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. 4846**

REPORT AND ORDER

I. Introduction

On August 1, 2018, the Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed its annual Distribution Adjustment Charge (DAC) with the Rhode Island Public Utilities Commission (PUC or Commission), for effect November 1, 2018.[1] On August 31, 2018, the Company made a supplemental DAC filing with updated and new testimony and schedules, partially to implement changes mandated by the Settlement Agreement in the Company's rate case, Docket No. 4770, which was concluded during August, 2018.[2] On October 5, 2018, the Division of Public Utilities and Carriers (Division) filed a memorandum authored by its consultant, Bruce R. Oliver, of Revilo Hill Associates, Inc., recommending approval of all the Company's factors, except for the Revenue Decoupling Adjustment Factor, which the Division recommended be increased slightly.[3] On October 25, 2018, the PUC conducted a hearing and approved the Company's filing.

II. The Distribution Adjustment Charge Filing

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

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[1] All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at http://www.ripuc.org/eventsactions/docket/4846page.html.
[2] Docket No. 4770; http://www.ripuc.org/eventsactions/docket/4770page.html.
[3] Revilo Hill Associates, Inc. Memo (Oct. 5, 2018); http://www.ripuc.org/eventsactions/docket/4846-DIV-Memo-Oliver(10-5-18).pdf.

November. The DAC provides for funding, or the reconciliation and refund, of amounts associated with the Company's specific programs. It also facilitates the timely rate recognition of incentive/penalty provisions. This year's DAC proposed a net credit to customers of $5,808,565, due to a decrease in the Company's System Pressure Factor, an increased credit balance for the Pension Adjustment Factor and an over-collection in the Revenue Decoupling Adjustment Reconciliation. As part of its DAC filing, the Company also submitted an Annual Environmental Report for Gas Service dated July 27, 2018, the Revenue Decoupling Mechanism Reconciliation Filing dated June 29, 2018, and the FY2018 Gas Infrastructure, Safety and Reliability (ISR) Plan Annual Reconciliation dated August 1, 2018.

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 Jeffrey D. Oliveira, Revenue Requirements Specialist, Rhode Island, for National Grid USA Service Company, Inc. The purpose of Ms. Leary's testimony was to describe the changes to and reconciliation of the various DAC factors[4] and to propose new factors, to become effective November 1, 2018.[5] Accompanying Ms. Leary's testimony was a series of schedules that calculated each of the factors comprising the DAC.[6] She reported that for the average residential heating customer utilizing 845 therms, the impact of the proposed DAC factor will result in an annual decrease of $48.84 in the DAC factor, and $1.512 in Gross Earnings Tax, or a 3.6% decrease.

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[4] The components of the 2018 DAC factor include: a System Pressure factor, an Advanced Gas Technology factor, an Environmental Response Cost factor, a Pension Adjustment factor, an Arrearage Management Adjustment factor, a Reconciliation factor, a Service Quality factor, an Earnings Sharing Mechanism factor, and a Low Income Discount Recovery factor.

[5] Testimony of Ann E. Leary at 3 (Aug. 31, 2018).

[6] Sch. AEL 1S- 14.

Mr. Oliveira's testimony addressed the Pension Adjustment Factor (PAF). In addition, in its supplemental filing on August 31, 2018, the Company submitted testimony from Melissa A. Little, the Director of New England Revenue Requirements for National Grid USA Service Company, Inc. Ms. Little's testimony addressed the Earnings Sharing Mechanism factor (ESM).

The Division's experts, Bruce R. Oliver and Tim Oliver, Revilo Hill Associates, Inc., filed a memorandum on October 5, 2018 which discussed their analysis of the proposed factors. They noted that their analysis did not include the Company's Pension Adjustment Factor, the Earnings Sharing Mechanism or the 2017 Infrastructure, Safety & Reliability revenue requirement reconciliation.[7]

III. The Distribution Adjustment Charge Factors

The components of the 2018 DAC factor include: a System Pressure (SP) factor, an Advanced Gas Technology factor (AGT), an Environmental Response Cost factor (ERC), a Pension Adjustment factor (PAF), an Arrearage Management Adjustment factor (AMAF), a Reconciliation factor(R), a Service Quality factor (SQP), an Earnings Sharing Mechanism factor (ESM), a Revenue Decoupling Adjustment (RDA) factor, an Infrastructure, Safety and Reliability (ISR) factor, and a Low Income Discount Recovery factor (LIDRF).

The System Pressure Factor (SP)[8]

In the Company's initial DAC filing on August 1, 2018, the Company proposed a System Pressure Factor of $0.0079 per them to cover the annual costs of the Crary Street Gate Station. However, in its 2017-18 DAC decision, the PUC ordered that the Company

[7] Revilo Memo at 1.
[8] Sch. AEL-2.

will clarify the costs of maintaining system pressure to other parts of the Rhode Island distribution system to determine the extent to which such costs are incorporated into the system pressure factor.[9] In the September 1, 2018 supplemental DAC filing the Company reported agreement with the Division that all the Company's gate stations provided pressure support to the Company's distribution system, and therefore it is inappropriate to single out the costs of only one gate station to assign to the System Pressure Factor. The parties further agreed that the Company would recover costs associated with the Crary Street Gate Station through the Gas Cost Recovery factor, the same way it recovers costs for the other gate stations that serve the company. Therefore, this year's proposed DAC factor for System Pressure changed from $0.0079 per therm to zero.[10] The System Pressure factor will remain in the DAC and the Company will determine annually whether to include costs. [11]

