



June 6, 2018

VIA HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4770 – Application of The Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electric and Gas Base Distribution Rates
Docket 4780 – The Narragansett Electric Company d/b/a National Grid
Proposed Power Sector Transformation Vision and Implementation Plan
Settlement Testimony**

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a National Grid (the Company), enclosed is the Company's settlement testimony to supplement the Company's pre-filed testimony previously submitted to the Public Utilities Commission (PUC) in the above-referenced dockets.

The Company's settlement testimony is being filed to support the Settlement Agreement entered into by the Settling Parties¹ relating to the Company's Application for Approval of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I. Gen. Laws §§ 39-3-10 and 39-3-11 and the Company's proposed Power Sector Transformation (PST) Vision and Implementation Plan (PST Plan) (the Settlement Agreement), which was filed today with the PUC under separate cover.

The Settlement Agreement is designed to resolve all outstanding issues among the parties in Docket No. 4770 and Docket No. 4780, and establishes a Multi-Year Rate Plan (Rate Plan) with a three-year term commencing September 1, 2018. In addition to setting base distribution rates, the Settlement Agreement institutes a PST Plan with the Rate Plan to modernize the electric distribution system and enable technologies that will reduce greenhouse gas emissions and help to control costs for customers.

¹ The term "Settling Parties" refers to the Company; the Division of Public Utilities and Carriers; the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket No. 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

The Settlement Agreement is supported by the testimony of the following Company Witnesses:

- Timothy F. Horan, President, Rhode Island Jurisdiction, providing an overview of the Settlement Agreement.
- Maureen P. Heaphy, Vice President, U.S. Compensation, Benefits, and Pensions; Raymond J. Rosario, Jr., Director, Overhead and Underground Lines, Rhode Island; Alfred Amaral III, Vice President, Customer Meter Services, New England; Ryan M. Constable, Acting Director, Asset Management – Distribution; and Gary Dionne, Director, Strategic Workforce Planning, Human Resources, presenting agreed upon treatment of employee-related costs, including the Company's overall employee compensation and benefits costs and the cost to add new electrical and gas work positions over and above the Company's current staffing complement that will be added over the three-year term of the Rate Plan.
- Robert B. Hevert, Partner and Rates, Regulation, and Planning Practice Leader at ScottMadden, Inc., addressing the agreed upon return on equity, capital structure, and overall rate of return contained in the Settlement Agreement.
- John Gilbert, U.S. Chief Information Officer; Daniel J. DeMauro, Director, U.S. IS Regulatory Compliance; and Mukund Ravipaty, Director and Global Head Security Services, Design, and Architecture, providing information on the information systems (IS) that are being installed to serve Rhode Island customers both during the Test Year (the twelve-month period ending June 30, 2017) and post-Test Year, including investments in physical security and cybersecurity, and presenting the agreed upon treatment of costs for IS work completed after June 30, 2017.
- Anthony H. Johnston, Senior Vice President of Gas Business Enablement; and Christopher J. Connolly, Vice President of Process and Business Requirements for the Gas Business Enablement Program, discussing the critical need for National Grid's Gas Business Enablement Program and its benefits, and presenting the agreed upon treatment of costs associated with the implementation of the Gas Business Enablement Program.
- Ned Allis, Project Manager, Depreciation and Technical Development with Gannett Fleming Valuation and Rate Consultants, LLC, presenting the agreed upon terms for the Company's gas and electric depreciation rates.
- Kayte O'Neill, Vice President, Regulatory Strategy; Robert D. Sheridan, Director, Grid Modernization Strategy; Carlos A. Nouel, Vice President, New Energy Solutions; and Meghan McGuinness, Principal Analyst, Regulatory Strategy, describing aspects of the Company's settlement of issues relating to the Company's proposed PST Plan in Docket No. 4780 in support of Rhode Island's efforts to transform the power sector and to execute upon the Company's long-term vision for an affordable, sustainable energy system for Rhode Island customers.

- Melissa A. Little, Director, New England Revenue Requirements, presenting the gas and electric revenue requirements analyses and other ratemaking issues under the Settlement Agreement.
- Ann E. Leary, Manager, Gas Pricing, New England; Scott M. McCabe, Manager, Electric Pricing, New England; Howard S. Gorman, President of HSG Group, Inc.; and Paul M. Normand, President of Management Applications Consulting, Inc. Mr. Gorman and Mr. Normand provide information regarding the electric and gas, respectively, allocated cost of service studies, the proposed class revenue allocation and rate designs, and the typical bill impacts resulting from the rates proposed in the Settlement Agreement. Ms. Leary and Mr. McCabe explain the development of revenue for each year of the Rate Plan used in the gas and electric, respectively, cost of service studies supported by Ms. Little and in the allocated cost of service studies supported by Mr. Normand and Mr. Gorman, respectively. Ms. Leary and Mr. McCabe also discuss the impact of settlement provisions relating to low income rate classes and the bill discount those rate classes will receive through base distribution rates.

The Company is prepared to make its witnesses and subject matter experts available to the PUC to provide additional detail regarding the Settlement Agreement, as needed, to the PUC.

Thank you very much for your time and attention to this matter. If you have any questions, please contact Celia O'Brien at 781-907-2153 or Jennifer Brooks Hutchinson at 401-784-7288.

Very truly yours,



Celia B. O'Brien



Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4770 Service List
Docket 4780 Service List
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Jonathan Schrag, Division
John Bell, Division
Al Mancini, Division
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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.

