STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID PROPOSED FY 2012 ELECTRIC INFRASTRUCTURE, SAFETY AND RELIABILITY PLAN PURSUANT TO R.I.G.L. §39-1-27.7.1	: : :	DOCKET NO. 4218

REPORT AND ORDER

I. Background & National Grid's Filing

On May 20, 2010, the Rhode Island General Assembly enacted R.I. Gen. Laws § 39-1-27.7.1[1] which states, in relevant part that The Narragansett Electric Company d/b/a National Grid shall file proposals with the Public Utilities Commission ("Commission") that contain:

> An annual infrastructure, safety and reliability spending plan for each fiscal year and *an annual rate reconciliation mechanism* that includes a reconcilable allowance for the anticipated capital investments and other spending pursuant to the annual pre-approved budget as developed in accordance with subsection (d) herein....[2]

On December 23, 2010, in response to the above-referenced law, National Grid filed with the Commission its proposed Electric Infrastructure, Safety, and Reliability Plan ("Electric ISR Plan") for FY 2012. NGrid indicated that the Electric ISR Plan was developed in consultation with the Division of Public Utilities and Carriers ("Division") and "is designed to enhance the safety and reliability of the Company's Rhode Island electric distribution system."[3] On March 2, 2011, National Grid filed with the Commission a Revised propose Electric ISR Plan for FY 2012 to reflect reductions in the revenue requirement and ISR Factors which resulted from the extension of bonus depreciation provisions found in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 which was passed by the U.S. Congress in December 2010.[4] After hearing

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[1] P.L. 2010, ch. 15, § 1 and P.L. 2010, ch. 17, § 1 (enacted May 20, 2010).
[2] R.I. Gen. Laws § 39-1-27.7.1(c)(2)-(d) (emphasis added).
[3] Filing Letter dated 12/23/2010 at 1.
[4] National Grid Exhibit 2 (Supplemental Testimony of David E. Tufts), p. 2.

and investigation, the Commission approved National Grid's Revised Electric ISR Plan filed on March 2, 2011.

A portion of the Revised Electric ISR Plan included a provision for an Annual Reconciliation of expenses and revenues. Specifically, the Revised Electric ISR Plan provided that, each year, the Company will "reconcile the revenue requirement to the revenue billed from the rate adjustments implemented at the beginning of each fiscal year."[5] The reconciliation process would compare the Electric ISR Plan budget to the actual expenditures where the expenses are considered "non-discretionary" and will adjust the rate upward or downward depending on the actual expense level.[6] The Company considered non-discretionary expenses as "the investment required to comply with statutory and regulatory requirements and to fix damaged or failed equipment" and those items account for $31,341,500 million, or 55% of the capital projects in FY 2012.[7] The remaining 45% of the capital spending, or $25,836,150, is associated with system capacity, asset condition, and non-infrastructure projects "designed to reduce the degradation of equipments' service lives due to thermal stress and to provide appropriate degrees of system configuration flexibility to limit adverse reliability impact of large contingencies."[8]

During the reconciliation process, the Electric ISR Plan budget will be compared to actual expenses, but the Company will not be able to adjust rates to collect for expenses in excess of the

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[5] NGrid Exhibit 1 (Exhibit 1 attached to the Pre-Filed Testimony – Electric Infrastructure, Safety and Reliability Plan, Introduction and Summary, p. 3).

[6] NGrid Exhibit 1 (Pre-Filed Testimony of McDonough, Sheridan and Glenning) at 7, 11-12.

[7] *Id.* at 11. R.I.P.U.C. No. 2044 states that "'Non-Discretionary Capital Investment' shall mean capital investment related to the Company's commitment to meet statutory and/or regulatory obligations which amount shall be approved by the Commission as part of the Company's annual electric ISR Plan and shall be defined as the lesser of 1) "non-discretionary" electric plant in service or b) actual "non-discretionary" capital spending for "Non-Discretionary" Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.'"

[8] NGrid Exhibit 1 (Pre-Filed Testimony of McDonough, Sheridan and Glenning) at 10, 12. R.I.P.U.C. No. 2044 states that "'Discretionary Capital Investment' shall mean capital investment, other than "Non-Discretionary" Capital Investment defined [within], approved by the Commission as part of the Company's annual electric ISR Plan and shall be defined as the lesser of a) actual "discretionary' electric plant in service or b) approved "discretionary" capital spending for Discretionary Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.'"

budgeted amount unless the Company can prove the expenses were the result of factors outside of the control of the Company.[9] More specifically, as explained by Company Witness, David E. Tufts, non-discretionary capital investments "will be reconciled to the lesser of the actual 'nondiscretionary'-related capital investments placed into service and actual 'non-discretionary' spending levels on a cumulative fiscal year-to-date basis" whereas discretionary capital investments "will be reconciled to the lesser of the actual 'discretionary'-related capital investments placed into service and the level of approved 'discretionary' spending…on a cumulative fiscal year-to-date basis."[10]