Division expert, Mr. Booth, noted that the Division and the Company spent considerable time discussing the history of the System Pressure factor and agreed that all pipeline capacity generally provides a measure of pressure support, but that the costs are not incremental to the general operation of the Company's distribution system unless the costs are associated with supply utilized out of the normal economic dispatch order. As such, the parties agreed that Exeter LNG costs were appropriately described as System Pressure costs, but that the charges weren't significant enough to warrant the computation of a System Pressure factor at this time. Therefore, the parties agreed that while the factor

[9] PUC Order No. 23265 at 19 (Aug. 30, 2018); http://www.ripuc.org/eventsactions/docket/4708-NGrid-Ord23265_8-30-18.pdf.
[10] Leary Supp. Test. at 7-8 (Aug. 31, 2018).
[11] *Id*. at 10.

would be $0.000 per therm this year, it made sense to maintain the System Pressure factor within the DAC so that costs could be reviewed on an annual basis.[12]

Advanced Gas Technology Factor (AGT)[13]

The AGT Program was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase gas use during periods of low demand. Greater off-peak usage reduces the unit cost of the gas delivery system for all customers.. The AGT Program provides rebates for technologies including combined heat and power (CHP) systems, natural gas-powered fleet vehicles, chilling systems, electrical generators, process heating, desiccant dehumidifiers, and residential high efficiency space heating equipment.[14]

Ms. Leary reported that as of the end of March 2018, the AGT Program balance was $974,131.[15] The Company's commitments for AGT funding included a $300,000 payment to Toray Plastics America, Inc. and a $50,000 payment to another customer. The fund balance also reflected an additional $92,898 due to a correction to a prior accounting error.[16] The Company further reported that it continues to collaborate with the Division to implement improvements to the AGT Program.

The AGT program has been funded annually with $300,000 from base rates. For 2018-2019, the Company proposed that the AGT factor in the DAC remain at zero. The Company also proposed that in future years the AGT be funded through the DAC instead of base rates. In the recent general rate case, Docket No. 4770, the PUC removed the AGT

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[12] Revilo Associates, Inc. Memo at 3-4.
[13] Sch. AEL-3.
[14] Leary Test. at 7 (Aug.1, 2018).
[15] Sch. AEL-3 at 2.
[16] *Id*. at 8.

funding from base rates. Therefore, the proposed factor for this year is zero, with the expectation that the AGT will be funded through the DAC in future years.

Mr. Oliver's review of the AGT found that at the end of March 2018, the AGT program balance was $974,131 plus $300,000 to be paid to Toray Plastics (America) Inc. He noted that interest earned on the accumulated balance of AGT funds was $23,792 and that the interest had been properly credited to customers through the reconciliation factor. He further noted that the Company continued to receive $300,000 of AGT funding annually through base rates.[17]

Environmental Response Cost Factor (ERC)[18]

"The Environmental Response Cost factor is designed to provide the Company recovery of its reasonable and prudently incurred costs for evaluation, remediation, and clean-up of sites associated with the Company's ownership and/or operation of manufactured gas plants (MGP), manufactured gas storage facilities, and MGP-related off-site waste disposal locations. In addition, the Environmental Response Costs factor includes recovery of environmental costs for removing and replacing mercury regulators and addressing meter disposal issues, among other work."[19] The ERC factor includes the amortization of the most recent ten years of Environmental Response costs.

On July 27, 2018, the Company filed its annual Environmental Response Cost Report containing descriptions of the environmental projects and fiscal year (FY) 2018 activities.[20] The report enumerated costs of $2,398,331 for the period April 2018 through

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[17] Revilo Associates, Inc. Memo at 7.
[18] Sch. AEL-4.
[19] Leary Test. at 10 (Aug.1, 2018).
[20] Annual Environmental Report for FY18; http://www.ripuc.org/eventsactions/docket/4846-NGrid-2018GasEnvironmentalRept(7-27-18).pdf.

March 2019 that would be recovered over the 12 months beginning November 2018. The Company currently recovers $1,310,000 annually in base rates for environmental response costs, leaving $1,088,331 to be recovered from customers through the DAC. The ERC factor was calculated by dividing $1,088,331 by forecasted throughput of 39, 668,606 decatherms and then divided by 10 to derive a factor of $0.0027 per therm.[21]

The Company reported updated insurance recovery costs in its August 31st supplemental filing. The cost in excess of the allowance in base distribution rates decreased from $1,088,331 to $1,086,606. Because the decrease was so minor, there was no effect on the factor of $0.0027 filed on August 1, 2018.[22]

The Division's review of this factor, while not a full audit, found that the Company's claimed costs for FY 2018 were well-documented and explained in reasonable detail. Mr. Booth's review also noted that he compared the nature of the activities, services and materials for the costs claimed in the 2018 Annual Environmental Report to prior Annual Environmental Reports. He found the costs to be in line with the Company's prior cost experiences. He recommended that the Commission accept the proposed factor.[23]

Pension Adjustment Factor (PAF)[24]

The Pension Adjustment Factor is designed to recover from, or credit to, customers the prior year's reconciliation balance resulting from the comparison of the Company's actual Pension and Post-Retirement Benefits Other than Pensions (PBOP) expenses to the Company's Pension and PBOP allowances included in base distribution rates, plus carrying

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[21] Leary Test. at 10 (Aug.1, 2018).
[22] Leary Supp. Test. at 11.
[23] Revilo Associates, Inc. Memo at 8.
[24] Sch. AEL-5.

charges.[25] The PAF is based on the difference between the Company's actual pension and PBOP expense, funded at a minimum finding obligation level, for the twelve month period ending March 31, 2018 and the expense allowance included in base distribution rates.[26]

