R.I. Division of Public Utilities and Carriers

Responses to Commission's First Set of Data Requests

R.I. P.U.C. Docket No. 4323

Issued September 25, 2012

COMM 1-1 ELEC/GAS

Request:

Do you agree with Mr. Horan's statement (page 19, lines 2-6) that (paraphrasing) the Company's new jurisdictional model enables the Company's technical experts and the Division to collaborate in the development of the annual ISR Plan?

Response:

No. ISR Plans were developed by the Company and the Division prior to the inception of the jurisdictional model.

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COMM 1-2 ELEC/GAS

Request:

Referring to the Commission's Guidelines on Charitable Contributions enunciated in a Memorandum issued by the Commission on September 8, 1989 (see Company Responses to COMM 2-24, Docket 4065), please answer the following questions:

a. Do you agree that the following statement is an accurate representation of the two R.I. Supreme Court pronouncements in United Transit Authority v. Nunes and Providence Gas Company v. Burman: "when charitable contributions are modes in amount, and productive of good community relations which will benefit the utility of its patrons, they must be allowed as legitimate operating expenses."

Response: Yes.

b. Is the Commission's policy established in 1989 with regard to treatment of charitable contributions consistent with the ruling in the most recent R.I. Supreme Court case on this issue, Providence Gas Company vs. Burman?

Response: The Commission's policy is not in conflict with Providence Gas Co. vs. Burman.

c. Is it in the best interest of ratepayers for the Commission to adhere to the policy established in 1989 on inclusion of charitable contributions in cost service? Please include in your response reasonable grounds to support your position, taking into consideration the difference in amounts of charitable contributions that were included in cost of service when the policy was established 23 years ago versus the amount which is being proposed in this docket (approximately $636,000).

Response: The Division does not oppose the Commission maintaining its 1989 policy nor would we oppose the Commission modifying its policy consistent with the applicable case law on the issue. The Division believes the Commission's current policy imposes reasonable restrictions for the legally required treatment of charitable contributions, though the increasing nature of the Company's revenue over time does result in growth in the absolute dollars allowed under the Commission's guidelines. The amount proposed in this docket as noted by the Commission, $636,000, is comprised of $401,000 from the electric business and $235,000 from the gas business. The electric business contributions represent 0.049% of test year revenues and the gas contributions represent 0.053% of test year revenues, both below the guidelines "cap" or 0.08%.

The Commission's 1989 Guidelines define "Modes in amount" as meaning equal to or less than .08% of operating revenues. The Division has not been able to ascertain the derivation of the Commission's determination of 0.08% of revenues as the standard in the guidelines. At 0.08% of test year revenues, total electric and gas business charitable contributions would have been $998,000, compared to the $636,000 included in the filing.

d. Are charitable contributions currently allowed as operating expense in the majority of jurisdiction?

Response: The Division has not researched this issue.

COMM 1-3 ELEC/GAS

Request:

Mr. Kahal, p. 12, 1-2. Please provide the reasons for questioning whether Mr. Hevert's risk premium model is a cost of equity method.

Response:

This request was withdrawn by the Commission on October 2, 2012.

COMM 1-4 ELEC/GAS

Request:

Assuming there are no storm events that would necessitate drawing from the storm fund, please provide the annual storm fund balance for each of the next ten years assuming the Commission approves the Division's storm fund proposal.

Response:

See attached schedule.

This schedule assumes a base rate accrual of $1,800,000 to the storm fund commencing February 1, 2013 and that the annual VERO amortization of $2,500,000 expires December 12, 2013 with a corresponding increase to the storm fund accrual on January 1, 2014.

This schedule also assumes no base rate case in the period covered by the analysis. If a rate case were to be filed in this timeframe, the status of the storm fund and the appropriate level of the annual contribution going forward could be revisited at that time.

NATIONAL GRID - RI ELECTRIC
PROJECTED STORM FUND WITH DIVISION PROPOSAL
($000)

12 Mos. Ending:	Begin Balance	Contrib	2.78% Interest	End Balance
1/31/2013	(11,530)		(329)	(11,859)
1/31/2014	(11,859)	2,008	(302)	(10,152)
1/31/2015	(10,152)	4,300	(222)	(6,075)
1/31/2016	(6,075)	4,300	(109)	(1,884)
1/31/2017	(1,884)	4,300	7	2,423
1/31/2018	2,423	4,300	127	6,851
1/31/2019	6,851	4,300	250	11,401
1/31/2020	11,401	4,300	377	16,077
1/31/2021	16,077	4,300	507	20,884
1/31/2022	20,884	4,300	640	25,825
1/31/2023	25,825	4,300	778	30,902

Sources:

1/31/2013 Beginning Balance	Workpaper MDL-23
Intererest Rate	Workpaper MDL-23
Annual Contribution Beginning 2/1/2013	1,800
Amortization of VERO 1/1/2014	2,500

COMM 1-5 ELEC/GAS

Request:

Why does Mr. Kahal support an ROE (9.5%) that is higher than the midpoint of his Cost of Equity Estimates (Kahal Direct, page 12, table 2)?

Response:

Mr. Kahal conducted three separate DCF studies, electric distribution, gas distribution and electric integrated, obtaining midpoint values ranging from 9.0 to 9.4 percent. The electric distribution study, while quite relevant to National Grid, is somewhat limited in that it includes only five proxy companies. If he were to be guided purely by DCF midpoints, his point value recommendation would be slightly lower, i.e., roughly 9.2 or 9.3 percent. However, Mr. Kahal is also mindful that the Commission authorized a higher figure of 9.8 percent in 2010 in National Grid's last electric case and he understands that the currently authorized gas ROE to be 10.5 percent. Thus, while he concludes that a reduction in the authorized ROE clearly is warranted by improvements in capital markets, Mr. Kahal has also considered the principle of ratemaking gradualism in recommending a figure slightly higher than the 9.2 to 9.3 percent midpoint average.

COMM 1-6 ELEC/GAS

Request:

What is the average of the midpoints of the Electric Distribution DCF and the Gas Distribution DCF of table 2, page 12, Kahal direct? Would this average be a reasonable ROE? Why/why not?

Response:

The average of the two midpoints on Table 2 is 9.15 percent. This could be viewed as "reasonable" and a fair rate of return since it clearly is within the credible range of evidence on the market cost of equity and does not give undue weight to the lower end estimates.

COMM 1-7 ELEC/GAS

Request:

What is the average of the midpoints of the Electric Distribution DCF, Gas Distribution DCF and Vertically Integrated Electric DCF on table 2, page 12, Kahal direct? Would this average be a reasonable ROE? Why/why not?

Response:

The simple average of the three DCF midpoints on Table 2 is 9.23 percent. Yes, this could be viewed as a reasonable or fair rate of return since it falls within the range of evidence for three proxy groups and does not give undue weight to the lower end estimates.