STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES PUC

IN RE: THE NARRAGANSETT ELECTRIC	**:**	
COMPANY d/b/a NATIONAL GRID	**:**	
DISTRIBUTION ADJUSTMENT CHARGE	**:**	**DOCKET NO. 4573**

REPORT AND ORDER

I. NATIONAL GRID'S FILING AND DIRECT TESTIMONY

On August 3, 2015, the Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed with the Rhode Island Public Utilities Commission (PUC or Commission) its annual Distribution Adjustment Charge (DAC) for effect November 1, 2015. The DAC is filed annually to establish a factor to reconcile estimated gas costs to actual gas costs included in rates over the twelve-month period beginning the first of November. The DAC provides for funding, or the reconciliation and refund, of amounts associated with a number of the Company's specific programs. It also facilitates the timely rate recognition of incentive/penalty provisions.

In support of its filing, National Grid submitted the prefiled testimony[1] of Suhila Nutile, a Senior Analyst in the Regulation and Pricing Department for National Grid USA Service Company Inc., to describe the changes to and reconciliation of the various DAC factors[2] and to provide the proposed updated factors to become effective November 1, 2015. Ms. Nouri Nutile's testimony described each of the DAC factors and the

[1] Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at www.ripuc.org/eventsactions.html, organized by docket number. Ms. Nutile's prefiled testimony specifically is available at http://www.ripuc.org/eventsactions/docket/4573-NGrid-DAC-Filing(7-31-15).pdf.

[2] There are twelve DAC factors: a System Pressure factor, an Advanced Gas Technology factor, a Low Income Assistance Program factor, an Environmental Response Cost factor, a Pension Adjustment factor, an On-Systems Margin Credit factor, a Reconciliation factor, an Earnings Sharing Mechanism factor, a Service Quality factor, a Revenue Decoupling Adjustment factor, rate class specific Infrastructure, Safety, and Reliability factors, and new this year, a Firm Revenue Credit factor that will be described in the testimony summary below.

proposed changes to those factors.[3] She noted that the System Pressure factor would be filed with the Company's Supplemental Filing on September 1 to coincide with the Gas Cost Recovery filing because forecasted liquefied natural gas (LNG) costs are directly related to gas costs.[4] Ms. Nutile provided an update of the Company's recent Advanced Gas Technology (AGT)[5] rebate activity and identified an account balance of $2,134,557, which did not include $31,963 of interest to be returned to customers through the Reconciliation factor. Ms. Nutile represented that National Grid was not proposing to add to the $300,000 of funding provided annually through base rates. She noted that the Company would reassess the need to modify this funding in next year's DAC filing -- in August 2016 -- and propose any changes deemed necessary at that time.[6]

Ms. Nutile provided that National Grid was not proposing to add to the current level of funding provided for the Low Income Assistance Program factor, which is funded through base rates.[7] She noted that an additional $519,872 of environmental costs must be charged to ratepayers through the Environmental Response Cost factor resulting in an increase of $0.0013 per therm to compensate for the shortage of funds recovered through base rates.[8] She provided that the Pension Adjustment Factor would be provided in the Company's September 1, 2015 Supplemental filing.[9]

Regarding the On-System Margin Credit factor, Ms. Nutile explained that any excess collected above a $1,604,433 threshold would be returned to customers and any

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[3] Nutile Direct at 1-4, Sched. SLN-1 (Aug. 3, 2015).
[4] *Id.* at 5-6, SLN-2.
[5] The purpose of the AGT program is to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand resulting in a reduction of the unit cost of gas for all customers by generating distribution revenues to support fixed costs associated with resources needed during peak periods
[6] Nutile Direct at 6-8, Sched. SLN-3 (Aug.3, 2015).
[7] *Id.* at 9.
[8] *Id.* at 10-11, SLN-4.
[9] *Id.* at 11. The Company filed its Annual Environmental Report for Gas Service on August 3, 2015.

deficiency below that threshold amount was recovered from customers. She indicated that an $80,556 adjustment was made to the margin threshold to reflect Non-Firm revenues of two customers that were included in the Non-Firm margin from November 2014 through March 2015 when those customers were on the firm tariff rate, resulting in a revised threshold of $1,523,876. Ms. Nutile stated that the total margin compared to the adjusted threshold resulted in a shortage of $133,185 to be collected from ratepayers.[10] She noted that in Docket No. 4514, the Company modified its tariff to allow it to charge Non-Firm customers distribution rates during periods of curtailment, the revenue of which is included in the On-System Margin adjustment calculation.[11] She also noted that the Company omitted $23,399 of curtailment penalty charges in its 2015 Gas Cost Recovery (GCR) Reconciliation filed on June 30, 2015 and that this would be corrected in the Annual GCR Reconciliation filing.[12]

Since no service quality penalties were assessed against the Company for the current year, Ms. Nutile explained, no money would be returned to ratepayers through the Service Quality[13] factor.[14] She identified a $14,181,587 over-collection to be refunded to customers through the Revenue Decoupling Adjustment (sometimes RDA),[15] which computes to $0.0500 per therm for Residential as well as Small and Medium Commercial

