

November 14, 2017

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

RE: Docket 4686 - Request for Approval of Storm Contingency Fund Replenishment Responses to PUC Data Requests – Set 3

Dear Ms. Massaro:

On behalf of National Grid,¹ I enclose ten (10) copies of the Company's responses to the third set of data requests issued by the Rhode Island Public Utilities Commission in the above-referenced docket.

Thank you for your attention to this filing. If you have any questions concerning this transmittal, please contact me at 781-907-2153.

Very truly yours,



Celia B. O'Brien

Enclosures

cc: Docket 4686 Service List
Leo Wold, Esq.
Steve Scialabba, RI Division
John Bell, RI 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.

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.



Joanne M. Scanlon

November 14, 2017
Date

**Docket No. 4686 – National Grid’s Storm Contingency Fund Replenishment
Service List as of 1/26/17**

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The Narragansett Electric Company
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PUC 3-1

Request:

What treatment will be afforded to storm events that take place between March 2013 and approval of the proposed settlement?

Response:

The specific provisions of the Joint Proposal and Settlement Agreement between the Company and the Division of Public Utilities and Carriers (Settlement Agreement), filed with the Public Utilities Commission (PUC) on September 25, 2017, that will change the amount of storm costs to be charged to the Storm Contingency Fund (Storm Fund) in the future are Paragraphs (2), (3), (7), and (8). Paragraphs (7) and (8) involve the elimination of a Storm Fund deductible, and an increase to the Storm Fund threshold from \$837,000 today to \$1.1 million, coincident with the effective date of new base distribution rates. The Company's current base distribution rates established in Docket No. 4323 included the cost of two Storm Fund deductibles that occurred during the 2011 test year in that base distribution rate case; therefore, it would be inappropriate and not in the best interest of customers to eliminate the Company's \$375,000 deductible before new rates go into effect.

The Company's Storm Fund Replenishment Factor filing, that was made on December 29, 2016, and the Division's proposed disallowance of certain costs charged to the Storm Fund involved 18 significant storm events experienced during the period beginning March 2010 through April 2016. This included 11 storms from March 2010 to March 2013 in which the Company has submitted its final accounting of storm costs, and seven unfiled storms through April 2016. The agreed-to Joint Settlement adjustment reducing the Storm Fund balance by \$2 million was negotiated in consideration of all 18 storms, specifically Paragraphs (2) and (3) of the Joint Settlement. Consequently, the final accounting of storm costs for the seven unfiled storms through April 2016 shall be prepared in a manner consistent with the 11 filed storms. Upon PUC approval of the Settlement Agreement, costs for any of the Company's Storm Fund-eligible storms that occur subsequent to April 2016 up to the effective date of new base distribution rates after the filing of the Company's upcoming base distribution rate case will be subjected to Paragraphs (2) and (3) of the Joint Settlement.

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PUC 3-2

Request:

In its direct testimony in the docket, the Division advocated for a disallowance of \$10.6 million in charges that were included in the storm fund. Please explain why the settled adjustment of \$2.0 million is in the best interest of the ratepayers and the company.

Response:

The settled adjustment of \$2 million is in the best interests of customers and the Company because it credits customers with a material reduction to the outstanding balance of storm costs, while recognizing that the Company did, in fact, incur costs in past events in using affiliated crews to restore power to Rhode Island customers as quickly and safely as possible. The settled adjustment is the product of intensive negotiation between the Division and the Company and represents a deliberate balancing of the interests of customers and the Company. More specifically, the Division and the Company sought to balance the following interests: (1) that the costs charged to customers for storm work are incremental to what they are paying in rates; (2) that customers are paying only those costs that are reasonably and prudently incurred by the Company in restoring power to customers; and (3) that the Company is recovering the costs that it reasonably and prudently incurred to restore power to customers on an expeditious basis.