I. 2012 RECONCILIATION

On August 1, 2012, National Grid submitted its Annual Report and Reconciliation Filing supported by the Pre-Filed Testimony of Jennifer Grimsley, Director, Network Strategy, New England Electric, William R. Richer, Director of Revenue Requirements – Rhode Island, and Nancy Ribot, Senior Analyst for Electric Pricing, New England in the Regulation and Pricing Group. Ms. Grimsley summarized the Company's actual capital spending for FY 2012, indicating that the Company's spending of $50.5 million for capital investment was $7.9 million under budget with $5.2 million of that in non-discretionary category. She explained that the lower than budgeted spending was primarily the result of economic conditions. The remaining $2.6 million variance in the discretionary category (system capacity and performance) was primarily driven by project delay or project completion under budget.[11] Ms. Grimsely also noted that while the overall spending was below budget, the Company spent $3.2 million more than that which was budgeted in the Non-Discretionary Damage/Failure budget as a result of major storms, including Tropical Storm Irene in

[9] *Id.* at

[10] NGrid Exhibit 1 (Pre-Filed Testimony of David E. Tufts), pp. 6-7.

[11] NGrid Exhibit 4 (Pre-Filed Testimony of Jennifer Grimsely), p. 3.

August 2011 and an October 2011 snow storm.[12] Turning to plant in service, Ms. Grimsley indicated that the Company placed $51.6 million of plant in service, $2.8 million more than had been projected. This is important because it is the plant in service and not the capital spending amounts which are used to calculate the revenue requirement that is included in the ISR factor.[13] According to Ms. Grimsley, Vegetation Management spending was slightly under budgeted levels at $7.8 million while Infrastructure and Maintenance ("I&M") spending was over budget at approximately $1.5 million. Therefore, the Company exceeded the overall O&M budget. Finally, Ms. Grimsley noted that the Company met the reliability performance metrics in Calendar Year 2011, continuing the overall improving trend set during the prior five years.[14]

Mr. Richer calculated the difference between the total FY 2012 ISR revenue requirement of $9,971,953 and the previously forecasted revenue requirement of $9,930,025 as $41,928. Referencing Mr. Tufts testimony from the Commission's initial review of the FY 2012 ISR Plan, Mr. Richer stated that non-discretionary capital investments are reconciled to the lesser of the actual nondiscretionary-related capital investments placed into service and actual non-discretionary spending levels on a cumulative fiscal year-to-date basis whereas discretionary capital investments are reconciled to the lesser of the actual discretionary-related capital investments placed into service and the level of approved discretionary spending on a cumulative fiscal year-to-date basis.[15] In this case, the non-discretionary capital used in the FY 2012 revenue requirement was limited to the actual spending amount of $26,086,014 compared to the assumed investment of $30,087,700 used in the FY 2012 forecasted revenue requirement. The discretionary capital additions of $22,878,442

[12] *Id.* at 5.
[13] *Id.*
[14] *Id.* at 6-7.
[15] National Grid Exhibit 4 (Pre-Filed Testimony of William R. Richer) at 4-7.

was lower than the approved spending level.[16] Adjustments were made to the calculation of tax depreciation to reflect eligibility for bonus depreciation.[17] Mr. Richer concluded that "the revenue requirement associated with the actual capital investment portion of the Company's electric ISR Plan is $686,518.[18]

Ms. Ribot then used Mr. Richer's calculations to develop the annual Capital Expenditure ("CapEx") and Operation and Maintenance ("O&M") reconciliations. She explained that the reconciliation is designed to compare the actual revenue billed during the plan year and to separately compare the forecasted revenue requirements against the actual revenue requirements. The CapEx reconciliation resulted in a net over recovery of $65,588 while the O&M reconciliation resulted in a net under recovery of $159,045.[19] Because the revenue requirement and reconciling factors for CapEx are based in part on an allocation of costs to each rate class by a previously approved Rate Base Allocator, the charge or credit on each rate class is different. The O&M Reconciling Factor results in a charge of $0.00002 per kWh for all customers.[20] The effect on a typical residential customer using 500 kWh per month would be an increase of $0.01.[21]

II. DIVISION'S FILING

On September 6, 2012, the Division of Public Utilities and Carriers ("Division") filed a Memorandum authored by Gregory Booth, P.E., its consultant. Mr. Booth did not comment on the calculation of the factors, but rather, focused on the issue of whether National Grid's reconciliation in the damage/failure spending (capital) and Vegetation Management Program (O&M) spending should be adjusted to account for contributions from Verizon that he believed were required under

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[16] *Id.* at 6-7.
[17] *Id.* at 7-8.
[18] *Id.* at 8-9.
[19] National Grid Exhibit 4 (Pre-Filed Testimony of Nancy Ribot) at 4-5.
[20] *Id.* at 6-10.
[21] *Id.* at 11.

the companies' Joint Pole Agreement.[22] He set forth several questions he believed the Commission should consider and concluded that an adjustment of approximately $1,500,000 could be justified.[23]

