

**To:** The Rhode Island Public Utilities Commission

**From:** Richard Hahn, La Capra Associates, Inc. on behalf of the Rhode Island Division of Public Utilities and Carriers

**Re:** NATIONAL GRID'S TARIFF ADVICE FILING FOR CUSTOMER-OWNED STREET AND AREA LIGHTING PROPOSAL – DOCKET NO. 4442

**Date:** November 26, 2013

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On September 16, 2013, National Grid filed its proposed tariff for unmetered customer owned street and area lighting in compliance with the Rhode Island Municipal Streetlight Investment Act, R.I.G.L § 39-29-1, et. seq. (the “Act”) (House Bill No. 5935 Sub A). The Act, which was signed into law on July 15, 2013, requires that the Company, in consultation with the Rhode Island Office of Energy Resources (“OER”), file a tariff with the Rhode Island Public Utilities Commission (“Commission”) that provides for delivery service to municipal customers who, pursuant to the Act, elected to purchase all of the Company’s street and area lighting equipment previously leased to that municipality. As required by the Act, the Company has consulted with the OER concerning this proposed tariff, Rate S-05, R.I.P.U.C. No. 2142. In accordance with the Act, the proposed tariff will allow municipal customers who own their own street lighting equipment to receive retail delivery service from the Company. In this filing, the Company has proposed a rate that would be billed to these customers to compensate the Company for the delivery of electricity to those customer-owned street and area lights.

Several parties, including OER, RILCT, WCRPC, and EERMC have intervened in this proceeding and some have filed comments and / or testimony. On November 5, 2013, the Commission directed the parties to meet and discuss the Company’s proposed tariff in an effort to narrow the differences. The parties met between November 8, 2013 and November 15, 2013, and on November 21, 2013, NGRID filed a status report of these negotiation meetings.

La Capra Associates was asked by the Rhode Island Division of Public Utilities and Carriers (the “Division”) to review this filing and associated material. This memorandum presents the results of the review. I will address as many of the issues identified in this proceeding as possible. If a particular issue is not addressed in this memorandum, that omission should not be construed as either concurrence or disagreement with any party or position.

### **Delivery Rate Level**

NGRID’s current rates for lighting include recovery of costs for delivery of electricity and the cost of owning the lighting fixtures (i.e., lamps, luminaires, dedicated poles, etc.). If a municipality purchases the street lighting fixtures, NGRID will still need to charge for delivery of electricity, regardless of whether that municipality procures power supply from a competitive supplier or relies upon default service. To develop a delivery-only rate, NGRID used data from the compliance filing in Docket 4323, which had already separated the revenue requirements associated with delivery from the revenue requirements associated with the fixtures. Figure 1 below summarizes the delivery-only rate as proposed by NGRID. Also included in Figure 1 is the data from Docket 4323 that indicates that the proposed rate is consistent with the compliance filing in that docket. The proposed rate is \$0.03824 per KWH delivered.

Figure 1  
Lighting Delivery-Only Rate As filed by NGRID

<b>COMPARISON OF LIGHTING REVENUE REQUIREMENTS</b>						
(\$000)						
item	Dkt 4442 JAL-4 revised			Dkt 4323 Compl Filing		
	Total ( col a)	Delivery Only (col b)	Other (col c)	pg 2	pg 38	Difference
rate base	\$29,287	\$4,193	\$25,094	\$29,286	\$25,092	\$4,194
ROR	7.17%	7.17%	7.17%	7.17%	7.17%	7.17%
return on rate base	\$2,100	\$301	\$1,799	\$2,100	\$1,799	\$301
Op Ex	\$12,073	\$1,997	\$10,076	\$12,076	\$10,079	\$1,997
Inc Tx	\$766	\$110	\$656	\$766	\$656	\$110
tot dist rev req	\$14,938	\$2,407	\$12,531	\$14,942	\$12,535	\$2,407
less oth rev	(\$274)	(\$274)	\$0			
dist rate rev req	\$14,664	\$2,133	\$12,531			
A-60 subsidy	\$376	\$376	\$0			
apply cap on increase	(\$3,066)	\$0	(\$3,066)			
tot rev req	\$11,974	\$2,509	\$9,465			
Annual KWH Deliveries		65,617,055				
Rate \$ per KWH		\$0.03824				

As shown in Figure 1 above, NGRID’s total distribution revenue requirement proposed in this proceeding for a delivery-only rate comports with the compliance filing in Docket 4323. However, in arriving at the proposed S-05 rate, NGRID makes three additional adjustments: (1) a reduction or credit for other revenues, (2) an increase to recover the A-60 subsidy, and (3) a reduction due to the application of a cap on the increase approved in Docket 4323. In its proposed delivery-only rate, NGRID has applied all of the first two adjustments and none of the third adjustment to the lighting delivery-only rate.

