

April 18, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4206 - Revenue Decoupling Mechanism ("RDM") Proposal
National Grid Brief**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's Brief, which is submitted in response to the Division's proposed limitations on the annual RDM reconciliations in the above-captioned proceeding. Because the Company believes that these proposals conflict with the provision of the Rhode Island Decoupling Statute, the Company is responding through the enclosed brief.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosures

cc: Docket 4206 Service List
Leo Wold, Esq.
Steve Scialabba, Division

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

April 18, 2011

Date

**Docket No. 4206 - National Grid (NGrid) – Revenue Decoupling Mechanism Filing
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND PUBLIC UTILITIES COMMISSION

National Grid's Revenue Decoupling
Mechanism ("RDM") Proposal

Docket No. 4206

**National Grid's Brief Regarding Proposed Limitations on
Annual RDM Reconciliations**

This memorandum addresses two issues that were discussed by the Division's witness in testimony that was recently submitted in this matter. The Division proposes a cap and deferral of reconciliation adjustments. It also proposes that the first year's reconciliation should apply to a "partial year." Both these proposals conflict with the statutory components of a Revenue Decoupling Mechanism ("RDM") under the Rhode Island Decoupling Statute. The statutory framework for revenue decoupling is designed to fully decouple electric and gas revenues from sales in order to eliminate disincentives for the Company to fully support energy efficiency programs, while continuing to support safe and reliable gas and electric delivery systems. Selectively capping and deferring the collections or refunds that result from the annual reconciliations mandated by the statute undermines the statutory goals that have been established for the RDM. Moreover, tinkering with the proposed RDM reconciliation to apply it to a nine-month rather than the proposed 12-month period would contradict the statutory framework, which provides

for an annual reconciliation of actual revenues to target revenues over a 12-month reconciliation period. R.I.G.L. §39-1-27.7.1.

a. Capping and deferring reconciliation adjustments is inconsistent with the Decoupling Statute mandate that actual revenue be reconciled to target revenue on an annual basis.

The Division has suggested that the RDM should cap revenue reconciliation adjustments by limiting the revenue reconciliation factor for any rate class to no more than plus or minus five percent of the authorized base rate revenue for that class. The Division goes on to propose that amounts in excess of the cap for any rate class should be deferred with interest for recovery in future periods.¹ The Company opposes the Division's suggested adjustment to the Company's proposed RDM since it runs contrary to the stated intent and provisions of the Decoupling Statute. R.I.G.L. §39-1-27.7.1.

One of the key statutorily-required components of the RDM is that it "annually" reconcile the Company's allowed revenue requirement from its rate case to revenues actually received during that "applicable 12 month period" and that it credit to customers any over-recoveries or recover from customers any under-recovered amounts. R.I.G.L. §39-1-27.7.1(c)(1). The statute ensures the recovery of a target revenue amount, which has been decoupled from sales. As written, the statute does not contemplate that over-collections be credited or under-collections be collected in future periods. Deferring credits to customers into the future fails to provide them the benefit of the annual reconciliation adjustment. Not only is it not contemplated by the statute, but it creates generational inequities by re-directing recovery or refunds to those who are less likely to have been customers during the 12-month RDM period being reconciled. Similarly,

¹ Testimony of Bruce Oliver, p. 49, ll. 6-10.

deferring collection of under-recoveries would create a lag in the Company's recovery on an annual basis of its established revenue target. Whereas a primary goal of the statute is "eliminating disincentives to support energy efficiency programs," creating a lag in the Company's collection of under-recoveries would undermine that statutory goal. Moreover, deferring the Company's recovery of under-recoveries contradicts the statutory goal of supporting the maintenance of a safe and reliable delivery system for Rhode Island. R.I.G.L. §39-1-27.7.1(a).

To the extent Mr. Oliver bases his recommendation on rate stability, that concern is already addressed in the Company's RDM proposal which includes a mechanism that would allow for an interim rate adjustment during the applicable 12-month period should the projected over- or under-collection of the annual target revenue exceed ten percent. Testimony of Jeanne A. Lloyd, pp. 8-9.

b. The statutory framework for the RDM is premised on a 12-month reconciliation and not a nine-month reconciliation.

The Division's witness goes on to propose that the initial reconciliation should not apply to the full fiscal year as proposed by the Company. Instead, he recommends that the initial year of implementation be for a "partial year" period running from July 1, 2011 through March 31, 2012. (BRO at p. 47, lines 1-17.)² The Decoupling Statute, however, provides for an RDM that "reconciles annually the revenue requirement for the applicable twelve month period." R.I.G.L. §31-1-27.7.1(c)(1). That is why under the Company's proposal the initial reconciliation will reconcile actual revenues from April 1, 2011 through March 31, 2012, its fiscal year, to the target revenue requirement allowed in the

² It is not clear if his comments are directed to both the gas and electric reconciliations or to the electric reconciliation only.

Company's last base distribution rate case. There is no evidence nor does the Division contend that the Company cannot track the actual revenues for the three months that precede the Commission's approval of the Company's RDM. In fact, at the pre-hearing conference in this docket, the Company agreed to the current schedule with the understanding that it would not be prejudiced if the hearing and decision were to take place after April 1 because the Company could be allowed to track the actual revenues for the period April 1, 2011 through March 31, 2012.

Moreover, although the section of the Decoupling Statute dealing with the RDM does not specifically require that the 12-month reconciliation period track the Company's fiscal year, when the statute is read in its entirety, the fiscal-year approach that the Company proposes best reflects the overall framework that has been established. For instance, the statute's capital investment recovery provisions are designed around a 12-month fiscal year spending plan.

CONCLUSION

The Decoupling Statute's language establishes an annual reconciliation providing the Company with its target revenue for that 12-month period, and is not intended to set arbitrary caps on any refund or recovery or to defer it into the future. Doing so simply frustrates the statutory goals of removing disincentives to the utility's full engagement in energy efficiency measures and frustrates the legislative goal of providing the necessary funding levels to support the provision of safe and reliable delivery service to customers. Additionally, the Company's proposed first-year reconciliation running from April 1, 2011 through March 31, 2012 should not be shortened or adjusted since to do so conflicts

with the statutory direction that the reconciliation period cover a full 12 months, and it is not necessary since the Company can track the actual revenues for the full 12-month period.

Respectfully submitted,

**THE NARRAGANSETT ELECTRIC
COMPANY**

By its attorney,



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Submitted: April 18, 2011