As noted in both the pre-filed and oral testimony of Mr. Effron, the amount of \$10.6 million suggested for deduction from the outstanding Storm Fund balance was an *estimate* of the cost "of base pay and overheads" that were charged to the Storm Fund by Narragansett Electric as an incremental cost that it had incurred in relation to the use of affiliated crews for storm response (Effron Testimony at 8, lines 10-13; Tr. at 183, lines 14-15). The bulk of the costs comprising the estimated amount relate to work performed and charged by National Grid USA Service Company, Inc. (the Service Company). The cost of using these crews to restore power in Rhode Island for large-scale, non-routine weather events would not have been included in the Company's cost of service in past rate cases. Conversely, the use of Service Company crews in the Company's test year *by other affiliate utilities* to restore power in storms that did not affect Rhode Island as severely would have the effect of reducing the allocated amount of routine Service Company costs to Narragansett Electric in the test year (because Service Company crews were dedicated to other jurisdictions in that time period for storm response). This impact on the test year Service Company allocations worked to the direct benefit of Rhode Island customers (meaning that Rhode Island customers have been paying less for Service Company costs in each year since the last rate case than they would have had the relatively large-scale weather events not occurred in the test year).

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PUC 3-2, page 2

The settled credit to the Storm Fund in the amount of \$2 million recognizes that Narragansett Electric customers have benefitted from Service Company allocations in the test year that were less than would otherwise have occurred. In addition, the \$2 million is the result of applying the computational methodology agreed on by the Division and the Company for future storms to the 18 storms that occurred in the past that are the subject of this proceeding, rounded up to \$2 million to provide an additional benefit to customers. Therefore, the \$2 million credit to customers is a direct monetary benefit, representing both a methodological result and a significant concession by the Company without crossing the line to a punitive result.

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PUC 3-3

Request:

Why is it appropriate for the company to retain 25% of the Net Revenue received by Narragansett Electric and Narragansett Gas for performing storm response services outside its own service territory?

Response:

It is appropriate for the Company to retain 25 percent of the Net Revenue received by Narragansett Electric and Narragansett Gas for performing storm response services outside their respective service territories because, when crews are dispatched to assist other utility companies, the routine work that they would be performing on the Narragansett Electric system is temporarily suspended. Routine work would then continue when the resources become available following their release from storm response activities to return to Rhode Island; however, there will be incremental costs for Narragansett Electric and Narragansett Gas associated with that work. These incremental costs primarily arise from the need to pay electric and gas employees overtime to complete all of the routine work scheduled for completion (and that would have been performed absent the need to assist in the storm efforts of other affiliated and non-affiliated utilities in other states).

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PUC 3-4

Request:

Please provide an illustrative example of the calculation of Net Revenue and the process set forth in paragraph 2 (sentences 2-4) of the Settlement Agreement.

Response:

Net revenue as defined in the Settlement Agreement represents base pay plus labor overheads charged to an affiliated or unaffiliated utility for storm response services provided by Narragansett Electric or Narragansett Gas employees, less the portion of those costs that would normally be charged to capital. This would be calculated by multiplying the total of base pay and labor overheads charged for storm response services times the O&M labor percentage calculated in the Company's most recent base distribution rate case. The operating and maintenance (O&M) labor percentage in the Company's last base rate case was 54.21 percent. An illustrative example is as follows:

Base pay charged to assist XYZ Electric Company during Hurricane Jane	\$200,000
Labor overheads charged to assist XYZ Electric during Hurricane Jane, less payroll taxes and 401 (k) match on non-base labor	<u>\$700,000</u>
Total base labor and labor overheads	\$900,000
Times O&M labor percentage in Docket No. 4323	<u>54.21%</u>
Net Revenue received from XYZ Electric	<u>\$487,890</u>

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PUC 3-5

Request:

Please provide a list of the non-incremental labor overhead costs discussed in paragraph 2.

Response:

The non-incremental labor overhead costs referred to in Paragraph 2 of the Settlement Agreement include the following:

- Healthcare
- Group life insurance
- 401 (k) matching contributions
- Pension
- Postretirement Benefits Other than Pensions
- Postemployment Benefits (primarily long-term disability)
- Workers compensation
- Payroll taxes
- Time Not Worked (*e.g.* vacation, holiday, sick time, and other employee paid absences)
- Variable Pay

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PUC 3-6

Request:

Referencing paragraph 3 of the Settlement Agreement, please indicate the following:

- (a) Whether a representative 12-month period has been chosen;
- (b) If yes, please provide the 12-month period and the rationale for it;
- (c) If not, please explain how the particular 12-month period will be chosen;
- (d) If there is not one representative 12-month period for each of the storms that might fall under paragraph 3, sentence 2, please explain why;
- (e) When does National Grid anticipate the PUC ruling on the appropriateness of the chosen 12-month period(s)?