It seems appropriate to apply all of the first adjustment – other revenue – to the delivery-only rate as NGRID has done, as I understand these other revenues to be attachments fees that are not associated with the fixtures. Rather than assign all of the increase due to the A-60 subsidy to the delivery-only rate, it makes more sense to allocate this amount between delivery-only revenue requirements and fixture revenue requirements. However, there is less clarity how on the third

adjustment – the application of the rate cap from Docket 4323 - should be applied. The answer depends upon the objective of the rate design in this proceeding. If the objective is to have a rate based upon the full cost of service, then it would be appropriate to allocate none of this reduction to the delivery-only rate, as NGRID has done. Alternatively, if the objective is to develop a lighting delivery-only rate that is consistent with the other rates to be charged by NGRID pursuant to Docket 4323, then it would be more appropriate to allocate the application of the rate cap between revenue requirements for delivery-only and revenue requirements for fixtures.

I believe that it is appropriate to have the lighting delivery-only rate being established in this proceeding be consistent with the other rates being charged by the Company. It seems inappropriate to bring only one rate to full cost of service while leaving all other rates unchanged. If, in some future rate case, all of NGRID's rates are brought to the level of full cost of service, parity would be maintained. Figure 2 below shows what happens if the latter two adjustments are allocated between delivery-only and fixtures. The areas of this figure shaded in gray highlight the changes that I made. The resulting delivery-only rate is \$0.02654 per KWH. I recommend that the Commission approve this rate level. It should be noted that I have allocated the adjustments for the A-60 subsidy and the rate increase cap based upon the distribution rate revenue requirement for delivery- only and for fixtures- only. Other allocations may be possible. If NGRID believes that another allocator is preferable, it should propose it and explain why it is preferable to what I have done.

Figure 2

Lighting Delivery-Only Rate As Revised by LCA

<b>COMPARISON OF LIGHTING REVENUE REQUIREMENTS</b>						
(\$000)						
item	Dkt 4442 JAL-4 revised			Dkt 4323 Compl Filing		
	Total ( col a)	Delivery Only (col b)	Other (col c)	pg 2	pg 38	Difference
rate base	\$29,287	\$4,193	\$25,094	\$29,286	\$25,092	\$4,194
ROR	7.17%	7.17%	7.17%	7.17%	7.17%	7.17%
return on rate base	\$2,100	\$301	\$1,799	\$2,100	\$1,799	\$301
Op Ex	\$12,073	\$1,997	\$10,076	\$12,076	\$10,079	\$1,997
Inc Tx	\$766	\$110	\$656	\$766	\$656	\$110
tot dist rev req	\$14,938	\$2,407	\$12,531	\$14,942	\$12,535	\$2,407
less oth rev	(\$274)	(\$274)	\$0			
dist rate rev req	\$14,664	\$2,133	\$12,531			
A-60 subsidy	\$376	\$55	\$321			
apply cap on increase	(\$3,066)	(\$446)	(\$2,620)			
tot rev req	\$11,974	\$1,742	\$10,232			
Annual KWH Deliveries		65,617,055				
Rate \$ per KWH		\$0.02654				

**Scope of Proceeding**

In addition to providing a delivery- only tariff being proposed in this proceeding, NGRID will also use certain closing documents to consummate transactions where municipalities acquire lighting assets currently owned by NGRID. These closing documents include Agreement of Sale, the Overhead License Agreement, and the Underground License Agreement. It appears from the comments filed in this proceeding that NGRID believes that a review of these documents is beyond the scope of this proceeding, while RILCT and WCRPC believe that these documents should be addressed in this proceeding. I believe that these documents should be reviewed as part of this proceeding and that any issues that arise should be addressed herein. This will help minimize disputes that might occur in the future.