Joanne M. Scanlon

June 6, 2018

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Docket No. 4770 - National Grid – Rate Application
Service list updated 6/5/2018

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Joanne M. Scanlon

June 6, 2018
Date

**Docket No. 4780 - National Grid – Power Sector Transformation Filing
Service list updated 5/9/2018**

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THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witness: Horan

PRE-FILED SETTLEMENT TESTIMONY

OF

TIMOTHY F. HORAN

Dated: June 6, 2018

Table of Contents

I.	Introduction	1
II.	Overall Scope and Impact of Settlement Agreement	4
III.	Balancing of Interests and Customer Protections	12
IV.	Conclusion	22

1 **I. Introduction**

2 **Q. Mr. Horan, by whom are you employed and in what position?**

3 A. I am President, Rhode Island Jurisdiction, for National Grid USA Service Company, Inc.
4 (Service Company). In this position, I am responsible for overseeing the regulated
5 electric and gas distribution operations of National Grid USA (National Grid) in Rhode
6 Island provided by The Narragansett Electric Company d/b/a National Grid (the
7 Company).¹

8
9 **Q. Have you previously submitted testimony in this rate case proceeding?**

10 A. Yes. On November 27, 2017, I submitted direct testimony in this proceeding on behalf of
11 the Company.

12
13 **Q. What was the purpose of your initial testimony in this docket?**

14 A. My initial testimony had two functions: (1) to describe the Company's perspective on
15 furthering the interests of its customers in Rhode Island; and (2) to provide an overview
16 of the Company's proposals in the initial filing in Docket No. 4770 (made on
17 November 27, 2017), along with background on the business environment and operating
18 factors motivating those proposals. As discussed in my initial testimony, the Company

¹ The term "Company" refers to The Narragansett Electric Company's electric and gas distribution operations on a collective basis. 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 my testimony, I will refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, I will use the terms "Narragansett Electric" or "Narragansett Gas," respectively, as appropriate.

1 put forth a series of proposals in this case that, on a collective basis, were designed to
2 address the business factors that are shaping the Company's cost structure in providing
3 safe and reliable service to customers.
4

5 **Q. What is the purpose of this settlement testimony?**

6 A. This settlement testimony presents an overall roadmap of the Settlement Agreement
7 entered into by the Settling Parties² relating to the Company's Application for Approval
8 of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I. Gen. Laws §§
9 39-3-10 and 39-3-11 (the Application) and the Company's proposed Power Sector
10 Transformation (PST) Vision and Implementation Plan (PST Plan) (the Settlement
11 Agreement).
12

13 The Settlement Agreement represents a careful balancing of interests among the Settling
14 Parties resulting in the establishment of a Multi-Year Rate Plan (Rate Plan) with a term
15 of three years commencing on September 1, 2018. If approved by the Rhode Island
16 Public Utilities Commission (PUC), the Rate Plan would provide a path for timely

² The term "Settling Parties" means the Company; the Division of Public Utilities and Carriers (Division); the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each individually is referred to as a Settling Party). PPL intervened in Docket No. 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 recovery of the Company's reasonable and prudently incurred costs of utility operations
2 on a sustainable basis, while enabling the commencement of Power Sector
3 Transformation without the creation of a separate ratemaking mechanism operating
4 outside of base distribution rates. The Rate Plan is designed to serve the interests of
5 Rhode Island customers in having access to safe and reliable energy delivery services, at
6 the lowest reasonable long-term cost, in an environment with ever-evolving demands
7 relating to energy use and the reduction of greenhouse gas emissions.

8
9 **Q. How is your testimony structured?**

10 A. Section I is the Introduction. Section II summarizes the overall scope and impact of the
11 Settlement Agreement, including the impact on revenue requirements for Narragansett
12 Electric and Narragansett Gas. Section III discusses the balancing of interests inherent in
13 the Settlement Agreement and the reasons that the Settlement Agreement should be
14 approved by the PUC without material modifications. Section III also identifies the
15 Company witnesses available to provide information to the PUC on the Company's
16 original proposals and the impact of the Settlement Agreement. Section IV is the
17 conclusion.

18

19

1 **II. Overall Scope and Impact of Settlement Agreement**

2 **Q. Please describe the scope of the Settlement Agreement.**

3 A. The Settlement Agreement is designed to settle all outstanding issues in Docket No. 4770
4 and Docket No. 4780.³ As a comprehensive resolution of the issues in these two dockets,
5 the Settlement Agreement is carefully constructed to balance competing interests,
6 including (1) the interests of customers in having access to reasonable cost gas and
7 electric service, on a safe and reliable basis; (2) the interests of the Company in
8 recovering the actual costs required to provide gas and electric service on a safe and
9 reliable basis to customers; and (3) the broader interests of Rhode Island in securing an
10 energy future that provides for gas and electric service on a safe and reliable basis, with a
11 strong commitment to the reduction of greenhouse gas emissions.

12
13 More specifically, the Settlement Agreement addresses the existing revenue deficiencies
14 for Narragansett Electric and Narragansett Gas by instituting a consensus-based
15 ratemaking framework designed to recover base revenue requirements for Narragansett
16 Electric and Narragansett Gas spanning a three-year term following the Test Year, which
17 is July 1, 2016 through June 30, 2017, in this proceeding. Rate Year 1 is the period
18 September 1, 2018 through August 31, 2019. Rate Year 2 is the period September 1,
19 2019 through August 31, 2020, and Rate Year 3 is the period September 1, 2020 through

³ In December 2017, the PUC opened a separate docket (RIPUC Docket No. 4780) to review the Company's PST Plan. The Settlement Agreement is a comprehensive arrangement resolving all issues in both Docket No. 4770 and Docket No. 4780 and any references herein to "this proceeding" are intended to be inclusive of both dockets.

1 August 31, 2021.⁴ The Settlement Agreement also establishes a path forward for Power
2 Sector Transformation, without the creation of a new cost-recovery mechanism that
3 would operate outside of base distribution rates (as originally proposed by the Company).
4 The Settlement Agreement also addresses cost allocation and rate design issues. Lastly,
5 the Settlement Agreement encompasses a series of customer protections and sets
6 provisions for rate changes at the end of the three-year term of the Rate Plan.