Response:

As part of its negotiation of the Settlement Agreement with the Division, the Company provided the Division with a calculation of the percentage of base labor of New England-based Service Company employees charged to Narragansett Electric operations and maintenance expense using calendar 2016 data. That percentage was 7.17 percent. The data used for that calculation was the most readily available 12-months of data at that time. The Company proposes to use this 12-month period as the representative period until new base distribution rates are established at which point the 12-month test year will be the period on which this percentage will be based.

The Company is planning to submit a base distribution rate case filing to the PUC in late November 2017 using a 12-month test year ending June 30, 2017. New base distribution rates would be expected to go into effect on September 1, 2018.

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PUC 3-7

Request:

Please explain why New York affiliates are not included in paragraph 3.

Response:

The Settlement Agreement that was achieved as a result of intensive negotiations between the Division and the Company addresses aspects of storm-cost recovery in relation to major storm events by Narragansett Electric only, as those are the costs and revenues that fall under the jurisdiction of the PUC. Narragansett Electric is charged a normal level of labor and overhead costs on any particular day for Service Company labor and labor-related costs, and those costs are significantly higher when Narragansett Electric utilizes Service Company personnel in restoration efforts after major storm events.

Paragraph (3) was included in the Settlement Agreement to exclude from the Storm Fund that portion of Service Company costs that would be charged to Narragansett Electric on a normal business day in which there was no major storm restoration work occurring. The Company's New York affiliates charge a relatively small amount of costs to Narragansett Electric on a normal day. Most labor charged to the Company for New York-based employees would be from Syracuse-based employees of the Company's affiliate Niagara Mohawk Power Corporation who are located in National Grid's Service Delivery Center, and who provide services such as accounts payable, payroll, employee benefits administration, and other services. However, none of these employees would be sent to Rhode Island to assist with major storm restoration efforts.

The treatment of costs billed to the Company by non-Service Company affiliates, including New York affiliates, is covered by Paragraph (4) of the Joint Settlement.

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PUC 3-8

Request:

Please define the term non-Service Company affiliate direct employees.

Response:

Non-Service Company affiliate direct employees are employees of the Company's operating utility affiliates. These would include employees of Massachusetts Electric Company, Nantucket Electric Company, Boston Gas Company, Colonial Gas Company, Niagara Mohawk Power Corporation, The Brooklyn Union Gas Company, and KeySpan Gas East Corporation.

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PUC 3-9

Request:

Please explain what situation paragraph 5 of the Settlement Agreement refers to. Would it be invoked outside of a rate case? Is it meant to refer to the effect of rulings by other state public utility commissions? If it is meant to refer to unilateral Company action, what would the Company anticipate as the review process by the PUC?

Response:

Paragraph 5 of the Settlement Agreement is as follows:

- (5) The Company will notify the Division and the PUC of any proposed change to the methodology of charging affiliates' base pay and overheads to the Storm Fund.

During settlement discussions and in response to inquiries from the Division, the Company had informed the Division about a change to the way labor overheads are applied to overtime. This change was made as part of the implementation of the Company's SAP financial systems. Prior to SAP, labor overheads were applied to base pay and to overtime; however, overheads were only applied to overtime on the straight time portion of overtime pay, and not on the premium portion of that pay. For example, if an employee who earns \$10 per hour was paid \$15 for an hour of overtime at a rate of "time and a half", labor overheads were applied to the \$10 straight time amount and not to the \$5 premium amount. This required special programming in the Company's former PeopleSoft general ledger system to not apply labor overheads to all pay (*i.e.* base pay dollars and all overtime dollars) in the same manner. One of the objectives in developing the SAP system, which is a universal objective when any new systems are implemented, was to minimize the amount of customization (*i.e.* special programming) where possible. As a result, the Company developed the SAP system to apply labor overheads to base pay dollars and all overtime dollars in the same manner. Therefore, labor overheads are now applied to the straight time portion of overtime as well as to the premium. This change did not impact the amount of labor overheads that the Company incurs, but modifies the manner in which labor overhead dollars are spread, or applied to employee labor charges. The Division had asked that Paragraph 5 be implemented as part of the Settlement Agreement to be informed of changes, such as the one described above, in a more timely manner as changes are put into effect, and the Company agreed to its inclusion in the Settlement Agreement.

