

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

**IN RE: NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID'S REQUEST FOR APPROVAL
OF STORM FUND REPLENISHMENT**

DOCKET NO. 4686

REPORT AND ORDER

I. Introduction

On December 29, 2016, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed a petition with the Public Utilities Commission (Commission or PUC) to implement a Storm Fund Replenishment Factor (Replenishment Factor) designed to collect approximately \$84.3 million over a four-year period to replenish the Company's Storm Contingency Fund (Storm Fund). The Storm Fund had a deficit balance of approximately \$94.2 million, as of November 30, 2016.¹ In addition, the Company sought approval of a twenty-six month extension of an existing annual factor to collect \$3.0 million dollars in the Storm Fund.²

On May 12, 2017, the Division of Public Utilities and Carriers (Division) filed testimony concurring with the need for the Replenishment Factor, but disputing the amount of Storm Fund charges. After a hearing on June 21, 2017, the Commission approved the Replenishment Factor, extended the \$3 million annual payments, and deferred ruling on the contested charges.

Following the Commission's decision, the Company and the Division engaged in further discussions and negotiations and on September 25, 2017, filed a proposed Settlement Agreement (Settlement). At a hearing on April 27, 2018, the Commission considered the Settlement. Upon conclusion of this hearing, the Commission voted unanimously to approve it. On May 29, 2018,

¹ All filings in this docket are available at the Commission's offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <http://www.ripuc.org/eventsactions/docket/4686page.html>.

² This \$3 million annual factor, which relates to storm recovery costs from Super-Storm Sandy, was approved in Docket No. 4323 and was set to expire on January 31, 2019. If approved, the Company's request would extend this annual factor through March 31, 2021.

the Company submitted its compliance filing, which reflected a \$2 million credit to the Storm Fund as set forth in the Settlement Agreement.³

II. History of Storm Fund

National Grid's Storm Fund was first authorized by the Commission in 1982, as a rational and equitable approach to the problem of extraordinary storm costs, without the need for rate surcharges or filings for periodic rate relief.⁴ For nine years, from 1982 through 1996, Narragansett Electric's Storm Fund was in a deficit position, caused by service restoration costs from Hurricane Gloria in 1985 and Hurricane Bob in 1991.⁵ Therefore, in 1996, in Docket No. 2509, the Commission initiated a comprehensive review of storm contingency funds for the then-existing five Rhode Island electric utilities.⁶ The Commission's objective was to fund reserves for extraordinary storm-related costs through an annualized funding mechanism, to provide rate stability while funding storm restoration costs.⁷ The Commission accepted joint proposals and settlements from the large electric utilities and ordered thresholds and deductibles for applicability of the Storm Fund, with annual escalators on January 1 of each year, based on the US Average-Urban Consumer Price Index.⁸ The Commission also defined the allowable charge to the Storm Fund Reserves as follows: "Charges to the Storm Fund may only be made for incremental, non-capital, storm related costs such as overtime pay and charges for outside contractors. Capital costs, regular time pay and overheads should not be charged to storm contingency funds because they are recovered through other means."⁹

³ National Grid's Compliance Filing (May 29, 2018); [http://www.ripuc.org/eventsactions/docket/4686-NGrid-ComplianceFiling\(5-29-18\).pdf](http://www.ripuc.org/eventsactions/docket/4686-NGrid-ComplianceFiling(5-29-18).pdf).

⁴ PUC Order No. 10654 (Mar. 30, 1982).

⁵ Report and Order in Docket No. 2509 at 5-6 (Aug. 19, 1997).

⁶ Commission Order No. 15360; <http://www.riCommission.org/eventsactions/docket/2509-NGrid-Ord15360%208-19-97.pdf>.

⁷ *Id.* at 10.

⁸ *Id.* at 9.

⁹ *Id.* at 10.

In 2010, the Commission suspended the Company's annual storm fund contributions of \$1,041 million because the storm fund balance was over \$20 million. However, by April 2012, the impact of major storms, including Tropical Storm Irene which caused approximately \$34.2 million in storm repair costs, left a Storm Fund deficit of approximately \$11.5 million. In its 2013 rate case, Docket No. 4323, National Grid sought to reinstate annual Storm Fund collections of \$1.041 million plus a temporary three-year recovery of \$2.4 million to eliminate the Storm Fund deficiency.¹⁰ A settlement in that case resulted in the Commission authorizing National Grid to reinstate the Storm Fund accrual in the base rate cost of service at the rate of \$1.8 million annually, effective February 1, 2013. The Company was further ordered to eliminate the Storm Cost Recovery Factor but to credit the Storm Fund in the amount of \$2.5 million beginning on January 1, 2014, and to contribute an additional \$3.0 million to the Storm Fund annually for a period of six years, commencing on February 1, 2013.¹¹ These measures were intended to address the impacts of Hurricane Sandy which hit Rhode Island in 2012.

Consistent with the Commission's order in Docket No. 2509, National Grid annually files a Storm Fund Report. Additionally, after each major storm event, National Grid files a Storm Report detailing the Company's preparation, the storm event, its effects on customers, and the Company's response.¹² From March 2010 through April 2016, Rhode Island suffered eighteen severe storms resulting in approximately \$140.2 million dollars in operation and maintenance (O&M) costs.¹³ In December 2011, the Storm Fund recorded a deficit balance of \$4,611,409.¹⁴

¹⁰ Commission Order No. 21011; [http://www.riCommission.org/eventsactions/docket/4323-NGrid-Ord21011_4-11-13\).pdf](http://www.riCommission.org/eventsactions/docket/4323-NGrid-Ord21011_4-11-13).pdf).