If the Company does not fund its Pension and PBOP plans at the required Minimum Funding Obligation level, then the Company will be required to pay a carrying charge to its customers at the weighted average cost of capital. Mr. Oliveira's Schedule JDO-1 illustrates that the Company over-recovered Pension expenses in the amount of $2,811,656 and over-recovered PBOP expenses in the amount of $3,417,375 for the twelve-month period ending March 31, 2018. During this same timeframe, the Pension liability was slightly under-funded, resulting in a carrying charge of $10,931.[27] The Pension Adjustment credit factor of $ 0.0157 per therm was calculated by dividing the over-recovery of actual Pension and PBOP expenses by the forecast throughput of 39,668,606 decatherms and then dividing by 10.[28] The Pension Factor, per therm, was calculated to be $0.0071 and the PBOB Factor was calculated to be $0.0086. Therefore, the combined Pension & PBOB Factor is $0.157 per therm. The Division had no recommended adjustments to the Pension Adjustment factor.[29]

Arrearage Management Adjustment Factor (AMAF)[30]

Pursuant to R.I. Gen Laws 39-2-1 (d) (2), the Company is permitted to surcharge customers for amounts that have been forgiven through the Arrearage Management Plan (AMP) over the prior calendar year. This surcharge is collected through the Arrearage

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[25] *Id*. at 11; Testimony of Jeffrey D. Oliveira at 4 (Aug. 1, 2018).
[26] Oliveira Test. at 4 (Aug.1, 2018).
[27] *Id*. at 5.
[28] Leary Test. at 11 (Aug.1, 2018).
[29] Memo of John Bell at 2(Oct. 12, 2018); http://www.ripuc.org/eventsactions/docket/4846-DIV-Memo-Bell(10-12-18).pdf.
[30] Sch. AEL-6.

Management Adjustment Factor. The program is designed to collect the entire balance of arrearages resulting from program participants who have not satisfied the program requirements, as well as the arrearages of those customers who have successfully satisfied their requirements, subject however, to a bad debt test.

For unsuccessful participants, the amount of arrearage forgiven by the Company to that point shall remain forgiven and written off by the Company. Unsuccessful participants include: (1) a participant who misses more than two payments of the twelve month payment plan; (2) a participant who does not pay the entire amount due under the twelve month payment plan by the conclusion of the twelve months; (3) a participant that opts out of the payment plan prior to its conclusion; and (4) a participant who moves out of the Company service territory prior to conclusion of the payment plan. However, the amount of arrearage written off by the Company is recoverable in full.

The recovery of the arrearage amounts forgiven by the Company through the AMP is dependent on the following criteria: (1)If a customer does not satisfy the conditions of R.I.G.L. § 39-2-1(d)(2), the amount of arrearage forgiven by the Company to that point shall remain forgiven and be written off by the Company. However, the amount of arrearage forgiven by the Company is recoverable in full; (2). If a customer does satisfy the conditions of R.I.G.L. § 39-2-1(d)(2), all arrearage amounts forgiven will be treated as bad debt. At the end of each calendar year, the Company will perform a test to determine if the amount of bad debt for the year exceeds the adjusted allowable bad debt from the Company's most recent general rate case. This adjusted allowable bad debt will be calculated using the distribution uncollectible amount determined in the last general rate case, updated for the current calendar year Gas Cost Recovery, DAC, commodity, and energy efficiency-related bad debt. Should the actual amount of bad debt incurred by the Company for the year exceed this adjusted allowable bad debt amount, the Company will be entitled to recover, in the following year, all amounts of arrearage forgiven under R.I. Gen. Laws § 39-2-1(d)(2)(xiv) in the prior year in excess of the allowable bad debt. If, however, the amount of the arrearage forgiven under § 39-2-1(d)(2)(xiv) in excess of the adjusted allowable bad debt for a given year is not significant enough to calculate an annual reconciling factor for that year, the Company may reflect such amount in its next Revenue Decoupling Mechanism reconciliation filing.

The AMAF shall be a uniform per therm factor based on the estimated therms to be delivered by the Company to its gas customers over a 12-month period. For billing purposes, the AMAF will be included with the DAC charge on customers' bills. Should any balance remain outstanding subsequent to the recovery of costs associated with the AMP as described above, the Company shall reflect this balance as an adjustment in the subsequent period.[31]

The Company forgave $11,961 in CY 2017 for customers who were successful participants in the AMP.[32] Schedule AEL-6 at Page 2, Line (7) demonstrates that the Company experienced $5,640,714 less bad debt in CY 2017 than the adjusted allowable bad debt of $11,199,231 shown on Line (5). Therefore, none of the arrearages forgiven for successful participants is recoverable.

