STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

THE NARRAGANSETT ELECTRIC	**:**	
COMPANY d/b/a NATIONAL GRID'S GAS	**:**	
DISTRIBUTION ADJUSTMENT CHARGE	**:**	**DOCKET NO. 4634**

REPORT AND ORDER

On August 1, 2016, the Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed with the Rhode Island Public Utilities Commission (PUC or Commission) its annual Distribution Adjustment Charge (DAC) for effect November 1, 2016. The DAC is filed annually to establish a factor to reconcile estimated gas costs to actual gas costs included in rates over the twelve-month period beginning the first of November. The DAC provides for funding, or the reconciliation and refund, of amounts associated with a number of the Company's specific programs. It also facilitates the timely rate recognition of incentive/penalty provisions.

In support of its filing, National Grid submitted the prefiled testimony of Suhila Nouri Nutile, a Senior Analyst in the Regulation and Pricing Department for National Grid USA Service Company Inc., and William Richer, Director of Revenue Requirements, Rhode Island, for National Grid USA Service Company, Inc.[1] The purpose of Ms. Nutile's testimony was to describe the changes to and reconciliation of the various DAC factors[2] and to provide the proposed updated factors to become effective November 1, 2016.[3] Ms.

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[1] Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at www.ripuc.org/eventsactions.html, organized by docket number. Ms. Nutile's prefiled testimony specifically is available at http://www.ripuc.org/eventsactions/docket/4634-NGrid-DAC-Filing(8-1-16).pdf.

[2] There are twelve DAC factors: a System Pressure factor, an Advanced Gas Technology factor, a Low Income Assistance Program factor, an Environmental Response Cost factor, a Pension Adjustment factor, an On-Systems Margin Credit factor, a Reconciliation factor which includes a Firm Revenue Credit, a Revenue Decoupling Reconciliation factor, an Earnings Sharing Mechanism factor, a Service Quality factor, a Revenue Decoupling Adjustment factor, and rate class specific Infrastructure, Safety, and Reliability factors.

[3] Nutile Direct at 2 (Aug. 1, 2016)

Nutile noted that because underlying data was unavailable to develop all of the DAC factors at the time the testimony was prepared, the factors would be updated in the Company's September 1, 2016 Supplemental DAC filing.[4]

Ms. Nutile's testimony described each of the DAC factors and the proposed changes to those factors.[5] She noted that the System Pressure factor would be filed with the Company's Supplemental Filing on September 1 to coincide with the Gas Cost Recovery filing because forecasted liquefied natural gas (LNG) costs are directly related to gas costs.[6] Ms. Nutile provided an update of the Company's recent Advanced Gas Technology (AGT)[7] rebate activity and identified an account balance of $1,601,951, which did not include $20,718 of interest to be returned to customers through the Reconciliation factor. Ms. Nutile represented that National Grid was not proposing to add to the $300,000 of funding provided annually through base rates. She noted that the Company would reassess the need to modify this funding in the next year's DAC filing -- in August 2017 -- and propose any necessary changes at that time.[8]

Ms. Nutile provided that National Grid was not proposing to add to the current level of funding provided for the Low Income Assistance Program factor, which is funded through base rates.[9] She noted that an additional $588,061 of environmental costs had to be charged to ratepayers through the Environmental Response Cost factor, resulting in an

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[4] *Id.* at 4.
[5] Nutile Direct at 3-4, Sch. SLN-1.
[6] Nutile Direct at 4-5, Sch. SLN-2. The System Pressure factor recovers projected LNG expenses needed to ensure proper operating pressure along the Company's distribution system.
[7] The stated purpose of the AGT program is to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand and thus reduce the unit cost of gas for all customers by generating additional distribution revenues to support fixed costs associated with resources needed during peak periods.
[8] Nutile Direct at 5-8, Sch. SLN-3.
[9] Nutile Direct at 8-9, Sch. SLN-1.

increase of $0.0014 per therm to compensate for the shortage of funds recovered through base rates.[10]

Regarding the On-System Margin Credit factor, Ms. Nutile explained that any excess collected above a $1,435,656 threshold would be returned to customers and any deficiency below that threshold amount would be recovered from customers. She described how the threshold was set in the Company's last rate case at $1.8 million but adjusted to reflect the migration of two customers to the firm transportation service. Because those customers converted to Firm Service in November 2014, their non-firm revenues from April 2014 through October 2014 were included in the Company's FY 2015 non-firm margin, which was adjusted to $1,523,876 to reflect the customers' migration to firm service. However, she stated, an adjustment to the threshold had to be made for the remaining seven months, April through October, as those customers were no longer Non-Firm customers whose revenue was used in the calculation of the On-System Margin which yielded the $1,435,656 threshold. She indicated that the adjusted threshold resulted in an overage in Non-Firm margin of $63,674 to be returned to ratepayers.[11]

