STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S GAS DISTRIBUTION ADJUSTMENT CHARGE	: : :	**DOCKET NO. 4708**

REPORT AND ORDER

On August 1, 2017, 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, 2017. 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 of Ann E. Leary, Manager of New England Pricing for National Grid USA Service Company Inc., and William Richer, Director of Revenue Requirements, Rhode Island, for National Grid USA Service Company, Inc.[1] The purpose of Ms. Leary's testimony was 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, 2017.[3] Ms. Leary noted that because

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[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.
[2] There are twelve components that comprise the DAC factor: 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, two Reconciliation factors one of which includes a Firm Revenue Credit, a Revenue Decoupling Reconciliation factor, an Earnings Sharing Mechanism factor, a Service Quality factor, a Revenue Decoupling Adjustment factor, and rate class specific Infrastructure, Safety, and Reliability factors.
[3] Leary Direct at 3 (Aug. 1, 2017).

underlying data was unavailable to develop all of the DAC factors at the time the testimony was prepared, the factors would be updated in the Company's September 1, 2017 Supplemental DAC filing.[4]

Ms. Leary's testimony described each of the DAC factors and the proposed changes to those factors. 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.[5] Ms. Leary provided an update of the Company's recent Advanced Gas Technology (AGT)[6] rebate activity and identified an account balance of $1,381,233, which did not include $22,067 of interest to be returned to customers through the Reconciliation factor. Ms. Leary represented that National Grid was not proposing to add to the $300,000 of funding provided annually through base rates. She discussed how, in last year's docket, the Division had suggested changes to the program that would increase participation and enhance its benefits. She noted that the program promotes technologies that are not promoted by National Grid's other programs like energy efficiency. She stated that the Company recognizes that its current process is complex, and it will work with the Division of Public Utilities and Carriers (Division) to simplify the process.[7]

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[4] *Id.* at 4.
[5] Leary Direct at 6, Sch. AEL-2. The System Pressure factor recovers projected LNG expenses needed to ensure proper operating pressure along the Company's distribution system.
[6] The stated 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 and thus reduce the unit cost of gas for all customers by generating additional distribution revenues to support fixed costs associated with resources needed during peak periods.
[7] Leary Direct at 7-9, Sch. AEL-3.

Ms. Leary provided that National Grid and the Division agreed to eliminate the Low Income Assistance Program factor.[8] She noted that the funding will continue through base rates.[9] She expressed that the factor had not been funded for a number of years and that with the passage of R.I. Gen. Laws §39-1-27.12, the LIHEAP Enhancement Program, it is the position of the Company and the Division that additional Low Income Assistance Program funding is not needed.[10] Ms. Leary noted that an additional $967,642 of environmental costs had to be charged to ratepayers through the Environmental Response Cost factor,[11] resulting in an increase of $0.0024 per therm to compensate for the shortage of funds recovered through base rates.[12] Although she noted the pension and post-retirement benefits other than pension (PBOP) factor, she noted that William Richer would discuss the derivation of that amount in his pre-filed testimony.[13]

Regarding the On-System Margin Credit factor,[14] Ms. Leary explained that, in response to the Division's suggestion in last year's docket to eliminate this factor, the Company had agreed to not include a proposed factor in this year's filing. Both the Company and the Division agreed that the small adjustment made was not justified by the lengthy and burdensome process to derive the factor.[15]

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[8] The Low Income Assistance Program provides additional funding for the Low Income Heating Assistance and Low Income Weatherization Programs, both of which are funded through base rates.
[9] Leary Direct at 9-10, Sch. SLN-1.
[10] *Id.* at 10-11.
[11] The Environmental Response Cost factor allows the Company to recover costs incurred for evaluation, remediation, and clean-up of sites associated with the Company's ownership of gas facilities and for removing and replacing mercury regulators and addressing meter disposal issues. The Company's Annual Environmental Report for Gas Service was filed with the Commission on July 26, 2017.
[12] Leary Direct at 11-12, Sch. SLN-4. The Company filed its Annual Environmental Report for Gas Service on July 27, 2017.
[13] Leary Direct at 12-13, Sch. AEL-5.
[14] The On-System Margin Credit factor reconciles the actual non-firm margins with those imputed in the Company's base distribution rates in Docket No. 4323.
[15] Leary Direct at 13-14.