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[10] Nutile Direct at 12-13, Sched. YC-6.
[11] *Id.* at 14.
[12] *Id.*
[13] The general purpose of a service quality plan is to ensure that customers receive a reasonable level of service. It consists of five key aspects: (1) service measures, (2) benchmark standards, (3) the amount of the penalty, (4) the penalty weight for each measure, and (5) the time period for measuring performance to assess a penalty upon which the Company is assessed. Should the Company fall below a range established in the metrics, it is assessed a fine. The Company's Fiscal Year 2015 Annual Report on Service Quality Plan was filed on July 27, 2015.
[14] Nutile Direct at 15.
[15] The details of the annual reconciliation were filed with the PUC on June 26, 2015 and are discussed below.

and Industrial (C&I) customers.[16] She noted that any proposed factor associated with the Earnings Sharing Mechanism would be included in the Company's September 1, 2015 Supplemental filing.[17] She provided that the Infrastructure, Safety, and Reliability (ISR) reconciliation[18] resulted in an under-recovery of $8,582,019, which included the FY 2015 revenue requirement on actual cumulative capital investment covered by the ISR Plan and a reconciliation of the FY 2014 reconciliation balance amount.[19] Ms. Nutile explained that in the Settlement Agreement in the last rate case, Docket No. 4323, the parties agreed that half of any incremental revenues received by the Company from a customer that had proposed to install a large gas-fired combined heat and power project would be credited to all ratepayers.[20] Regarding the reconciliation component of the DAC, Ms. Nutile explained how each of the individual DAC items were separated into three, rate-class specific groups and reconciled on the basis of the gas year for all rate classes. She set forth in detail how this factor was calculated.[21]

Ms. Nutile identified a projected throughput of 39,897,042 decatherms for the Company's gas year of November 1, 2015 through October 31, 2016. Attached to her testimony were a number of schedules with the details of the proposed factors. Those are combined in Schedule SLN-1 to present the Company's preliminary DAC factor. That factor includes a separate factor developed for the Residential, Small, and Medium C&I rate classes, which includes the RDA factor and a separate factor related to the reconciliation of the base rate items, AGT, Low Income Assistance Program factor, and

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[16] Nutile Direct at 15, Sched. SLN-7.
[17] *Id.* at 16.
[18] The details of the ISR reconciliation were filed with the PUC on August 3, 2014 and are discussed below.
[19] Nutile Direct at 16-17, SNL-8.
[20] *Id.* at 17, SLN-9.
[21] Nutile Direct at 17-22 , Sched. SLN-10, SLN-11.

Environmental Response Cost factor for the Large and Extra-Large rate classes. Each of these class-specific factors is combined with the ISR reconciliation factors and the prior Reconciliation applicable to all rate classes and added to the ISR factors approved by the PUC in the Company's ISR filing.[22]

On June 26, 2015 and in accordance with the provisions of the Company's gas tariff,[23] which established an annual reconciliation of target revenue per customer and actual revenue per customer through a Revenue Decoupling Adjustment (RDA) factor to be included in the DAC, National Grid filed its annual RDA factor for the one-year period April 1, 2014 through March 31, 2015. To explain the Revenue Decoupling Mechanism (sometimes RDM) and the actual results calculated for the period April 1, 2014 through March 31, 2015, and to propose the adjustment to the Target Revenue-Per-Customer, the Company submitted the testimony of Suhila Nouri Nutile. Ms. Nutile provided an overview of the RDA reconciliation mechanism and explained the actual Revenue Decoupling Mechanism results for the period April 1, 2014 through March 31, 2015.[24]

Ms. Nutile explained the adjustments made to the Target Revenue-Per-Customer to reflect the reclassification of 2,600 customers from Residential Non-Heating to Residential Heating customers. To determine which customers should be reclassified, she stated that the Company identified what customers had converted their heating system to natural gas but had not yet been reclassified to Residential Heating and then identified the remaining customers to be reclassified by whether their usage exceeded

[22] *Id.* at Sched. SLN-1. The Company's ISR Plan is filed in December for an effective date of April 1.
[23] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sched. A
[24] Nutile Decoupling Direct at 2-3, Sched. SLN-1 (Jun. 26, 2015); http://www.ripuc.org/eventsactions/docket/4573-NGrid-RDM(6-26-15).pdf.

1,000 therms per year. She provided that the Target Revenue-Per-Customer will be further adjusted if the Company finds further misclassification of Residential Heating customers. She pointed out that the Company is continuing its review to ensure that Residential customers are appropriately classified.[25]

In addition to adjusting the Target Revenue-Per-Customer, Ms. Nutile provided that the actual Revenue-Per-Customer had to be adjusted to reflect reclassification of the 2,600 Residential customers from Non-Heating to Heating customers.[26] She presented a $14.2 million over-recovery of target revenue, most of which she attributed to colder than normal weather.[27] She noted that the adjustments resulted in an additional $0.5 million credit to customers.[28]

On August 3, 2015, National Grid filed its FY 2015 Gas Infrastructure, Safety, and Reliability Plan Annual Report and Reconciliation[29] which comprises a reconciliation of two components: (1) the difference between the forecasted and actual revenue requirement and (2) the reconciliation of forecasted collections and actual collections. To support the calculations set forth in the filing, National Grid provided the prefiled testimonies of David G. Iseler, Director of Network Gas Strategy-New England for National Grid Corporate Services LLC, and Melissa A. Little, Lead Specialist for the New England Revenue Requirements in the Regulation and Pricing Department of National Grid USA Service Company, Inc.[30]

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[25] *Id.* at 4-7.
[26] *Id.* at 8-10.
[27] *Id.* at 11.
[28] *Id.* at 12.
[29] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sched. A, Sheet 6.
[30] FY 2015 Gas Infrastructure, Safety, and Reliability Plan Annual Reconciliation (Aug. 3, 2015); http://www.ripuc.org/eventsactions/docket/4573-4474-NGrid-ISR-2015-Reconciliation(8-3-15).pdf.