Since no service quality penalties were assessed against the Company for the subject year, Ms. Nutile explained, no money would be returned to ratepayers through the Service Quality[12] factor.[13] She identified a $282,230 over-collection to be refunded to

[10] Nutile Direct at 9-10, Sch. SLN-4. The Company filed its Annual Environmental Report for Gas Service on July 27, 2016.
[11] Nutile Direct at 12-14, Sch. SLN-6.
[12] The general purpose of a service quality plan is to ensure that customers receive a reasonable level of service. It consists of five key aspects: (1) service measures, (2) benchmark standards, (3) the amount of the penalty, (4) the penalty weight for each measure, and (5) the time period for measuring performance to assess a penalty upon which the Company is assessed. Should the Company fall below a range established in the metrics, it is assessed a fine. The Company's Fiscal Year 2016 Annual Report on Service Quality Plan was filed on July 29, 2016.
[13] Nutile Direct at 14.

customers through the Revenue Decoupling Adjustment (sometimes RDA),[14] which computed to $0.0010 per therm for Residential as well as Small and Medium Commercial and Industrial (C&I) customers.[15]

Ms. Nutile provided that the Infrastructure, Safety, and Reliability (ISR) reconciliation[16] resulted in an under-recovery of $9,527,579, which included the FY 2016 revenue requirement on actual cumulative capital investment and Operating and Maintenance expenses covered by the ISR Plan and a reconciliation of the FY 2015 reconciliation balance amount.[17] Ms. Nutile explained that in the Settlement Agreement in the last rate case, Docket No. 4323, the parties agreed that half of any incremental revenues received by the Company from a large commercial and industrial customer that had proposed to install a large, gas-fired combined heat and power project would be credited to all ratepayers through the Firm Revenue credit.[18]

Regarding the reconciliation component of the DAC, Ms. Nutile explained how each of the individual DAC items were separated into three, rate-class specific groups and reconciled on the basis of the gas year for all rate classes. She set forth in detail how this factor was calculated.[19]

Ms. Nutile identified a projected throughput of 39,347,340 decatherms for the Company's gas year of November 1, 2016 through October 31, 2017.[20] Attached to her testimony were a number of schedules with the details of the proposed factors. They were

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[14] The details of the annual reconciliation were filed with the PUC on June 30, 2016 and are discussed later.
[15] Nutile Direct at 14-15, Sch. SLN-7.
[16] The details of the ISR reconciliation were filed with the PUC on August 1, 2016 and are discussed later.
[17] Nutile Direct at 16, Sch. SNL-8.
[18] Nutile Direct at 17, Sch. SLN-9; Docket No. 4323, Settlement Agreement Book 1 at 19 (Oct. 19, 2012). This credit is included in the Reconciliation factor.
[19] Nutile Direct at 17-22 , Sch. SLN-10, SLN-11.
[20] Nutile Direct at 22.

combined in Schedule SLN-1 to present the Company's preliminary DAC factor. That factor includes a separate factor, developed for the Residential, Small, and Medium C&I rate classes, which includes the RDA factor and a separate factor related to the reconciliation of the base rate items, AGT, Low Income Assistance Program factor, and Environmental Response Cost factor for the Large and Extra-Large rate classes. Each of these class-specific factors is combined with the ISR reconciliation factors and the prior Reconciliation applicable to all rate classes and added to the ISR factors approved by the PUC in the Company's ISR filing.[21]

Mr. Richer's testimony described the pension and post-retirement benefits other than pensions' (PBOP) factor and how that factor was calculated. He noted that the Pension Adjustment Factor is designed to refund or recover the reconciliation of the prior year's amounts collected in base rates for PBOP expenses. Mr. Richer explained that National Grid contributes to the PBOP plans at a "Minimum Funding Obligation" level, which is equal to the amount billed to customers plus the amounts of capitalized PBOP costs. Failure to fund at the Minimum Funding Obligation level, he reported, would result in the Company having to pay a carrying charge to customers.[22] Mr. Richer stated that the reconciliation of the PBOP expense revealed an over-collection of $93,635 and $1,855,809, respectively. Additionally, because the pension was under-funded during this time, a carrying charge of $204,381 accrued.[23]

[21] Nutile Direct, Sch. SLN-1. The Company's relevant ISR Plan was filed on November 24, 2015 for an effective date of April 1, 2016.
[22] Richer Direct at 2-4 (Aug. 1, 2016).
[23] Richer Direct at 4, Sch. WRR-1 at 1-4.