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PUC 3-10

Request:

What is the rationale for increasing the storm fund threshold to \$1.1 million?

Response:

The Storm Contingency Fund is designed to recover the cost of non-routine, major weather events. The rationale underlying the increase in the Storm Contingency Fund threshold is to recognize that the cost of responding to non-routine, major weather events is increasing. Where the costs are increasing, the threshold for a weather event to be considered a non-routine, major weather event increases as well.

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PUC 3-11

Request:

What is the rationale for eliminating the storm fund deductible?

Response:

The Storm Fund deductible is not actually being eliminated. In the past, the deductible was included in base distribution rates. Under the Settlement Agreement, this amount is moved out of base distribution rates and recovered through the Storm Fund, so that base distribution rates would be lower, all else being equal. The reason for this change is that, when the deductible is included in base distribution rates, assumptions must be made about the "normal" number of storms that would qualify as major events for Storm Fund recovery in a given year. If fewer actual storms occur, customers are paying for a deductible they did not need to pay (every year). If a greater number of actual storms occur in a year, the Company is effectively penalized because there is no way to recover the deductible through the Storm Fund. By moving the deductible into the Storm Fund (*i.e.*, but allowing the Company to recover 100 percent of the costs associated with qualifying events through the Storm Fund), customers pay only for those costs actually incurred, and the Company recovers only those costs actually incurred. By definition, major weather events are unusual and only periodically occurring, so it does not make sense to recover the deductible through base distribution rates like a normally recurring utility cost. The Settlement Agreement addresses this fact.

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PUC 3-12

Request:

How is the non-deferrable storm expense listed in paragraph 9 of the Settlement Agreement different from that which exists in rates currently? Please confirm that the Company expects the PUC to review both the amount of the non-deferrable storm expense and associated bandwidth as part of the next base distribution rate case.

Response:

Non-deferrable storm expense will reflect the five-year average of all storm work orders with incremental operation and maintenance costs below \$1,100,000. The five-year average of non-deferrable storm costs currently in base distribution rates includes two Storm Fund deductibles because the Company averaged two major storm events during those five years. However, no deductibles will be included in the derivation of the five-year average in the upcoming rate case. The Company expects the Division and the PUC to review the derivation of the five-year non-deferrable storm expense level. However, the \$2 million bandwidth is an element of the negotiated Settlement Agreement. The \$2 million bandwidth was also a product of the comprehensive settlement agreement that the Division, the Company, and other parties negotiated, and which the PUC approved in Docket No. 4323. Since its establishment in Docket No. 4323, the Company has not incurred non-deferrable costs in excess of \$5.7 million (the \$3.7 million average plus \$2 million) to trigger a charge to the Storm Fund, nor have non-deferrable storm costs been below \$1.7 million (\$3.7 million less \$2 million) to generate a credit to the Storm Fund.

The \$2 million bandwidth is deemed to be an appropriate amount to protect both customers and the Company should non-deferrable costs deviate significantly, up or down, from the five-year average. The Division and the Company have entered into the Settlement Agreement under the condition that all elements of the agreement be approved without change. A subsequent change to the bandwidth after the Settlement Agreement has been approved could undermine the balance achieved in the agreement; therefore, the Company does not expect the bandwidth to be changed as part of the next base distribution rate case. The Company and the Division have had the objective of reaching agreement on all aspects of the Storm Fund in this settlement to establish a clear, reasonable, and workable framework to govern storm-cost recovery. The timing of this agreement is intended to establish the framework for cost recovery, recognizing that major weather events can happen at any time, and it is preferred to have the process worked out to eliminate controversy and unnecessary administrative process, while prioritizing expeditious storm response as the paramount consideration.