Mr. Iseler provided testimony to present the details of the filing, as well as the actual spending for the April 1, 2014 through March 31, 2015 period. He explained the major spending variances in the specific categories of the ISR Plan. Mr. Iseler indicated that the Company spent $77.85 million for non-growth capital investment under the Gas ISR Plan, approximately $6.15 million more than the Company's annual approved budget of $71.70 million.[31]

Mr. Iseler identified $4.40 million of increased costs for the Proactive Main Replacement Program which he attributed in large part to the main replacement being done in urban areas which require additional safety measures, a greater need for sidewalk and street repaving, and additional costs for permits and increased traffic control.[32] He also noted $3.35 million of increased costs in Public Works spending, due to more complex work projects, and $1.11 million overspending for Mandated Programs. He identified these three areas of increased costs as the primary drivers of the $4.40 million variance in FY 2015.[33] In a number of categories, spending was under-budget, off-setting the over-spending in the categories set forth above.[34] In requesting full reconciliation of the actual spending, Mr. Iseler contended that the under-spending was reasonable and consistent with the intent of the ISR Plan to maintain the overall safety and reliability of the gas system while meeting customer needs. He also provided that the Company was seeking an over-budget variance of $0.10 million of Operation and Maintenance expense associated with the hiring, training, and supervising of eleven new hires.[35]

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[31] Iseler ISR Direct at 2-4, Sched. DGI-1 (Aug. 3, 2015).
[32] *Id.* at 4-5.
[33] *Id.* at 6-7.
[34] *Id.* at 8-10.
[35] *Id.* at 10-11.

Ms. Little presented testimony to update the FY 2015 ISR revenue requirement associated with actual FY 2015, FY 2014, FY 2013, and FY 2012 capital investment levels, actual tax deductibility percentages for FY 2014 capital additions, and updated O&M expenses. Her testimony also addressed the income tax Net Operating Loss (NOL) issue raised in FY 2016 Gas ISR Proposal. Specifically, she discussed the Company's proposal to recover: 1) a $3.1 million increase to its FY 2015 revenue requirement related to vintage FY 2012 through FY 2014 investment, 2) a $3.5 million increase in its FY 2012 through FY 2014 revenue requirements on investments made during those years, and 3) approximately $1.7 million related to the property tax mechanism true-up. Lastly, she also discussed two errors that were made in the Company's FY 2014 Gas ISR reconciliation filing, which lower the amount of the revenue requirement calculated in the FY 2014 filing. The total reconciliation amounts $8,744,408 in addition to the $4,392,480 previously approved by the PUC in the FY 2015 ISR Plan, Docket No. 4474.[36]

Ms. Little explained how for FY 2012, FY 2013, FY 2014, and FY 2015 the Company's failure to utilize its NOLs resulted in customers realizing tax benefits that the Company had not yet used.[37] As previously explained by Michael Laflamme and William Richer in Docket No. 4540, Ms. Little explained that tax NOLs are generated when the Company's tax deductions exceed its taxable income. She described how first year bonus depreciation and capital repairs tax deductions can be taken immediately for

[36]Little ISR Direct at 2-4 (Aug. 3, 2015). In Docket No. 4540, the Company filed supplemental testimony supporting recovery of a $3.1 million increase to its FY 2016 revenue requirement. The Company explained that it had failed to offset its accumulated deferred income taxes with a net operating loss (NOL) which allowed customers to receive the benefit in excess of what was received by the Company. The Commission allowed the proposed adjustment for FY 2016 because the Company corrected its 2016 Gas ISR Plan revenue requirement prior to the Commission's decision.

[37] *Id.* at 5.

tax purposes but are recorded as plant investment on the Company's books. She also stated that NOLs are non-cash assets.[38]

Ms. Little explained how during the preparation of the FY 2016 ISR Plan, the Company discovered that it had not recognized that NOLs had been generated and therefore, had not reflected them for FY 2012 through FY 2015. She described how including NOLs in the revenue requirement calculations reduces accumulated deferred income taxes that are a reduction to the ISR rate base. She stated that since FY 2012, the Company has failed to reduce its accumulated deferred income taxes by the amount of investment-related NOLs and, therefore, provided customers with too much of a cash benefit.[39] Ms. Little justified the Company's request to recover the increase immediately rather than over a period of time, by indicating that the impact on the cumulative revenue requirement is permanent until the Company is able to utilize the NOLs. She noted that deferring the amount will result in increased recovery in future years which will include carrying charges on the amounts deferred.[40] She explained how the $6.6 million is comprised of: 1) the $3.5 million one-time period adjustment for the under-collected revenue requirements in FY 2012, FY 2013, and FY 2104, and 2) the $3.1 million of cumulative impact on the FY 2015 revenue requirement of the prior years' NOLs related to the FY 2012 through FY 2014 investment. She summarized this by stating that the $6.6 million is the result of the Company's applying the NOL offset against accumulated deferred tax liabilities when calculating rate base for FY 2012 through FY 2014 capital investment.[41]

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[38] *Id.* at 6-7.
[39] *Id.* at 9.
[40] *Id.* at 10.
[41] *Id.* at 11.