¹¹ *Id.* at 116.

¹² See Docket No. 2509.

¹³ Petition For Approval of Storm Fund Replenishment at 1 & 3 (Dec. 29, 2016);

[http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormContingencyFundReplenishment\(12-29-16\).pdf](http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormContingencyFundReplenishment(12-29-16).pdf).

¹⁴ 2011 Storm Fund Report (Apr. 30, 2012), Attach. 2; [http://www.riCommission.org/eventsactions/docket/2509-NGrid-StormFundRept11\(4-30-12\).pdf](http://www.riCommission.org/eventsactions/docket/2509-NGrid-StormFundRept11(4-30-12).pdf).

By the end of December 2012, the deficit had climbed to \$12,395,390.¹⁵ In 2013, the deficit skyrocketed to \$83,964,170 by the end of December.¹⁶ In 2014, the Storm Fund remained relatively stable and ended the year with the deficit of \$78,218,068.¹⁷ But, by the end of 2015, the deficit had crept up again, ending the year at \$90,554,910.¹⁸ By November 30, 2016, the deficit was approximately \$94.2 million.¹⁹

III. National Grid's Filing

The Company stated that eighteen significant storm events, which occurred between the period March 2010 and April 2016, caused incremental costs to increase to \$140.2 million, net of the \$375,000 per-storm deductible.²⁰ In addition, the Company asked the Commission to extend annual \$3 million of supplemental base distribution rate contributions to the Storm Fund, which the Commission had authorized in Docket No. 4323, for an additional 26-month period beyond its current expiration in January 2019. The Company claimed that its filing was “designed to mitigate the carrying charges and resulting future bill impacts for customers and provide adequate cash flow for the Company to support continued funding of storm preparation, response, and service restoration activities for significant storm events that occur in the future.”²¹ In support of its request, the Company submitted several schedules which calculated the Storm Fund deficit as well as scenarios to eliminate the Storm Fund deficit, both with and without the implementation of the proposed Storm Fund Replenishment Factor.²²

¹⁵ 2012 Storm Fund Report (Apr. 1, 2013) http://www.riCommission.org/eventsactions/docket/2509-NGrid-StormFundRept2012_4-1-13.pdf.

¹⁶ 2013 Revised Storm Fund Report, Attach-2 Rev. (Dec. 21, 2016);

http://www.riCommission.org/eventsactions/docket/2509-NGrid-RevStormRepts-2013-2014-2015_12-21-16.pdf.

¹⁷ 2014 Revised Storm Fund Report, Attach-2 Rev. (Dec. 21, 2016).

¹⁸ 2015 Revised Storm Fund Report, Attach-2 Rev. (Dec. 21, 2016).

¹⁹ Petition for Approval of Storm Contingency Fund Replenishment at 1 (Dec. 29, 2016).

²⁰ *Id.*

²¹ Letter by Celia O'Brien (Dec. 29, 2016); [http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormContingencyFundReplenishment\(12-29-16\).pdf](http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormContingencyFundReplenishment(12-29-16).pdf).

²² Petition for Approval of Storm Contingency Fund Replenishment (Dec. 29, 2016), Sch. NG-1 A through NG-5.

National Grid explained that it is required to support the Storm Fund through base rates with a threshold annual contribution (which escalates annually), plus fifty percent of pole attachment revenues.²³ Between March 2010 and April 2016, the Company incurred approximately \$140.2 million in costs to prepare for, respond to, and restore service. Customer contributions to the Storm Fund totaled approximately \$25.7 million, leaving a deficit balance of approximately \$94.2 million. If no action were taken to address the Storm Fund deficit, the Company estimated that the deficit would not be eliminated until December 2040, assuming the unlikely scenario that no more storm events occurred.²⁴ Moreover, based on the currently effective interest rate on customer deposits, customers would bear approximately \$24.8 million of interest costs on the Storm Fund deficit.²⁵ The Company submitted that “implementing the [Storm Fund Replenishment Factor] and extending the \$3 million of supplemental Hurricane Sandy base rate contributions to the Storm Fund for an additional twenty-six months would replenish the funding reserve and provide rate stability to fund future restoration costs.”²⁶

To collect this sum, the Company proposed a uniform per kilowatt-hour factor of \$0.00288 applicable to all delivery service customers, to be included with the distribution kWh charge on customer bills, commencing April 1, 2017, for a four-year period. The bill impact for a typical residential Standard Offer Service customer using 500 kWh per month would be an increase of \$1.50, from \$94.48 to \$95.98, or 1.6%.²⁷

The Company explained that permitting it to implement the Replenishment Factor and continuing the \$3 million of supplemental customer contributions, to replenish the Storm Fund by approximately \$84.3 million over four years, will significantly lower costs for customers. The

²³ Petition for Approval of Storm Contingency Fund Replenishment at 5 (Dec. 29, 2016).

²⁴ *Id.* at 7; *See also* Sch. NG-2 (A) and NG-2 (B).

²⁵ Petition for Approval of Storm Contingency Fund Replenishment at 7 (Dec. 29, 2016); Sch. NG-2 (A) Line 4.

²⁶ Petition for Approval of Storm Contingency Fund Replenishment at 9 (Dec. 29, 2016).

²⁷ *Id.* at 10; *see* Sch. NG-8.