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PUC 3-13

Request:

With regard to the storm fund threshold escalation index:

- a. What is currently used as the storm fund escalation index?
- b. What was the inflation index used in Docket 4323?
- c. What is the rationale for changing the escalation index?

Response:

- a. The current Storm Fund escalation index is the Urban Consumer Price Index (CPI-U).
- b. The inflation index used in Docket No. 4323 is the average inflation projections of both CPI-U and the Gross Domestic Product Chain-Type Price Index (GDP-CTPI).
- c. The rationale for changing the escalation index was to maintain consistency with the inflation methodology used for base-distribution ratemaking. Please see Attachment PUC 3-13, which provides a comparison of the actual escalation of the Storm Fund threshold using CPI-U from 2000 to 2016 as compared to the threshold had it been calculated using the projected average increases in the CPI-U and GDP-CTPI indices. The actual current Storm Fund threshold is \$837,000. The threshold would be \$825,000 if it had been calculated using the inflation methodology from Docket No. 4323.

The Narragansett Electric Company
Calculation of Storm Fund Threshold
Actual vs Avg of CPI-U and GDP-CTPI Indices

Actual Storm Fund Threshold Inflation Adjustments (CPI-U)				Threshold If Calculated Using Rate Case Inflation Methodology (GDP-CTPI)					
Year	All Urban Consumers		Threshold	All Urban Consumers CPI	% Change	Gross Domestic Product Chain-type Price Index		Average	Threshold
	CPI	% Change				% Change	% Change		
2000	174.50		\$600,000	174.50		82.59			\$600,000
2001	177.30	1.60%	\$610,000	177.30	1.60%	84.23	1.99%	1.80%	\$611,000
2002	181.60	2.43%	\$625,000	181.60	2.43%	85.65	1.69%	2.06%	\$624,000
2003	185.00	1.87%	\$637,000	185.00	1.87%	87.36	2.00%	1.93%	\$636,000
2004	191.10	3.30%	\$658,000	191.10	3.30%	90.06	3.09%	3.19%	\$656,000
2005	197.70	3.45%	\$681,000	197.70	3.45%	93.1	3.38%	3.41%	\$678,000
2006	202.80	2.58%	\$699,000	202.80	2.58%	95.59	2.67%	2.63%	\$696,000
2007	211.16	4.12%	\$728,000	211.16	4.12%	97.95	2.47%	3.30%	\$719,000
2008	211.49	0.16%	\$729,000	211.49	0.16%	99.81	1.90%	1.03%	\$726,000
2009	217.54	2.86%	\$750,000	217.54	2.86%	100.18	0.37%	1.62%	\$738,000
2010	220.25	1.25%	\$759,000	220.25	1.25%	101.96	1.78%	1.51%	\$749,000
2011	226.75	2.95%	\$781,000	226.75	2.95%	103.91	1.91%	2.43%	\$767,000
2012	230.98	1.87%	\$796,000	230.98	1.87%	105.94	1.95%	1.91%	\$782,000
2013	234.58	1.56%	\$808,000	234.58	1.56%	107.67	1.63%	1.60%	\$794,000
2014	236.15	0.67%	\$813,000	236.15	0.67%	109.36	1.57%	1.12%	\$803,000
2015	237.85	0.72%	\$819,000	237.85	0.72%	110.51	1.05%	0.89%	\$810,000
2016	243.03	2.18%	\$837,000	243.03	2.18%	112.19	1.52%	1.85%	\$825,000

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PUC 3-14

Request:

Please confirm that National Grid expects the PUC to review the amounts listed in paragraph 12(b) of the Settlement Agreement as part of the next base distribution rate case.

Response:

No, this would not be an expectation of the Company when it files its next base distribution rate case. The annual calendar year-end filing that is referred to in Paragraph 12(b) of the Settlement Agreement is a filing that the Company makes each year to provide a status of the balance of the Storm Fund, Storm Fund costs incurred during the year, the escalation of the Storm Fund threshold, and support for that year's interest rate.