Ms. Little noted that the NOL for FY 2015 is not included in the calculation of the FY 2015 rate base because the Company's FY 2015 tax return will not be filed until December 2015. If at that time, the Company generates NOLs, it will reconcile this in its FY 2016 ISR Reconciliation filing.[42] She discussed the correction made to the FY 2014 revenue requirement associated with the calculation of average rate base on incremental FY 2014 ISR investment, noting the separate calculation that had to be made to apportion incremental non-growth capital for the year to determine the weighted average rate base for incremental FY 2014 investment.[43] Finally, she noted that the Company revised its FY 2014 revenue requirement to replace its estimated capital repairs tax deduction with the actual capital repairs deduction rate and how this rate was also adjusted to correct a FY 2012 rate used in the FY 2014 revenue requirement calculation of FY 2012 investment.[44] She provided that the adjustments and corrections yield a FY 2015 revenue requirement of $13,136,888.[45]

On September 1, 2015, National Grid filed supplemental testimony from Suhila Nouri Nutile and William Richer, Director of Revenue Requirements, Rhode Island, for National Grid USA Service Company, Inc. Ms. Nutile's testimony incorporated updates to the DAC components included in the August 3, 2015 filing. She proposed a System Pressure factor of $0.0037 per therm, which was calculated by multiplying the forecasted 2015-2016 LNG lease payment costs by the updated system pressure balancing percentage.[46] She presented the Company's proposed Pension and Post Retirement Benefits Other than Pension (PBOP) credit factor of $0.0122 per therm to be returned to

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[42] *Id.* at 12.
[43] *Id.* at 13-14.
[44] *Id.* at 14-15.
[45] *Id.* at 15, 18.
[46] Nutile Supplemental at 1-3 Sched. SLN-1S, SNL-2S (Sept. 1, 2015), ;

customers.[47] She noted that the ISR Reconciliation factors were updated to reflect the adjusted revenue requirement.[48] She provided an update of the Reconciliation adjustment factors of $0.0008 per therm applicable to all rate classes and $0.0007 per therm applicable to the Large and Extra-Large rate classes. She reiterated that the DAC factors for the Residential, Small, and Medium C&I rate classes, and the Large and Extra-Large rate classes are all different.[49] The Revenue Decoupling Adjustment factor only applies to the Residential and Small, and Medium C&I customers. A separate factor was developed for the Large and Extra-Large rate classes to accommodate the reconciliation of the base rate related items previously discussed.[50]

Ms. Nutile set forth the various proposed DAC rates applicable to the different rate classes, ranging from $0.0100 per therm to $0.0731 per therm. She said that the proposed DAC rates would result in an annual increase of approximately $4.18 or 0.3% for an average residential customer using 846 therms annually.[51]

Mr. Richer provided testimony to describe the status of the Company's earnings subject to the Earnings Sharing Mechanism for the periods ending March 31, 2015 and March 31, 2014. He also provided the calculations of the Pension and PBOP costs subject to the reconciliation mechanism and made a correction to the Pension and PBOP reconciliation for the period ending March 31, 2014.[52] He presented that the Company was requesting that it be granted a permanent extension from July 1 to August 28 to file its gas earnings reports so as to coincide with the filing of FERC reports for the same

[47] *Id.* at 3-4, SLN-5S.
[48] *Id.* at 4, Sched. SNL-8S.
[49] *Id.* at 4-5, Sched. SNL-10S.
[50] *Id.* at 5, Sched. SNL-7S
[51] *Id.* at 6-7, Sched. SNL-1S.
[52] Richer Supplemental at 1-3 (Sept. 1, 2015).

period. He explained that on August 28, 2015, National Grid filed an earnings report identifying returns on equity for FY 2015 of 5.42% and FY 2013 of 7.97%.[53]

Mr. Richer noted that the Pension Adjustment factor is designed to refund or recover the reconciliation of the prior year's amounts collected in base rates for Pension and PBOP expenses.[54] He noted a $93,085 reduction of the carrying charge for the cumulative PBOP underfunding which he carried forward and reflected in the current year reconciliation. The reconciliation of the Pension and PBOP factor revealed an over-recovery of both pension and PBOP expenses in the amounts of $1,911,662 and $2,392,514 respectively, leading to carrying charges of $351,075 and $263,290, respectively, to be returned to customers.[55]

II. DIVISION OF PUBLIC UTILITIES AND CARRIERS' DIRECT TESTIMONY

On September 15, 2015, the Division of Public Utilities and Carriers (Division) filed the direct testimony of its consultant David J. Effron, of Berkshire Consulting Services. Mr. Effron provided testimony to address the Company's treatment of the NOL in the calculation of the FY 2015 revenue requirement. He explained that a NOL occurs when because of capital repairs deductions, bonus depreciation and other income tax deductions reduce taxable income to less than zero. Being able to recognize the NOL results in an offset to accumulated deferred income tax, which is deducted from plant in service and increases the Company's revenue requirement.[56]

[53] *Id.* at 4-6.
[54] *Id.* at 6-7.
[55] *Id.* at 8-9.
[56] Effron Direct at 1-4 (Sept. 15, 2015).