A total of $80,079 in arrearages was forgiven during CY 2017 for unsuccessful AMP participants. Of that amount, $12, 045 was due to customers who voluntarily opted

[31] RIPUC NG-GAS No. 101B, Section 7, Schedule C, Sheet 9, Tenth Revision; https://www.nationalgridus.com/media/pdfs/billing-payments/rigas_tariff.pdf.
[32] Leary Test. at 16; Sch. AEL-6 at 2.

out of the AMP prior to successful completion and the balance of $68,033 was due to defaulting customers.[33] The total amount of recoverable arrearage forgiveness of $80,079 was divided by the forecasted dekatherms for November 2018 through October 2019, and divided by 10, to derive the proposed AMAF Factor of $0.0002 per therm.[34]

Ms. Leary noted that although a new uncollectible rate was recently approved in Docket No. 4770, that rate will not be utilized until the 2019 DAC. The uncollectible rate used in this proceeding is the one approved in the Company's prior rate case, Docket No. 4223.[35]

The Division's review noted that the reduction in the uncollectible percentage from 3.18% to 1.91%, agreed to in the Docket No 4770 Settlement Agreement, substantially outweighs the additional revenue that the Company seeks to recover for arrearage management costs through the AMAF and that the Commission should accept the factor as proposed. Mr. Booth did, however, caution that if cost recoveries through the AMAF increases significantly in the future, the Commission should be concerned because that would erode the benefits of the reduction in the uncollectibles percentage.[36]

DAC Reconciliation[37]

The reconciliation component of the DAC allows for the reconciliation of the actual amounts approved to be reflected in the DAC factors from the prior year and revenue billed through the DAC, along with a true-up for those items requiring a forecast of their balances at October 31 in order to calculate the DAC factors for November 1. In this filing, the

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[33] Leary Test. at 14; Sch. AEL-6 at 2.
[34] Leary Test. at 16; Sch. AEL-6 at 1.
[35] Hr'g. Tr. at 27.
[36] Booth Memo at 9.
[37] Sch. AEL-10.

individual items that are being reconciled fall into one of the following three general groupings, which are rate class specific: (1) those associated with the reconciliation of factors that are related to all rate classes; (2) those associated with the reconciliation of factors that are specific to the Residential and Small and Medium C&I rate classes; and (3) those associated with the reconciliation of factors related solely to the Large and Extra Large rate classes.[38]

1. All rate classes

The Company derives the Reconciliation factor applicable to all rate classes by adding up the 12-month balance ending October 2018 of these components[39], which represents a net amount due from customers of $46,513, plus the net 2017 true up surcharge of $13,009, the AGT interest credit of $23,792, and the revenue credit amount of $318,672, for a total of $282,942 to be credited to customers. The total is divided by the forecasted throughput for the November 1, 2018 through October 31, 2019 period, or 39,668,606 dth. This result is then divided by 10 to derive a per-therm credit of $0.0007 for the 12-month period beginning November 1, 2018.[40]

2. Residential and Small and Medium C&I rate classes

The reconciliation of the RDA balance through the RDA factors that are only applicable to Residential and Small and Medium C&I customers results in a separate Reconciliation factor for this group of customers. This factor was derived by taking the RDM reconciliation ending balance as of October 31, 2018, which represents an under-

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[38] Leary Test. at 24.
[39] The components are those which are reconciled on the basis of the gas year, from November 2017 through October, 2018: (1) System Pressure reconciliation; (2) AGT reconciliation; (3) Environmental Response Cost reconciliation; (4) Pension reconciliation; (5) PBOP reconciliation; and (6) prior reconciliation factors.
[40] *Id*. at 25.

recovery of the amount to be recovered through the RDA factor and RDA reconciliation factor of $107,647, as shown on Schedule AEL-10, Page 1, Line (18), and dividing that total by the forecasted throughput of 28,195,590 dth for the Residential and Small and Medium C&I rate classes. This factor is then divided by 10 to derive a per-therm surcharge. The summary of this derivation is shown on Schedule AEL-10, Page 1, Section 2.

3. Large and Extra Large rate classes

The Large and Extra Large Reconciliation factor includes the following components: (1) the prior reconciliation factor applicable to the Large and Extra Large rate classes; and (2) the reconciliation of the base rate allowances for the AGT Program, Environmental Response Costs, and low-income programs for the April 2017 through March 2018 period, which are subject to reconciliation in the DAC.[41] The reconciliation of these four components for customers receiving delivery service on only the Large and Extra Large rate classes results in a reconciliation credit factor of $0.0015 per therm. This factor was calculated by taking the ending balances of the base rate allowances at the end of March 2018, which is a credit balance of $177,571, and adding to it the balance of the Reconciliation factor associated with the previous reconciliation for these rate classes, which is an over-recovery of $1,358; and then dividing the total amount by the forecasted throughput of 11,473,015 dth associated with the Large and Extra Large customers. This factor was then divided by 10 to derive a credit factor of $0.0015 per therm. Finally, this credit factor was added to the Reconciliation factor applicable to all rate classes, to derive a net credit Reconciliation factor applicable to the Large and Extra Large rate classes of $0.0022 per therm for the 12-month period beginning November 1, 2018.[42]

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[41] Leary Test. at 26-27.
[42] Leary Test. at 29-30; Sch. AEL-10, Page 1, Section 3 and Attachment AEL-10, Page 3, Line (41) Page 4.

Service Quality Factor (SQP)[43]

The Gas Service Quality Plan, implemented in 2003, was designed to ensure that the Company's gas customers receive a reasonable level of service and is comprised of five key aspects: service measures, benchmark standards, a penalty for not meeting benchmark standards, the penalty weight for each measure and the time period for measuring performance to assess a penalty.[44] Any penalty issued to the Company is credited to customers through the DAC. This year, although the Company did not meet its benchmark for On-Cycle Meter Reads, the Commission found that the failure to meet this benchmark was due to an exogenous event and the PUC did not assess the Company any penalties.[45] Therefore, the credit factor is zero this year.