On June 30, 2016 and in accordance with the provisions of the Company's gas tariff,[24] which established an annual reconciliation of target revenue per customer and actual revenue per customer through a Revenue Decoupling Adjustment (RDA) factor to be included in the DAC, National Grid filed its annual RDA factor for the one-year period April 1, 2015 through March 31, 2016. To explain the Revenue Decoupling Mechanism (sometimes RDM) and the actual results calculated for the period April 1, 2015 through March 31, 2016, as well as to propose the adjustment to the Target Revenue-Per-Customer, the Company submitted an additional volume of testimony from Ms. Nutile. Ms. Nutile provided an overview of the RDA reconciliation mechanism and explained the actual Revenue Decoupling Mechanism results for the period April 1, 2015 through March 31, 2016. She also provided a proposed adjustment to the Target Revenue-Per-Customer and billed revenue associated with the transfer of 970 residential customers from the Non-Heating to the Heating class.[25] Ms. Nutile identified a net over-recovery balance of $0.3 million.[26]

Ms. Nutile explained the adjustments made to the Target Revenue-Per-Customer to reflect the reclassification of the 970 customers from Residential Non-Heating to Residential Heating customers. To determine which customers should be reclassified, she stated, the Company looked for non-heating customers using more than 860 therms per year. Such usage is more consistent with heating than non-heating use.[27] She said the Company anticipated further adjustment of the Target Revenue-Per-Customer in its 2017

[24] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A
[25] Nutile Decoupling Direct at 2-3, 7, Sch. SLN-1 (June 30, 2016); http://www.ripuc.org/eventsactions/docket/4634-4573-NGrid-RDM-Reconciliaton(6-30-16).pdf.
[26] Nutile Decoupling Direct at 5, Sch. SLN-1.
[27] Nutile Decoupling Direct at 6-8.

RDM filing to account for approximately 600 of 2400 additional customers likely to be transferred from the Non-Heating to the Heating class, upon confirming they exhibited heating usage prior to the end of the rate year in Docket No. 4323.[28]

In addition to adjusting the Target Revenue-Per-Customer, Ms. Nutile provided that the actual Revenue-Per-Customer had to be adjusted to reflect reclassification of 2,600 Residential customers from Non-Heating to Heating.[29] She attributed the $282,230 million over-recovery to a $1.3 million over-recovery from the residential RDM groups offset by the $1.0 million under-recovery for the Small and Medium RDM groups which was driven by warmer than normal weather.[30]

On August 1, 2016, National Grid filed its FY 2016 Gas Infrastructure, Safety, and Reliability Plan Annual Report and Reconciliation.[31] It comprises a reconciliation of two components: (1) the difference between the forecasted and actual revenue requirement and (2) the reconciliation of forecasted collections and actual collections. To support the calculations set forth in the filing, National Grid provided the prefiled testimonies of David G. Iseler, Director of Network Gas Strategy-New England for National Grid Corporate Services LLC, and Melissa A. Little, Lead Specialist for the New England Revenue Requirements in the Regulation and Pricing Department of National Grid USA Service Company, Inc.[32]

Mr. Iseler's testimony presented the details of the filing, as well as the actual spending for the April 1, 2015 through March 31, 2016 period. He explained the major

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[28] *Id.* at 9.
[29] *Id.* at 8-10.
[30] *Id.* at 12-13.
[31] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sched. A, Sheet 6.
[32] FY 2016 Gas Infrastructure, Safety, and Reliability Plan Annual Reconciliation (Aug. 1, 2016); http://www.ripuc.org/eventsactions/docket/4634-4540-NGrid-Gas-ISR-FY2016-Reconciliation(8-1-16).pdf.

spending variances in the specific categories of the ISR Plan. Mr. Iseler indicated that the Company spent $94.33 million for non-growth capital investment and operation and maintenance expense under the Gas ISR Plan, approximately $17.50 million more than the Company's annual approved budget of $76.83 million.[33]

Mr. Iseler identified a $6.79 million over-budget variance in the Non-Discretionary category. It represented the sum of increased spending in the Service Replacement Program, the Public Works Program, the Reactive Main Replacement Program, and the Mandated Programs. This over-budget variance combined with a $10.81 million over-budget variance for the Discretionary category of work (largely the result of over-spending for the Proactive Main Replacement Program) contributed to the Company spending $17.50 million more than its approved budget.[34]

Mr. Isleler provided explanations for the over-spending in each category. First, he said the Company was over-budget for the Service Replacement Program because it had to replace 127 services that could not be replaced during the previous year. Total service replacements in 2016 were 327.[35] He also noted $3.14 million of increased costs in Public Works spending, attributing it to a challenging mix of projects and enhanced safety requirements.[36] Unplanned gas main work that required immediate repair resulted in $0.05 million of over-spending in the Reactive Main Replacement Program. And work in the Mandated Programs category was over-budget by $2.31 million due primarily to having to

[33] Iseler ISR Direct at 3-4, Att. DGI-1 at 2, 8 (Aug. 1, 2016).
[34] Iseler ISR Direct at 4-11, Att. DGI-1 at 2-8.
[35] Iseler ISR Direct at 5, Att. DGI-1 at 3.
[36] Iseler ISR Direct at 6, Att. DGI-1 at 3.

address service leaks and cast iron joint encapsulation and associated work that required immediate attention.[37]