7
8 **Q. What are the fundamental changes that the Settlement Agreement makes in relation**
9 **to the Company's initial proposals?**

10 A. The Company's initial proposal fundamentally requested that the PUC: (1) set new base
11 distribution rates based on revenue requirements calculated through the Rate Year; and
12 (2) institute a new mechanism to recover PST costs.

13
14 With respect to the first principal request, the Company's initial filing demonstrated an
15 existing revenue deficiency of \$41,294,907, for Narragansett Electric and \$30,322,543
16 for Narragansett Gas and requested a base distribution rate increase effective
17 September 1, 2018 to recover these deficiencies. Under the Rate Plan, base distribution
18 rates would be set annually over a three-year period, providing a base revenue increase of
19 approximately \$20 million for Narragansett Electric and approximately \$14.3 million for

⁴ Rate Year 1, Rate Year 2, and Rate Year 3 are referred to herein collectively as the "Rate Years" and individually as a "Rate Year".

1 Narragansett Gas, totaling approximately half of the Company's original requested
2 increase.

3
4 With respect to the second principal request, the Settlement Agreement does not institute
5 a new mechanism to recover PST costs, but instead establishes an overall ratemaking
6 plan with a three-year term that will allow a reasonable recovery path for the Company's
7 reasonably and prudently incurred costs of operation, including PST, while balancing the
8 interests of customers in terms of instituting customer protections, smoothing bill
9 impacts, and enabling the achievement of overarching policy goals for safe and reliable
10 service.

11

12 **Q. How does the Settlement Agreement address allowed revenue requirements for**
13 **Narragansett Electric and Narragansett Gas?**

14 A. The specific base distribution rate annual revenue requirements for Narragansett Electric
15 and Narragansett Gas for each of the Rate Years of the Rate Plan are analyzed in detail in
16 the settlement testimony and associated schedules of Company Witness Melissa A. Little.
17 However, the annual step changes established by the Settlement Agreement are shown in
18 Table 1, below:

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Table 1
Revenue Requirement Increases Commencing September 1, 2018

	Narragansett Electric (in \$M)	Narragansett Gas (in \$M)	Total
Base Case			
Rate Year 1	\$14.1	\$5.5	\$19.6
Rate Year 2	\$3.9	\$5.5	\$9.4
Rate Year 3	<u>\$2.0</u>	<u>\$3.3</u>	<u>\$5.3</u>
Subtotal – Base Case	\$20.0	\$14.3	\$34.3
Power Sector Transformation			
Rate Year 1	\$5.3	\$1.4	\$6.7
Rate Year 2	\$4.1	\$0.5	\$4.6
Rate Year 3	<u>\$1.9</u>	<u>\$0.6</u>	<u>\$2.5</u>
Subtotal - PST	\$11.3	\$2.5	\$13.8
Base Case plus PST			
Rate Year 1	\$19.4	\$6.9	\$26.3
Rate Year 2	\$8.0	\$6.0	\$14.0
Rate Year 3	<u>\$3.9</u>	<u>\$3.9</u>	<u>\$7.8</u>
TOTAL	<u>\$31.3</u>	<u>\$16.8</u>	<u>\$48.1</u>

- Q. What are the primary differences between the Company’s initial filed revenue requirements and the revenue requirements and ratemaking elements incorporated into the Rate Plan as part of the Settlement Agreement?**
- A.** The settlement testimony of Ms. Little provides this detail. To reach a settlement in these proceedings, however, the Company accepted many downward adjustments to operating expenses and rate base recommended by the Division. Essentially, the Settlement Agreement is designed to balance the interests of customers and the Company by providing the Company with a recovery path for costs associated with incremental

1 staffing and the replacement or upgrading of critical information systems, while
2 modifying other elements of the ratemaking formula to smooth bill impacts for
3 customers. The greatest reduction in the revenue requirements resulted from the
4 following:

- 5 ▪ A reduction in federal income tax expense to reflect the change in corporate tax
6 rate from 35 percent to 21 percent, and the amortization of excess accumulated
7 deferred taxes;
- 8 ▪ A reduction of Administration and General expenses to reflect a reclassification
9 of those costs to capital;
- 10 ▪ Reduction of authorized return on equity (ROE) from 10.1 percent to 9.275
11 percent, and use of the Division's recommended capital structure and cost of
12 long-term debt for gas operations;
- 13 ▪ Modification of depreciation accrual rates to reduce depreciation expense;
- 14 ▪ Reduction of Service Company rents for Gas Business Enablement "slippage"
15 adjustment (15 percent);
- 16 ▪ Reduction of Service Company rents for IS projects "slippage" adjustment (15
17 percent);
- 18 ▪ Smoothing of incremental DG-related full-time equivalents (FTEs) over three-
19 year term, rather than implementation entirely as of the start of new rates on
20 September 1, 2018;
- 21 ▪ Smoothing of incremental gas and electric FTEs over three-year term, rather

1 than implementation entirely as of the start of new rates on September 1, 2018;

2 and

- 3 ■ Reduction of Growth Forecast for Narragansett Gas and associated revenue
4 requirement changes.

5
6 **Q. How does the Settlement Agreement address the recovery of costs associated with**
7 **Gas Business Enablement and Information Systems?**

8 A. Under the Settlement Agreement, the Company's actual total net-forecasted operation
9 and maintenance costs incurred for Gas Business Enablement during the term of the Rate
10 Plan will be amortized over 10 years with carrying charges. This amortization is
11 included in each Rate Year's revenue requirement. Provisions are included to allow for
12 recovery of Gas Business Enablement costs in the future, beyond the level accounted for
13 in the Rate Plan.

