Celia B. O'Brien
Assistant General Counsel and Director

April 27, 2018

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

RE: Docket 4686 - Request for Approval of Storm Contingency Fund Replenishment
Supplemental and Corrected Responses to PUC Data Requests – Set 4

Dear Ms. Massaro:

On behalf of National Grid,[1] I enclose ten (10) copies of the Company's supplemental response to PUC 4-5, corrected response to PUC 4-8, and supplemental response to PUC 4-9 in the above-referenced docket.

Please be advised that the Company is filing a corrected response to PUC 4-8 filed on April 23, 2018 to correct two typographical errors. The Company is providing a redlined version of the corrected response to PUC 4-8 to show the corrections.

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

Very truly yours,

Celia B. O'Brien

Celia B. O'Brien

Enclosures

cc: Docket 4686 Service List
Jonathan Schrag, Division
John Bell, Division
Leo Wold, Esq.

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

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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.

___________________________________ April 27, 2018

Joanne M. Scanlon Date

Docket No. 4686 – National Grid's Storm Contingency Fund Replenishment
Service List as of 1/26/17

Name/Address	E-mail	Phone
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File an original &10 copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov; Todd.bianco@puc.ri.gov; Alan.nault@puc.ri.gov; Cynthia.WilsonFrias@puc.ri.gov; Margaret.hogan@puc.ri.gov;	401-780-2107

Supplemental
PUC 4-5

Request:

Referencing the response to PUC-3-4, base pay is $200,000. Labor overheads are $700,000. Please explain why the labor overhead amount is higher than base pay.

Response:

Net Revenue includes (1) base pay and (2) labor overheads on base pay and overtime pay. Labor overheads include the cost of employee benefits, such as employee healthcare costs, employee life insurance costs, workers' compensation, and other employee benefits. Employee benefit costs for the Company do not increase as a result of an employee providing storm restoration services to another company. Therefore, the recovery of labor overhead costs on both base labor and overtime labor from another company is at least partially incremental proceeds to the Company. This is the reason that the Company's illustration reflects a higher amount for labor overheads and a lower amount for base labor.

Supplemental Response:

The total amount of $10.6 million initially argued by the Division of Public Utilities and Carriers (Division) for exclusion from the Storm Fund includes: (1) base pay (not overtime pay), and (2) labor-related overheads on base pay *and* overtime pay.

Specifically, the amount of $10.6 million originally disputed by the Division was comprised of base pay and labor-related overhead costs, as shown in Division Schedule DJE-1. Division Schedule DJE-1 separately reflects the base pay and labor-related overheads for each of the 11 filed storms reviewed in the docket totaling $8,343,151, plus a high-level estimate of total base pay and labor-related overhead costs for the seven un-filed storms of $1,400,000, which together with a high level estimate of interest of $900,000, totals $10,643,151.

The base-pay portion of the $8,343,151 provided on Schedule DJE-1 totals $1,058,300 and the labor-related overhead portion is $7,284,851. Thus, Schedule DJE-1 showed a labor-related overhead amount that is higher than the base pay amount. The Company's hypothetical example demonstrates a similar pattern, with $200,000 in base pay and $700,000 of labor-related overhead costs.

The reason for this disparity is that "labor-related overheads" charged by employees of National Grid USA Service Company, Inc. (Service Company) and employees of other National Grid

Supplemental
PUC 4-5, page 2

affiliates are employee benefit costs, as described above, which must be applied to *both* base labor and overtime labor charged by the Service Company and affiliate company employees when providing services to the Company during major storm restoration.

The Division argued that *base pay* charged by these companies should be excluded from the Storm Fund, and not overtime labor. Therefore, base pay is included in the total of $10,643,151, while amounts associated with overtime labor are excluded. In addition, the Division argued that ***all*** *labor-related overheads* should be excluded from the Storm Fund. Therefore, the labor-related overheads associated with *both* base pay and overtime pay are included in the exclusion amount estimated by the Division. Because the labor-related overheads for both base pay and overtime pay are recommended for exclusion, the labor-related overhead amount is higher than the base pay amount shown on Schedule DJE-1 and in the Company's illustrative example.

Corrected
PUC 4-8

Request:

Referencing PUC-3-11, please provide an illustration of the difference between the current recovery of storm costs and the proposed recovery using the hypothetical that there are three storms in one year that qualify for cost recovery. Each storm has storm related expenses of $10 million.

Response:

Illustrative Example 1 on Attachment PUC 4-8 provides a side-by-side comparison of the recovery model that exists prior to the settlement and that is established within the Settlement Agreement. As shown in the attachment, the principal differences between the models are the following:

- The existing Storm Fund qualifying threshold is $855,000 as compared to the new threshold of $1,100,000, which is a difference of $245,000.
- There is currently a deductible of $375,000, which is eliminated in the new model.
- There is currently $750,000 recovered through distribution base rates to count towards the recovery of costs incurred in relation to Storm Fund events (*i.e.*, the equivalent of the deductible for two storm events), which is eliminated in the new model.

As indicated by the illustrative example, total Storm Fund recoveries would differ by $375,000, assuming the occurrence of three qualifying events causing incremental expenses of $10 million per event.

It is important to note, however, that this illustration does not indicate that the Company would be better off by $375,000 under the new model. In fact, the Company could be better *or worse* off depending on actual circumstances. This is due to the following:

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1. For each event qualifying as a major storm event, the Company loses $245,000 in Storm Fund recovery due to the increased threshold for qualification. Under the previous model, the Company would be eligible to recover storm costs through the fund once the threshold of $855,000 was met. Now, that threshold will be $1,100,000. For storm events that *do not qualify* as major storm events, the Company will be allowed to recover $3,193,756[1] through base distribution rates, which represents the five-year average of non-deferrable storm expense. If the actual costs incurred by the Company for non-qualifying storm events are more than this amount in a given year, the Company loses the recovery until total non-deferrable storm expense exceeds $5,193,756, or $3,193,756 plus $2,000,000. Customers are likewise protected if actual non-qualifying storm expense is less than $1,193,756, or $3,193,756 minus $2,000,000.