Mr. Iseler explained the $12.25 million over-budget variance in the Discretionary Work category as the result of increased costs associated with main and service installations. The costs associated with replacing mains and services in urban areas are greater than in sparsely populated areas. The latter do not require enhanced safety measures necessary in urban areas, such as locating, verifying, and protecting other utility facilities and addressing additional traffic and restoration issues.[38] In a number of categories, including Reliability Programs and Special Projects, spending was under-budget, thus off-setting the over-spending in the categories set forth above.[39] In requesting full reconciliation of the actual spending, Mr. Iseler contended that the over-spending was consistent with the intent of the ISR Plan to maintain the overall safety and reliability of the gas system while meeting customer needs. He also provided that the Company was seeking to reconcile an under-budget variance of $0.1 million of Operation and Maintenance expense associated with the hiring, training, and supervision of five full-time equivalent personnel to support the FY 2016 Main Replacement work. That was in addition to the eleven additional employees previously hired.[40]

Ms. Little presented testimony to update the FY 2016 ISR revenue requirement associated with actual FY 2016, FY 2015, FY 2014, FY 2013, and FY 2012 capital investment levels; actual tax deductibility percentages for FY 2015 capital additions; and

[37] Iseler ISR Direct at 6-7, Att. DGI-1 at 3-4.
[38] Iseler ISR Direct at 8-9, Att. DGI-1 at 5-6.
[39] Iseler ISR Direct at 5, 7, 10-11, Att. DGI-1 at 2, 4, 6-8.
[40] Iseler ISR Direct at 11-13, Att. DGI-1 at 2, 8.

updated O&M expenses.[41] She discussed the net operating loss (NOL) issue addressed in Docket Nos. 4474 and 4540.[42] She also included in the revenue requirement calculation an estimated $0.7 million for a FY 2016 NOL that was not included in the FY 2016 ISR Plan Proposal and which could not be determined until the Company filed its tax return in December of 2016. That estimate will be reconciled in the Company's FY 2017 Gas ISR Reconciliation Filing.[43] Lastly, she provided that the Company's property tax liability was adjusted by $0.7 million to reflect the increase in capital investment.[44]

Ms. Little explained that the Company's vintage FY 2016 rate base calculation included an estimate of its FY 2016 NOL that will mirror the timing of other tax assumptions made by the Company. She noted that this estimate differs from the actual FY 2016 NOL, which will be determined when the Company files its FY 2016 tax return in December 2016. The difference will be included in the FY 2017 ISR reconciliation filing.[45] Ms. Little stated that National Grid also updated its FY 2015 revenue requirement to reflect an actual capital repairs deduction rate, a 50 percent bonus depreciation deduction, and the impact of tax losses on asset retirements which resulted in a reduction of the revenue requirement by $117,841.[46] The FY 2015 revenue requirement, she explained, was also updated to reflect a change in National Grid's accounting method previously approved by the Internal Revenue Service to allow for continuation of a 100% deduction for cost of removal.[47] The $117,841 reduction to the FY 2015 revenue

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[41] Little ISR Direct at 2-3 (Aug. 1, 2016).
[42] *Id.* at 3-4.
[43] *Id.* at 5.
[44] *Id.*
[45] *Id.* at 8.
[46] Little Direct at 8-10, Att. MAL-1 at 5.
[47] Little Direct at 9.

requirement offset the $965,078 increase related to the FY 2015 NOLs, resulting in an increase to the FY2015 revenue requirement of $847,237.[48]

Ms. Little summarized the FY 2016 revenue requirement, explaining that the $22,642,848 increase consisted of $22,179,183 of capital related expense plus $463,665 of operation & maintenance expense.[49] The updated revenue requirement included the updated FY 2016 revenue requirement discussed above, the reconciliation of the approved FY 2015 revenue requirement for vintage FY 2015 investments with the actual FY 2015 revenue requirement on those investments, the second year of the three-year recovery related to the NOL issue, and the property tax adjustment formula.[50]

On September 1, 2016, National Grid filed supplemental testimony from Suhila Nouri Nutile and William Richer. Ms. Nutile's testimony incorporated updates to the DAC components. She proposed a System Pressure factor of $0.0037 per therm, calculated by multiplying the forecasted 2016-2017 LNG lease payment costs by the updated system pressure balancing percentage.[51] She presented the Company's proposed PBOP credit factor of $0.0054 per therm to be returned to customers.[52] She proposed an Earnings Sharing factor of $0.0000.[53] She provided an update of the Reconciliation adjustment credit factors of $0.0007 per therm applicable to all rate classes and $0.0019 credit per therm applicable to the Large and Extra-Large rate classes.[54] She reiterated that the DAC factors for the Residential and Small, and Medium C&I rate classes and for the Large and

[48] Little Direct at 10, Att. MAL-1 at 1, 12.
[49] Little Direct at 10, Att. MAL-1 at 1.
[50] Little Direct at 13.
[51] Nutile Supplemental at 1-3 Sch. SLN-1S, SNL-2S (Sept. 1, 2016), ;
[52] Nutile Supplemental at 3-4, Sch. SLN-5S.
[53] Nutile Supplemental at 4, Sch. SLN-12S.
[54] Nutile Supplemental at 4-5, Sch. SLN-10S.