Earnings Sharing Mechanism Factor (ESM)[46]

Pursuant to the Distribution Adjustment Clause provision of the Company's gas tariff, RIPUC NG-GAS No. 101, Section 3, Schedule A, if there are any excess earnings to be shared with customers, those earnings flow back to customers through the Distribution Adjustment Charge. The Company's gas earnings are measured over the term of its fiscal year which ends on March 31. In accordance with the tariff, the determination of earnings subject to the ESM is based on a benchmark return on equity of 9.50 percent. The earnings sharing formula requires that any annual earnings over a 9.50 percent return on equity, up to and including 100 basis points (10.50 percent), will be shared with customers, with 50 percent to be credited to customers and 50 percent to be retained by the

[43] Docket No. 3476; http://www.ripuc.org/eventsactions/docket/3476page.html.
[44] *See* RIPUC Docket No. 3476, Gas Service Quality Plan, http://www.ripuc.org/eventsactions/docket/3476page.html.
[45] RIPUC Order No. 23437; http://www.ripuc.org/eventsactions/docket/3476-NGrid-Ord23437%20(2-22-19).pdf.
[46] Sch. AEL-12S (Aug. 31, 2018).

Company. Any earnings in excess of a 10.50 percent return on equity will also be shared with customers, with 75 percent to be credited to customers and 25 percent to be retained by the Company.[47] For 2018, the return on equity was below the allowed 9.5 percent threshold, at 8.26 percent. Therefore, the earnings sharing mechanism was not triggered and the factor is zero. The Division had no recommended adjustments to the ESM factor.[48]

Revenue Decoupling Adjustment (RDA)[49]

The Company operates under a Revenue Decoupling Mechanism which provides for an annual reconciliation, known as the Revenue Decoupling Adjustment (RDA), of actual revenue-per-customer by rate class against a benchmark revenue-per-customer. [50] On June 29, 2018 and in accordance with the provisions of the Company's gas tariff,[51] the Company filed its annual RDA factor for the one-year period April 1, 2017 through March 31, 2018.[52] As shown on Schedule AEL-7, Page 1, the RDA identified an over-recovery of $5,661,116. The RDA credit factor of ($0.0200) per therm was calculated by dividing the over-recovery by the throughput associated with the Residential and Small and Medium Commercial and Industrial (C&I) rate classes of 28,195,590 dth and then dividing the results by 10.[53]

Mr. Booth expressed some concern over the Company's method of calculating the RDA factor going forward because it does not take into account the recent rate case changes which implemented a low-income residential discount. He indicated that the proposed credit will fall short of distributing the over-collection balance for the reconciliation period

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[47] Testimony of Melissa A. Little at 4 (Aug. 31, 2018).
[48] Bell memo at 2.
[49] Sch. AEL-7.
[50] Leary Test. at 17.
[51] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A.
[52] Revenue Decoupling Mechanism Reconciliation filing, http://www.ripuc.org/eventsactions/docket/4846-NGrid-GasRDM-Reconcilaition(6-29-18).pdf.
[53] Leary Test. at 18; Sch. AEL-7.

and will result in an under-distribution of credits of approximately $77,000. He suggested that the proposed factor be changed from $0.0200 per therm to $0.203 per therm.[54]

In response comments filed on October 19, 2018, the Company disagreed with Mr. Oliver's proposal to change the proposed factor to $0.203 per therm.[55] The Company argued that because it "has established a separate mechanism to reconcile amounts associated with the LIDRF, all other reconciliations of the various DAC components, including the RDA, will reconcile the actual costs and actual revenues before the application of the low income discount. In other words, the Company will bill the full DAC components' factors (i.e., not reduced for the low-income discount) and reflect the revenue billed through the components' factors (i.e., the full value of the revenue billed) in the reconciliation of each component of the DAC. The Company is not splitting up the amount of the low-income discount into pieces for the purpose of reflecting each piece of the low-income discount in any of the DAC components' reconciliation balances. Therefore, the RDA factor proposed by the Company will not result in an under-distribution of RDA credits as indicated by Mr. Oliver. As such, the Company does not need to make any adjustments to the $0.0020 per therm RDA factor proposed in the DAC."[56] Additionally, the Company noted that even if the factor was changed, as suggested by Mr. Oliver, the decrease would equate to $0.0003 per therm, which for a Residential Heating customer using 845 therms per year, would result in an annual bill reduction of $0.25 per year.[57]

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[54] Revilo Associates, Inc. Memo at 5.
[55] National Grid reply Memo (Oct.19, 2019); http://www.ripuc.org/eventsactions/docket/4846-NGrid-Reply-Division(10-19-18).pdf.
[56] *Id*. at 2.
[57] *Id*.

Infrastructure, Safety & Reliability Reconciliation Factor (ISR)[58]

The Gas Tariff describes the Company's obligations to create and implement an annual Gas Infrastructure, Safety, and Reliability Plan. "In compliance with R.I. Gen Laws § 39-1-27.7.1, no later than January 1 of each year, the Company shall submit to the PUC a Gas Infrastructure, Safety, and Reliability Plan (Gas ISR Plan) for the upcoming fiscal year (April to March) for review and approval within 90 days. The Gas ISR Plan shall include the upcoming fiscal year's forecasted capital investment on its gas distribution system infrastructure and may include any other costs relating to maintaining safety and reliability that have been mutually agreed upon by the Division and the Company."[59]

The Tariff also requires the Company to annually calculate a reconciliation factor. "As part of its annual DAC filing, the Company shall submit by August 1 a reconciliation factor (either positive or negative) related to the ISR Factor recoveries and actual Cumulative Revenue Requirements and any associated costs approved for recovery through this mechanism to take effect annually for the twelve months beginning November 1 each year."[60]