2. Although there is no deductible in the new model, there is also no amount recovered in base distribution rates for the deductible. In the past, the Company would recover the $750,000 regardless of whether two or fewer major events occurred. Conversely, the Company would lose the deductible amount if more than two major storm events occurred, although the Company has no control over the weather and cannot take any action to avoid the cost impact of restoring power following a major storm event.

Illustrative Example 2 on Attachment PUC 4-8 reflects the difference between the current recovery of storm costs and the proposed recovery using the same hypothetical posed in this request that there are three storms in one year with expenses of $10 million each, but also one additional storm during that year with expenses of $1 million. As indicated by the illustrative example, total Storm Fund recoveries would be lower by $250,000 based on the proposed settlement since the $1 million storm would no longer qualify for Storm Fund recovery. Until August 31, 2018, a storm with $1 million of costs will exceed the $855,000 threshold and is eligible for Storm Fund recovery. However, if this settlement is approved, after new distribution base rates are approved in Docket No. 4770, a storm with $1 million of costs will be below the new proposed threshold of $1,100,000 and no longer eligible for recovery through the Storm Fund.

[1] RIPUC Docket No. 4770, Schedule MAL-31, Page 7, Line 13.

Illustrative Example 1

		Storm Costs	Current	Proposed
	(a)	(b)	(b)	(c)
Line #				
1	Qualifying Storm Threshold		855,000	1,100,000
2				
3	Storm Events			
4	Storm 1	10,000,000	10,000,000	10,000,000
5	Storm 2	10,000,000	10,000,000	10,000,000
6	Storm 3	10,000,000	10,000,000	10,000,000
7	Total Storm Costs	30,000,000	30,000,000	30,000,000
8				
9	Number of Qualifying Events		3	3
10				
11	Deductible per Storm Event		375,000	-
12				
13	Total Deductible		1,125,000	-
14				
15	Total Deferred to Storm Fund		28,875,000	30,000,000
16				
17	Amounts Recovered in Base Rates		750,000	-
18				
19	Total Recovered from Customers		29,625,000	30,000,000

Illustrative Example 2

Line #	(a)	Storm Costs (b)	Current (b)	Proposed (c)
1	Qualifying Storm Threshold		855,000	1,100,000
2				
3	Storm Events			
4	Storm 1	10,000,000	10,000,000	10,000,000
5	Storm 2	10,000,000	10,000,000	10,000,000
6	Storm 3	10,000,000	10,000,000	10,000,000
7	Storm 4	1,000,000	1,000,000	-
8	Total Storm Costs	31,000,000	31,000,000	30,000,000
9				
10	Number of Qualifying Events		4	3
11				
12	Deductible per Storm Event		375,000	-
13				
14	Total Deductible		1,500,000	-
15				
16	Total Deferred to Storm Fund		29,500,000	30,000,000
17				
18	Amounts Recovered in Base Rates		750,000	-
19				
20	Total Recovered from Customers		30,250,000	30,000,000

Supplemental
PUC 4-9

Request:

Please explain which parts of the storm recovery methodology and settlement are subject to review in Docket No. 4770 and which are not. Referencing PUC-3-12, please explain why the derivation of the five-year non-deferrable storm expense level is reviewable and the bandwidth is not.

Response:

The Storm Fund construct is designed to create a balance between providing timely and reasonable recovery of storm costs to the Company (because it is in the interests of customers to have the Company positioned to restore power safely and expeditiously when there are customer outages), and the interests of customers in making sure that the Company is managing storm costs well and that costs are reasonably incurred. To balance these competing objectives, there are tradeoffs of risk inherent in the construct. Therefore, the Company and the Division negotiated and settled upon the structure of the Storm Fund to achieve the proper balance. Elements such as the bandwidth have an inherent impact in achieving the appropriate balance of customer and Company interests, and therefore are part of the settlement construct. Other elements such as the five-year average of non-deferrable storm expense are a revenue requirement issue appropriately addressed in the base rate proceeding.

Supplemental Response:

The following aspects of storm cost recovery may be reviewed by the Public Utilities Commission (PUC) in Docket No. 4770:

1. The percentage of base labor of New England-based National Grid USA Service Company, Inc. employees who charge Narragansett Electric during the test year of the Company's general rate case currently pending before the PUC in Docket No. 4770 (for normal activities) (Paragraph (3) of the Joint Proposal and Settlement); and

2. An allowance for non-deferrable storm expense (Paragraph (9) of the Joint Proposal and Settlement).

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Supplemental
PUC 4-9, page 2

Although not expressly modified by the Joint Proposal and Settlement, the provisions of the current structure of the Storm Fund set forth in Paragraph (12) of the Joint Proposal and Settlement are stated to remain unchanged.

The Storm Fund construct is designed to create a balance between providing timely and reasonable recovery of storm costs to the Company (because it is in the interests of customers to have the Company positioned to restore power safely and expeditiously when there are customer outages), and the interests of customers in making sure that the Company is managing storm costs well and that costs are reasonably incurred. To balance these competing objectives, there are tradeoffs of risk inherent in the construct. Therefore, the Company and the Division negotiated and settled upon the structure of the Storm Fund to achieve the proper balance. Elements such as the bandwidth have an inherent impact in achieving the appropriate balance of customer and Company interests and, therefore, are part of the settlement construct. Other elements such as the five-year average of non-deferrable storm expense are a revenue requirement issue appropriately addressed in the base rate proceeding.

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