Extra-Large rate classes are all different.[55] The Revenue Decoupling Adjustment factor only applies to the Residential and Small and Medium C&I customers. A separate factor was developed for the Large and Extra-Large rate classes, to accommodate the reconciliation of the base rate related items previously discussed.[56]

Ms. Nutile set forth the various proposed DAC rates applicable to the different rate classes, ranging from $0.0165 per therm to $0.1964 per therm. She said that the proposed DAC rates would result in an annual increase of approximately $48.72 or 4.2% for an average residential customer using 846 therms annually.[57]

Mr. Richer provided testimony describing the status of the Company's earnings subject to the Earnings Sharing Mechanism for the period ending March 31, 2016. He also provided the calculations of the Pension and PBOP costs subject to the reconciliation mechanism and made a correction to the Pension factor calculation for the period ending March 31, 2016.[58] The reconciliation of the Pension and PBOP factor revealed an over-recovery of both pension and PBOP expenses in the amounts of $93,635 and $1,855,809 respectively. Because the pension liability was under-funded during the twelve month period, carrying charges of $204,381 must be returned to customers.[59]

The Division of Public Utilities and Carriers (Division) filed a memorandum authored by its consultant, David Effron of Berkshire Consulting Services, on September 30, 2016. After review of the Company's reconciliation of its 2016 ISR Plan, he concluded that the calculations accurately portrayed the actual ISR revenue requirement associated

[55] Nutile Supplement at 5, Sch. SNL-1S.
[56] Nutile Supplemental at 5, Sch. SNL-7S
[57] Nutile Supplemental at 6-7, Sch. SNL-1S.
[58] Richer Supplemental at 1-3 (Sept. 1, 2016).
[59] *Id.* at 8-9.

with the Company's 2016 Gas ISR programs.[60] The Division filed an additional memorandum to address the Company's Pension Adjustment and Earnings Sharing factors, authored by Chief Accountant Stephen Scialabba. Mr. Scialabba recommended that the proposed Pension Adjustment factor be approved. He further provided that the Division would address National Grid's Earnings Sharing Mechanism after it received responses to its outstanding data requests.[61]

To address the remaining DAC factors, the Division filed a memorandum co-authored by its consultants, Bruce Oliver and Tim Oliver of Revilo Hill Associates (collectively referred to as Mr. Oliver).[62] Mr. Oliver noted that this year's DAC filing represented a significant decrease in the credit afforded to ratepayers over what was billed the prior year. He stated that the credit of $3,969,258, was in effect a rate increase. He attributed the decreased credit amount to the change in the Company's Revenue Decoupling Adjustment.[63]

Mr. Oliver discussed five of the twelve DAC factors. He noted that National Grid had made the appropriate adjustments to reflect the transfer of 970 customers from the Residential Non-Heating service to the Residential Heating service, which he opined improved the accuracy and equity of the Revenue Decoupling Adjustment calculations.[64] He found the Revenue Decoupling Adjustment factor calculation to be appropriate, mathematically correct, and representing the greatest change in magnitude from last year's DAC filing. He described the change as encouraging because it demonstrated National

[60] Effron Mem. (Sept. 30, 2016).
[61] Scialabba Mem. (Sept. 30, 2016).
[62] For ease of reference, the authors are referred to in the singular as "Mr. Oliver."
[63] Oliver Mem. at 1 (Oct. 11, 2016).
[64] *Id.* at 1-2.

Grid was more closely aligning its target and actual revenues. He identified both the milder weather experienced during the most recent measurement period and the Company's ongoing efforts to distinguish between Residential Heating and Non-Heating customers as the primary drivers of change.[65]

Mr. Oliver found the computation of the proposed System Pressure factor to be consistent with the provisions of the docket in which it was approved.[66] While Mr. Oliver supported the Company's adjustment to the On-System Margin Credit and the resulting factor, he suggested suspending or terminating that factor. He noted that the margin threshold is adjusted when a non-firm customer transfers to firm service. But when the mechanism was first established, the Company served approximately sixty non-firm service customers. Since that time, that number has dwindled to eleven, nine of which are serviced under fixed transportation service rates. All eleven customers are subject to fixed distribution service charges. Accordingly, variability of gas service volumes is the only variability in the non-firm margin revenue that remains. Mr. Oliver explained that the competitive market essentially eliminated the need for variable pricing of distribution services that was implemented when the costs of bundled gas services and associated fixed distribution service costs were threatened by dropping prices of fuel oil alternatives.

