

October 13, 2015

BY HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4518 - National Grid's Electric Pension Adjustment Factor Filing
For the Twelve-Month Period Ending March 31, 2015
Responses to PUC Data Requests – Set 1**

Dear Ms. Massaro:

On behalf of National Grid,¹ I have attached the Company's responses to the first set of data requests issued by the Rhode Island Public Utilities Commission in the above-referenced matter.

Thank you for your attention to this filing. If you have any questions, please contact me at 781-907-2121.

Very truly yours,



Raquel J. Webster

Enclosures

cc: Docket 4518 Service List
Leo Wold, Esq.
Steve Scialabba, Division

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

Paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

October 13, 2015
Date

**Docket No. 4518 National Grid's Pension Adjustment Factor
Service List as of 9/10/15**

Name/Address	E-mail Distribution	Phone
Raquel J. Webster, Esq. National Grid. 280 Melrose St. Providence, RI 02907	raquel.webster@nationalgrid.com ;	401-784-7667
	celia.obrien@nationalgrid.com ;	
	Joanne.scanlon@nationalgrid.com ;	
	William.richer@nationalgrid.com ;	
Leo Wold, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Lwold@riag.ri.gov ;	401-222-2424
	Steve.scialabba@dpuc.ri.gov ;	
	dmacrae@riag.ri.gov ;	
	Jmunoz@riag.ri.gov ;	
File original & nine copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov ;	401-780-2107
	Amy.dalessandro@puc.ri.gov ;	
	Alan.nault@puc.ri.gov ;	
	Todd.bianco@puc.ri.gov ;	
Christopher Kearns, OER	Christopher.Kearns@energy.ri.gov ;	
	Nicholas.Ucci@energy.ri.gov ;	

PUC 1-1

Request:

Please explain the roughly 27% increase in pension expense when comparing FY2015 expense (\$9,804,010) to the Docket 4323 rate year allowance (\$7,723,559). See Schedule WRR-1.

Response:

The Company's actuary provides separate cost estimates for employees of the electric and gas businesses. The Company is also amortizing a merger-related deferred pension credit from National Grid's acquisition of the electric business in 2000, and is amortizing a merger-related deferred pension debit from its acquisition of the gas operations of Southern Union in 2006. The Company's accounting system accumulated into a single clearing pool, all direct company pension costs as provided by the Company's actuary plus the amortization of deferred merger-related pension costs for both the electric and gas businesses. Pension costs were then charged out of the clearing pool as a labor overhead to the electric and gas segments based on where employees of the Company charge their labor dollars. Since electric and gas-related net actuarial pension costs are accumulated in a single clearing pool (i.e. actuarial costs plus electric-related pension merger amortization costs and gas-related pension merger amortization costs), the costs charged to the electric and gas operating businesses are based on proration of electric and gas wages rather than on the discretely calculated pension costs of each segment. This approach results in a disproportionate share of net actuarial pension costs being allocated to the electric and gas businesses. Consequently, pension costs (and OPEB costs) charged to the electric business has been overstated for the fiscal year, and costs charged to the gas business have been understated.

The Company believes that pension costs should have been charged to the electric and gas businesses in proportion to each businesses share of net actuarial pension expense. The Company plans to submit a revised Pension Adjustment Factor filing for the twelve-month period ended March 31, 2015 with the PUC. The revised electric pension expense is \$8,967,724. This is a roughly 16 percent increase as compared to the rate year allowance in Docket 4323. The primary reason for the increase in expense is a decrease in the amortization of the aforementioned merger-related deferred pension credit from National Grid's acquisition of the electric business in 2000. When National Grid acquired the Company, the pension and OPEB plans had unrecognized accumulated net actuarial gains. When a business combination occurs, the accounting standards (FAS 87 and FAS 106) require business to immediately recognize any accumulated actuarial gains or losses. Absent a business combination, the gains that had been accumulated in the pension and OPEB plans would have been amortized as a reduction to pension and OPEB expense over the average service lives of the participants in the plans. At acquisition, National Grid deferred the accumulated pension and OPEB gains to a regulatory

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket 4518
In Re: 2015 Pension Adjustment Factor
Responses to the Commission's First Set of Data Requests
Issued on September 11, 2015

PUC 1-1, page 2

liability account which the Company has been amortizing as a reduction to pension and OPEB expense as if the merger had not occurred. It has been over 15 years since National Grid's acquisition of the Company's electric business, and certain components of the deferred merger-related gains have been fully amortized and other components will be fully amortized over the next few years. As the amortization of these gains wind down, the reduction to pension and PBOP expense that has been enjoyed since the acquisition has been decreasing over time, which is the main driver for the increase in pension expense for FY 2015 as compared to the rate allowance.

PUC 1-2

Request:

Has the company made any changes to its pension plan offerings since the conclusion of Docket 4323? For example, changes in assumptions, changes in benefits offered, changes in plan managers, etc.

Response:

As described in Attachment PUC 1-2, there have been minor plan amendments made to the pension and retiree welfare plans in connection with collective bargaining agreements in 2012 and 2013. There were no such amendments in 2014.