14
15 Similarly, the revenue requirements for each Rate Year allow for recovery of Gas
16 Business Enablement and Information Systems costs flowing through the Service
17 Company, subject to a "slippage adjustment" that reduces current recovery by 15 percent
18 from the Company's projected costs. Provisions are included to allow for recovery of
19 Gas Business Enablement and Information Systems costs in the future, beyond the level
20 accounted for in the Rate Plan.

21

1 The Settlement Agreement requires the Company to provide quarterly reporting to the
2 PUC and the Division on the implementation of both the Company's Information
3 Systems portfolio and Gas Business Enablement. The Company will work with the
4 Division to accommodate more in-depth reviews by the Division, PUC Staff, or the
5 Division's consultants during the term of the Rate Plan.

6
7 **Q. What are the principal provisions of the Settlement Agreement in relation to Power**
8 **Sector Transformation?**

9 A. To reach agreement on the Rate Plan, the Company relinquished its request to establish a
10 separate rate-recovery mechanism (the PST Provision) to support recovery of the costs
11 associated with PST investments. Instead, the Settlement Agreement affords more
12 traditional recovery of the following PST investments, which currently are under review
13 in Docket No. 4780: (1) Grid Modernization foundational investments, consisting of
14 Geographic Information System (GIS) Investments, System Data Portal, Distribution
15 Supervisory Control and Data Acquisition Distribution (DSCADA), and other Grid
16 Modernization investments relating to Information Services and cybersecurity; (2) a Grid
17 Modernization Plan; (3) an updated Advanced Meter Functionality business case; (4) an
18 Electric Transportation Program; (5) an Electric Heat Program; (6) a Strategic
19 Electrification Marketing Fund (7) an Energy Storage Program; and (8) revised
20 performance incentive mechanisms. The Settlement Agreement also provides for a
21 capital efficiency mechanism associated with capital investments. Additional details of

1 the PST-related settlement terms are included in the PST Settlement Testimony and in the
2 Settlement Agreement.

3

4 The Company is filing a motion to consolidate Docket No. 4780 into Docket No. 4770
5 when it files the Settlement Agreement with the PUC for its review and approval.

6

7 **Q. Are any aspects of the Company's original PST Plan excluded from the Settlement**
8 **Agreement?**

9 A. Yes. There are several aspects of the Company's original PST Plan that are excluded
10 from the Settlement Agreement. These aspects are: Feeder Monitoring Sensors (Chapter
11 3), PST Provision, Company Electric Vehicle Fleet Expansion (Chapter 5), Ground
12 Source Heat Pump Program (Chapter 6), Community Base Outreach (Chapter 6), and Oil
13 Dealer Training (Chapter 6). Solar for Income-Eligible program and Income-Eligible
14 Rewards (Chapter 8), The Company has agreed not to pursue these aspects of the
15 Company's original PST Plan at this time; however, the Company may elect to pursue
16 them in a future filing or filings with the PUC.

17

1 **III. Balancing of Interests and Customer Protections**

2 **Q. Does the Settlement Agreement approximately balance the Company's right to cost**
3 **recovery with customer interests?**

4 A. Yes, the Settlement Agreement represents a reasonable, appropriate, and warranted
5 balancing of interests in this proceeding. There are several aspects of the Settlement
6 Agreement that represent major concessions to the customer interest and that indicate that
7 the Settlement Agreement achieves the proper balance of interests.

8 In entering into the Settlement Agreement, the Company worked to achieve three critical
9 objectives: (1) assuring adequate recovery of reasonably and prudently incurred
10 operating costs to provide safe and reliable service to customers; (2) achieving a level of
11 stability in the ratemaking structure to avoid the need for a subsequent base-distribution
12 rate increase for a period of time that will allow the business to focus on its operations;
13 and (3) meeting the interests of customers and the broader economy in the State of Rhode
14 Island by developing the tools necessary to provide safe and reliable service consistent
15 with overarching policy goals, without overly burdensome bill impacts for customers.
16 Fundamentally, the Settlement Agreement achieves this balance by providing the
17 Company with a recovery path for costs associated with incremental staffing and the
18 replacement or upgrade of critical information systems, while modifying other elements
19 of the ratemaking formula to smooth bill impacts for customers. The tradeoffs that the
20 Company has made to achieve settlement are significant and are comprised of the
21 following:

- 1 ▪ Significant reduction of the proposed base revenue increase.
- 2 ▪ Relinquishment of the proposed PST Provision, which would have allowed
- 3 reconciling recovery of operating and maintenance expense and capital costs
- 4 incurred to promote PST objectives.
- 5 ▪ An 82.3 basis-point reduction from the Company's proposed ROE, which was
- 6 developed using valid and appropriate analysis of market conditions. The
- 7 agreed upon ROE also is lower than the Company's currently authorized
- 8 ROE.
- 9 ▪ A reduction in depreciation expense of \$3.1 million annually, reducing the
- 10 Company's cash flow from operations.
- 11 ▪ Up-front reductions to the proposed cost recovery for Gas Business
- 12 Enablement and IS projects to incorporate savings and requiring a payback to
- 13 customers if actual costs are below estimates (or allowing recovery of actual
- 14 costs if greater than the reduced level included in rates).
- 15 ▪ Reduction to the Narragansett Gas growth forecast, reducing forecasted
- 16 capital investment included in base distribution rates.

17
18
19 **Q. Are there any other provisions established to protect the customer interest?**

20 A. Yes. The Settlement Agreement establishes an Earnings Sharing Mechanism for
21 Narragansett Electric and Narragansett Gas. These mechanisms are discussed in detail in
22 the settlement testimony of Ms. Little. However, with these provisions in place, any
23 earnings over a threshold will be shared automatically with customers and used to reduce
24 customer liabilities in relation to major storm expense (for Narragansett Electric) and in
25 relation to cost items collected through the Distribution Adjustment Clause (for
26 Narragansett Gas).