For FY 2018, the Company spent $106.97 million for capital investment and operation and maintenance (O&M) expenses under its 2018 ISR Plan, which was approximately $5.21 million over the approved budget of $101.76 million.[61] The primary drivers for a $5.35 million overspend in the Non-Discretionary category included: (1) $2.37 million in Public Works programs; (2) $3.18 in Pipeline Integrity projects; (3) $1.36

[58] Sch. AEL-8.
[59] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A, Sheet 4.
[60] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A, Sheet 5.
[61] Test. of John B. Currie at 4; http://www.ripuc.org/eventsactions/docket/4846-4678-NGrid-GasISRReconciliation-FY2018(8-1-18).pdf.

in the Damage/Failure program; and (4) decreased spending of $1.81 million for the decommissioning of the Company's Cumberland LNG plant.[62] In the Discretionary spending categories, there was an under-budget variance of $0.12 million, including $1.72 million in the Proactive Main Replacement program, underspending of $0.90 million in the Proactive Service Replacement program, and an overspend of $2.5 million for Reliability projects.[63]

In this filing, the Company sought to reconcile its actual FY 2018 capital spending of $106.41 million. The Company also sought to reconcile approximately $0.56 million of O&M expense for sixteen full-time equivalent employees for main replacement work. On August 1, 2018, the Company submitted its FY 2018 ISR Plan Reconciliation which resulted in an over-recovery of $2,163,915.[64] To derive the ISR reconciliation factor per rate class, the Company allocated the FY 2018 revenue requirement on actual cumulative capital investment and O&M to rate classes based on the rate base allocation from the Company's 2012 rate case. This was then compared to billed revenue from the billing of the ISR factors by rate class to arrive at the over-recovery or under-recovery of ISR Plan capital investment and O&M expense by rate class in accordance with the Company's DAC Provision. The Company then divided the total over-recovery for each rate class by the forecasted throughput for each rate class. Schedule AEL-8 shows the ISR reconciliation factors per rate class.[65]

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[62] *Id*. at 6.
[63] *Id*.
[64] FY 2018 ISR Plan Reconciliation, http://www.ripuc.org/eventsactions/docket/4846-4678-NGrid-GasISRReconciliation-FY2018(8-1-18).pdf.
[65] Leary Test at 20.

The Company reallocated \$632,502 between the Residential Non-Heating and Residential Heating classes to address the impact resulting from the transfer of customers between these classes. At the time the FY 2018 factors were derived, the forecast did not reflect this transfer and, therefore, there was an under-recovery of \$577,059 in the Residential Non-Heating class. Without this adjustment, the proposed DAC Residential Non-Heating class for November 2018 would have been \$0.3046 per therm, or \$0.1933 higher than what is proposed. For a typical Residential Non-Heating customer using 214 therms annually, this difference of \$0.1933 per therm would result in an annual increase of approximately \$42.60, or a bill increase of more than 9.1 percent. The impact of this adjustment on the proposed DAC for the Residential Heating rate class for November 2018 is that the proposed DAC is slightly higher than without the adjustment, by only \$0.0033 per therm. Therefore, the adjustment has a minimal bill impact on the Residential Heating rate class, while resulting in a significant benefit to the Residential Non-Heating rate class.[66]

John Bell, the Division's Chief Accountant, reviewed the Company's proposed ISR factor, including the calculations supporting the revenue requirement associated with vegetation management, inspection, maintenance and qualifying capital investment components. The Division recommended approval of the ISR factor for effect November 1, 2018, but noted that it was still reviewing responses to data requests concerning the applicability of certain IRS Private Letter Rulings and the effect of these rulings on the Gas and Electric ISR revenue requirements. Mr. Bell noted that should any issues arise from this review, they could be addressed in the Company's subsequent ISR filings.[67]

[66] *Id*. at 22-23.
[67] Bell at Memo at 2.

On October 19, 2018, in its reply memo, the Company indicated that the Company and Division had reached an agreement on this factor. The Company agreed to make two adjustments to its FY 2018 Gas ISR Reconciliation revenue requirement: (1) The Company will reduce the FY 2018 revenue requirement on vintage FY 2018 investment by $101,603; (2) The Company will adjust the FY 2018 revenue requirement on cumulative FY 12 through FY17 investment. These two adjustments will result in a net credit to customers in the amount of $62,142. The Company and the Division agreed to include the adjustments in the Company's FY 2019 Gas ISR Reconciliation filing. This minor revision would have reduced the proposed DAC effective November 1, 2018 for Residential Heating customers by $0.0002 per therm, equating to an annual savings of $0.17.[68]

Low Income Discount Recovery Factor (LIDRF)[69]

The Low Income Discount Recovery Factor is a new factor established within the Company's recently concluded general rate case, Docket No. 4770. There, the PUC approved new discounted rates of 25% for qualifying customers, with an additional 5% discount for those residential customers receiving benefits through Medicaid, General Public Assistance or the Family Independence Program.[70]

The revenue billed through the LIDRF will be subject to reconciliation against the actual bill discounts provided during the twelve-month reconciliation period.[71] The Company proposed a LIDRF of $0.0138 per therm which was calculated by dividing the estimated discount provided to customers on Rates 11 and 13 of $5,288,107 by the

[68] National Grid Reply Memo at 2 (Oct. 19, 2018); http://www.ripuc.org/eventsactions/docket/4846-NGrid-Reply-Division(10-19-18).pdf.
[69] Sch. AEL-13.
[70] Leary Supp. Test. at 5. (Aug. 31, 2018).
[71] The LIDRF will not be assessed to the low-income customers (Hr'g Tr. at 24).

forecasted throughput of 382,978,622 therms for the twelve months beginning November 1, 2018.[72]

The Division's review of the proposed LIDRF found that the factor was developed in a manner consistent with the language of Docket No 4770's Amended Settlement Agreement. [73]

IV. The Commission's Hearing and Decision

On October 25, 2018, the Commission conducted a hearing on the Company's DAC filing. In addition to its witnesses who sponsored prefiled testimony, the Company also presented Elizabeth M. Greene, New England Manager for Site Remediation and Investigation, who fielded questions concerning the Company's Environmental Response Cost Report.[74] The Division's witnesses were Mr. Bruce Oliver, Mr. Tim Oliver and Mr. John Bell.

