid funded plans to PPL funded plans and there were changes in the level of expenses because of changes in the demographic composition and actuarial assumptions. As the Company indicated, in future years the DAC's Pension Adjustment Factor would be less cumbersome than this year's calculation because the costs will be based on only one corporate enterprise.

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 (AMP) 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 2022, 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 $0.0010 per therm 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, 2023. For this period, the Company calculated a net under-recovery of $15,799,007. 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)	$ 76,224
Residential Heat (incl Low Income)	13,254,127
Small C&I	1,696,450
Medium C&I	772,207
Net Under-Recovery of Target Revenue	$ 15,799,007

The net under-recovery appears to be caused by the warmer than normal weather for the 12-month period ended March 31, 2023. During the period there was a -11.8 percent Degree Day Difference when the actual billing degree days are compared to normal degree days.

I have reviewed the determination of the under-collection amount of $15,799,007 and have accepted the calculations. Therefore, I recommend on behalf of the Division that the Commission accept the Net Under-Recovery of Target Revenue of $15,799,007.

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 incurred two penalties of $75,000 each related to meter testing during CY 2022 and on-cycle meter reads during Fiscal Year 2023. The Company has also added a credit balance of $416 from last year's DAC filing.

Therefore, the Company has proposed a Service Quality Performance Factor of $0.0003 per therm to be credited to customers effective November 1, 2023. I have reviewed the calculation of the Service Quality Performance credit factor, and recommend on behalf of the Division that the Commission approve the Company's proposed $0.0003 per therm credit.

Reconciliation Factors

Schedule PRB/TGS-9 and Schedule PRB/TGS-10 present the Reconciliation Factors. Schedule PRB/TGS-9 calculates the component which reconciles the amounts approved for recovery or refund and actual revenue billed through June 2023 and forecasted revenue through October 2023. Schedule PRB/TGS-10 calculates the true-up amount representing the difference between the forecasted balance and the actual balance used to calculate the reconciliation factor as of October 31, 2022.

The Company calculated a total reconciliation amount subject to recovery of $12,673,702 for all rate classes and derives a Reconciliation factor of $0.0320 per therm by dividing the $12,673,702 by the forecasted throughput of 39,576,910 dth for the period November 1, 2023, through October 31, 2024. The $12,673,702 includes the 2022 reconciliation net true up under-recovery of $580,879.

The reconciliation of the RDA balance through the RDA factors which only applies to Residential and Small and Medium C&I customers results in a separate Reconciliation factor for this group. This factor was derived by adding the RDM Recon Reconciliation ending balance of $7,674 and RDA Reconciliation factor of $1,615,546 as of October 31, 2023. The net result is a RDA Reconciliation factor of $0.0057 per therm derived by dividing the total amount subject to recovery of $1,623,220 by the Residential and Small and Medium C&I rate classes total throughput of 28,457,458 dth for the 12-month period beginning November 1, 2023.

The Large and Extra-Large rate class Reconciliation, which is not subject to the RDM reconciliation, must be reconciled separately for this rate class. This reconciliation includes the prior reconciliation factor applicable to the Large and Extra-Large class and the reconciliation of the base rate allowance for the recovery of Environmental Response Costs for the April 2022 through March 2023 period. The balance of the Reconciliation factor associated with the previous reconciliation is an over-recovery of $1,453,874. The ending balance of the base rate Environmental allowance as of March 2023 is an under-recovery of $42,779. The net result is a credit factor of $0.0126 per therm derived by dividing the total over-recovery of $1,411,095 by the Large and Extra-Large class total throughput of 11,119,451 dth for the 12-month period beginning November 1, 2023. This credit is then added to the Reconciliation factor of $0.032 applicable to all rate classes to derive a net Reconciliation factor for the Large and Extra-Large rate class of $0.0194 per therm for the 12-month period beginning November 1, 2023.

I have reviewed the calculations and recommend on behalf of the Division that the Commission approve the factors.

<u>Earnings Sharing Mechanism</u>

The Company's Gas Earnings Report for the 12 months ended December 31, 2022 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 on behalf of the Division that the Commission approve the Company's ESM proposal.

<u>Low-Income Discount Recovery Factor</u>

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, Low Income Residential Non-Heating and 13, Low Income Residential Heating. 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 $0.0230 per therm charge. I recommend on behalf of the Division that 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 $5,676. When divided by the throughput of 39,576,910 dths, the resulting factor is $0.0001 per dth or $0.0000 on a per therm basis. The customer credit amount, which is based on the per therm rate, is too small to generate a billable factor. The Company proposes that it be carried forward to a subsequent year. I recommend on behalf of the Division that the Commission approve the Company's proposal.

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 2.0 percent annual decrease. This equates to a decrease of $34.38 ($33.35 in the DAC Factor and $1.03 in Gross Earnings Tax).

The Narragansett Electric Company
d/b/a Rhode Island Energy
2023 Distribution Adjustment Charge (DAC)

Annual Consumption (Therms)	Proposed Rates	Current Rates	Difference	% Chg	Base DAC	GET
845	$1,719.17	$1,753.55	($34.38)	-2.00%	($33.35)	($1.03)

Low-Income Customer Charge Deferral Recovery

In Docket No. 22-20-NG, the Commission directed the Company to reduce the low-income rate classes Rate 11 and Rate 13 customer charge of $14.00 per month to zero for the months of January, February, and March 2023. The Commission also authorized the Company to defer the amount related to the unbilled customer charge in a regulatory asset account.

In the September 1, 2023 Supplemental DAC filing, the Company proposes to recover the deferred customer charge over a seven-month period. The Company notes that since the monthly customer charges that were deferred were not billed on a volumetric basis, it is not proposing to recover the deferred amount through the DAC, which is a volumetric charge. Instead, the Company is proposing to increase the customer charge for low-income rate classes Rate 11 and Rate 13 by an additional $4.75 per month for the seven-month period April 2024 through October 2024. This period would allow the Company to recover the deferred customer charge plus carrying costs. The Company proposes that any final reconciliation of any under-or-over-recovery amount based on actual customer counts and interest rates should be addressed in a future DAC filing application.

After consideration of the Company proposal, I find it reasonable as it would mitigate bill impacts for the affected customers by providing an extended payback period of 7-months as compared to the deferral period of 3-months. Also, the payback will occur after the upcoming heating season when usage and bills are typically lower and more affordable. However, I recommend that attempts should first be made to resolve the under-or-over-recovery amount in next year's DAC filing rather than leaving the resolution open-ended.

Recommendation

Based on my review of the 2023 Annual Gas Distribution Adjustment Clause and Revenue Decoupling Mechanism Reconciliation filings by Rhode Island Energy, I recommend that the Division recommend that the Commission approve the proposed rates as filed.