III. NATIONAL GRID'S RESPONSE TO DIVISION MEMORANDUM

On September 17, 2012, National Grid filed with the Commission responses to the questions raised in Mr. Booth's Memorandum. With regard to the questions related to the Damage/Failure Spending, National Grid stated that it had sought recovery from Verizon under the Joint Pole Agreement, but had not yet received invoices from Verizon for work for which it may seek contributions.[24] Therefore, National Grid was not yet able to apply any adjustments but stated that "when received, these credits or debits will be charged to the mandatory statutory budget category at that time."[25] Addressing the Vegetation Management Program Spending, National Grid stated that the Vegetation Management Program is designed with the safety and service reliability of the electric system and all areas are pruned accordingly without regard to the ownership of the pole.[26] According to National Grid, "Verizon does not agree to contribute to the Company's tree trimming (vegetation management) cost on the basis that Verizon crews perform any required tree trimming for Verizon service work at the time such work is performed."[27]

IV. HEARING

On September 20, 2012, the Commission conducted an evidentiary hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island for the purpose of considering National Grid's proposed reconciliation factors. The following appearances were entered:

FOR NATIONAL GRID	Thomas R. Teehan, Esq.

[22] Division Exhibit 6 (Memorandum of Gregory Booth, P.E.) at 2-6.
[23] *Id.* at 2, 5-6.
[24] National Grid Exhibit 6 (Responses to Division 1-1 to 1-4 – Damage/Failure Spending).
[25] *Id.* (Response to Division 1-4 – Damage/Failure Spending).
[26] *Id.* (Response to Division 1-1 – Vegetation Management Program Spending).
[27] *Id.* (Response to Division 1-4 – Vegetation Management Program Spending).

FOR DIVISION	Leo Wold, Esq. Assistant Attorney General
FOR COMMISSION	Cynthia G. Wilson-Frias Senior Legal Counsel

National Grid presented Ms. Grimsley, Mr. Richer, Ms. Ribot, and Craig Allen, Manager of Vegetation Strategy in support of National Grid's filing. Ms. Grimsley explained that due to a data entry error, the proposed rate adjustment in the Company's filing was incorrect. It should have been $0.03 per month rather than $0.01 per month. However, National Grid was not proposing a change to the rate adjustment in this filing, but would address it in the FY 2013 reconciliation filing. The resulting $356,000 error occurred in the Vegetation Management budget when comparing budgeted to actual spending.[28] The witnesses responded to various questions regarding the clarification of certain calculations in its filing.[29]

The Division presented Mr. Booth to discuss the Division's concerns regarding the spending on poles as discussed in Mr. Booth's pre-filed Memorandum. While confirming that the Division supported the approval of the rates as filed subject to any appropriate adjustments in the future relative to pole-related work,[30] Mr. Booth continued to express concern that electric ratepayers have been asked to subsidize telecommunications ratepayers where National Grid has not sought recovery for certain pole-related expenses.[31] During cross examination by National Grid, Mr. Booth agreed that during the review of the FY 2013 ISR Plan, National Grid's witness had testified that the tree trimming budget did not include a sharing of costs between National Grid and Verizon and that Mr. Booth had supported approval of the FY 2013 ISR Plan. However, he stated that at the time, he had believed National Grid was appropriately applying the Joint Pole Agreement with

[28] Tr. 9/20/12 at 12-13, 15, 17.
[29] *Id.* at 19-39.
[30] *Id.* at 58.
[31] *Id.* at 40-48.

Verizon. He still believed that National Grid's Vegetation Management program benefits the companies with attachments to those poles.[32]

V. COMMISSION FINDINGS

At its Open Meeting on September 26, 2012, the Commission approved National Grid's reconciliation factors as filed. While National Grid's O&M recovery factor should have been higher, the Company did not file revised figures prior to the hearing and the effect on customers' bills is minimal, so the Commission will not adjust National Grid's factors at this time. The Commission requests that the Division look further into the issue of vegetation management as it relates to the Joint Pole Agreement between National Grid and Verizon, and address it in the ISR Plan for FY 2014, to be filed in 2013. The Commission agrees with the Division's witness that those companies with attachments to the utility poles benefit from National Grid's Vegetation Management Program and should contribute to the costs. It seems inefficient to have multiple companies performing similar tasks for purposes of reliability of service. The Commission will revisit this issue during its review of the FY 2014 ISR Proposal.

Accordingly, it is hereby

(20972) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's FY 2012 Electric Infrastructure, Safety, and Reliability Plan Reconciliation rates filed on August 1, 2012 are hereby approved for effect on usage on and after October 1, 2012.

2. Narragansett Electric Company d/b/a National Grid's Compliance Tariff R.I.P.U.C. No. 2095 filed on August 1, 2012 for effect on usage on and after October 1, 2012, is hereby approved.

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[32] *Id.* at 52-57, 66-68.

3. Narragansett Electric Company d/b/a National Grid shall comply with all other instructions contained in this Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON OCTOBER 1, 2012 PURSUANT TO AN OPEN MEETING DECISION ON SEPTEMBER 26, 2012. WRITTEN ORDER ISSUED FEBRUARY 28, 2013.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

NOTICE OF RIGHT OF APPEAL PURSUANT TO R.I.G.L. SECTION 39-5-1, ANY PERSON AGGRIEVED BY A DECISION OR ORDER OF THE COMMISSION MAY, WITHIN SEVEN DAYS (7) 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.