Since no service quality penalties were assessed against the Company for the subject year, Ms. Leary explained, no money would be returned to ratepayers through the Service Quality factor.[16] She identified a $177,598 under-collection to be charged to customers through the Revenue Decoupling Adjustment (sometimes RDA),[17] which computed to $0.0006 per therm for Residential as well as Small and Medium Commercial and Industrial (C&I) customers.[18] Ms. Leary also noted that National Grid had transferred 2,449 customers from the Non-Heating to the Heating rate class in June and July 2016. The transfer is explained in her prefiled testimony submitted with the Company's Revenue Decoupling Mechanism Reconciliation filing and is also discussed below.[19]

Ms. Leary provided that the Infrastructure, Safety, and Reliability (ISR) reconciliation[20] resulted in an under-recovery of $6,550,794, which included the FY 2017 revenue requirement on actual cumulative capital investment and Operating and Maintenance expenses covered by the ISR Plan as well as a reconciliation of the FY 2016 reconciliation balance amount.[21] National Grid transferred $535,038 of FY 2017 ISR revenue and FY 2016 ISR Reconciliation revenue from the Residential Heating rate class to the Residential Non-Heating rate class to adjust for the billing determinants that were forecasted prior to the transfer of the 2,449 customers to the Heating rate class.[22]

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[16] 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 2016 Annual Report on Service Quality Plan was filed on August 1, 2017. Leary Direct at 14.
[17] The details of the annual reconciliation filed on June 30, 2017 are discussed later.
[18] Leary Direct at 14-15, Sch. AEL-7.
[19] *Id.* at 15.
[20] The details of the ISR reconciliation were filed with the PUC on August 1, 2017 and are discussed later.
[21] Leary Direct at 16-17, Sch. AEL-8.
[22] Leary Direct at 17-19, Sch. AEL-8, AEL-10.

Ms. Leary 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 large commercial and industrial customer that had proposed to install a large, gas-fired combined heat and power project would be credited to all ratepayers through the Firm Revenue credit as part of the Reconciliation factor.[23] Regarding the reconciliation component of the DAC, Ms. Leary 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.[24]

Ms. Leary identified a projected throughput of 39,483,630 decatherms for the Company's gas year of November 1, 2017 through October 31, 2018.[25] Attached to her testimony were a number of schedules with the details of the proposed factors. They were combined in Schedule AEL-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 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.[26]

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[23] Leary Direct at 20, Sch. AEL-9; Docket No. 4323, Settlement Agreement Book 1 at 19 (Oct. 19, 2012). This credit is included in the Reconciliation factor.
[24] Leary Direct at 20-25, Sch. AEL-10, AEL-11.
[25] Leary Direct at 25.
[26] Leary Direct, Sch. AEL-1. The Company's relevant ISR Plan was filed on December 1, 2016 for an effective date of April 1, 2017.

Mr. Richer's testimony described the pension and post-retirement benefits other than pensions (PBOP) factor, how that factor was calculated, and recent requirements issued by the Financial Accounting Standards Board (FASB). He 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 PBOP expenses. Mr. Richer explained that National Grid contributes to the PBOP plans at a "Minimum Funding Obligation" level, which is equal to the amount billed to customers plus the amounts of capitalized PBOP costs. Failure to fund at the Minimum Funding Obligation level, he reported, would result in the Company having to pay a carrying charge to customers.[27] Mr. Richer stated that the reconciliation of the pension and PBOP expense revealed an over-collection of $1,707,068 and $2,565,382, respectively. Additionally, because the pension and PBOP liabilities were under-funded during this time, carrying charges of $401,195 and $6,329 accrued, respectively.[28]

Mr. Richer described in detail the new FASB accounting rules for pensions and PBOBs and noted that the Company is recommending that its pension adjustment factor continue to operate in the same manner that it has in the past. He noted that the Commission's rejection of the changes required by the new FASB accounting rules would cause a significant burden on the Company as it would have to substantially modify its accounting systems at a significant cost and implement additional procedures and controls. In actuality, the Company would be required to maintain two sets of books, one for U.S.

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[27] Richer Direct at 2-4 (Aug. 1, 2017).
[28] Richer Direct at 4, Sch. WRR-1 at 1-4.