27

1 **Q. What is the Company requesting in terms of action by the PUC on the Settlement**
2 **Agreement?**

3 A. The Company is requesting that the PUC review and assess the Settlement Agreement to
4 confirm that the balancing of interests reflected in the Settlement Agreement properly
5 allows a path for recovery of reasonable and prudent utility costs and establishes a stable
6 ratemaking framework to further the long-term policy objectives of Rhode Island,
7 without imposing overly burdensome bill impacts on Rhode Island customers.

8
9 **Q. Has the Company submitted testimony from the appropriate Company experts or**
10 **consultants to facilitate review and approval of the Settlement Agreement by the**
11 **PUC?**

12 A. Yes. To support the PUC's review and approval of the Settlement Agreement, the
13 Company is making available the following subject matter experts to provide additional
14 detail, as needed, to the PUC:

15
16 **Maureen P. Heaphy** – Ms. Heaphy is Vice President of U.S. Compensation, Benefits
17 and Pensions for the Service Company, which coordinates employee compensation and
18 benefits strategy for the U.S. electric and gas distribution subsidiaries of National Grid.
19 Ms. Heaphy is able to explain the Company's process for setting employee compensation
20 and benefits and the basis for adjustments to employee compensation and benefit costs
21 across rate years encompassed in the Rate Plan.

1 **Raymond J. Rosario, Jr., Alfred Amaral III, and Ryan C. Constable** – Mr. Rosario,
2 Mr. Amaral, and Mr. Constable are able to provide information on the need for the
3 incremental electrical and gas worker positions that will be added over the term of the
4 Rate Plan. Mr. Rosario is Director, Overhead and Underground Lines, Rhode Island for
5 the Company’s electric operations. Mr. Amaral is Vice President, Customer Meter
6 Services, New England in relation to the Company’s electric and gas distribution
7 businesses. Mr. Constable is Acting Director, Asset Management – Distribution for the
8 Service Company in relation to the Company’s electric operations.

9
10 **Ned W. Allis** – Mr. Allis is Project Manager, Depreciation and Technical Development
11 with Gannett Fleming Valuation and Rate Consultants, LLC. Mr. Allis is able to provide
12 information on the Company’s depreciation study and proposed depreciation rates for
13 ratemaking purposes for Narragansett Electric and Narragansett Gas.

14
15 **John Gilbert, Daniel J. DeMauro, and Mukund Ravipaty** – Mr. Gilbert, Mr.
16 DeMauro, and Mr. Ravipaty are able to provide information on the information systems
17 that are being installed to serve Rhode Island customers both during the Test Year and
18 post-Test Year, including investments in physical and cybersecurity. Mr. Gilbert is the
19 U.S. Chief Information Officer for the Service Company. Mr. DeMauro is the Director
20 of U.S. IS Regulatory Compliance at the Service Company. Mr. Ravipaty is the Director
21 and Global Head Security Services, Design and Architecture at the Service Company.

1 **Anthony H. Johnston and Christopher J. Connolly** – Mr. Johnston and Mr. Connolly
2 are able to discuss the critical need for the Company’s Gas Business Enablement
3 Program and its benefits. Mr. Johnston is the Senior Vice President of Gas Business
4 Enablement at the Service Company. Mr. Connolly is Vice President of Process and
5 Business Requirements for the Gas Business Enablement Program at the Service
6 Company.

7
8 **Robert B. Hevert** – Mr. Hevert is Partner and Rates, Regulation, and Planning Practice
9 Leader at ScottMadden, Inc. Mr. Hevert is able to discuss his research, opinions and
10 recommendations regarding the appropriate rate of return and capital structure that the
11 Company proposed in its initial filing for use in establishing base distribution rates in this
12 proceeding for Narragansett Electric and Narragansett Gas. Mr. Hevert is also able to
13 discuss circumstances in other jurisdictions regarding return on equity incentive
14 mechanisms. However, Mr. Hevert was not involved in the negotiation of the Settlement
15 Agreement, nor has he consulted with the Company on its decision to agree to a
16 substantially reduced authorized return on equity and capital structure. These are critical
17 concessions that the Company has made to achieve a broad-based settlement that is
18 designed to provide stable cost recovery avenues over the next three years for costs that
19 are necessarily incurred for the benefit of customers.

20

1 **Melissa A. Little** – Ms. Little is Director, New England Revenue Requirements for the
2 Service Company. Ms. Little’s duties include revenue requirement responsibilities for
3 National Grid’s electric and gas distribution activities in New England, including the
4 electric and gas operations of the Company. Ms. Little has calculated the revenue
5 requirements for each Rate Year, consistent with all the settlement provisions for
6 Narragansett Electric and Narragansett Gas. Ms. Little is able to discuss how each of the
7 settlement provisions affect the computation of the revenue requirements in each Rate
8 Year.

9
10 **Joseph F. Gredder** – Mr. Gredder is Manager of Electric Regulatory Support in the
11 Advanced Data and Analytics Department of the Service Company. Mr. Gredder is able
12 to discuss the forecast of electric deliveries and customer counts used to support the
13 revenue requirements and rate design for Narragansett Electric in each Rate Year.

14
15 **Theodore E. Poe, Jr.** – Mr. Poe is Principal Analyst of Gas Load Forecasting and
16 Analysis for the Service Company. Mr. Poe is able to discuss the historical and forecast
17 of customer count and customer demand data used to support the revenue requirements
18 and rate design for Narragansett Gas for each Rate Year.