**Maintenance and Metering**

RILCT and WCPRC have requested that NGRID provide maintenance services for lighting facilities that are purchased and owned by a municipality. NGRID has stated that it does not wish to provide such maintenance. I agree that NGRID should not be required to offer such services.

RILCT and WCPRC have also requested that NGRID provide metering capability for the new S-05 rate. NGRID stated that it is not feasible to offer such services at this time, but has offered to conduct a limited pilot program to evaluate the practicality, timing, and cost of such metering services. I agree that it is premature to require metering services at this time, and NGRID's suggestion for a limited pilot program to address these issues is a reasonable approach. It should be noted that adding metering capability to this rate will increase costs and result in a higher rate being charged by NGRID.

#### **Inventory Penalty**

As a result of the negotiations, NGRID proposes to revise the S-05 tariff to remove NGRID's right to terminate service if a municipality does not meet reporting requirements or identify unreported lights. Instead of termination, the municipality will be charged an amount based upon the estimated point in time the lighting inventory change was changed, plus interest. I believe that such a change is appropriate, and should be accepted.

#### **Requirement for Fused Disconnects**

NGRID's proposed tariff requires that municipalities that purchase lighting facilities from NGRID install fused disconnects that would allow the lighting facilities to be de-energized when maintenance is performed by the municipality or its contractors. I believe that such a requirement is reasonable, and should be accepted. All other devices connected to a utilities distribution system but not owned by the utility, such as house service drops and customer-owned on-site generation, require some disconnection device. I see no reason why one shouldn't be required here.

#### **Pole and Infrastructure Access**

NGRID's Overhead License contains a provision that allows NGRID to remove poles that are no longer of service to NGRID. RILCT and WCPRC have stated that such a requirement is unreasonable, and NGRID has declined to change its position during the negotiation meetings. Such a situation could arise where, at the time a municipality purchased the lights in its town, NGRID had its distribution facilities on a pole. Sometime after the purchase, NGRID removes its facilities, and that pole is left only with lighting attachments. By removing such a pole, NGRID will incur the cost of removal, and the municipality will either need to install its own pole or do without lighting in that area. A better approach would be for NGRID to offer to sell that pole to the municipality, which is what would occur if there had been no NGRID facilities on the pole (i.e., a dedicated pole) at the time of the municipality's original purchase of the lighting facilities. If the municipality declined to acquire such a pole, then NGRID would be free to remove it.

### **Assignment of Rights**

Intervenors have requested that NGRID transfer attachment rights, easements, and regulatory approvals associated with lighting facilities purchased by a municipality. NGRID has stated that it is not practical to implement such transfers, and that NGRID would incur costs that may be unrecoverable. In my experience, the vast majority of lighting facilities is located on jointly-owned poles or dedicated poles located in or near public ways via municipality-approved grants of locations. No transfer of rights is required here, as the municipality purchasing the lighting facilities issues the grant of location. Some lighting facilities may have been installed with rights acquired from third parties. Some of these rights may be assignable under certain conditions, and some may not be assignable or transferrable. Each case may be different, and NGRID may need to spend time and money to implement such a transfer. If NGRID does not work with the municipality to transfer such rates, which were likely paid for and included in the purchase price of the lighting facilities, then the acquiring municipality might be required to negotiate new rights with that third party. I believe that NGRID should be required to attempt to transfer such rights if cost of acquiring these rights were included in the plant costs of the lighting facilities being purchased. However, it would be reasonable for NGRID to recover any reasonable costs as part of the purchase price.

### **Labeling of Fixtures**

During the negotiation meetings concerning the closing documents, the Company explained that the municipalities may elect to maintain labeling of pole location and equipment labels (fixture type and wattage) as they choose. However, National Grid requests that the municipalities remove any reference to the Company that remains on the labels. In addition, if the municipality chooses to change the location labeling, it must inform the Company of the change for recordkeeping purposes. The Company also explained that it will require prominent ownership labeling and that it will work with the municipalities to develop a mutually acceptable ownership labeling system. I believe that this approach of requiring the removal of any reference to NGRID is reasonable, as is the requirement to maintain some form of location labeling acceptable to the Company.