Ms. Leary explained the history of the System Pressure factor. She said that when the Company was unbundling its rates twenty or so years ago, it wanted to separate gas costs and distribution costs. The Company had identified that while the primary purpose of LNG facilities was to supply gas during peaking periods, they also provided a secondary function of system pressure to the distribution system.[75] So, when the Company was designing rates, it identified that maintaining system pressure was a benefit to all customers- retail and transportation. Therefore, to be equitable, the Company decided to move a portion of those system pressure costs from the Gas Cost Recovery (GCR) factor

[72] *Id*. at 6.
[73] Revilo Associates, Inc. Memo at 9.
[74] All of the Company's witnesses adopted their prefiled testimony and responses to data requests without correction.
[75] Hr'g Tr. at 29. (Oct. 25, 2018).

over to the DAC. This design was followed for many years. In 2016, after the Company installed the Crary Street gate station in Providence, the Company no longer needed to use NG-LNG for system pressure in Providence and the costs of the Crary Street gate station were transferred to the GCR. Further discussions with the Division clarified the fact that all gate stations provide system pressure and therefore it wasn't appropriate to allocate any gate station costs to the DAC, and that the costs should remain in the GCR.[76]

Ms. Greene explained that her primary duties were to ensure proper investigation and clean-up of the Company's contaminated properties. She described the process by which an environmental remediation site is closed and confirmed that a site can be considered closed by both National Grid and the Rhode Island Department of Environmental Management, but still incur ongoing monitoring costs.[77]

For the Division, Mr. Booth continued to press for change to the RDM factor, because, he maintained that the Company's calculation method distorts the amount of the discount agreed to in the Company's recently concluded rate case.[78] He stated that he calculated a credit difference of $77,000 and opined that was not much to be concerned with, because it could be reconciled later. He concluded, however, that it was better to establish the correct calculation procedure this first year of the RDA with the newly adopted low-income discount because in future years, the predictable under-recovery could be far greater than his estimate for this year of $77,000.[79] He clarified that he did not have a problem with the just and reasonableness of the factor, just the timing of the

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[76] *Id*. at 31.
[77] *Id*. at 36-37.
[78] *Id*. at 44.
[79] *Id*. at 56.

reconciliation. Finally, Mr. Booth and Mr. Bell both agreed, that they agrred with all of the other factors proposed by the Company.

The Commission unanimously approved the proposed factors as specifically set forth in Attachment AEL-1S. Specifically, the Commission considered and approved the following factors: System Pressure - $0.0000 per therm; Advanced Gas Technology Program – $0.0000 per therm; Environmental Response Cost – $0.0027 per therm; Pension and Post-Retirement Benefits – ($0.0157) per therm; Reconciliation Factor – ($0.0007) per therm for Residential/Small/Medium C&I customers and ($0.0022) per therm for Large/Extra-Large customers; Service Quality factor - $0.0000 per therm; and Earnings Sharing Mechanism - $0.0000 per therm; and Low Income Discount Recovery $0.0138 per therm for Residential/Small/Medium C&I customers (excluding Residential Low income customers) and Large/Extra-Large customers.

In addition to the individual factors, the PUC approved an Uncollectible Percentage of 1.91%, resulting in an adjustment for uncollectibles of $0.0003 per therm for Residential/Small/Medium C&I customers, ($0.0012) per therm for Large/Extra-Large customers, and ($0.0137) for Low Income customers. The PUC also approved a Revenue Decoupling Adjustment charge of ($0.0200) for Residential/Small/Medium C&I customers, including Low Income customers and a Revenue Decoupling Reconciliation charge of $0.0003 for Residential/Small/Medium C&I customers, including Low Income customers. The approval of all of the factors plus the 1.91% adjustment for uncollectibles and the Revenue Decoupling adjustments resulted in a base DAC factor of ($0.0194) per therm for Residential/Small/Medium C&I customers, ($0.0334) for Low Income customers, and ($0.0012) per therm for Large/Extra-Large customers.[80]

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.[81] The resulting calculations revealed a DAC rate of ($0.0330) per therm for Residential Non-Heating customers, ($0.0251) per therm for Residential Heating customers, ($0.0337) per therm for Small C&I customers, ($0.0247) per therm for Medium C&I customers, ($0.0095) for Large Low Load C&I customers, ($0.0079) per therm for Large High Load C&I customers, ($0.0022) per therm for Extra-Large Low Load C&I customers, and ($0.0018) 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.

ACCORDINGLY, it is hereby

(23678) ORDERED:

1. The System Pressure factor of $0.0000 per therm is approved for effect November 1, 2018.
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.

