

Record Request No. 30

Request:

Develop a revised paragraph on 22a that would make clearer how this would work.

Response:

The Company has provided below a revised Section 22a of the Settlement Agreement that is marked to show changes from the original Settlement Agreement provided in Book 1 Bates Pages 103 through 105.

Excess Deferred Taxes True Up. As discussed in the Company's response to PUC 4-1 (Supplemental), a copy of which is provided as Attachment 24 hereto, to account for revisions to the corporate tax rate modified by the federal Tax Cuts and Jobs Act (Tax Act), the Company has recorded the \$116 million and \$51 million estimates of customer-related excess deferred federal income tax for Narragansett Electric and Narragansett Gas, respectively, to a tax regulatory liability account in recognition that customers will be refunded those excess deferred taxes. The Company will be able to calculate more accurately excess deferred taxes and the timing over which they should be returned when its fiscal year ended March 31, 2018 audited financial statements are completed during the late summer 2018. These estimates will become final with the filing of the fiscal year ended March 31, 2018 federal income tax return in December 2018, and the excess deferred tax regulatory liability will be adjusted to reflect that final balance.

This Settlement Agreement provides for a reduction to Narragansett Electric and Narragansett Gas revenue requirements by a high level estimate of excess deferred income tax amortization of \$5.1 million and \$2.0 million, respectively. The Company will true up these estimates in a supplemental compliance filing to be filed with the PUC in Docket No. 4770 after the Company files its Fiscal Year 2018 federal income tax return in December 2018. The true up will reconcile the impact of the actual excess deferred tax amortization with the estimated amounts identified above, and will determine the final revenue requirements for Narragansett Electric and Narragansett Gas effective September 1, 2018. From these supplemental revenue requirements, the Company will calculate the difference between the revenue requirements it began recovering September 1, 2018 and the revenue requirements in the supplemental compliance filing in Docket No. 4770, and reflect the supplemental compliance revenue requirements, annual target revenue (for Narragansett Electric), and target revenue per customer (for Narragansett Gas) in the next electric and gas Revenue Decoupling Mechanism (RDM) reconciliation filings. In addition, the Company will also evaluate the appropriateness of proposing supplemental compliance rate design schedules based upon the amount of the true-up to the revenue requirements or, for Narragansett Electric, whether to provide an annual adjustment in the RDM reconciliation filing if the difference is determined to be relatively small such that adjusting base

~~distribution rates would not be needed. If the amount of the revision to Narragansett Gas's revenue requirement is also deemed relatively small such that adjusting base distribution rates would not be needed, Narragansett Gas shall submit a proposal with the PUC establishing a mechanism in its DAC whereby all customers would be subject to the annual change in revenue requirement in lieu of revising base distribution rates.4770 (Deferred Tax Differential). The Company will submit to the PUC for its review and approval a filing to address the ratemaking treatment of the Deferred Tax Differential for Narragansett Electric and Narragansett Gas no later than March 1, 2019. The filing shall propose the following:~~

Narragansett Electric: The Company will provide the calculation of the Narragansett Electric Deferred Tax Differential and the revised Annual Target Revenue (ATR) of its Revenue Decoupling Mechanism (RDM), reflecting an adjustment for the Deferred Tax Differential. In addition, Narragansett Electric will evaluate the appropriateness of proposing revised base distribution rates based upon the amount of the true-up to the revenue requirement to reflect the effect of the Deferred Tax Differential if the difference is determined to be of an amount that adjusting base distribution rates would be appropriate. The Company will present its evaluation on the necessity of revising base distribution rates as part of its proposal regarding the ratemaking treatment of the Deferred Tax Differential.

Narragansett Gas: The Company will provide the calculation of the Narragansett Gas Deferred Tax Differential. In addition, Narragansett Gas will evaluate the appropriateness of (i) proposing revised base distribution rates based upon the amount of the true-up to the revenue requirement to reflect the effect of the Deferred Tax Differential as described below, or (ii) proposing that the Deferred Tax Differential be credited through the DAC if the difference is determined to be relatively small such that adjusting base distribution rates would not be needed. The Company will present its evaluation on the necessity of revising base distribution rates as part of its proposal regarding the ratemaking treatment of the Deferred Tax Differential. If the Narragansett Gas proposes to change base distribution rates, the filing shall include the following: (1) for all customers, new base distribution rates effective on a prospective basis on a date determined with respect to the timing of the supplemental compliance filing; (2) for customers included in Narragansett Gas's RDM,¹ revised target revenue-per-customer amounts based upon the supplemental revenue requirements; and (3) for customers excluded from Narragansett Gas's RDM,² the difference for this group of customers be credited to, or recovered from, these customers through a one-time adjustment included in the DAC filing submitted to the PUC by August 1, 2019. If Narragansett Gas revises its target revenue-per-customer amounts, the revised revenue-per-customer amounts shall be reflected in its subsequent RDM

¹ Pursuant to Narragansett Gas's tariff, customers included in the RDM are those receiving service on Narragansett Gas's residential, small C&I, and medium C&I rate schedules.

² Pursuant to Narragansett Gas's tariff, customers excluded from the RDM are those receiving service on Narragansett Gas's large C&I, extra-large C&I, and non-firm rate schedules.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket Nos. 4770/4780
Responses to Record Requests
Issued at the Commission's Evidentiary Hearing
On June 26, 2018

reconciliation filings submitted to the PUC annually by July 1 until the effective date of base distribution rates resulting from a future general rate case. Any revised target revenue-per-customer amounts shall be subject to Section 22c of this Settlement Agreement.

For this high level estimate, this Settlement Agreement provides for the amortization of all property related excess deferred taxes over an approximate 30 year average service life of its assets. The composite depreciation rate currently in effect is 3.40 percent and 3.38 percent for Narragansett Electric distribution plant and Narragansett Gas plant, respectively, both of which equate to average service lives of just under 30 years. The Company agrees to amortize its non-property related excess deferred taxes over a period of ten years, as was proposed by the Division, until the true-up is performed.