19
20 **Howard S. Gorman** – Mr. Gorman is President of HSG Group, Inc. Mr. Gorman is able
21 to provide information regarding the allocated cost of service study for Narragansett

1 Electric, the proposed class revenue allocation and rate design, and the typical bill
2 impacts resulting from the rates proposed in this proceeding.

3
4 **Paul M. Normand** – Mr. Normand is President of Management Applications Consulting,
5 Inc. Mr. Normand is able to provide information on the allocated cost of service study
6 for Narragansett Gas, the proposed class revenue allocation and rate design, and the
7 typical bill impacts resulting from the rates proposed in this proceeding.

8
9 **Scott M. McCabe and Ann E. Leary** – Mr. McCabe is the Manager of Electric Pricing,
10 New England in the Regulation and Pricing group of the Service Company. Ms. Leary is
11 the Manager of Gas Pricing, New England in the Regulation and Pricing group for the
12 Service Company. Mr. McCabe and Ms. Leary are able to discuss the impact of
13 settlement provisions relating to low income rate classes and the bill discount those rate
14 classes will receive through base distribution rates.

15
16 In addition, Mr. McCabe is able to explain the development of Rate Year revenue used in
17 the electric cost of service study supported by Ms. Little and in the allocated cost of
18 service study supported by Mr. Gorman. Mr. McCabe also is able to discuss
19 Narragansett Electric's proposed electric distribution service tariffs.

20

1 Ms. Leary is able to explain the development of Rate Year revenue used in the gas cost of
2 service study supported by Ms. Little and in the allocated cost of service study supported
3 by Mr. Normand. Ms. Leary is also able to discuss Narragansett Gas' proposed gas
4 distribution service tariffs.

5
6 **Kayte O'Neill, Robert D. Sheridan, Carlos A. Nouel, and Meghan McGuinness –**

7 Ms. O'Neill, Mr. Sheridan, Mr. Nouel, and Ms. McGuinness are able to discuss the PST
8 Plan in support of Rhode Island's efforts to transform the power sector and to execute
9 upon the Company's long-term vision for an affordable, sustainable energy system for
10 Rhode Island customers. Ms. O'Neill is Vice President, Regulatory Strategy at the
11 Service Company. Mr. Sheridan is Director, Grid Modernization Strategy at the Service
12 Company. Mr. Nouel is Vice President, New Energy Solutions at the Service Company.
13 Ms. McGuinness is Principal Analyst, Regulatory Strategy at the Service Company.

14
15 **Q. Why is it appropriate for the PUC to review and approve the Settlement Agreement,**
16 **in its entirety?**

17 A. The Company takes its obligations to manage the stability of its bills to its customers
18 very seriously given the sensitivity that Rhode Island consumers (both residences and
19 businesses) have to changes in rates for their electric and gas needs. The three-year Rate
20 Plan accomplishes this objective and is designed to address the fact that the business
21 environment in which the Company is currently operating is highly dynamic, with radical

1 changes occurring in virtually every facet of both the gas and electric distribution
2 business. Changes in the Company's operating environment have an inevitable impact
3 on the Company's cost structure, and the Company cannot remain in a position to address
4 emerging challenges on its distribution system without alignment between costs and
5 revenues.

6
7 The PUC should approve the Settlement Agreement in its entirety because it is an
8 integrated arrangement that is deliberately balanced to meet the requirements of
9 customers, the Company, and the broader interests of Rhode Island. The balance that is
10 struck in the Settlement Agreement will enable the Company to (1) maintain a highly
11 reliable distribution system that supports the Rhode Island economy and critical needs of
12 individual customers; (2) adapt to changes in customer behavior and preferences caused
13 by the transition to a digital economy and a desire to participate in climate-change
14 response through the integration of distributed energy resources; (3) meet the aggressive
15 goals and objectives of Rhode Island's climate-change policies, including emissions
16 reductions; and (4) increase system resiliency to better withstand extreme weather events.

17 The confluence of these dynamics, along with an increasing need for cyber security, is
18 fundamentally changing the Company's operating environment on an unprecedented
19 scale. Many of these changes represent important, public-interest outcomes, but are also
20 cost drivers for the Company.

1 The Company must address the changing needs and expectations of customers,
2 regulators, and other stakeholders by transforming the way it conducts its gas and electric
3 businesses. On the gas side, National Grid’s multi-year, enterprise-wide Gas Business
4 Enablement Program is a unique, transformative initiative that will result in a step-change
5 in safety, reliability, efficiency, and compliance by providing direct and tangible benefits
6 to customers. The Gas Business Enablement Program will fundamentally change the
7 way the gas business works – from internal cross-functional department coordination to
8 external interactions – to improve the Company’s overall efficiency and service for
9 customers.

10
11 On the electric side, the Company has developed the PST Plan to create a more efficient
12 energy delivery system that meets the evolving needs of customers and nurtures a vibrant,
13 clean, and participatory energy landscape.

14
15 The Company cannot meet its operating challenges and meet its public service obligation
16 to provide safe, reliable, and cost-effective service to customers at the unwavering service
17 level that customers seek (and deserve) without base distribution rates that provide
18 adequate revenue to recover operating costs on a reasonable and timely basis. The
19 Settlement Agreement is structured carefully to achieve this objective and should be
20 approved in its entirety for that reason.

21

1 IV. **Conclusion**

2 Q. **Does this conclude your testimony?**

3 A. Yes.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witnesses: Heaphy, Rosario, Amaral, Constable, and Dionne

JOINT PRE-FILED SETTLEMENT TESTIMONY

OF

MAUREEN P. HEAPHY

RAYMOND J. ROSARIO, JR.