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

4. The Environmental Response Cost credit factor of $0.0027 per therm is approved for effect November 1, 2018.
5. 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.
6. The Pension and Post-Retirement Benefits factor of ($0.0157) per therm is approved for effect November 1, 2018.
7. The Arrearage Management Adjustment factor of $0.0002 per therm is approved for effect November 1, 2018.
8. The Reconciliation factor of $0.0007 per therm for Residential/Small/Medium C&I customers and ($0.0022) per therm for Large and Extra-Large C&I customers is approved for effect November 1, 2018.
9. The Service Quality Performance factor of $0.0000 per therm is approved for effect November 1, 2018.
10. The Earnings Sharing Mechanism factor of $0.0000 is approved for effect November 1, 2018.
11. The Low Income Discount Recovery Factor of $0.0138 per therm is approved for effect November 1, 2018. The factor will not be applied to Residential Low Income classes.

12. The Revenue Decoupling Adjustment factor of $0.0200 per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2018.
13. The Revenue Decoupling Adjustment Reconciliation factor of $0.0003 per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2018.
14. The various ISR reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2018.
15. The overall Distribution Adjustment Charges of $0.0330 per therm for Residential Non-Heating customers, $0.0470 per therm for Residential Non-Heating Low Income customers, $0.0251 per therm for Residential Heating customers, $0.0391 per therm for Residential Heating Low Income customers, $0.0337 per therm for Small C&I customers, $0.0247 per therm for Medium C&I customers, $0.0095 per therm for Large Low Load C&I customers, $0.0079 per therm for Large High Load C&I customers, $0.0022 per therm for Extra-Large Low Load C&I customers, and $0.0018 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2018.
16. National Grid shall provide electronic versions of all spreadsheets at the time of its initial filing.

EFFECTIVE NOVEMBER 1, 2018 AT WARWICK, RHODE ISLAND. WRITTEN ORDER ISSUED OCTOBER 3, 2019.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson*

Marion S. Gold, Commissioner

Abigail Anthony, Commissioner

*Note: Chairperson Curran did not participate in this decision.

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. 4846

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

			APPROVED PER PUC ORDER		
Line No.		**Current**	**Residential/Small Medium C&I**	**Large/Extra-Large C&I**	**Residential Low Income**
1	System Pressure (SP) Factor	$ 0.0079	$ 0.0000	$ 0.0000	$0.0000
2	Advanced Gas Technology (AGT) Factor	$ 0.0000	$ 0.0000	$ 0.0000	$0.0000
3	Environmental Response Cost (ERC) Factor	$ 0.0024	$ 0.0027	$ 0.0027	$0.0027
4	Pension Adjustment Factor	($0.0118)	($0.0157)	($0.0157)	($0.0157)
5	Arrearage Management Adjustment		$0.0002	$0.0002	$0.0002
6	Reconciliation Factor (R)	$ (0.0011) LxLCI	($0.0007)	($0.0022)	($0.0007)
7	Service Quality Factor (SQ)	$ 0.0000	$ 0.0000	$ 0.0000	$0.0000
8	Earnings Sharing Mechanism (ESM)	$ 0.0000	$ 0.0000	$ 0.0000	$0.0000
9	Low Income Discount Recovery		$ 0.0138	$ 0.0138	n/a
10	**Subtotal**	**($0.0015)-($0.0026)**	$0.0003	($0.0012)	($0.0135)
11	Uncollectible Percentage	3.18%	1.91%	1.91%	1.91%
12	**DAC Adjusted for Uncollectibles**	**($0.0015)-($0.0026)**	**$0.0003**	**($0.0012)**	**($0.0137)**
13	Revenue Decoupling Adjustment	$ 0.0006	($0.0200)	$0.0000	($0.0200)
14	Revenue Decoupling Adjustment Reconciliation	$ 0.0010	$ 0.0003	$0.0000	$0.0003
15	**DAC Factor**	**$ 0.0001-($0.0026)**	**($0.0194)**	**($0.0012)**	**($0.0334)**

***All figures are per therm.**

Attachment B

National Grid - RI Gas

Docket No. 4846

DAC Factors including annual ISR component

		ISR Reconciliation w/o uncollectible (therms) (a)	Uncollectible Percentage (b)	ISR Reconciliation* (therms) (c) = (a) x [1+(b)]	Base DAC Component* (therms) (d)	DAC Component Subtotal Rates* (therms) (e) = (c) + (d)	ISR Component (therms) (f)	November 1, 2018 DAC Rates* (therms) (g)
(16)	Res-NH	($0.0133)	1.91%	($0.0136)	($0.0194)	($0.0330)	n/a	($0.0330)
(17)	Res-NH-LI	($0.0133)	1.91%	($0.0136)	($0.0334)	($0.0470)	n/a	($0.0470)
(18)	Res-H	($0.0056)	1.91%	($0.0057)	($0.0194)	($0.0251)	n/a	($0.0251)
(19)	Res-H-LI	($0.0056)	1.91%	($0.0057)	($0.0334)	($0.0391)	n/a	($0.0391)
(20)	Small	($0.0140)	1.91%	($0.0143)	($0.0194)	($0.0337)	n/a	($0.0337)
(21)	Medium	($0.0052)	1.91%	($0.0053)	($0.0194)	($0.0247)	n/a	($0.0247)
(22)	Large LL	($0.0081)	1.91%	($0.0083)	($0.0012)	($0.0095)	n/a	($0.0095)
(23)	Large HL	($0.0066)	1.91%	($0.0067)	($0.0012)	($0.0079)	n/a	($0.0079)
(24)	XL-LL	($0.0010)	1.91%	($0.0010)	($0.0012)	($0.0022)	n/a	($0.0022)
(25)	XL-HL	($0.0006)	1.91%	($0.0006)	($0.0012)	($0.0018)	n/a	($0.0018)

*Factors Include Uncollectible Allowance