Mr. Effron stated that the Company did not recognize the effect of the NOLs on the balance of accumulated deferred income tax that was deducted from plant in service for the FY 2012, FY 2013, and FY 2014 ISR reconciliations. He indicated that the impact of the failure to recognize the NOLs for FY 2015 is $3.1 million, which the Company calculated correctly. To address the understated revenue requirement for FY 2012, FY 2013 and FY 2014, Mr. Effron noted that the Company is proposing a one-time adjustment of $3.5 million.[57] When asked whether the Company should be allowed to recover this one-time adjustment, Mr. Effron stated that they should be if the "cumulative revenue requirement" includes the revenue requirement since the inception of the ISR reconciliation mechanism.[58] Mr. Effron disagreed that the Company should be allowed to recover this one-time adjustment in the FY 2015 reconciliation year. He recommended that recovery be spread evenly over three years and without carrying costs.[59]

Bruce Oliver, a consultant from Revilo Hill Associates, Inc., also submitted prefiled testimony on behalf of the Division. He discussed all elements of the DAC, except the Pension Adjustment factor, Earnings Sharing Mechanism, and the ISR Revenue Requirement Reconciliation, which were reviewed by Mr. Effron. Mr. Oliver noted that the current rate proposed by the Company, prior to inclusion of the ISR, is a decrease from the current net DAC charge; however after inclusion of the ISR, all classes of customers experience an increase. He presented a list of rates by class showing the inclusion of the ISR charges.[60]

[57] *Id.* at 4-5.
[58] *Id.* at 5-6.
[59] *Id.* at 6-7.
[60] Oliver Direct at 2-4 (Oct. 2, 2015).

He found the Company's computation of the System Pressure factor to be consistent with the terms of the Settlement Agreement in National Grid's Docket No. 4339. He recommended no change in funding to the Advanced Gas Technology program and found no reason to supplement existing low income funds.[61] While he noted that the Division had not conducted a full audit of the Company's environmental costs, his review revealed that those expenses appear to be reasonable.[62]

Mr. Oliver found the Company's calculation of the On-System Margin Credit factor to be reasonable and that the revenue thresholds were properly adjusted to reflect the migration of dual fuel customers from Non-Firm to Firm Service for the period subsequent to the test year in the Company's last rate case.[63] In discussing the RDA, Mr. Oliver noted that Ms. Nutile's calculations, resulting in a $14,181,587 over-collection and a ($0.0500) RDA factor, were properly computed.[64] Regarding the reconciliation adjustment, Mr. Oliver was satisfied with the $0.0008 factor proposed by the Company.[65]

III. HEARING

At the October 26, 2015 public hearing, National Grid presented witnesses and argument. The Commission granted the Company's requests for protective treatment as set forth in the record.[66] Michael LaFlamme, Vice President of Regulation and Pricing for the New England jurisdictions of National Grid, and William Richer testified regarding the Company's NOLs in both the gas and electric ISR reconciliations. Mr. LaFlamme explained that the cumulative revenue requirement is the total of the annual

[61] *Id.* at 14-18.
[62] *Id.* at 19-23.
[63] *Id.* at 24.
[64] *Id.* at 24-25.
[65] *Id.* at 26.
[66] Hr'g Tr. 4-5.

revenue requirements since the inception of the ISR while the annual revenue requirement is the amount of revenue required to support the assets or investments in assets that the Company has made to its distribution system along with periodic expenses.[67] He testified that the one-time $3.5 million adjustment that the Company was seeking represented the revenue requirement not recovered because of the Company's failure to realize NOLs in FY 2012, FY 2013, and FY 2014. He further explained that while the Company files its reconciliation on August 1, it does not file its tax return until December 15. The timing difference, he explained, prevented the Company from reconciling its FY 2014 NOL until its FY 2015 reconciliation.[68] The first opportunity the Company would have to reconcile $900,000 of the $3.5 million one-time adjustment, Mr. LaFlamme provided, would be with the FY 2015 reconciliation.[69] Although unable to cite specific instances of where the Company had reconciled amounts to the benefit of customers for prior periods, Mr. LaFlamme was able to point to an instance where $140,000 that had been wrongfully included in ratebase in prior years is being returned to customers through the FY 2015 reconciliation.[70]

Mr. Richer asserted that approximately $413,000 is prior period related and should the Commission not allow recovery of the $3.5 million one-time adjustment, it should allow the Company to retain that $413,000 benefit the Company proposed to be returned to ratepayers.[71] Mr. LaFlamme reiterated, as he had in his testimony in Docket No. 4474, that the NOL issue is very unusual.[72] However, when pressed, he