GAAP reporting and another for PUC reporting, which in addition to time and cost concerns, could result in confusion for those reading the reports.[29]

On June 30, 2016 and in accordance with the provisions of the Company's gas tariff,[30] 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, 2016 through March 31, 2017. To explain the Revenue Decoupling Mechanism (sometimes RDM) and the actual results calculated for the period April 1, 2016 through March 31, 2017, as well as to propose the adjustment to the target revenue-per-customer, the Company submitted an additional volume of testimony from Ms. Leary. Ms. Leary provided an overview of the RDA reconciliation mechanism and explained the actual Revenue Decoupling Mechanism results for the period April 1, 2016 through March 31, 2017. She also provided a proposed adjustment to the target revenue-per-customer and billed revenue associated with the transfer of 2,449 residential customers from the Non-Heating to the Heating class.[31] Ms. Leary identified a net under-recovery balance of $177,598.[32]

Ms. Leary explained the prior adjustment made to the target revenue-per-customer to reflect the reclassification of the 970 customers from Residential Non-Heating to Residential Heating customers in Docket No. 4634. She stated that the Company continued to analyze the usage of its Non-Heating customers in 2016 and determined that 684

[29] Richer Direct at 4-11.
[30] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A
[31] Leary Decoupling Direct at 2-3, 7, Sch. AEL-1 (June 30, 2017); http://www.ripuc.org/eventsactions/docket/4708-NGrid-RDM-Reconciliaton(6-30-17).pdf.
[32] Leary Decoupling Direct at 5, Sch. AEL-1.

customers should be reclassified as Heating customers based on the usage pattern those customers exhibited. She provided that a total of 2,449 customers were transferred to the Heating rate class during June and July 2016. Because 684 of those customers exhibited heating usage prior to the end of the rate year in the 2012 rate case, the Company made one final adjustment to its target revenue-per-customer and notified the customers of the change to their rate class.[33] She said the Company does not anticipate any further adjustment of the target revenue-per-customer.[34]

In addition to adjusting the target revenue-per-customer, Ms. Leary explained how the actual revenue-per-customer had to be adjusted to reflect reclassification of 684 Residential customers from Non-Heating to Heating and how revenue adjustments were calculated for the Heating and Non-Heating RDM groups.[35] She attributed the $177,598 under-recovery to a $1.3 million over-recovery from the residential RDM groups offset by the $1.5 million under-recovery for the Small and Medium C & I RDM groups which was driven by warmer than normal weather.[36]

On August 1, 2017, National Grid filed its FY 2017 Gas Infrastructure, Safety, and Reliability Plan Annual Report and Reconciliation.[37] It 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 John B. Currie, Director of Network Gas Strategy-New England for National Grid USA Service

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[33] Leary Decoupling Direct at 6-8.
[34] *Id.* at 9.
[35] *Id.* at 10-11.
[36] *Id.* at 11-12. While the over-recovery for the residential group experienced the same decline due to warmer than normal weather, this was offset by the adjustments made to the Non-Heating and Heating target revenue-per-customer.
[37] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sched. A, Sheet 6.

Company, Inc., and Melissa A. Little, Acting Director for New England Revenue Requirements in the Regulation and Pricing Department of National Grid USA Service Company, Inc.[38]

Mr. Currie's testimony presented the details of the filing, as well as the actual spending for the April 1, 2016 through March 31, 2017 period. He explained the major spending variances in the specific categories of the ISR Plan. Mr. Currie indicated that the Company spent $87.75 million for non-growth capital investment and Operation and Maintenance expense under the Gas ISR Plan, approximately $1.70 million more than the Company's annual approved budget of $86.05 million.[39]

Mr. Currie identified a $3.39 million over-budget variance in the Non-Discretionary category. This over-budget variance combined with a $1.61 million under-budget variance for the Discretionary category of work contributed to the Company spending $1.70 million more than its approved budget.[40]

Mr. Currie also provided explanations for the over-spending in each category. First, he said the Company was over-budget for three Remediation Projects it unexpectedly had to address because the situations were creating adverse operating conditions to the distribution network.[41] He also noted a $2.63 million under-budget variance in Public Works spending and attributed it to a lower-than-anticipated installation and abandonment of gas mains and services in the Public Works program.[42] Work in the Mandated Programs