Company stated that the Replenishment Factor is designed to reduce the carrying costs associated with the Storm Fund deficit by approximately \$19.9 million, and will mitigate bill impacts associated with the recovery of excessive deferrals from customers in the future.²⁸ The Company selected a four-year replenishment schedule because for each year beyond the four years, the interest savings to customers is reduced by \$1 million per year.²⁹ The Company further represented that, absent any additional qualifying storm events through March 2021, the Storm Fund balance would grow to a surplus of approximately \$19.5 million.³⁰ Finally, the Company clarified that it was not seeking a determination as to the reasonableness or prudence of costs incurred in connection with qualifying storm events experienced between March 2010 and April 2016.³¹

IV. Division of Public Utilities and Carriers' Filing

On May 12, 2017, the Division submitted the prefiled testimony of its utility regulation consultant, David J. Effron.³² He testified that National Grid's deficit calculation impermissibly included base pay and payroll overheads in the incremental operations and maintenance (O&M) cost, in direct contravention of the Commission's order in Docket No. 2509 which explicitly disallowed regular time pay and overheads.³³ Mr. Effron noted that National Grid defended its inclusion of base pay of affiliate company personnel by claiming it would not have incurred these costs but for the occurrence of the storms.³⁴ Mr. Effron submitted Schedule DJE-1 wherein he calculated the amount of improperly included base pay and payroll overhead as \$8.3 million for

²⁸ Petition for Approval of Storm Contingency Fund Replenishment at 11 (Dec. 29, 2016); *See* also Sch. NG-4(A), Line 8.

²⁹ Petition for Approval of Storm Contingency Fund Replenishment at 12 (Dec. 29, 2016).

³⁰ *Id.*; *See* also Sch. NG-5, Page 2, Column (I), Line 53.

³¹ Petition for Approval of Storm Contingency Fund Replenishment at 13 (Dec. 29, 2016).

³² Test. of David Effron (May 12, 2017); http://www.ripuc.org/eventsactions/docket/4686-DPU-Effron_5_12_17.pdf.

³³ *Id.* at 4.

³⁴ *Id.* at 5.

what the Company called “filed storms.”³⁵ He also estimated a cost of approximately \$1.4 million of base pay and pay overheads for unfiled storms. Finally, Mr. Effron estimated that the incremental interest accrued on the base payroll and payroll overheads from 2010 to November 2016 was \$0.9 million.³⁶ Mr. Effron concluded that these three items impermissibly increased the Storm Fund deficit by \$10.6 million.³⁷

Mr. Effron recommended that National Grid be required to quantify the actual base pay and payroll overheads charged to the Storm Fund, net of capitalized costs, for all storms, filed and unfiled, from March 2010 to November 2016. Those amounts should then be eliminated from the recoverable storm costs, with the exception of any payroll overheads that vary directly with employee overtime, such as payroll taxes.³⁸ He stated that the recoverable Storm Fund balance should then be recalculated to reflect the necessary corrections to eliminate base pay and payroll overheads. He further opined that the Company should not be allowed to charge base pay and payroll overheads to recoverable storm costs for any storms subsequent to November 2016, with the exception of payroll overheads that vary with storm costs.³⁹ Finally, Mr. Effron argued that the Company’s proposed Replenishment Factor be reduced by 12.6% to \$0.0025 per kWh and that when the Company recalculates the Storm Fund balance, as recommended, there should be another review of the Replenishment Factor.⁴⁰

V. National Grid’s Rebuttal

On June 6, 2017, the Company submitted rebuttal testimony from William R. Richer, the Director of Revenue Requirements, Rhode Island, for National Grid USA Service Company, Inc.,

³⁵ *Id.* at 6.

³⁶ *Id.* at 7.

³⁷ *Id.*

³⁸ *Id.*

³⁹ *Id.* at 8.

⁴⁰ *Id.* The 12.6 % figure is used for the Replenishment Factor reduction because \$10.6 million is 12.6% of \$84.3 million.

and Patricia C. Easterly, the Director of Implementation for Financial Performance for National Grid, USA Service Company. They testified that the Storm Fund was originally established in 1982 and was affirmed by the Commission in its Report and Order No. 15360, issued in Docket No. 2509 on August 19, 1997. The Company contended that Order No. 15360 was intended to provide a mechanism for the recovery of storm preparation, response, and restoration costs caused by the occurrence of major storm events, mitigating the need for rate surcharges or filings for periodic relief.⁴¹ The Company noted that when Order No. 15360 was issued, the Company conducted electric generation, transmission, and distribution operations and did not own or operate gas distribution service in Rhode Island. Since then, the Company divested its electric generation, after acquisition of South Union Company's Rhode Island assets, and now conducts gas distribution operations. Although the electric and gas distribution operations (Narragansett Electric and Narragansett Gas) are both owned by The Narragansett Electric Company, they each have separate base distribution rates because both the types of service and customer bases are different.⁴² The Storm Fund is funded exclusively through electric base distribution rates.

The Company noted that storm restoration work is performed by National Grid Service Company's operating affiliates, pursuant to a Mutual Assistance Agreement, with the majority performed by electric line crews of the Massachusetts Electric Company or Niagara Mohawk Power Corporation from New York. When a Service Company employee provides services to Narragansett Electric, including storm restoration services, the Service Company charges the cost of those services to Narragansett Electric and is reimbursed by Narragansett Electric, in accordance

⁴¹ Hr'g Tr. at 5 (June 21, 2017).