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[67] *Id.* at 13-16.
[68] *Id.*. at 17-20.
[69] *Id.* at 21-22.
[70] *Id.* at 26-27.
[71] *Id.* at 28-29.
[72] *Id.* at 28, 38.

acknowledged that it is becoming less unusual because of the capital repairs deduction.[73] He stressed that the Company has a pattern of providing benefits back to ratepayers.[74] He explained that the error in not realizing the NOLs occurred because although the deferred tax credit was properly recorded on the Company's balance sheet, the NOL asset was not included in the data to generate ratebase.[75] He assured the Commission that the Company has implemented procedures to ensure this type of error does not occur in the future.[76]

Mr. Richer advised that the individuals responsible for revenue requirement calculations were not aware of the NOL position until it was revealed during discussions with the Company's tax department.[77] Mr. LaFlamme represented that the Company was amenable to the Division's recommendation that recovery of the one-time adjustment be over a three-year period and that carrying costs be waived. He identified the carrying costs as approximately $150,000.[78]

When asked about the Company's 2013 gas earnings report, Mr. Richer testified that the anticipated completion of that report was in the first quarter of 2016. He acknowledged that the Company's issues with its Systems Applications Products (SAP) implementation contributed to the delay in filing this report. He also noted that it is highly unlikely that the Company would earn a return that would result in earnings sharing.[79]

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[73] *Id.* at 38-39.
[74] *Id.* at 31-32.
[75] *Id.* 34-35.
[76] *Id.* at 36.
[77] *Id.* at 36-28.
[78] *Id.* at 44-46.
[79] *Id.* at 56-57.

Mr. Effron testified that it was the Division's position that a three-year recovery for the one-time adjustments was reasonable.[80] Although he had previously responded to a data request indicating that a mechanism could be constructed whereby the Company would be allowed to utilize the NOLs in the future without providing the corresponding benefit to ratepayers, he was hesitant and unable to define with any particularity as to exactly how that mechanism would be structured and the effect of the same.[81] He was equally unclear when questioned about whether his recommendation to allow recovery of the one-time adjustment over a period of three years was in the best interest of ratepayers offering only that it was the most reasonable and balanced solution.[82] He justified his recommendation supporting recovery of the one-time adjustment noting that a mistake of this magnitude adversely affecting customers would have been remedied. He supported his recommendation for the three-year recovery period of the one-time adjustment by noting that the cumulative amount of the adjustment occurred over a three-year period so it only seemed reasonable that recovery occur over that same time period.[83] When questioned about how far back the reconciling period should extend, he offered that it should be at the time base rates are set.[84]

Upon completion of the hearing on the NOL issue, the Commission continued hearing evidence on the DAC factors proposed by the Company.[85] National Grid presented Ms. Nutile and Mr. Richer as a panel. Ms. Nutile testified that the AGT account has a current balance of $1.4 million. She noted that a total of $1.3 million from

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[80] *Id.* at 68.
[81] *Id.* at 69-75.
[82] *Id.* at 75-76.
[83] *Id.* at 77-78.
[84] *Id.* at 79.
[85] References to the transcript generated for this portion of the hearing will be identified as Hr'g1 Tr..

the account will be remitted to Toray in June 2015, June 2016, and June 2017. She identified one potential recipient of an approximately $330,000 rebate for 2016 or 2017. She also acknowledged that the Company collects $300,000 from base rates every year for the AGT fund.[86]

Mr. Richer explained that the electric and gas pension costs were put into the same clearing pool because when the SAP system was built, it was built to bring the gas and electric businesses into a single ledger.[87] He further explained that because pension and the benefits other than pension costs are based on actuarial assumptions they are not recognized in the year they are trued up but are spread out over the average lives of the participants in those plans. Currently, there are unrecognized actuarial true-ups that are being amortized from when the Company acquired the gas business from Southern Union.[88]

The Company offered Fred Paine, who is responsible for the AGT program to discuss the one new potential customer identified by Ms. Nutile. Mr. Paine testified that the project is a 1.2 megawatt project of a private industrial customer that would be adding a combined heat and power system to an existing facility.[89] When asked, he identified the benefits to all ratepayers resulting from the project as those created by the Company's increasing its base load in the summertime and thus allowing for the purchase of long-term gas at a more equitable rate to be shared with all ratepayers.[90]

The Division presented Mr. Oliver and Mr. Effron as a panel. Since neither witness was familiar with the Company's request to extend the date for filing its earnings

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[86] Hr'g1 Tr. 16-18.
[87] *Id.* at 20.
[88] *Id.* at 21-22.
[89] *Id.* at 26-27.
[90] *Id.* at 28.

report, Stephen Scialabba represented that the Division did not object to the permanent extension from July 1 to August 28 each year.[91] Mr. Effron testified that it was his recommendation that the Commission accept the pension and earnings sharing factors proposed by the Company subject to any issues that may arise in the late filing responses to data requests.[92] Mr. Oliver also recommended that the Commission accept all of the other proposed factors.[93] Mr. Oliver expressed concern that the AGT program benefits may not be equal to the amount of support being provided through rates. He was unable to provide an answer as to how much, if at all, ratepayers have benefited from the AGT program.[94] Further, he had no knowledge of whether any of the six customers that had participated in the AGT program since its inception were purchasing their gas supply from National Grid. If they were not, that would limit the benefits of being able to purchase at a higher load factor.[95]