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[38] FY 2016 Gas Infrastructure, Safety, and Reliability Plan Annual Reconciliation (Aug. 1, 2017); http://www.ripuc.org/eventsactions/docket/4708-NGrid-Gas-ISR-FY2016-Reconciliation(8-1-17).pdf.
[39] Currie ISR Direct at 3-4, Att. JBC-1 at 2, 7 (Aug. 1, 2017).
[40] Currie ISR Direct at 4-11, Att. JBC-1 at 2-8.
[41] Currie ISR Direct at 5-6, Att. JBC-1 at 4.
[42] Currie ISR Direct at 7, Att. JBC-1 at 2-3.

category was over budget by $1.01 million due primarily to having to address service leaks and cast iron joint encapsulation and associated work that required immediate attention.[43]

Mr. Currie explained the $1.61 million under-budget variance in the Discretionary Work category. He stated that the primary driver of the under-spend in the Proactive Main Replacement Program was that actual miles of replacement were less than what was in the ISR Plan.[44] He represented that the Company had also under-spent in the Gas System Reliability Program category as a result of lower spending in its LNG projects, including those that were cancelled due to the retirement of the Cumberland LNG tank, and Gas Planning, due primarily to the deferral of two regulator station projects.[45] He also provided that the Company was seeking to reconcile an under-budget variance of $0.08 million of Operation and Maintenance expense associated with the hiring, training, and supervision of sixteen full-time equivalent personnel to support the FY 2017 Main Replacement work.[46]

Ms. Little presented testimony to update the FY 2017 ISR revenue requirement associated with actual capital investment levels for FY 2012 through FY 2017; actual tax deductibility percentages and tax net operating loss (NOL) for FY 2016 capital additions; and updated O&M expenses.[47] She provided that the Company's property tax liability was adjusted by $0.9 million to reflect the increase in capital investment.[48] She provided that National Grid expects to earn taxable income in FY 2017, so an NOL offset to accumulated deferred income taxes in its vintage FY 2017 rate base calculation was not provided.

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[43] Currie ISR Direct at 8, Att. JBC-1 at 3-4.
[44] Currie ISR Direct at 9, Att. JBC-1 at 5.
[45] Currie ISR Direct at 10, Att. JBC-1 at 5-6.
[46] Currie ISR Direct at 12, Att. JBC-1 at 6.
[47] Little ISR Direct at 2-3 (Aug. 1, 2017).
[48] *Id.*at 4.

Because the Company's tax returns are not due until December, any changes or adjustments necessary will be included in its FY 2018 Gas ISR Reconciliation Filing.[49]

Ms. Little stated that the Company updated its FY 2017 revenue requirement in the same fashion as its FY 2016 factor reconciliation, with three exceptions. The first exception was to include a deduction for bonus depreciation at 50% on the vintage FY 2016 and FY 2017 tax depreciation calculations to reflect the impact of the Protecting Americans from Tax Hikes Act. The second exception was to include the cumulative impact on deferred income taxes for additional tax deductions related to losses incurred on partial retirements related to the vintage FY 2015 through FY 2017 tax depreciation calculations. Lastly, the updated revenue requirement includes an adjustment for new service installations and relocations that would have been excluded from the ISR had they been reported under growth.[50]

After describing what an NOL is, Ms. Little again noted that since National Grid expects to earn taxable income in FY 2017, it does not anticipate an NOL to offset accumulated deferred taxes included in the vintage FY 2017 rate base calculation.[51] She provided that the Company revised its vintage FY 2016 revenue requirement to reflect: 1) an actual capital repairs deduction rate of 75.72%; 2) an actual percentage of plant eligible for bonus depreciation of 99.7%; 3) an actual tax loss on retirements of $248,321; 4) an actual NOL of $11,594,940; 5) a work order write-off adjustment of $33,917; and 6) a new service installation and service relocations adjustment of $10,954.[52]

[49] *Id.* at 5.
[50] *Id.* at 5-6.
[51] *Id.* at 7-8
[52] *Id.* at 9-10.

