nationalgrid

Celia B. O'Brien
Assistant General Counsel and Director

May 1, 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 4808 - Review of Revenue Requirement Under R.I. Gen. Laws § 39-3-11
In Light of The Tax Cuts & Jobs Act
Responses to PUC Data Requests – Set 1

Dear Ms. Massaro:

On behalf of National Grid,[1] I enclose ten (10) copies of the Company's responses to the first set of data requests issued by the Rhode Island Public Utilities Commission in the above-referenced docket.

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: Macky McCleary, Division
Jonathan Schrag, Division
Tom Kogut, 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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PUC 1-1

Request:

Please calculate the effect on the company's most recently approved revenue requirement the results from all the changes to the tax code, including impacts on the accumulated deferred income taxes and from the reduction in the corporate tax rate made in The Tax Cuts & Jobs Act (TCJA) for the period January 1, 2018 through August 31, 2018. Please show the results separately for Narragansett Electric and Narragansett Gas.

Response:

Federal income taxes reflected in the revenue requirement for the rate year ended January 31, 2014 in the Company's last electric and gas base rate case in Docket No. 4323 totaled $14,688,410 and $9,015,620, respectively, based on a federal income tax rate of 35 percent. Federal income taxes would have totaled $7,407,323 for Narragansett Electric and $4,419,264 for Narragansett Gas for that period in Docket No. 4323 had they been calculated at the current federal income tax rate of 21 percent. The resulting change to the total annual revenue requirement for Narragansett Electric and Gas are decreases of $7,263,037 and $4,596,342. The portion of this decrease for the eight month period January 1, 2018 to August 31, 2018 is estimated to be $4,842,025 for Narragansett Electric and $3,064,228 for Narragansett Gas as shown in the Company's response to PUC 1-2, Attachment PUC 1-2, Line 5.

Please see the Company's response to PUC 1-5 with regard to the considerations that should be given before determining the amounts of any benefits that might be provided to customers with regard to federal income taxes originally reflected in base rates as compared to federal income taxes to be paid by the Company from January 1, 2018 through August 31, 2018.

PUC 1-2

Request:

Assuming the Public Utilities Commission (PUC) were to order an across-the-board rate reduction per kWh rate reduction to distribution rates, what factor would result? What would be the impact on a 500 kWh residential customer?

Response:

Please see Attachment PUC 1-2, which contains the requested information for Narragansett Electric and Narragansett Gas.

The Company interpreted an "across-the-board per kWh rate reduction" and "across-the-board rate reduction per therm rate reduction" to mean that the per-unit decrease would be the same for all customers.

Please see the Company's response to PUC 1-5 with regard to the considerations that should be given before determining the amounts of any benefits that might be provided to customers with regard to federal income taxes originally reflected in base distribution rates as compared to federal income taxes to be paid by the Company from January 1, 2018 through August 31, 2018.

The Narragansett Electric Company
Illustrative Reduction to Base Distribution Rates
Due to Reduced Federal Corporate Income Tax Rate for the Period January 1, 2018 through August 31, 2018

		Electric (a)	Gas (b)
	Section 1: Calculation of Revenue Requirement Decrease for January 2018 through August 2018		
(1)	Distribution Revenue Requirement Updated for New FIT Rate	$243,909,963	$155,828,538
(2)	Approved Distribution Revenue Requirement	$251,173,000	$160,424,880
(3)	Decrease in Distribution Revenue Requirement	($7,263,037)	($4,596,342)
(4)	Number of Months of Decrease before Docket 4770 Distribution Rates go into effect	8	8
(5)	Amount of Decrease from New Tax Rate, January 2018 though August 2018	($4,842,025)	($3,064,228)
	Section 2: Calculation of Illustrative Credit Factor		
(6)	Total Company Calendar Year 2019 Forecasted Deliveries	7,242,559,893	399,064,588
(7)	Illustrative Credit Factor	($0.00066)	($0.0076)
	Section 3: Illustrative Bill Impact		
(8)	Usage for Bill Impact (electric is monthly; gas is annual)	500	846
(9)	Illustrative Decrease in Bill	($0.33)	($6.43)
(10)	Illustrative Decrease in Bill, including Gross Earnings Tax	($0.34)	($6.63)
(11)	Bill Based on Rates Currently in Effect, including Gross Earnings Tax	$98.95	$1,250.35
(12)	Illustrative Reduced Bill	$98.61	$1,243.72
(13)	Illustrative Decrease as a Percent of Bill Based on Rates Currently in Effect	-0.3%	-0.5%

(1) Response to PUC 1-1
(2) Electric: Docket 4323, January 24, 2013 Compliance Filing, Attachment 3B, page 1, line 45
Gas: Docket 4323, January 24, 2013 Compliance Filing, Attachment 6, page 3, line 33
(3) Line (1) - Line (2)
(4) January 2018 through August 2018 = 8 months
(5) Line (3) ÷ 12 x 8
(6) Company forecast
(7) Line (5) ÷ Line (6), truncated after 5 decimal places for electric, 4 decimal places for gas
(8) 500 kWh per month for electric, 846 therms per year for gas
(9) Line (7) x Line (8)
(10) Line (9) gross up for GET at 4% for electric, 3% for gas
(11) Bill based on current rates
(12) Line (10) + Line (11)
(13) Line (10) ÷ Line (11)

PUC 1-3

Request:

Assuming the PUC were to order an across-the-board per therm rate reduction to distribution rates, what factor would result? What would be the impact on a typical residential heating customer?