Mr. Oliver asserted that uncertainty associated with National Grid's ability to recover its fixed distribution costs from its non-firm customers no longer differs substantially from recovery from its other classes of customers. He suggested that suspension or elimination of the On-System Margins Credit factor would streamline the DAC filings and save the Company, the Division, and the Commission time and resources.

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[65] *Id.* at 2.
[66] *Id.* at 2.

He stated that should the Commission agree with his recommendation, the Company be allowed to recover the current threshold until such time as the matter could be addressed in the Company's next base rate case.[67]

Mr. Oliver discussed the AGT program, noting that the program fund had a balance of $1,601,591. He observed that National Grid has not awarded funding to any projects for the coming year but had a remaining $1,300,000 incentive payment obligation to Toray. Based on all of the identified potential projects proposing to utilize Combine Heat and Power (CHP) technology, Mr. Oliver suggested restructuring the program to focus on the deployment of CHP; to improve efficiency gains; and to enhance environmental, efficiency, and reliability benefits.[68] Mr. Oliver also supported National Grid's proposed Environmental Response Cost factor, finding no computational errors or inappropriate costs, supported National Grid's proposed factor.[69] In briefly reviewing the other factors, he suggested eliminating the Low Income Assistance program, since the Company had not sought additional funding for the past seven years. Elimination of the factor would help streamline the DAC.[70]

Ms. Nutile provided rebuttal testimony, addressing portions of Mr. Oliver's testimony. She noted, first, in referring to the $3,969,258 credit to customers, Mr. Oliver failed to include the ISR reconciliation amount. She updated both the ISR reconciliation amount and the DAC credit, to $9,540,194 and $2,882,480, respectively. The new numbers eliminated the credit, resulting in approximately $6.7 million.[71] She also indicated that the

[67] *Id.* at 3-4.
[68] *Id.* at 4-5.
[69] *Id.* at 5.
[70] *Id.* at 5-6.
[71] Nutile Rebuttal at 2-3 (Oct.12, 2016).

Company was willing to explore Mr. Oliver's suggestions to eliminate the On-System Margin Credit factor and to consider changes to the AGT program aimed at increasing participation and enhancing program benefits. Lastly, she corrected an obvious typographical error in Mr. Oliver's reference to the Reconciliation factor.[72]

On October 21, 2016, the Commission conducted a hearing. National Grid's Motions for Protective Treatment were granted and all exhibits were marked as full.[73] Counsel represented that the Company would meet and further discuss Mr. Oliver's recommendations about the On-System Margins and LIAP factors prior to the next filing.[74] Fred Paine, of National Grid, answered questions regarding the AGT Program. He stated that the Company would consider combining the AGT Program with the Energy Efficiency Program.[75] He represented that of the six projects currently under consideration, only two would be eligible for rebates in the coming months. The total of those rebates would be approximately $375,000.[76]

Ms. Leary testified regarding the change in the Revenue Decoupling factor. She also identified the warmer weather as the biggest contributor to the change in that factor.[77] Mr. Richer explained how pension costs are allocated between the electric and gas sides of the Company.[78]

When questioned about the Proactive Main Replacement Program, Mr. Iseler explained that the program was approximately $12.25 million over-budget because of

[72] *Id*. at 3-4. Mr. Oliver's memorandum refers to a ($0.0010) Reconciliation factor; however, the tables included in his memorandum correctly cite the Company's proposed ($0.0007) factor.
[73] Hr'g Tr. 5.
[74] *Id.* at 15.
[75] *Id.* at 17.
[76] *Id.* at 17-19, 32-33.
[77] *Id.* at 22-25.
[78] *Id.* at 26.

work that had to be completed in urban areas. Such work involves greater costs because it typically involves excavations on busy roads having more utility infrastructure underneath them; removal of thicker road paving surfaces, sometime layered over concrete, and properly restoring these roadway; and the close proximity of buildings requiring larger services. He said the budget for the program is based on historical costs and continues to evolve once the initial budget is established.[79]

Ms. Leary also explained more about how the Company addresses customers misclassified as Residential Non-Heating. She emphasized that customers who were reclassified as Residential Heating, had been using significantly more gas than other non-heating customers. Those customers, also, were all provided notice of the reclassification.[80]

Bruce Oliver testified on behalf of the Division. He reiterated his prefiled testimony regarding on-system margins. He noted that the process of margin sharing began to address the uncertainty in the amount of fixed costs that could be recovered from dual fuel customers. He explained that in some instances, a utility would not collect its expected fixed costs and would have to seek recovery of such costs from its firm customers. He offered that, based on his work with marketers, he believes marketers prefer the utility to have fixed distribution rates. That way, the marketer has a greater knowledge of the environment when competing for dual fuel alternatives. Because the competitive suppliers absorb the variability of revenues, margin sharing is not as crucial.[81]

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[79] *Id.* at 36-41.
[80] *Id.* at 43-47.
[81] *Id.* at 58-63.