Ms. Little summarized the FY 2017 revenue requirement, explaining that the $29,113,213 amount consisted of $28,625,305 of capital-related expense plus $487,908 of Operation and Maintenance expense.[53] The updated revenue requirement included the updated FY 2017 revenue requirement discussed above, the reconciliation of the approved FY 2016 revenue requirement for vintage FY 2016 investments with the actual FY 2016 revenue requirement on those investments, the third year of the three-year recovery related to the NOL issue, and the property tax adjustment formula.[54]

On September 1, 2016, National Grid filed supplemental testimony from Ann Leary and William Richer. Ms. Leary's testimony incorporated updates to the DAC components. She represented that National Grid was proposing to revise the System Pressure factor.[55] She noted that effective July 17, 2017, the Company no longer had to rely on LNG for system pressure due to the operation of the Algonquin Crary Street Gate Station.[56] Prior to July 17, 2017, the Company would allocate 75.77% of its LNG lease payment costs to DAC and would compare the actual LNG used with the amount forecasted under normal weather conditions, and reallocate any amount that exceeded projections to the DAC.[57] In this proceeding, National Grid is proposing to replace the LNG lease payment costs with the contract for the Algonquin Crary Street Gate Station and to discontinue reallocating costs that exceed projections to DAC.[58] She explained how the Algonquin Crary Street Gate Station provides firm natural gas transportation capacity to a new meter station.[59] She stated that, in addition to providing enhanced reliability for the distribution system, the new

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[53] Little Direct at 10, Att. MAL-1 at 1.
[54] Little Direct at 13.
[55] Leary Supp. at 3 (Sept. 1, 2017).
[56] *Id.*
[57] *Id.* at 3-4.
[58] *Id.* at 4.
[59] *Id.*

Algonquin Crary Street Gate Station allows for a new feed into the distribution system at higher pipeline pressures. During colder months, that eliminates the need to rely on LNG pressure in meeting customer load.[60]

Ms. Leary explained how the proposed change would result in a net increase to the DAC of $0.5 million or about $1 per year for Residential Heating customers.[61] She proposed a System Pressure factor of $0.0060 per therm, calculated by multiplying the forecasted 2017-2018 Algonquin Crary Street Gate Station costs by the system pressure balancing percentage.[62] She noted that the Company was not proposing an Earnings Sharing Mechanism factor this year and that that was more fully discussed in Mr. Richer's supplemental testimony.[63] She provided an update of the Reconciliation adjustment credit factors of $0.0000 per therm applicable to all rate classes and $0.0011 credit per therm applicable to the Large and Extra-Large rate classes.[64] She reiterated that the DAC factors for the Residential and Small and Medium C&I rate classes and for the Large and Extra-Large rate classes are all different.[65] Ms. Leary set forth the various proposed DAC rates applicable to the different rate classes, ranging from $0.0177 per therm to $0.2369 per therm. She said that the proposed DAC rates would result in an annual decrease of approximately $4.26 or 0.4% for an average residential customer using 846 therms annually.[66]

Mr. Richer provided testimony describing the status of the Company's earnings subject to the Earnings Sharing Mechanism for the twelve month period ending March 31,

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[60] *Id.* at 4-5.
[61] Id. at 5.
[62] Leary Supp. at 6, Sch. AEL-1S, AEL-2S (Sept. 1, 2017).
[63] Leary Supp. at 6.
[64] Leary Supp. at 7, Sch. AEL-10S.
[65] Leary Supp. at 7-8, Sch. AEL-1S.
[66] Leary Supp. at 9, Sch. AEL-1S.

2017. He explained how National Grid calculates the return on equity for purposes of the Earnings Sharing Mechanism and stated that, because the Company calculated a return on equity of 6.25% for FY 2017 which was below the 9.50% threshold, it did not result in the any earnings sharing.[67]