⁴² *Id.*

with the Service Agreement. Narragansett Gas employees also provide storm assistance to Narragansett Electric.⁴³

The Company claimed that the base pay and overheads charged to the Storm Fund are not associated with Narragansett Electric's base operations, but rather are exclusively related to incremental work performed by outside companies affiliated with Narragansett Electric.⁴⁴ The Company noted that Mr. Effron did not object to the incremental costs charged by unaffiliated mutual aid utility crews; he only objected to the costs that were charged by affiliate companies. The Company stated that regular time and overheads for Narragansett Electric employees are not charged to storm contingency funds because they are recovered through Narragansett Electric's base distribution rates. The Company's witnesses contended that none of the costs charged to Narragansett Electric by its affiliates, whether located in New York, Massachusetts, or Rhode Island (gas operations), for power restoration after major storms are recovered through base distribution rates. These charges are incremental and should be recovered through the Storm Fund.⁴⁵ The Company further noted that Mr. Effron did not object to costs incurred for Narragansett Electric's use of outside contractors or unaffiliated utility crews for this same power restoration work. The Company argued that Narragansett Gas's affiliation to Narragansett Electric was irrelevant and that but for the charge to the Storm Fund, Narragansett Electric would not be able to recover these incremental costs⁴⁶

Additionally, the Company argued that Mr. Effron overlooked three important considerations when interpreting Order No. 15360. First, the Company alleged that Mr. Effron failed to consider longstanding ratemaking practice, in place since at least 1985 (Hurricane Gloria)

⁴³ *Id.* at 7.

⁴⁴ *Id.* at 8.

⁴⁵ *Id.* at 10.

⁴⁶ *Id.*

and 1991 (Hurricane Bob), which demonstrated that the Company's affiliates were designated as "outside crews" or "outside companies." The base pay and overheads charged by the companies were deferred for Storm Fund recovery as incremental costs to Narragansett Electric.⁴⁷ The Company averred that this practice was affirmed in Docket No. 2509. Second, the Company asserted that Mr. Effron overlooked both written and oral testimony in Docket No. 2509 which established that the Division had no problem with how the utilities had historically charged their incremental storm costs to the Storm Fund. Finally, the Company alleged that Mr. Effron overlooked the fact that some of the charges from outside companies for storm assistance are from the Service Company,⁴⁸ which is not rate regulated and has no distribution rates. Therefore, the storm-related costs must be accounted for through the Storm Fund mechanism.⁴⁹

The Company extensively examined historical practices within Docket No. 2509, particularly those associated with Hurricane Gloria and Hurricane Bob. Those practices, it claimed, established that power restoration charges from outside companies, including affiliates, were properly included in Storm Fund accountings.⁵⁰ The Company noted that although the joint stipulation in Docket No. 2509 did not address directly or indirectly the type of costs that would be allowed for recovery through the Storm Fund, the topic was discussed in that docket in the prefiled testimony of Division witness, John Bell. According to the Company, Mr. Bell testified that he had reviewed the Storm Reports filed by utilities, including Narragansett Electric, in the past and found that the funds were administered in a reasonable manner.⁵¹ He had further testified

⁴⁷ *Id.* at 12.

⁴⁸ National Grid USA Service Company Inc. (Service Company) is a wholly-owned subsidiary of National Grid USA. The Service Company is a centralized service company that provides non-power goods and services to National Grid's various operating company subsidiaries, including the Narragansett Electric Company.

⁴⁹ Hr'g. Tr. at 13 (June 21, 2017).

⁵⁰ *Id.* at 14-18.

⁵¹ *Id.* at 19.

that outside utility help utilized after storms qualified as incremental costs.⁵² Finally, the Company explained that its storm cost recovery methodology has not changed since Hurricanes Gloria and Bob and that it has consistently included incremental costs from affiliates in its Storm Reports. In support of this position, the Company submitted a copy of a previously filed Storm Report from 2008 which showed National Grid Service Company listed as an “outside” company with billed incremental storm costs.⁵³

The Company also maintained that charges from the Service Company to Narragansett Electric for assistance provided in major storm events are not included in base distribution rates.⁵⁴ The Company explained that the current distribution rates for Narragansett Electric and Narragansett Gas were set in 2012, based on a 2011 test year. In 2011, six major storm events occurred in Massachusetts. Service Company personnel performed a substantial amount of work in Massachusetts, which was billed by the Service Company to Massachusetts Electric. As a result, Narragansett Electric and Narragansett Gas received the benefit of lower costs from the Service Company in the test year of its rate case.⁵⁵

The Company explained that the incremental costs to respond to major storm events are not assumed or paid for within base distribution rates. Therefore, they must be paid through other means, which in this case is the proposed Replenishment Factor. Otherwise, the Company has no means to recover these costs which would be an impermissible penalty to the Company.⁵⁶

VI. Hearing

On June 21, 2017, the Commission conducted a contested hearing on the Company’s proposal. In support of its filing, the Company presented a panel of four witnesses: William Richer; Pat

⁵² *Id.* at 21.

⁵³ Sch. NG-7, Attachment at 2 (Aug. 14, 2008).

⁵⁴ Richer & Easterly Test. at 26 (June 6, 2017).

⁵⁵ *Id.* at 26-27.

⁵⁶ *Id.*

Easterly; and Robin E. Pieri, Senior Analyst with New England Electric Pricing, all of whom had submitted pre-filed testimony, as well as Michael McCallan, Vice President of Emergency Planning and Business Resilience.