Response:

Please see Attachment PUC 1-2 for the requested information.

Also, please see the Company's response to PUC 1-5 with regard to the considerations that should be given before determining the amounts of any benefits that might be provided to customers with regard to federal income taxes originally reflected in base distribution rates as compared to federal income taxes to be paid by the Company from January 1, 2018 through August 31, 2018.

Prepared by or under the supervision of: Ann E. Leary and Scott M. McCabe

PUC 1-4

Request:

One option for the PUC would be to order National Grid to apply benefits from the TCJA to customers in ways other than direct rate reductions. What are some options National Grid believes would be reasonable for the PUC to consider?

Response:

Please see the Company's response to PUC 1-5 with regard to the considerations that should be given before determining the amounts of any benefits that might be provided to customers with regard to federal income taxes originally reflected in base rates as compared to federal income taxes to be paid by the Company from January 1, 2018 through August 31, 2018.

Should there be residual tax benefits associated with electric operations, perhaps the best option would be to credit such benefits to the Company's Storm Fund. Other options might include funding Power Sector Transformation initiatives.

Should there be residual tax benefits associated with gas operations, such proceeds could be credited to the Gas Business Enablement project. This would reduce the return on investment the Company pays to National Grid USA Service Company because a portion of the costs would be directly funded by the residual tax benefits. Other items for consideration could be future investment projects such as major gas expansion projects.

PUC 1-5

Request:

Please explain whether National Grid believes the benefits resulting from the TCJA for the period January 1, 2018 – August 31, 2018 could be captured in the rates set in Docket No. 4770 (National Grid's pending distribution rate case). Why or why not? If so, how?

Response:

National Grid has submitted a proposal in its pending rate case proceeding (Docket No. 4770) to return the tax benefits to customers associated with tax liabilities that it had accrued on its books at the 35 percent income tax rate then in affect, but will pay to the federal government at the new income tax rate of 21 percent. National Grid supports the goal of passing the benefits of the decrease in the federal corporate income tax rate to customers in a manner consistent with the timing of when it will earn those benefits in a future income tax return. Since January 1, 2018, the Company is now paying income taxes at the new federal income tax rate of 21 percent; however, the Company does not agree that it should be simply calculating refunds to customers by changing only the tax rate and holding all elements of the Company's last rate case revenue requirement constant. This type of single issue or piecemeal ratemaking is inconsistent with fundamental regulatory principles and may result in rates that are unjust and confiscatory by denying the Company a reasonable opportunity to recover operating expenses and earn a reasonable rate of return. Such an approach would essentially assume that the Company is currently earning its allowed return on equity and that nothing has changed since the Company's last rate case. This erroneous assumption may result in refunding more money to customers than is fair and appropriate.

Cost of service ratemaking involves the establishment of distribution rates that provide a utility an opportunity to recover reasonable and necessary operating expenses and earn a fair rate of return on its capital investment. Distribution rates are determined based on a comprehensive cost of service calculation that considers all of a company's investments, expenses, revenue, and required return during a specified test-year period. The prohibition against single-issue ratemaking prevents a subsequent adjustment to distribution rates based on a change in a single cost component. Adjusting one component of the cost of service at a later point in time, without consideration of corresponding changes in other cost components, may result in distribution rates that are not just and reasonable because they do not reflect a company's actual cost of service. Utilities have been allowed to recover certain large and volatile expenses, such as the commodity cost of electricity and natural gas, through separate reconciling mechanisms. The purpose of these recovery mechanisms is to provide reasonable and timely recovery of large and unpredictable expenses over which a utility has little control in order to protect the debt rating and creditworthiness of the utility. The federal income taxes at issue are being recovered by the Company by means of a traditional cost of service rate case, not through a reconciling mechanism. Accordingly, the correct determination of the level of the TCJA cost savings to be passed through to customers should take into account the current earnings levels of the Company based on the existing level of investment and expenses – not just the change in the level of federal income tax expense.

Additionally, it is a fundamental rule of ratemaking that rates are set only prospectively. The prohibition on retroactive ratemaking precludes rate-setting orders that seek to adjust a prior surplus resulting from previous rates. Accordingly, to the extent the Public Utilities Commission requires that the tax reduction be recognized in rates, such reduction should not be applied retroactively to January 1, 2018.