The Division of Public Utilities and Carriers (Division) filed three memoranda: two authored by its consultants, David Effron of Berkshire Consulting Services, and Bruce and Tim Oliver of Revilo Hill Associates, Inc. (collectively referred to as Mr. Oliver) and one by its internal fiscal expert, Stephen Scialabba on October 13, 2017. Mr. Oliver described National Grid's filing as mathematically accurate and well documented.[68] He raised concern with the Company's methods in determining the System Pressure Factor.[69] He stated that based on National Grid's representation that all of the gas flowing through the Crary Street Gas Station would be used for system pressure, 100% of the demand charges associated with deliveries to the Crary Street Gas Station should be assigned to the System Pressure Factor. He explained that assignment of these costs to the System Pressure Factor would transfer $764,118 from the GCR to the DAC. In addition to the demand charges associated with the Crary Street Gas Station, Mr. Oliver asserted that prior to the next DAC filing, the Division will investigate what other system pressure costs exist in other parts of the system and should be included in the System Pressure Factor.[70]

Mr. Oliver also discussed the AGT Factor and noted that the $1,381,233 unexpended balance is sufficient to support the program's current activities.[71] He stated

[67] Richer Supp. at 2-13, Sch. WRR-2.
[68] Oliver Mem. at 1-2 (Oct. 13, 2017).
[69] *Id.* at 2.
[70] *Id.* at 3-5.
[71] *Id.* at 5-6.

that any proposed changes or modifications to this program could be addressed in the Company's next base rate case, which it had announced would be filed in November 2017.[72] He found the adjustments made to the RDA to reflect the finalization of transfers of customers from the Residential Non-Heating to the Residential Heating class to be "well documented, clearly explained, and accurately and appropriately reflected."[73] He supported approval of the Environmental Response Cost Factor and the DAC Reconciliation Factor as filed.[74]

Mr. Oliver represented that the Division supports National Grid's proposal to eliminate the Low Income Assistance Program factor and agreed that the creation of the LIHEAP Enhancement Program removed the need for additional Low Income Assistance Program funding through the DAC.[75] Lastly, Mr. Oliver agreed with the Company that the competitive market allows National Grid to price its distribution services at fixed rates without risking a loss to service volumes. Therefore, the need for an On-System Credit Factor is no longer necessary.[76]

Mr. Effron in his memorandum verified that the Company's filing accurately portrayed the actual ISR revenue requirement associated with its 2017 Gas ISR programs.[77] Mr. Scialabba in his memorandum stated that the Division recommended approval of the pension adjustment factor and the earnings sharing mechanism as filed.[78]

On October 23, 2017, National Grid filed Reply Comments authored by its attorney, Robert Humm. The comments addressed the allocation of System Pressure Related Costs

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[72] *Id.* at 9.
[73] *Id.* at 6-7.
[74] *Id.* at 7-8.
[75] *Id.* at 9.
[76] *Id.* at 9-10.
[77] Effron Mem. (Oct. 13, 2017).
[78] Scialabba Mem. (Oct. 13, 2017).

to the DAC and the AGT Program. National Grid agreed with Mr. Oliver's recommendation that 100% of demand costs associated with Crary Street be shifted to the DAC. It also agreed that, prior to next year's DAC filing, it would provide the Division with further clarification of costs incurred to maintain system pressure in other parts of Rhode Island's distribution system to determine which of those costs should be incorporated into the System Pressure factor.[79] The Company clarified that it is working to simplify the AGT qualification process to make the program more accessible to customers and noted that it is open to collaborating with the Division in an effort to improve the program.[80]

On October 21, 2016, the Commission conducted a hearing. Counsel for National Grid represented that the Company and the Division were in agreement on the particular DAC factors proposed in National Grid's Reply Comments. He reaffirmed the Company's agreement to transfer 100% of the demand costs associated with the Crary Street Station gas deliveries from the GCR to the DAC.[81] He noted that the transfer results in no change to the combined total costs being recovered in the DAC and GCR.[82]

David Moreira, Jr., the Company's Director of Commercial Sales, answered questions about the AGT Program. He testified that the Company has appointed an individual to assist customers who may be eligible for rebates under the program.[83] He stated that the application process was difficult in part because an applicant was required to submit a technical assistance study. He testified that the Company was looking to

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[79] Humm Letter at 1 (Oct. 23, 2017).
[80] *Id.* at 2
[81] *Id.* at 7.
[82] *Id.* at 8.
[83] *Id.* at 25.

include a more diverse candidate pool in the program which he did not believe would increase the amount of funding necessary for the program.[84]

Mr. Bruce Oliver testified for the Division. He affirmed the agreement with National Grid regarding the factors.[85] He testified that the factors proposed by and the agreement reached with National Grid were in the best interest of ratepayers.[86]

Immediately following the evidentiary hearing, the Commission deliberated and unanimously approved National Grid's proposal to eliminate the Low Income Assistance Program factor. The Commission found that with the creation of the LIHEAP Enhancement Program, the need for additional low income funding no longer exists. The Commission also unanimously approved National Grid's proposal to eliminate the On-System Margins Credit factor. The Commission found that the cost associated with calculating the factor did not justify the minimal benefits derived and that the competitive market protects the Company from risking a loss to service volumes when pricing distribution services at fixed rates.