The Company argued that its petition was designed to mitigate the carrying charges and resulting future bill impacts for customers and to provide adequate cash flow for the Company to support continued funding of storm preparation, response, and service restoration activities for significant storm events that will occur in the future.⁵⁷ In response to the Division's position that the Commission should disallow certain incremental O&M expenses, the Company contended that it had incurred costs to respond to significant storm events that occurred between 2010 and 2016, and that these costs should not be disallowed retroactively. Instead, the Company argued, should the Commission desire a more comprehensive review of the eligibility of certain expenses and prudence of the costs charged to the storm fund, then such a review should be done at a later time in another docket and not within this proceeding.⁵⁸ The Company also suggested that it would continue to work with the Division in an effort to reach a mutually acceptable agreement regarding changes to the storm fund mechanism.

On cross-examination by the Division, Mr. Richer acknowledged that the reports on Hurricanes Gloria and Bob, both of which occurred before Docket No. 2509 was opened, did not detail the charges that were billed to Narragansett Electric by its affiliate, New England Power Service Company.⁵⁹ Although the documents did not specifically state that the costs were for base pay and overheads of affiliate companies, Mr. Richer testified that he was a member of the accounting department back in 1991, during Hurricane Bob, and he recalled that storm recovery

⁵⁷ *Id.* at 7.

⁵⁸ Hr'g. Tr. at 8-9 (June 21, 2017).

⁵⁹ New England Power Service Company was the predecessor of National Grid USA Service Company.

costs included base pay and overheads of Narragansett Electric affiliates and the Service Company.⁶⁰ Mr. Richer also clarified that the Company does not recover pensions or post-retirement benefits other than pensions through the Storm Fund, but through a separate tracking and recovery mechanism.⁶¹

Mr. Richer testified that if the Commission denied the Company's ability to recover incremental costs through the Storm Fund for affiliated companies, it would create a disincentive to using affiliated companies and an incentive for the Company to use unaffiliated utility companies for restoration work, which in turn, may not lead to the most efficient recovery from storm damage.⁶²

At the June 2017 hearing, the Division steadfastly maintained its positions that: (1) the Commission's clear and unambiguous language in Docket No. 2509 permits charges to the Storm Fund only for incremental, non-capital, storm-related costs such as overtime pay and charges of outside contractors; (2) base pay and payroll overheads of National Grid affiliates do not increase incrementally because of storms; and (3) affiliates of Narragansett Electric are distinct from outside contractors and if Narragansett Electric recovers non-incremental expenses, the common owner/investors will be overcompensated. The Division continued to press for a reduction to the Storm Fund recovery of \$10.6 million, as outlined by Mr. Efron's prefiled testimony. The Division did support immediate approval of a Replenishment Factor, to reduce future carrying costs over the collection period.⁶³

Mr. Efron also testified at the June 21, 2017 hearing. He reiterated his position that storm recovery expenses invoiced to Narragansett Electric from affiliated companies should be treated

⁶⁰ Hr'g Tr. at 49 (June 21, 2017).

⁶¹ *Id.* at 67-68.

⁶² *Id.* at 77.

⁶³ *Id.* at 12-13.

differently than those from unaffiliated companies, even though this treatment was not specifically required by Docket No. 2509's order. Mr. Effron further acknowledged that John Bell's testimony in Docket No. 2509 did not differentiate between affiliated and unaffiliated utility crews as he asserted should be the case.⁶⁴ Mr. Effron testified that unaffiliated utilities should be treated differently for cost recovery by Narragansett Electric than affiliated companies because the costs with unaffiliated utilities are not being recovered by the same investors that own Narragansett Electric.⁶⁵ He remained adamant that base pay and overheads for affiliated companies should not be charged to the Storm Fund.⁶⁶ He further opined that incentive compensation should not be charged to the Storm Fund because it is not a cost that varies as a result of a storm and because, to some extent, such costs may be recoverable in base rates.⁶⁷

VII. Settlement Agreement and Hearing

In September 2017, the parties submitted a proposed Settlement Agreement.⁶⁸ The Commission then conducted additional discovery concerning the Settlement. On April 27, 2018, the Commission held a hearing on the Settlement. The Company presented Mr. Richer and Jeffrey Oliveira, the Lead Specialist for New England Revenue Requirement. The Division presented Jonathan Schrag, Deputy Administrator for the Division.

The Settlement Agreement resolved not only the issue of whether to credit base pay and overheads of affiliated companies to the Storm Fund, but also evaluated and modified the overall structure of the Storm Fund. The Settlement covered six major areas: (1) a \$2 million credit by the Company to the Storm Fund; (2) new protocols to credit customers with a portion of the

⁶⁴ *Id.* at 168.

⁶⁵ *Id.* at 174.

⁶⁶ *Id.* at 176.

⁶⁷ *Id.* at 179.

⁶⁸ Joint Settlement Agreement (Sept. 25, 2017); [http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormFund-JointSettlement\(9-25-17\).pdf](http://www.ripuc.org/eventsactions/docket/4686-NGrid-StormFund-JointSettlement(9-25-17).pdf).

revenues received due to the deployment of Company crews for mutual aid assistance in other jurisdictions; (3) the Company's retention of a portion of revenues received from mutual aid utilities, to cover incremental Company costs; (4) an adjustment to charges to the Storm Fund to exclude base labor and overheads of National Grid USA Service Company employees, to the extent that these charges are already recovered through the Company's base electric distribution rates; (5) simplification of the methodology for establishing an allowance for non-deferable storm expense in each base distribution rate case; and (6) establishment of new time frames for final storm accountings for major weather events to facilitate more timely submittal and review of those filings.