ALFRED AMARAL III

RYAN M. CONSTABLE

GARY DIONNE

Dated: June 6, 2018

THE NARRAGANSETT ELECTRIC COMPANY

d/b/a NATIONAL GRID

RIPUC Docket Nos. 4770/4780

Settlement Testimony

Witnesses: Heaphy, Rosario, Amaral, Constable, and Dionne

Table of Contents

I.	Introduction.....	1
II.	Purpose and Structure of Testimony	5
III.	Summary of Settlement Provisions Relating to Incremental FTEs	8
IV.	Balancing of Interests	13
V.	Conclusion	16

1 **I. Introduction**

2 **Q. Ms. Heaphy, by whom are you employed and in what position?**

3 A. I am employed by National Grid USA Service Company, Inc. (Service Company), a
4 subsidiary of National Grid USA (National Grid). I am the Vice President of U.S.
5 Compensation, Benefits, and Pensions. My responsibilities include overseeing
6 compensation, benefit, and pension strategies, policies, and programs for all of National
7 Grid's U.S. operations, including The Narragansett Electric Company d/b/a National Grid
8 (the Company).¹

9
10 **Q. Have you previously submitted testimony in this rate case proceeding?**

11 A. Yes. On November 27, 2017, I submitted pre-filed direct testimony in this proceeding on
12 behalf of the Company. On May 9, 2018, I submitted rebuttal testimony in this
13 proceeding on behalf of the Company.

14
15 **Q. Mr. Amaral, by whom are you employed and in what position?**

16 A. I am employed by the Service Company as Vice President, Customer Meter Services,
17 New England for the Company's electric and gas distribution businesses. My principal

¹ The term "Company" refers to The Narragansett Electric Company's electric and gas distribution operations on a collective basis. 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 our testimony, we will refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, we will use the terms "Narragansett Electric" or "Narragansett Gas," respectively, as appropriate.

1 responsibility is to provide oversight and supervision for the Emergency Response and
2 Meter Services activities conducted by National Grid in Rhode Island and Massachusetts.

3
4 **Q. Have you previously submitted testimony in this rate case proceeding?**

5 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Mr.
6 Rosario and Mr. Constable in this proceeding on behalf of the Company. On May 9,
7 2018, I submitted pre-filed joint rebuttal testimony with Mr. Rosario and Mr. Constable
8 in this proceeding on behalf of the Company.

9
10 **Q. Mr. Rosario, by whom are you employed and in what position?**

11 A. I am employed by Narragansett Electric as Director, Overhead and Underground Lines,
12 Rhode Island. My core responsibility is to provide oversight and supervision for the
13 maintenance and construction work conducted by the Company for all overhead and
14 underground lines infrastructure, including distribution and sub-transmission facilities in
15 Rhode Island.

16
17 **Q. Have you previously submitted testimony in this rate case proceeding?**

18 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Mr.
19 Amaral and Mr. Constable in this proceeding on behalf of the Company. On May 9,
20 2018, I submitted pre-filed joint rebuttal testimony with Mr. Amaral and Mr. Constable in
21 this proceeding on behalf of the Company.

1 **Q. Mr. Constable, by whom are you employed and in what position?**

2 A. I am employed by the Service Company as Acting Director of Distribution Planning and
3 Asset Management – New England. My responsibilities include the planning and
4 oversight of projects and programs that ensure a safe and reliable electric distribution
5 system.

6
7 **Q. Have you previously submitted testimony in this rate case proceeding?**

8 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Mr.
9 Amaral and Mr. Rosario in this proceeding on behalf of the Company. On May 9, 2018,
10 I submitted pre-filed joint rebuttal testimony with Mr. Amaral and Mr. Rosario in this
11 proceeding on behalf of the Company.

12

13 **Q. Mr. Dionne, please state your name and business address.**

14 A. My name is Gary Dionne. My business address is 40 Sylvan Road, Waltham,
15 Massachusetts 02451.

16

17 **Q. By whom are you employed and in what capacity?**

18 A. I am employed by the Service Company as Director of Strategic Workforce Planning,
19 Human Resources. My principal responsibility is to lead a small center of excellence
20 within Human Resources to provide workforce planning capability to the business to

21

1 enable management of capacity and capability risk in the workforce, to ensure the right
2 workforce is in place to deliver on all business priorities.

3
4 **Q. Please describe your educational background and professional experience.**

5 A. In 1990, I earned a Bachelor of Science degree in Electronic Engineering from
6 Wentworth Institute of Technology. In 1999, I earned a Master of Business
7 Administration degree from Salem State University. I have worked at National Grid
8 from 1990 to present. From 1990 to 2006, I served in various engineering roles as an
9 Operations Engineer, Supervisor of Project Engineering and Support Services, and
10 Manager of Electric Distribution Design. The responsibilities of these roles spanned
11 various operating regions within Rhode Island and Massachusetts where I performed,
12 supervised, or managed electric project engineering and design providing distribution and
13 sub-transmission engineering, project oversight, system operations, and customer
14 management. From 2006 to 2007, I served as the Manager of Electric Operations, where
15 I managed overhead and underground line operations for the State of Rhode Island.
16 From 2007 to 2011, I served as Director of Electricity Operations Project Office and
17 Transformation, where I provided leadership and strategic direction for the Electric
18 Distribution Operations Transformation Program and Program Management for a
19 Portfolio of Electricity Operations Strategic Initiatives delivering targeted business
20 improvements for all of National Grid's U.S. jurisdictions. Between 2011- 2013, I served
21 as Director of Project Management and Analytical Center of Excellence and the Director

1 of Business Readiness for the U.S. Foundation Program. From 2013 to 2016, I served as
2 Director of Global Resilience Policy within the Business Resilience and Continuity
3 organization, with responsibility for delivery of a resilience and continuity policy and its
4 implementation, along with a supporting controls framework; strategy; standards;
5 procedures; and detailed resilience risk, hazard, and threat analysis capability. I assumed
6 my current position in May 2016.