In general, the Company's assumptions do not change frequently. The only exception to this is the discount rate assumption. Unlike all other assumptions which are long-term assumptions, the discount rate is required by FAS 87 and FAS 106 (or ASC 715) to be based on current market conditions and is generally updated annually. The discount rate that was in effect at the time of the Company's rate case was 7.25 percent. In the current low interest rate environment, the discount rate used to determine pension and OPEB costs for the period ended March 31, 2015 was 4.8 percent. A small change was made to the Company's expected return on asset (EROA) assumptions since the last rate case based on the long-term view of future asset returns. The EROA assumptions in the rate case ranged from 7.50 percent to 7.25 percent. That range is now 7.25 percent to 7.00 percent. Finally, the Company's actuary is using a revised mortality table that assumes longer lives of the participants in the plans.

All assumption changes are examined by the Company's external auditors, PricewaterhouseCoopers, in connection with their annual audit of the financial statements.

There have been no changes to plan offerings, benefits offered (other than those described in Attachment PUC 2-1), or plan managers since the conclusion of Docket 4323.



January 17 2013

Mr. Bill Richer
National Grid USA
40 Sylvan Road
Waltham, MA 02451

Dear Bill,

Subject: 2012 Plan Amendments—National Grid, KeySpan, and Niagara Mohawk

As requested, we have summarized the costs associated with the calendar year 2012 plan amendments for the pension and retiree welfare plans of National Grid, KeySpan, and Niagara Mohawk.

The following KeySpan amendments were recognized under ASC 715:

- **New York Local 3 Utility and Local 101 Non-Utility Cash Balance Freeze** – Effective January 1, 2012 cash balance accounts were frozen for Local 3 Utility and Local 101 Non-Utility participants. The impact on KeySpan liabilities (PBO) was a **decrease** of \$0.7 million. Ongoing annual expense **decreased** by approximately \$0.3 million.
- **Boston Gas Union Local 12012-04 Flat Dollar Multiplier Increase** – The flat dollar multiplier increased from \$64 to \$68 for Boston Gas Union Local 12012-04. For ASC 715 purposes this was reflected as a plan amendment effective July 1, 2012. The impact on KeySpan liabilities (PBO) was an **increase** of \$1.9 million. Ongoing annual expense **increased** by approximately \$0.3 million.
- **Boston Gas Union Local 12003, Local 318, and Local 369/350 Flat Dollar Multiplier Increase** – The flat dollar multiplier increased from \$64 to \$70 for Boston Gas Union Locals 12003, 318, and 369/350. For ASC 715 purposes, this was reflected as a plan amendment effective July 1, 2012. The impact on KeySpan liabilities (PBO) was an **increase** of \$10.1 million. Ongoing annual expense **increased** by approximately \$1.8 million.
- **Boston Gas Union Local 369/350 Cash Balance Change** – Effective September 1, 2012, Local 369/350 cash balance participants had their cash balance account balances frozen and began accruing benefits under the flat dollar multiplier formula. The impact on KeySpan liabilities (PBO) was an **increase** of \$44,000. Ongoing annual expense **increased** by approximately \$28,000.

There were no amendments recognized for legacy National Grid or Niagara Mohawk during 2012.

Bill, please call if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Steve".

Stephen F. Doucette

SFD:avm
Enclosures
4844L1027

cc: Mr. James Allen, National Grid USA
Ms. Mari-Louise Messuri, National Grid USA
Ms. Carol MacDonald, Aon Hewitt
Ms. Ditah Rimer, Aon Hewitt



January 24, 2014

Mr. Bill Richer
National Grid USA
40 Sylvan Road
Waltham, MA 02451

Dear Bill,

Subject: 2013 Plan Amendments--National Grid, KeySpan, and Niagara Mohawk

As requested, we have summarized the costs associated with the calendar year 2013 plan amendments for the pension and retiree welfare plans of National Grid, KeySpan, and Niagara Mohawk.

The following KeySpan amendments were recognized under ASC 715:

- **Colonial Cape Cod Local 13507 Flat Dollar Multiplier Increase** – The flat dollar multiplier increased from \$73 to \$79 for Local 13507. For ASC 715 purposes this was reflected as a plan amendment effective March 31, 2013. The impact on KeySpan liabilities (PBO) was an **increase** of \$0.9 million. Ongoing annual expense **increased** by approximately \$0.2 million.

The following Legacy Grid amendment was recognized under ASC 715:

- **Northborough Local 369 Cash Balance Freeze** – Effective September 1, 2013 cash balance accounts were frozen for Local 369. The impact on FAPP liabilities (PBO) was a **decrease** of \$53,000. Ongoing annual expense **decreased** by approximately \$28,000.

There were no amendments recognized for Niagara Mohawk during 2013.

Bill, please call if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "Steve".

Stephen F. Doucette

SFD:avm

Enclosures

4844L1106

cc: Mr. James Allen, National Grid USA
Ms. Mari-Louise Messuri, National Grid USA
Ms. Carol MacDonald, Aon Hewitt
Ms. Ditah Rimer, Aon Hewitt