Mr. Schrag outlined the Division's policy goals informing the nature of the Settlement. He identified the need to balance retrospective storm accounting and true-ups with creating an incentive structure to provide Rhode Island ratepayers with speedy electric service restoration after storms. He expressed concern that if the Division had refused to alter its litigation position, the Company would have been incentivized to use non-affiliate companies for restoration which could interfere with timely restoration, negatively impacting Rhode Island ratepayers.⁶⁹ Mr. Schrag also explained the Division's concerns that climate change is contributing to the unpredictability of storms. Therefore, he contended, it made more sense to remove the storm deductible from base rates and have all costs associated with storms rolled into the Storm Fund. He asserted the threshold for the Storm Fund should be increased from \$875,000 to \$1.1 million because storms tend to be larger, costs are greater, and ratepayers want speedy restoration of electric services. Finally, he explained that the daily costs to the State of Rhode Island's economy during a power outage far outweigh the disputed approximately \$9 million, after the \$2 million Settlement credit.

⁶⁹ Hr'g. Tr. at 68 (Apr. 27, 2018).

Therefore, the Division found the achievement of these policy issues as compelling settlement rationale.

The first major issue addressed in the Settlement was the calculation of a credit to the Storm Fund by the Company, using the newly agreed-upon methodology. The calculation resulted in a \$1.3 million credit for the eighteen storms that occurred between 2010 and April 2016, which the Company agreed to increase to \$2 million.⁷⁰ Therefore, ratepayers will pay \$2 million less than what the Commission approved for recovery in June 2017. Additionally, the Company agreed at the hearing that it would not seek to benefit from incurring that expense by allowing the expense to reduce earnings below its earnings sharing threshold.⁷¹

The parties agreed to new protocols to credit customers with 75% of the revenues realized through the deployment of Company crews for mutual aid assistance in other jurisdictions. For Narragansett Electric Company employees providing storm response services, 75% of the base pay and overhead for their incremental services will be credited back to the Storm Fund. For Narragansett Gas employees providing storm services, the 75% credit will be applied through the Company's Distribution Adjustment Charge proceedings, for storms occurring after the Commission's approval of the Settlement.⁷² The Company will retain 25%. This calculation will apply to storms that occurred between May 1, 2016 and the PUC's approval of the Settlement.⁷³

The Company also agreed to make an adjustment to the Storm Fund to remove base labor and overheads of National Grid USA Service Company employees, to the extent that those charges are already being recovered through base rates.⁷⁴ The Settlement also addressed non-deferable storm expenses and established a new Storm Fund threshold of \$1.1 million, to be effective on

⁷⁰ Hr'g. Tr. at 13 (Apr. 27, 2018); *see* PUC Data Request 4-2.

⁷¹ Hr'g Tr. at 103 (Apr. 27, 2018).

⁷² Settlement at para. 2 (Sept. 27, 2017); Hr'g. Tr. at 26 (Apr. 27, 2018).

⁷³ Hr'g. Tr. at 27 (Apr. 27, 2018).

⁷⁴ *See* para. 3 of Settlement (Sept. 27, 2017).

September 1, 2018, with new base distribution rates as determined through Docket No. 4770.⁷⁵ There will no longer be a deductible for the Storm Fund within the base rates.⁷⁶

The Settlement addressed an issue that has been particularly vexing over the years: the lag between a storm's occurrence and the Company's reporting. Indeed, as of the date of the Settlement hearing in this docket, the Company had yet to file its accountings for all storms that have occurred since April 1, 2013. The Division indicated that it was problematic for it to receive for review a batch of Storm Reports several years after the storms' occurrences. The parties agreed to implement a new procedure whereby National Grid will employ its best efforts to file its final accounting for each major storm within two years following the end of the calendar year in which the storm occurred.⁷⁷ The Company will make an annual calendar year storm cost final accounting when 75% of the estimated storm costs have been determined. Thereafter, the Company will have a one-time opportunity to true up the costs in a subsequent year filing.

VIII. Commission Findings

At an Open Meeting held on April 27, 2018, the Commission considered the filings and testimony and determined that the Settlement represented a fair and reasonable resolution of the contested issues, as well as a reasonable solution and mechanism for calculating Storm Fund costs and reporting mechanisms. With one minor modification to paragraph 10 of the Settlement, allowing a one-time true up to occur in the year immediately following a final accounting, the Commission unanimously approved the Settlement.

Accordingly, it is hereby

(23582) ORDERED:

⁷⁵The Narragansett Electric Co. d/b/a/ National Grid's Application to Change Electric and Gas Distribution Revenue Requirements and Associated Rates; <http://www.ripuc.org/eventsactions/docket/4770page.html>.

⁷⁶ See para. 7 & 8 of Settlement (Sept. 27, 2017).

⁷⁷ See para. 10 of Settlement. (Sept. 27, 2017).

1. The Narragansett Electric Company d/b/a National Grid's Storm Fund Replenishment Factor of \$0.00288 kWh is approved, for effect July 1, 2017.
2. The Narragansett Electric Company d/b/a National Grid's request to extend the existing annual payment of \$3 million for a period of twenty-six months is approved.
3. The Settlement Agreement between The Narragansett Electric Company d/b/a National Grid and the Division of Public Utilities and Carriers, executed on September 25, 2017, and as amended by the Commission on April 27, 2018, attached hereto as Exhibit A, is approved.

