nationalgrid

Jennifer Brooks Hutchinson
Senior Counsel

April 27, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4763 - Standards for Connecting Distributed Generation, RIPUC No. 2180
National Grid's Reply to Division Memorandum

Dear Ms. Massaro:

Enclosed please find 10 copies of National Grid's[1] Reply to the Rhode Island Division of Public Utilities and Carriers' Memorandum dated March 28, 2018 in the above-referenced docket, which includes a hypothetical example regarding the calculation of depreciation, as requested in Commission counsel's March 29, 2018 e-mail.

Thank you for your attention to this filing. Please contact me if you have any questions concerning this matter at 401-784-7288.

Very truly yours,

Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4763 Service List
Jon Hagopian, Esq.
John Bell, Division

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

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Certificate of Service

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

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

__________________________________ April 27, 2018

Joanne M. Scanlon Date

Docket No. 4763 – National Grid - Standards for Connecting Distributed Generation, RIPUC No. 2180
Service List updated 12/27/17

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National Grid's Reply to the Division of Public Utilities and Carriers' March 28, 2018 Memorandum

The Company provides the following response to the Division of Public Utilities and Carriers' (Division) Memorandum regarding the Company's response to Record Request #4 concerning the proposed treatment of a depreciation credit as it relates to the determination of interconnection costs in connection with an Accelerated Modification.

In its Memorandum, the Division makes the following statements:

- The process outlined would benefit from a detailed hypothetical example that delineates each of the steps proposed (p.1);

    - **Justification process that outlines how projects are added to the 5-year Capital Plan, what level of "other" customers defines a need?**

      Response: The justification process for adding projects to the capital plan has been part of the Infrastructure, Safety and Reliability (ISR) filing process for a number of years, and the Company is not proposing any change to that process.

    - **How the modification cost will be estimated?**

      Response: The modification cost would be estimated at today's costs. See Company's response below for the cost calculation.

    - **How depreciation will be calculated and applied?**

      Response: The Company provides the following hypothetical example that delineates the steps for application of the depreciation credit:

      This example assumes that a $100,000 upgrade, identified in the Company's five-year capital plan (Capital Plan), is moved from year four to year one as a result of a Distributed Generation (DG) customer request for an interconnection. The Company will apply the net present value (NPV) of the investment based on the original planned installation date of five years from the present, and take the difference from this calculation to the NPV of the investment of moving the installation to one year from the present to determine the cost the customer will pay for the Accelerated Modification. The Company uses a discount rate of 8.41%. In this example, the customer would pay the Company $19,845 for the Accelerated Modification.

Table 1 below is a summary of the calculation of the depreciation and the DG customer's share of the cost of the Accelerated Modification.
Please see Attachment 1 to this response for a detailed calculation of this hypothetical example.

Table 1 – Depreciation Calculation

	NPV	Year 1	Year 2	Year 3	Year 4	Year 5
Initial Anticipated Timing of Capital Plan System Modification	$72,397	$0	$0	$0	$100,000	$0
Earlier Timing of DG Accelerated Modification	$92,242	$100,000	$0	$0	$0	$0
Interconnecting Customer Cost	$19,845					

- This process will do nothing to limit free riders that take advantage of the accelerated modification. A possible variation might include adjusting the original, planned, greater-good, in-service date should a second renewable resource require interconnection for the purpose of recalculating depreciation and assigning costs. (Division Memorandum, p. 2)

  Response: The Company does adjust planned work under its Capital Plan through the annual ISR process as conditions change over time, and would consider this in the event multiple projects come forward at a similar time.

- The outer years of a five-year Capital Plan tend to vary significantly as new information is accumulated from year-to-year, the specific projects, project scope and their associated costs are all highly variable which potentially leads to uncertainty regarding what is and what is not an accelerated project. (Division Memorandum, p. 2)

  Response: Due to this new requirement the Company will honor any Accelerated Modification set forth in an Interconnection Service Agreement (ISA) even if the ultimate "need' is later than forecasted in the Capital Plan to provide certainty to the DG developer community, provided the Company receives cost recovery for the remaining cost of the modification.

- The process envisions a true-up to actual costs based on the actual in-service date. The uncapped nature of the true-up cost adds another layer of uncertainty for project proponents. Once an estimated cost has been provided in the ISA consideration should be given to treating it as a not-to-exceed cost with any overage subject to disqualification or general rates allocation at the Commission's discretion. (Division Memorandum, p. 2)

Response: The process for true-ups of system modification costs is governed by the interconnection tariff and should be the same for DG customers with Accelerated Modifications. There is no different risk or uncertainty under this process for DG customers with Accelerated Modifications because the process for estimating these modification costs and determining actual costs is the same for all DG customers (the only difference is that a DG customer with an Accelerated Modification is only paying a portion of these estimated costs based on the formula set forth in the Company's response above). As such, the estimated costs for these Accelerated Modifications should not be treated as not-to-exceed costs.

The Narragansett Electric Company
Illustrative Calculation of Cost of Accelerated Modification Project

			NPV (a)	Year 1 (b)	Year 2 (c)	Year 3 (d)	Year 4 (e)	Year 5 (f)
(1)	Initial Anticipated Timing of Capital Plan System Modification		$72,397	$0	$0	$0	$100,000	$0
(2)	Earlier Timing of DG Accelerated Modification		$92,242	$100,000	$0	$0	$0	$0
(3)	Interconnecting Customer Cost	(2) - (1)	$19,845					
(4)	Discount Rate	page 2	8.41%					

The Narragansett Electric Company
Weighted Average Cost of Capital

			Ratio (a)	Rate (b)	Weighted Rate (c)
(1)	Long Term Debt		49.95%	4.96%	2.48%
(2)	Short Term Debt		0.76%	0.79%	0.01%
(3)	Preferred Stock (COP)		0.15%	4.50%	0.01%
(4)	Common Equity (COC)		49.14%	9.50%	4.67%
(5)	Total		100.00%		7.17%
(6)	Income Tax Gross-Up	21%	((COP + COC) ÷ (1-21%) x .21) = FIT		1.24%
					8.41%

Per Docket 4323, updated for reduced corporate federal income tax rate effective January 1, 2018
pursuant to the Tax Cuts and Job Act.