IV. FINDINGS

On October 30, 2015, the PUC deliberated on the proposed DAC factors and rate. After considerable discussion regarding recovery of the approximately $6.6 million ISR reconciliation related to the NOLs for FY 2012-2015, the Commission voted two to one to allow recovery as recommended by the Division. The Division's recommendation was to allow for immediate recovery of the FY 2015 amount of $3.1 million and to spread recovery of the FY 2012 through FY 2014 one-time adjustment of $3.5 million over a period of three years. The Company agreed not to seek carrying costs from ratepayers during this period, which the Commission accepted. The Chairperson disagreed with the

[91] *Id.* at 36-37.
[92] *Id.* at 38.
[93] *Id.* at 40.
[94] *Id.* at 42-44.
[95] *Id.* at 48-49.

majority and instead proposed recovery for only FY 2015 and FY 2014 immediately. She stressed that she was not opposed to the Company recovering the total amount sought, but was opposed to how that recovery would occur. She proposed recovery for FY 2012 and FY 2013 at a time when the Company was able to realize the benefits of the NOLs, noting that the evidence before the Commission, as represented by the Company, was that NOLs were an unusual occurrence and if true, the Company would be able to recover the FY 2012 and FY 2013 amounts soon. She noted that ratepayers had no control over the Company's mistake in not realizing the NOLs. The majority countered those arguments by referring to the four straight years of NOLs experienced by the Company and chose to follow the Division's recommendation.

The Commission also considered and approved the following factors: System Pressure - $0.0037 per therm; Advanced Gas Technology Program – $0.0000 per therm; Low Income Assistance - $0.0000 per therm; Environmental Response Cost – $0.0013 per therm; Pension and Post-Retirement Benefits – ($0.0094) per therm; On-System Margin Credits - $0.0003 per therm; Reconciliation Factor - $0.0008 per therm for Residential/Small/Medium C&I customers and ($0.0007) per therm for Large/Extra-Large customers; Service Quality factor - $0.0000 per therm; and Earnings Sharing Mechanism - $0.0008 per therm. In addition to the individual factors, the PUC approved an Uncollectible Percentage of 3.18%, resulting in a DAC adjusted for uncollectibles of ($0.0042) per therm for Residential/Small/Medium C&I customers and ($0.0057) for Large/Extra-Large customers. The PUC also approved a Revenue Decoupling Adjustment charge of ($0.0500)[96] for Residential/Small/Medium C&I customers and a Revenue Decoupling Reconciliation charge of $0.0013 for Residential/Small/Medium

[96] Parentheses denote a credit amount.

C&I customers. The approval of all of the factors plus the 3.18% adjustment for uncollectibles and the Revenue Decoupling adjustments resulted in a base DAC factor of ($0.0529) per therm for Residential/Small/Medium C&I customers and ($0.0057) per therm for Large/Extra-Large customers.[97]

In addition to the specific factors and adjustments set forth above, the PUC approved the base DAC factor being added to an ISR reconciliation adjusted for uncollectibles and then added to an ISR component.[98] The resulting calculations, including the Company's requested reconciliation for the NOL error over a three-year period, revealed a DAC rate of $0.0622 per therm for Residential Non-Heating customers, $0.0210 per therm for Residential Heating customers, $0.0174 per therm for Small C&I customers, $0.0028 per therm for Medium C&I customers, $0.0407 for Large Low Load C&I customers, $0.0398 per therm for Large High Load C&I customers, $0.0112 per therm for Extra-Large Low Load C&I customers, and $0.0105 per therm for Extra-Large High Load C&I customers. The Commission found that the evidence presented by National Grid and the Division supported the reconciliation of the factors as set forth above. The Commission further found that the calculations supporting the factors were accurate.

[97] The specific factors for the various customer classes are set forth in Attachment A.
[98] The different ISR reconciliation amounts and components based on customer class are set forth in Attachment B.

ACCORDINGLY, it is

(22266) ORDERED:

1. The System Pressure factor of $0.0037 per therm is approved for effect November 1, 2015.
2. The Advanced Gas Technology factor of $0.0000 per therm is approved for effect November 1, 2015.
3. Any interest earned on the balance in the Advanced Gas Technology fund shall continue to be credited to ratepayers.
4. The Low Income Assistance Program factor of $0.0000 per therm is approved for effect November 1, 2015.
5. The Environmental Response Cost credit factor of $0.0013 per therm is approved for effect November 1, 2015.
6. The Company shall continue to include in its annual Environmental Report for Gas Service all asset sales or exchanges involving real property that the Company has acquired or may acquire that is funded by ratepayers through the DAC; any such future profits from the sale of land for which acquisition costs have been included in the Environmental Response Cost factor will be credited to ratepayers.
7. The Reconciliation factor of $0.0008 per therm for Residential/Small/Medium C&I customers and ($0.0007) per therm for Large and Extra-Large C&I customers is approved for effect November 1, 2015.
8. The On-System Margin credit factor of $0.0003 per therm is approved for effect November 1, 2015.