EFFECTIVE AT WARWICK, RHODE ISLAND, PURSUANT TO AN OPEN MEETING
DECISION ON APRIL 27, 2018. WRITTEN ORDER ISSUED MAY 14, 2019.

PUBLIC UTILITIES COMMISSION




Margaret E. Curran, Chairperson


Marion Gold, Commissioner

*Abigail Anthony, Commissioner

*Commissioner Anthony did not participate in this matter which commenced prior to her appointment.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws §39-5-1, any person aggrieved by a decision or order of the Commission may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.

APPENDIX A

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

The Narragansett Electric Company) RIPUC Docket No. 4686
d/b/a National Grid)
Request for Storm Contingency Fund Replenishment)

JOINT PROPOSAL AND SETTLEMENT
SUBMITTED BY
THE NARRAGANSETT ELECTRIC COMPANY D/B/A NATIONAL GRID
AND THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

The Division of Public Utilities and Carriers (the Division) and The Narragansett Electric Company d/b/a National Grid (National Grid or the Company) submit this Joint Proposal and Settlement (Settlement Agreement) regarding National Grid's request for approval to collect funds to replenish the Company's Storm Contingency Fund (Storm Fund) in the above-captioned docket.¹

Background

On December 29, 2016, the Company filed a petition requesting approval by the Public Utilities Commission (PUC) to allow the Company to implement a Storm Fund Replenishment Factor (SFRF) to collect approximately \$84.3 million over a four-year period to replenish the Storm Fund and return it to a positive balance. The Company further requested that the PUC authorize the extension of the annual \$3.0 million of supplemental base distribution rate contributions to the Storm Fund originally authorized in Docket No. 4323 to address the impacts of Hurricane Sandy, for an additional 26-month period beyond its current expiration in January 2019. The PUC assigned the Company's filing as Docket No. 4686.

On June 21, 2017, the PUC conducted a hearing in Docket 4686. At the conclusion of the hearing, the PUC approved the proposed SFRF for effect on July 1, 2017 and extended the \$3.0 million supplemental base distribution-rate contributions through March 31, 2021. However, an outstanding issue remained regarding the appropriate charging of base pay and related overheads by the Company's affiliates for storm response services performed during major weather events. The Company and the Division (collectively, the Parties, and individually, a Party) have engaged in settlement discussions to resolve the issue of storm-related base pay and overheads and to evaluate the overall structure of the Storm Fund. After substantial discussion and review, the Company and the Division have developed a revised approach to storm funding that addresses outstanding issues in this docket.

¹ The electric and gas distribution operations of The Narragansett Electric Company together represent the entirety of the regulated operations conducted in Rhode Island by the Company. In this Settlement Agreement, the regulated entity is referred to as National Grid or the Company. Where there is a need to refer to the "stand-alone" or individual electric or gas operations of The Narragansett Electric Company, the terms "Narragansett Electric" or "Narragansett Gas," respectively, are used, as appropriate.

Settlement

Pursuant to the Joint Proposal and Settlement, the Company and the Division have agreed to reduce the outstanding Storm Fund deficit balance by \$2 million. Additionally, new protocols will be implemented to provide customers with a portion of the revenues realized through the deployment of Company crews for mutual aid assistance. The Company shall also retain a portion of these revenues to cover incremental costs the Company incurs when providing mutual aid to other utilities. Third, the Company and the Division have agreed to modify certain aspects of the current structure of the Storm Fund to simplify the methodology for establishing an allowance for non-deferrable storm expense in each base distribution rate case. Finally, the Company and the Division have agreed to establish new time frames for final storm cost accountings for major weather events to facilitate more timely submittal and review of those filings.

Upon the PUC's approval of the Settlement Agreement, the following shall occur:

- (1) National Grid will record a \$2 million reduction to the Storm Fund balance.
- (2) For major storm events occurring subsequent to the PUC's approval of this Settlement Agreement, National Grid will credit its customers for 75% of the Net Revenue (as hereinafter defined) received by Narragansett Electric or Narragansett Gas, as appropriate, for performing storm response services in other jurisdictions. The term "Net Revenue" is defined as the proceeds received or cost reductions achieved for base labor and non-incremental labor overhead costs² on all labor (i.e. not just base labor) charged for storm restoration services provided to other utilities, whether affiliated or non-affiliated, less an amount equal to the labor capitalization rate set in the Company's most recent base-rate case. The Company will credit the Net Revenue received for Narragansett Electric storm response services performed in other jurisdictions, including those outside of National Grid's service territories, to the Storm Fund. The Company will credit the Net Revenue received for Narragansett Gas storm response services performed in other jurisdictions, including those outside of National Grid's service territories, back to customers through the Distribution Adjustment Charge, applicable.
- (3) National Grid will make an adjustment to charges to the Storm Fund to remove base labor and overheads of National Grid USA Service Company, Inc. (Service Company) employees to the extent those charges are already being recovered through Narragansett Electric's base distribution rates. For major storms that occur prior to the effective date of the Company's next base rate change, the Company will determine the percentage of base labor of New England-based Service Company employees who charge Narragansett Electric over a representative 12-month period (for normal activities). For major storms that occur after the effective date of the Company's next base rate change, this percentage will be based on the percentage of base labor of New England-based Service Company employees who charge Narragansett Electric during the test year in the most recent

² Overhead charges for payroll taxes and the employer 401(k) matching contributions on non-base labor are incremental overhead charges.

completed base rate case. This would be the percentage of New England Service Company costs that are effectively recovered in base rates. For major storms, that percentage of Service Company base labor and overheads would be excluded from the Storm Fund.