It should be noted that the Storm Fund costs included in this annual Storm Fund compliance filing do not represent the final accounting of the costs in the Storm Fund. The costs in this report merely represent all actual operation and maintenance costs received through the end of any calendar year. After a major storm event, there can be a significant lag in the receipt of invoices from external overhead line contractors, external tree removal contractors, and other mutual aid billings from other electric utilities that provide restoration services during such events. In addition, the Company performs an extensive review of the charges from these parties as well as an extensive review of costs charged to Storm Fund work orders by internal employees to ensure that valid incremental operation and maintenance costs are recovered through the Storm Fund. The final accounting for each major storm event is referenced in Paragraph 10 of the Settlement Agreement.

The Company has filed its final accounting of Storm Fund costs for all storm events through March 2013. It is stated in Paragraph 6 of the Settlement Agreement that there will be no further adjustments to the costs for those storm events. The Company expects that PUC approval of this comprehensive Settlement Agreement also constitutes PUC approval of the final accounting for those events.

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PUC 3-15

Request:

Using paragraphs 10 and 12 of the Settlement Agreement, please explain with illustrative dates (shortest potential timeframe and longest potential timeframe), the various filings the PUC will receive related to storm events.

Response:

There are typically three types of filings made by the Company to the PUC for individual storm events or storm events in aggregate:

1. Operational Storm Report for individual storm events
2. Annual Storm Fund compliance filing
3. Storm cost final accounting filing

Regarding Item 1, the Company is required to file with the PUC within 90 days after the occurrence of any individual major storm event an operational report that describes the extent of the damage to the Company's system, including the number and duration of outages and a description of the Company's preparedness and response to the event among other items. This filing is referred to in Paragraph 12(c) of the Settlement Agreement. This would be the shortest timeframe that the PUC would receive a filing from the Company on any particular storm event.

Regarding Item 2, the filing referred to in paragraph 12(b) of the Settlement Agreement is required to be filed within 90 days of the end of each calendar year. This filing was described in the Company's response to PUC 3-14 and includes storm restoration operation and maintenance costs incurred in that calendar year. The longest and shortest potential timeframe for costs to be included in this annual compliance filing would be 455 days (*i.e.* 365 days plus 90 days) and 90 days for storm events occurring on January 1 or December 31 of any particular year, respectively.

Regarding Item 3, the final accounting for individual major storm events is referred to in Paragraph 10 of the Settlement Agreement. The longest possible time for the Company to submit its final accounting for any particular storm would be no later than three years for a major storm event that hit the Company's service territory on January 1 of Year 1. Under the provisions of Paragraph 10, the Company commits to submitting an initial filing with the PUC including all known and reviewed costs no later than the end of the year following the year of a storm event, or December 31 of Year 2. The Company would then be required to file any final accounting for that Year 1 storm event by no later than December 31 of Year 3. The only

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Issued on October 17, 2017

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exception to this would be for the costs of a catastrophic storm event in which it may take several months and/or multiple years in which to receive and accumulate final costs from external parties. In that instance, the Company would consult with the Division to determine a mutually agreeable time frame in which the Company will file its final accounting for such an event.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4686
In Re: National Grid's Request for Approval of
Storm Contingency Fund Replenishment
Responses to Commission's Third Set of Data Requests
Issued on October 17, 2017

PUC 3-16

Request:

What is the anticipated review process for the final accounting and true-up filings set forth in paragraph 10?

Response:

After a major storm event, there can be a significant lag in the receipt of invoices from external overhead line contractors, external tree removal contractors, and other mutual aid billings from other electric utilities that provide restoration services during such events. The Company performs an extensive review of the charges from these parties. These parties incur labor, vehicle charges, food, and lodging from the time that they depart from their base of operations. A detailed review of the supporting documentation received from external overhead line vendors is performed when each invoice and support is eventually received. The Company also performs a detailed extensive review of charges received from the various hotels, restaurants, onsite meal providers, equipment providers, fuel vendors, and others who the Company contracts with during major storm events. Finally, the Company performs an extensive review of its internal employee labor and expenses incurred by those employees to provide restoration assistance during a major storm. Employee expense reviews include review of individual expense reports as well as review of the charges on Company purchasing cards. The Company commits to submitting the report for these reviewed costs once it has accumulated at least 75 percent of those costs by no later than the calendar year following the year in which the major storm event occurred. The review and submission of the final accounting for any remaining costs subsequently received will take place by no later than the following year.