9. The Pension and Post-Retirement Benefits factor of ($0.0094) per therm is approved for effect November 1, 2015.
10. The Service Quality Performance factor of $0.0000 per therm is approved for effect November 1, 2015.
11. The Revenue Decoupling Adjustment factor of ($0.0500) per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2015.
12. The Revenue Decoupling Adjustment Reconciliation factor of $0.0013 per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2015.
13. The various ISR reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2015.
14. The overall Distribution Adjustment Charges of $0.0622 per therm for Residential Non-Heating customers, $0.0210 per therm for Residential Heating customers, $0.0174 per therm for Small C&I customers, $0.0028 per therm for Medium C&I customers, $0.0407 per therm for Large Low Load C&I customers, $0.0398 per therm for Large High Load C&I customers, $0.0112 per therm for Extra-Large Low Load C&I customers, and $0.0105 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2015.
15. National Grid shall provide electronic versions of all spreadsheets at the time of its initial filing.

16. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE NOVEMBER 1, 2015 AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING ON OCTOBER 30, 2015. WRITTEN ORDER ISSUED DECEMBER 11, 2015.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Jr., Commissioner

Notice of Right of Appeal: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within 7 days from the date of the Order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or Order.

Attachment A

National Grid - RI Gas

Docket No. 4573

DAC Summary & Comparison to National Grid's Updated DAC*

Line No.		Current	APPROVED PER PUC ORDER Residential/Small Medium C&I	Large/Extra-Large C&I
1	System Pressure (SP) Factor	$ 0.0039	$ 0.0037	$ 0.0037
2	Advanced Gas Technology (AGT) Factor	$ (0.0026)	$ 0.0000	$ 0.0000
3	Low Income Assistance Program (LIAP) Factor	$ 0.0000	$ 0.0000	$ 0.0000
4	Environmental Response Cost (ERC) Factor	$ 0.0011	$ 0.0013	$ 0.0013
5	Pension and Post-Retirement Benefits (PBOP) Factor	$ (0.0052)	($ 0.0094)	($ 0.0094)
6	On-System Margin Credit (MC) Factor	$ 0.0003	$ 0.0003	$ 0.0003
7	Service Quality Performance (SQP)	$ 0.0000	$ 0.0000	$ 0.0000
8	Earnings Sharing Mechanism (ESM)	$ 0.0000	($ 0.0008)	($ 0.0008)
9	Reconciliation (R) Factor	$ 0.0038-0.0025	$ 0.0008	($ 0.0007)
10	**Subtotal**	**$ 0.0013-0.0000**	**($ 0.0041)**	**($ 0.0056)**
11	Uncollectible Percentage	3.18%	3.18%	3.18%
12	**DAC Adjusted for Uncollectibles**	**$ 0.0013-0.0000**	**($ 0.0042)**	**($ 0.0057)**
13	Revenue Decoupling Adjustment	$ (0.0325)	($ 0.0500)	$ 0.0000
14	Revenue Decoupling Adjustment Reconciliation	$ (0.0027)	$ 0.0013	$ 0.0000
15	**DAC Factor**	**$ (0.0339)-0.0000**	**($ 0.0529)**	**($ 0.0057)**

***All figures are per therm.**

Attachment B

Docket No. 4573

DAC Factors including annual ISR component

	ISR Reconciliation w/o uncollectible (therms)	Uncollectible Percentage	ISR Reconciliation (therms) (A)	Base DAC Component (therms) (B)	DAC Component Subtotal Rates (therms) (C) =(A) + (B)	ISR Component (therms) (D)	November 1, 2014 DAC Rates (therms) (E) = (C)+(D)
Res-NH	**$0.0349**	**3.18%**	**$0.0360**	**($0.0529)**	**($0.0169)**	**$0.0791**	**$0.0622**
Res-NH-LI	**$0.0349**	**3.18%**	**$0.0360**	**($0.0529)**	**($0.0169)**	**$0.0791**	**$0.0622**
Res-H	**$0.0202**	**3.18%**	**$0.0208**	**($0.0529)**	**($0.0321)**	**$0.0531**	**$0.0210**
Res-H-LI	**$0.0202**	**3.18%**	**$0.0208**	**($0.0529)**	**($0.0321)**	**$0.0531**	**$0.0210**
Small	**$0.0175**	**3.18%**	**$0.0181**	**($0.0529)**	**($0.0348)**	**$0.0522**	**$0.0174**
Medium	**$0.0128**	**3.18%**	**$0.0132**	**($0.0529)**	**($0.0397)**	**$0.0425**	**$0.0028**
Large LL	**$0.0125**	**3.18%**	**$0.0129**	**($0.0057)**	**$0.0072**	**$0.0335**	**$0.0407**
Large HL	**$0.0122**	**3.18%**	**$0.0126**	**($0.0057)**	**$0.0069**	**$0.0329**	**$0.0398**
XL-LL	**$0.0038**	**3.18%**	**$0.0039**	**($0.0057)**	**($0.0018)**	**$0.0130**	**$0.0112**
XL-HL	**$0.0033**	**3.18%**	**$0.0034**	**($0.0057)**	**($0.0023)**	**$0.0128**	**$0.0105**

***Factors Include Uncollectible Allowance**