- (4) For non-Service Company affiliate direct employees, labor and overheads would be charged to the Storm Fund as those costs are charged today.
- (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.
- (6) No further adjustments to the Company's filed Final Accountings for major storm events that occurred through March 2013 shall be made.
- (7) Effective with new base distribution rates, the Storm Fund threshold amount will be increased to \$1,100,000. Consistent with the existing Storm Fund, the threshold amount will continue to escalate effective each January 1; however, the escalation index used to calculate the annual threshold amount shall be the same index used to calculate inflation in the Company's last base distribution rate case. The first escalation of this threshold amount will occur on January 1, 2020.
- (8) The Storm Fund will no longer be subject to a deductible, and no provision for deductibles will be included in base distribution rates. This shall be effective with the implementation of new base distribution rates.
- (9) An allowance for non-deferrable storm expense shall be established in each base distribution rate case. Costs in excess of \$2,000,000 above the non-deferrable storm expense allowance in any calendar year shall be charged to the Storm Fund. The amount in excess of \$2,000,000 below the non-deferrable storm expense allowance in any calendar year shall be credited to the Storm Fund.
- (10) National Grid will use its best efforts to file the final accounting for each major storm event occurring after PUC approval of this Settlement Agreement within two years following the end of the calendar year in which the storm event occurred. The Company will make an annual calendar year storm cost final accounting filing of all known storm costs for any storm in which at least 75% of estimated total costs for the storm have been determined. The Company will have a one-time opportunity to true-up the costs for each such storm in ^{the} subsequent year filing. For catastrophic storms, the Company may need additional time in which to file its final storm cost accounting and, in such event, will consult with the Division to reach a mutually agreeable time frame in which the Company will file its final accounting for such storm event. For each final accounting and true-up filing, the Division will review the Company's filings to determine if the costs are reasonable and prudently incurred and make a recommendation to the PUC within nine months of the date that each accounting is filed with the PUC.
- (11) Unless expressly stated herein, the making of this Settlement Agreement establishes no principles or precedents, and may not be construed or cited as precedent in any future

proceeding. The covenants contained in this Settlement Agreement are limited to the above-captioned docket only and shall not be deemed to foreclose any Party from taking any position or making any contention in any other docket, proceeding, or investigation.

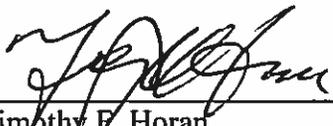
- (12) The Company and the Division agree that, unless expressly modified by this Settlement Agreement, all other aspects of the current structure of the Storm Fund shall remain unchanged, including without limitation the following:
- (a) The interest rate on the Storm Fund balance is set at the customer deposit rate and shall be adjusted on March 1 annually (approved by the PUC in Docket No. 2509);
 - (b) Within 90 days of the calendar-year end, the Company will file with the PUC a report showing the beginning balance, the monthly activity, and the ending balance of the fund and also the calculation of the current year's threshold and support for the current year's interest rate (approved by the PUC in Docket No. 2509);
 - (c) Within 90 days after the occurrence of a storm, the Company will file with the PUC a report which provides a description of the storm along with a summary of the extent of the damage to the Company's system, including the number of outages and length of outages (approved by the PUC in Docket No. 2509); and
 - (d) 50 percent of all revenue received from attachment and other telecommunication company fees for use of distribution plant in excess of \$850,000 annually is to be credited to the Company's Storm Fund on an annual basis (approved by the PUC in Docket No. 3617).
- (13) This Settlement Agreement is the result of settlement negotiations. The content of those negotiations is privileged and all offers of settlement and discussions relating thereto are and shall be privileged, shall be without prejudice to the position of any Party, and are not to be used in any manner in connection with these or other proceedings involving any one or more of the Parties to this Settlement Agreement or otherwise. The agreement by a Party to the terms of this Settlement Agreement shall not be construed as an agreement as to any matter of fact or law for any other purpose.
- (14) This Settlement Agreement is submitted on the condition that it will be approved in full by the PUC. In the event that the PUC does not approve the Settlement Agreement in its entirety as filed or accepts this Settlement Agreement subject to conditions unacceptable to any Party hereto, then this Settlement Agreement shall be deemed withdrawn, shall not constitute a part of the record in any proceeding or be used for any purpose, and shall be null and void in all respects (except this Paragraph 14), unless all Parties agree to the PUC's modifications.

- (15) Any number of counterparts of this Settlement Agreement may be executed, and each shall have the same force and effect as an original instrument, and as if all the Parties to all the counterparts had signed the same instrument.

IN WITNESS WHEREOF, the Parties agree that this Settlement Agreement is reasonable, in the public interest, and in accordance with law and regulatory policy, and have caused this Settlement Agreement to be executed by their respective representatives, each being fully authorized to do so, as of this 25th day of September, 2017.

RESPECTFULLY SUBMITTED,

THE NARRAGANSETT ELECTRIC
COMPANY D/B/A NATIONAL GRID

By: 

Timothy F. Horan
President
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DIVISION OF PUBLIC UTILITIES AND
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