The Commission unanimously approved the proposed factors as set forth in Attachment AEL-1 Revised which is attached to National Grid's Reply Comments filed on October 23, 2017. Specifically, the Commission considered and approved the following factors: System Pressure - $0.0079 per therm; Advanced Gas Technology Program – $0.0000 per therm; Environmental Response Cost – $0.0024 per therm; Pension and Post-Retirement Benefits – ($0.0118) per therm; Reconciliation Factor – $0.0000 per therm for Residential/Small/Medium C&I customers and ($0.0011) per therm for Large/Extra-Large

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[84] *Id.* at 28-29.
[85] *Id.* at 44-45.
[86] *Id.* at 52.

customers; Service Quality factor - $0.0000 per therm; and Earnings Sharing Mechanism - $0.0000 per therm. In addition to the individual factors, the PUC approved an Uncollectible Percentage of 3.18%, resulting in an adjustment for uncollectibles of ($0.0015) per therm for Residential/Small/Medium C&I customers and ($0.0026) per therm for Large/Extra-Large customers. The PUC also approved a Revenue Decoupling Adjustment charge of $0.0006 for Residential/Small/Medium C&I customers and a Revenue Decoupling Reconciliation charge of $0.0010 for Residential/Small/Medium 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 $0.0001 per therm for Residential/Small/Medium C&I customers and ($0.0026) per therm for Large/Extra-Large customers.[87]

In addition to the specific factors and adjustments set forth above, the PUC approved an ISR reconciliation component adjusted for uncollectibles which was added to the base DAC factor.[88] The resulting calculations revealed a DAC rate of $0.2389 per therm for Residential Non-Heating customers, $0.1430 per therm for Residential Heating customers, $0.1637 per therm for Small C&I customers, $0.1092 per therm for Medium C&I customers, $0.0986 for Large Low Load C&I customers, $0.0906 per therm for Large High Load C&I customers, $0.0235 per therm for Extra-Large Low Load C&I customers, and $0.0197 per therm for Extra-Large High Load C&I customers.

The Commission ordered that National Grid and the Division continue to collaborate to improve the Advanced Gas Technology Program. The Commission further

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[87] The specific factors for the various customer classes are set forth in Attachment A, attached to this Report and Order.
[88] The different ISR reconciliation amounts and components based on customer class are set forth in Attachment B.

ordered that National Grid provide the Division with clarification of the costs incurred to maintain system pressure for other parts of the Rhode Island distribution system to determine the extent to which such costs should be incorporated into the System Pressure factor prior to next year's DAC filing. 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.

ACCORDINGLY, it is hereby

(23265) ORDERED:

1. The System Pressure factor of $0.0079 per therm is approved for effect November 1, 2017.
2. The Advanced Gas Technology factor of $0.0000 per therm is approved for effect November 1, 2017.
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 is eliminated.
5. The Environmental Response Cost credit factor of $0.0024 per therm is approved for effect November 1, 2017.
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 and 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 $0.0000 per therm for Residential/Small/Medium C&I customers and ($0.0011) per therm for Large and Extra-Large C&I customers is approved for effect November 1, 2017.
8. The On-System Margin credit factor is eliminated.
9. The Pension and Post-Retirement Benefits factor of ($0.0118) per therm is approved for effect November 1, 2017.
10. The Earnings Sharing Mechanism factor of $0.0000 is approved for effect November 1, 2017.
11. The Service Quality Performance factor of $0.0000 per therm is approved for effect November 1, 2017.
12. The Revenue Decoupling Adjustment factor of $0.0006 per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2017.
13. The Revenue Decoupling Adjustment Reconciliation factor of $0.0010 per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2017.
14. The various Infrastructure, Safety, and Reliability reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2017.
15. The overall Distribution Adjustment Charges of $0.2389 per therm for Residential Non-Heating customers, $0.1430 per therm for Residential Heating customers, $0.1637 per therm for Small C&I customers, $0.1092 per therm for Medium C&I customers, $0.0986 per therm for Large Low Load C&I customers, $0.0906 per therm for Large High Load C&I customers, $0.0235 per therm for Extra-Large Low

Load C&I customers, and $0.0197 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2017.