Tim Oliver discussed the AGT program, noting that the program had begun exploring new gas technologies, including Combined Heat and Power (CHP).[82] Bruce Oliver interjected that the main point of the AGT program was to improve overall load by encouraging customers to use more during off-peak periods.[83]

Immediately following the evidentiary hearing, the Commission deliberated and unanimously approved the proposed factors as specifically set forth in Attachment SLN-1S of Ms. Nutile's Supplemental Testimony. Specifically, the Commission considered and approved the following factors: System Pressure - $0.0037 per therm; Advanced Gas Technology Program – $0.0000 per therm; Low Income Assistance - $0.0000 per therm; Environmental Response Cost – $0.0014 per therm; Pension and Post-Retirement Benefits – ($0.0054) per therm; On-System Margin Credits – ($0.0001) per therm; Reconciliation Factor – ($0.0007) per therm for Residential/Small/Medium C&I customers and ($0.0019) per therm for Large/Extra-Large customers; Service Quality factor - $0.0000 per therm; and Earnings Sharing Mechanism - $0.0000 per therm. In addition to the individual factors, the PUC approved an Uncollectible Percentage of 3.18%, resulting in an adjustment for uncollectibles of ($0.0011) per therm for Residential/Small/Medium C&I customers and ($0.0023) per therm for Large/Extra-Large customers. The PUC also approved a Revenue Decoupling Adjustment charge of ($0.0010)[84] for Residential/Small/Medium C&I customers and a Revenue Decoupling Reconciliation charge of ($0.0072) for Residential/Small/Medium C&I customers. The approval of all of the factors plus the 3.18% adjustment for uncollectibles and the Revenue Decoupling adjustments resulted in

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[82] *Id.* at 64-65.
[83] *Id.* at 65-66.
[84] Parentheses denote a credit amount.

a base DAC factor of ($0.0093) per therm for Residential/Small/Medium C&I customers and ($0.0023) per therm for Large/Extra-Large customers.[85]

In addition to the specific factors and adjustments set forth above, the PUC approved an ISR reconciliation component adjusted for uncollectibles which was added to the base DAC factor.[86] The resulting calculations revealed a DAC rate of $0.1964 per therm for Residential Non-Heating customers, $0.1106 per therm for Residential Heating customers, $0.1096 per therm for Small C&I customers, $0.0699 per therm for Medium C&I customers, $0.0759 for Large Low Load C&I customers, $0.0689 per therm for Large High Load C&I customers, $0.0170 per therm for Extra-Large Low Load C&I customers, and $0.0165 per therm for Extra-Large High Load C&I customers.

The Commission specified that its approval included its understanding that National Grid and the Division would come to some resolution of the future of the AGT, LIAP, and On-Systems Margin Credit factors prior to the next filing. The Commission also approved the Company's request for a permanent extension to September 1 of each year for filing its earnings sharing mechanism report. The Commission found that the evidence presented by National Grid and the Division supported the reconciliation of the factors as set forth above. The Commission further found that the calculations supporting the factors were accurate.

ACCORDINGLY, it is hereby

(22844) ORDERED:

[85] The specific factors for the various customer classes are set forth in Attachment A.
[86] The different ISR reconciliation amounts and components based on customer class are set forth in Attachment B.

1. The System Pressure factor of $0.0037 per therm is approved for effect November 1, 2016.
2. The Advanced Gas Technology factor of $0.0000 per therm is approved for effect November 1, 2016.
3. Any interest earned on the balance in the Advanced Gas Technology fund shall continue to be credited to ratepayers.
4. The Low Income Assistance Program factor of $0.0000 per therm is approved for effect November 1, 2016.
5. The Environmental Response Cost credit factor of $0.0014 per therm is approved for effect November 1, 2016.
6. The Company shall continue to include in its annual Environmental Report for Gas Service all asset sales or exchanges involving real property that the Company has acquired or may acquire and that is funded by ratepayers through the DAC; any such future profits from the sale of land for which acquisition costs have been included in the Environmental Response Cost factor will be credited to ratepayers.
7. The Reconciliation factor of ($0.0007) per therm for Residential/Small/Medium C&I customers and ($0.0019) per therm for Large and Extra-Large C&I customers is approved for effect November 1, 2016.
8. The On-System Margin credit factor of ($0.0001) per therm is approved for effect November 1, 2016.
9. The Pension and Post-Retirement Benefits factor of ($0.0054) per therm is approved for effect November 1, 2016.

