

## MEMORANDUM

**TO:** Rhode Island Public Utilities Commission

**FROM:** Bruce R. Oliver, Revilo Hill Associates, Inc.  
Tim Oliver, Revilo Hill Associates, Inc.  
On Behalf of the Division of Public Utilities and Carriers

**DATE:** February 15, 2018

**SUBJECT:** Review of National Grid's FY 2019 ISR Rates, Docket 4781

Section 4 of National Grid's December 19, 2017 filing addresses the Rate Design and Bill Impacts for FY 2019 Gas Infrastructure, Safety and Reliability Plan ("ISR") costs in Docket No. 4781. This memorandum presents an assessment of the rates National Grid proposes for recovery of its FY 2019 ISR costs.

A key element of National Grid's proposed IRS rate design in this proceeding is a recommendation that the ISR charges for Residential Heating and Residential Non-Heating customers be combined beginning with the FY 2019 ISR Plan. As explained by National Grid, the rate base allocator from the Amended Settlement Agreement in Docket No. 4323 was associated with 23,978 Residential Non-Heating customers. Over the last four years more than 20% of those customers have been transferred to the Residential Heating rate classes. As a result of those customer transfers, National Grid submits that the rate base allocator for the Residential Non-Heating rate class is no longer representative of the number of customers currently receiving service in that class. Further, National Grid represents that use of the allocator from the Amended Settlement Agreement in Docket No. 4323 would impose a large increase in the ISR factor for Residential Non-Heating customers for FY 2019 when compared to the current FY 2018 ISR charge for the class.

We agree with National Grid that the rate base allocator from the Amended Settlement Agreement in Docket No. 4323 is not reflective of the current composition of the Residential Non-Heating class and substantially overstates the FY 2019 ISR costs

that should be recovered from that class. We do not agree that combining the Residential Heating and Residential Non-Heating classes for the purpose of determining ISR charges is an appropriate long-term solution for this problem. The usage characteristics, cost responsibilities, and rates of return for National Grid's Residential Heating and Residential Non-Heating **are not uniform** and do not provide an appropriate basis for long-term consolidation of those classes for ISR rate purposes.

In past Distribution Adjustment Charge proceedings, this Commission has recognized the need to adjust results to reflect the impact of customer transfers from the Residential Non-Heating class to Residential Heating service. Clearly a similar set of adjustments would be appropriate in this proceeding, but in our assessment, National Grid's proposal to simply combine the Residential Heating and Residential Non-Heating ISR charges on a going forward basis, although perhaps administratively convenient, does not yield a reasonable proxy for assessing class cost responsibilities. It also ignores the very large differentials in class rates of return for Residential Non-Heating service and Residential Heating service in the Company's filed class cost of service study in its currently pending base rate case (Docket No. 4770). To facilitate the implementation of new ISR charges for FY 2019, we are willing to accept National Grid's proposed ISR charges for its residential classes. However, that interim acceptance of National Grid's proposed charges is not an endorsement of its recommendation for on-going consolidation of ISR charges for its Residential Heating and Residential Non-Heating classes. We also recommend that the appropriate approach to allocating costs by class for future ISR rate determinations should be an issue to be addressed further and resolved as part of National Grid's pending base rate proceeding.