16. National Grid shall file its earnings sharing mechanism report on September 1 of each year.

17. National Grid shall provide electronic versions of all spreadsheets at the time of its initial filing.

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

EFFECTIVE NOVEMBER 1, 2017 AT WARWICK, RHODE ISLAND. WRITTEN ORDER ISSUED AUGUST 30, 2018.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran

Margaret E. Curran, Chairperson

Marion Gold

Marion S. Gold, Commissioner

Abigail Anthony

Abigail Anthony, 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 seven 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. 4708

*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	$ 0.0037	$ 0.0079	$ 0.0079
2	Advanced Gas Technology (AGT) Factor	$ 0.0000	$ 0.0000	$ 0.0000
3	Environmental Response Cost (ERC) Factor	$ 0.0014	$ 0.0024	$ 0.0024
4	Pension and Post-Retirement Benefits (PBOP) Factor	$ (0.0054)	($ 0.0118)	($ 0.0118)
5	Service Quality Performance (SQP)	$ 0.0000	$ 0.0000	$ 0.0000
6	Earnings Sharing Mechanism (ESM)	$ 0.0000	$ 0.0000	$ 0.0000
7	Reconciliation (R) Factor	$ (0.0007)-(0.0019)	$ 0.0000	($ 0.0011)
8	**Subtotal**	**$ (0.0011)-(0.0023)**	**($ 0.0015)**	**($ 0.0026)**
9	Uncollectible Percentage	3.18%	3.18%	3.18%
10	**DAC Adjusted for Uncollectibles**	**$ (0.0011)-(0.0024)**	**($ 0.0015)**	**($ 0.0026)**
11	Revenue Decoupling Adjustment	$ (0.0010)	$ 0.0006	$ 0.0000
12	Revenue Decoupling Adjustment Reconciliation	$ (0.0072)	$ 0.0010	$ 0.0000
13	**DAC Factor**	**$ (0.0093)-(0.0023)**	**$ 0.0001**	**($ 0.0026)**

***All figures are per therm.**

Attachment B

Docket No. 4708

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, 2017 DAC Rates (therms) (E) = (C)+(D)
Res-NH	**$0.0465**	**3.18%**	**$0.0480**	**$0.0001**	**$0.0481**	**$0.1908**	**$0.2389**
Res-NH-LI	**$0.0465**	**3.18%**	**$0.0480**	**$0.0001**	**$0.0481**	**$0.1908**	**$0.2389**
Res-H	**$0.0202**	**3.18%**	**$0.0208**	**$0.0001**	**$0.0209**	**$0.1221**	**$0.1430**
Res-H-LI	**$0.0202**	**3.18%**	**$0.0208**	**$0.0001**	**$0.0209**	**$0.1221**	**$0.1430**
Small	**$0.0299**	**3.18%**	**$0.0309**	**$0.0001**	**$0.0310**	**$0.1327**	**$0.1637**
Medium	**$0.0195**	**3.18%**	**$0.0201**	**$0.0001**	**$0.0202**	**$0.0890**	**$0.1092**
Large LL	**$0.0161**	**3.18%**	**$0.0166**	**($0.0026)**	**$0.0140**	**$0.0846**	**$0.0986**
Large HL	**$0.0120**	**3.18%**	**$0.0124**	**($0.0026)**	**$0.0098**	**$0.0808**	**$0.0906**
XL-LL	**$0.0021**	**3.18%**	**$0.0022**	**($0.0026)**	**($0.0004)**	**$0.0239**	**$0.0235**
XL-HL	**$0.0006**	**3.18%**	**$0.0006**	**($0.0026)**	**($0.0020)**	**$0.0217**	**$0.0197**

***Factors Include Uncollectible Allowance**