10. The Earnings Sharing Mechanism factor of $0.0000 is approved for effect November 1, 2016.
11. The Service Quality Performance factor of $0.0000 per therm is approved for effect November 1, 2016.
12. The Revenue Decoupling Adjustment factor of ($0.0010) per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2016.
13. The Revenue Decoupling Adjustment Reconciliation factor of ($0.0072) per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2016.
14. The various ISR reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2016.
15. The overall Distribution Adjustment Charges of $0.1964 per therm for Residential Non-Heating customers, $0.1106 per therm for Residential Heating customers, $0.1096 per therm for Small C&I customers, $0.0699 per therm for Medium C&I customers, $0.0759 per therm for Large Low Load C&I customers, $0.0689 per therm for Large High Load C&I customers, $0.0170 per therm for Extra-Large Low Load C&I customers, and $0.0165 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2016.
16. National Grid shall file its earnings sharing mechanism report on September 1 of each year.
17. National Grid shall provide electronic versions of all spreadsheets at the time of its initial filing.

18. National Grid shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE NOVEMBER 1, 2016 AT WARWICK, RHODE ISLAND. WRITTEN ORDER ISSUED JULY 13, 2017.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Herbert F. DeSimone, Jr., Commissioner

Marion S. Gold, Commissioner*

*Commissioner Gold did not participate in this matter.

Attachment A

National Grid - RI Gas

Docket No. 4634

DAC Summary & Comparison to National Grid's Updated DAC*

Line No.		Current	APPROVED PER PUC ORDER Residential/Small Medium C&I	Large/Extra-Large C&I
1	System Pressure (SP) Factor	$ 0.0037	$ 0.0037	$ 0.0037
2	Advanced Gas Technology (AGT) Factor	$ 0.0000	$ 0.0000	$ 0.0000
3	Low Income Assistance Program (LIAP) Factor	$ 0.0000	$ 0.0000	$ 0.0000
4	Environmental Response Cost (ERC) Factor	$ 0.0013	$ 0.0014	$ 0.0014
5	Pension and Post-Retirement Benefits (PBOP) Factor	$ (0.0094)	($ 0.0054)	($ 0.0054)
6	On-System Margin Credit (MC) Factor	$ 0.0003	($ 0.0001)	($ 0.0001)
7	Service Quality Performance (SQP)	$ 0.0000	$ 0.0000	$ 0.0000
8	Earnings Sharing Mechanism (ESM)	$ 0.0000	$ 0.0000	$ 0.0000
9	Reconciliation (R) Factor	$ 0.0008-(0.0007)	($ 0.0007)	($ 0.0019)
10	**Subtotal**	**$ (0.0041-(0.0056)**	**($ 0.0011)**	**($ 0.0023)**
11	Uncollectible Percentage	3.18%	3.18%	3.18%
12	**DAC Adjusted for Uncollectibles**	**$ (0.0042)-(0.0057)**	**($ 0.0011)**	**($ 0.0023)**
13	Revenue Decoupling Adjustment	$ (0.0500)	($ 0.0010)	$ 0.0000
14	Revenue Decoupling Adjustment Reconciliation	$ 0.0013	($ 0.0072)	$ 0.0000
15	**DAC Factor**	**$ (0.0529)-(0.0057)**	**($ 0.0093)**	**($ 0.0023)**

***All figures are per therm.**

Attachment B

Docket No. 4634

DAC Factors including annual ISR component

	ISR Reconciliation w/o uncollectible (therms)	Uncollectible Percentage	ISR Reconciliation (therms) (A)	Base DAC Component (therms) (B)	DAC Component Subtotal Rates (therms) (C) =(A) + (B)	ISR Component (therms) (D)	November 1, 2016 DAC Rates (therms) (E) = (C)+(D)
Res-NH	**$0.0609**	**3.18%**	**$0.0628**	**($0.0093)**	**$0.0535**	**$0.1429**	**$0.1964**
Res-NH-LI	**$0.0609**	**3.18%**	**$0.0628**	**($0.0093)**	**$0.0535**	**$0.1429**	**$0.1964**
Res-H	**$0.0321**	**3.18%**	**$0.0331**	**($0.0093)**	**$0.0238**	**$0.0868**	**$0.1106**
Res-H-LI	**$0.0321**	**3.18%**	**$0.0331**	**($0.0093)**	**$0.0238**	**$0.0868**	**$0.1106**
Small	**$0.0393**	**3.18%**	**$0.0405**	**($0.0093)**	**$0.0312**	**$0.0784**	**$0.1096**
Medium	**$0.0206**	**3.18%**	**$0.0213**	**($0.0093)**	**$0.0120**	**$0.0579**	**$0.0699**
Large LL	**$0.0236**	**3.18%**	**$0.0244**	**($0.0023)**	**$0.0221**	**$0.0538**	**$0.0759**
Large HL	**$0.0193**	**3.18%**	**$0.0199**	**($0.0023)**	**$0.0176**	**$0.0513**	**$0.0689**
XL-LL	**$0.0024**	**3.18%**	**$0.0025**	**($0.0023)**	**$0.0002**	**$0.0168**	**$0.0170**
XL-HL	**$0.0014**	**3.18%**	**$0.0014**	**($0.0023)**	**($0.0009)**	**$0.0174**	**$0.0165**

***Factors Include Uncollectible Allowance**