Jennifer Brooks Hutchinson
Senior Counsel

March 25, 2016

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4599 - 2016 Retail Rates Filing
Supplemental Response to COMM 3-2

Dear Ms. Massaro:

Enclosed are ten (10) copies of the Company's[1] supplemental response to COMM 3-2 in the above-referenced docket.

Thank you for your attention to this transmittal. If you have any questions, please contact me at 401-784-7288.

Very truly yours,

Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4599 Service List
Steve Scialabba, Division
Leo Wold, Esq.

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

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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.

The 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.

Robin T. Schwartz

______________________________ March 25, 2016
Robin T. Schwartz Date

National Grid – 2016 Annual Retail Rate Filing - Docket No. 4599
Service List Updated 3/18/16

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Supplemental
COMM 3-2

Request:

Explain in detail the $80.7 million adjustment to cash working capital referenced on page 3-4 of the Division memorandum.

Response:

As part of further investigating the adjustment noted by the Division on pages 3-4 of its March 16, 2016 memorandum, the Company is submitting this supplement to its original response to this data request.

In January 2012, the Company converted the gas business' customer billing system from the Advantage Billing System (Advantage) to the customer service system (CSS) that was and still is utilized by many of National Grid's delivery companies, including the Company's electric business.[1] As part of the conversion from Advantage to CSS, and to facilitate a possible single combined bill for gas and electric service, all data was coded to one company, company "49," but with separate "gas" and "electric" segment designations.

The functionality within CSS for companies that have both electric and gas customers requires certain transactions be performed in one segment, with subsequent inter-segment transfers to move amounts to the other applicable CSS segment. Many of these common transactions are first processed in the electric segment and then transferred to the gas segment. For example, all cash received from electric and gas customers is initially posted in the electric segment, but functionality moves the appropriate amount of posted cash to the gas segment to be credited to those customers' accounts. Other transactions that post initially to the electric segment include budget billing transactions and excess credits on customer accounts. However, CSS also processes transactions that are clearly defined to one segment, such as customer billing and cancellations and rebilling of service, as that billing is calculated based on specific gas or electric rates, charges, or fees as defined in the Company's tariffs.

While transactions that were required to be posted to a single segment in CSS were being correctly accounted for within CSS, these transactions incorrectly translated to the wrong segment in the Company's general ledger systems, resulting in an understatement of electric accounts receivable in the general ledger. When the gas billing system conversion occurred, the Company's books were maintained in National Grid's PeopleSoft general ledger system, with the gas and electric segments each having its own general ledger as separate companies. In

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[1] The company code within CSS for the electric business is "49."

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November 2012, National Grid implemented its current general ledger system, SAP. A component of National Grid's SAP implementation was the integration of the separate Rhode Island gas and electric general ledgers that existed prior to SAP into one general ledger in SAP. SAP implementation was not the cause of the mapping problem that began when the gas business was added into CSS, nor is it the Company's opinion that SAP exacerbated the problem.

The understatement of electric accounts receivable (and corresponding over statement of gas accounts receivable) was first identified by the Company's Credit & Collections department and communicated to the Billing department in November 2013. The Billing and Revenue Accounting functions investigated the causes of the mapping problem, identified areas within CSS requiring program coding changes to correct for those causes, and analyzed and reconciled electric and gas accounts receivable balances between CSS and the general ledger over the next several months. This review took several months to complete as it needed to occur among other work being performed in CSS and it was a complex problem that took deliberate effort to resolve so as not to create other problems from programming changes implemented to address the mapping problem. In March 2015, the Company recorded an entry to reclassify the cumulative impact of the misposting through March 2015 of $97.2 million. In its filing in this proceeding, the Company calculates the CWC impact of Standard Offer Service (SOS) for a calendar year; therefore, it reflected the equivalent adjustment at December 2014, which was $80.7 million, in order to be able to more accurately state the ending balances of January and February 2015 in the CWC analysis. Since the March 2015 entry was recorded, on a quarterly basis, the Company analyzes and reconciles electric and gas accounts receivable between CSS and the general ledger and records similar reclassification entries to accurately segment its accounts receivable in its general ledger between electric and gas. In April 2015, the Company implemented programing changes within CSS to remedy the problem. The Company has continued to monitor differences in segment balances between the general ledger and CSS and makes additional programming changes as necessary; however, ongoing differences are very small and adjustments as described above are made as necessary.

Monthly electric accounts receivable balances during calendar year 2015 reflected in Schedule ASC-6, Page 7, column (a), reflect the correction of electric accounts receivable, normalized back to the beginning of calendar year 2015, as discussed above, as well as the quarterly entries through the remainder of calendar year 2015. In prior cash working capital (CWC) studies, the electric accounts receivable balances were understated in calendar years 2013 and 2014, resulting in the appearance of accounts receivable being paid off more quickly (fewer days outstanding) lowering the customer payment lag in the calculation and, consequently, a lower

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CWC percentage. The lower CWC percentage was applied to Standard Offer Service payments to suppliers and, ultimately, a lower CWC impact than what would have been filed if the electric accounts receivable balances for calendar years 2013 and 2014 were properly stated.

The understatement of electric accounts receivable and overstatement of gas accounts receivable did not affect the Company's annual audited financial statements. While accounts receivable balances were misstated for the individual electric and gas segments, the financial statements taken as a whole were not misstated. Consequently, this issue was viewed primarily as an internal segmenting issue only. In addition, revenue recorded in the Company's general ledger was appropriately recorded as either electric-related revenue or gas-related revenue, as revenue is generated through specific billing codes that are further defined by segment.

This misclassification of electric and gas accounts receivable on the Company's general ledger does not affect the CWC impact on gas supply costs included in past Gas Cost Recovery (GCR) filings as the CWC impact is calculated differently pursuant to the Company's gas tariff. In the Company's GCR filings, the Company calculates the CWC impact using the customer payment lag approved in Docket No. 4323, the Company's most recent general rate case. The Company does not update the customer payment lag or the CWC percentage in the GCR CWC calculation and, therefore, the working capital impact in the GCR was unaffected.[2] The Company similarly uses the CWC percentage from Docket No. 4323 to calculate CWC in its annual gas earnings reports and, therefore, the CWC amounts reflected in the Company's gas earnings reports are also unaffected.

In addition, as the test year in the Company's last general rate case (Docket No. 4323) was calendar year 2011 and the problem began with the January 2012 conversion of Advantage to CSS, the problem described above was not present when the Company prepared its gas and electric lead/lag and CWC studies in that case and, therefore, current base distribution rates were unaffected.

The Company is in the process of quantifying the impact on the 2013 and 2014 Annual Retail Rate Filings in Docket Nos. 4485 and 4554, respectively, resulting from these problems. The Company does not intend to seek recovery of increased CWC costs as a result of quantifying the impact of restating electric accounts receivable to their appropriate level in the CWC study.

[2] Pursuant to the Company's gas tariff, RIPUC NG-GAS No. 101, Section 2, Gas Charge, Schedule A, Sheet 7, Section 5.0, definition of DL, the days lag is fixed as that approved in the most recent rate case proceeding.