7
8 **Q. Have you previously testified before the Public Utilities Commission (PUC) or any**
9 **other regulatory commission?**

10 A. I have not previously provided testimony before the PUC or any other state regulatory
11 commission.

12
13 **II. Purpose and Structure of Testimony**

14 **Q. Ms. Heaphy, what was the purpose of your initial testimony in this docket?**

15 A. The purpose of my initial testimony was to support the overall level of employee
16 compensation, benefits, and pension costs reflected in the revenue requirements for
17 Narragansett Electric and Narragansett Gas. More specifically, the purpose of my initial
18 testimony was to demonstrate that National Grid's overall compensation package is
19 market competitive, and that National Grid has proactively managed and controlled the
20 costs of its compensation, benefits, and pension programs. My testimony was also
21 designed to support the Company's employee compensation, benefits, and pension costs,

1 including the cost of medical, dental, life insurance, and other benefit plans in place for
2 employees for the Test Year, Rate Year, Data Year 1, and Data Year 2, as those terms are
3 defined in my pre-filed direct testimony.

4

5 **Q. Mr. Rosario, Mr. Amaral, and Mr. Constable, what was the purpose of your joint**
6 **initial testimony in this docket?**

7 A. The purpose of our joint pre-filed direct testimony was to support the Company's
8 proposal to add new electric and gas worker positions over and above the Company's
9 current staffing complement in the Rate Year and Data Years, as those terms are defined
10 in our initial testimony. The addition of electric and gas utility workers is critical to
11 support existing and future workloads in Rhode Island.

12

13 **Q. What is the purpose of this settlement testimony?**

14 A. On June 5, 2018, the Company reached a comprehensive settlement in Docket No. 4770,
15 establishing a Multi-Year Rate Plan (Rate Plan), with a three-year term. The purpose of

16

1 this settlement testimony is to present the settlement agreed to by the Settling Parties²
2 with respect to the recovery of employee-related costs, including the Company's overall
3 employee compensation and benefits costs and the cost of incremental full-time
4 employees (FTEs) that will be added over the three-year term of the Rate Plan
5 (Settlement Agreement). Our settlement testimony focuses on (1) the details of the
6 arrangement reached with the Settling Parties in relation to changes in employee
7 compensation and benefits costs and post-test year FTE additions; and (2) the reasons
8 that the PUC should approve the recovery construct established by the settlement as the
9 optimal balancing of interests.

10
11 **Q. How is the testimony structured?**

12 A. Section I of our testimony presents the Introduction. Section II presents the Purpose and
13 Structure of this testimony. Section III presents a description of the agreed upon
14 arrangement for recovery of employee costs over the three-year term of the Rate Plan.
15 Section IV discusses the reasons that the settlement construct represents the optimal

² The term "Settling Parties" refers to the Company; the Division of Public Utilities and Carriers; the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 balancing of interests in relation to incremental FTEs and overall employee costs.

2 Section V is the Conclusion of our testimony.

3
4 **III. Summary of Settlement Provisions Relating to Incremental FTEs and Employee**
5 **Compensation and Benefits**

6 **Q. What were the key elements of the Company's FTE proposals in the initial filing**
7 **made on November 27, 2017?**

8 A. In terms of incremental FTEs for electric operations, the Company's initial proposal was
9 to add 39 direct, full-time employees to meet the Company's electric workforce
10 requirements (36 union employees and 3 management employees). Of this total, the
11 Company indicated it would add 32 full-time employees during the twelve months ending
12 August 31, 2019 (Rate Year) (29 union employees and 3 management employees); two
13 full-time union employees during the twelve months ending August 31, 2020 (Data Year
14 1); and five full-time union positions during the twelve months ending August 31, 2021
15 (Data Year 2). In addition, the Company indicated that it would add 29 full-time
16 employees to support the increased number of complex distributed generation (DG)
17 interconnection applications (5 union employees and 24 management employees), with
18 19 of those employees added during the Rate Year (5 union employees and 14
19 management employees), 6 management employees added during Data Year 1, and 4
20 management employees added during Data Year 2. Thus, in total, the Company
21 requested the costs of 68 incremental employees for Narragansett Electric.

1 In terms of incremental FTEs for gas operations, the Company's initial proposal was to
2 add a total of 48 direct, full-time employees (42 union employees and 6 management
3 employees) over the next three fiscal years ending March 31, 2019 (Fiscal Year 2019),
4 March 31, 2020 (Fiscal Year 2020), and March 31, 2021 (Fiscal Year 2021). These new
5 additions were planned in the following breakdown: 36 full-time employees in the Rate
6 Year (30 union and 6 management employees); 7 full-time union employees in Data Year
7 1; and 5 full-time union employees in Data Year 2. The Company also stated that it
8 planned to add a total of 23 FTEs (2 union employees and 21 management employees) to
9 work on gas maintenance and construction projects through the Service Company in the
10 Rate Year. For gas operations, these new, incremental employees will take positions in
11 engineering, construction, project management, resource planning, instrumentation and
12 regulation, damage prevention, corrosion control, estimating, contract administration,
13 operations support (*i.e.*, mapping and permitting), Customer Meter Services, and pipeline
14 safety and compliance. Thus, in total, the Company requested the costs of **71** incremental
15 employees for Narragansett Gas.
16

17 **Q. What did the Company propose in relation to changes in employee compensation**
18 **and benefits through the Rate Year in the initial filing?**

19 A. In terms of overall employee compensation and benefits, the Company's initially filed
20 revenue requirements did not propose to recover cost changes beyond the Rate Year,
21 consistent with the PUC's traditional ratemaking practice. For the Rate Year revenue

1 requirement, the Company reflected an increase to management wages of 3.64 percent,
 2 on average, effective July 1, 2017. This amount included increases in base pay provided
 3 to National Grid’s entire management workforce; the amount also included increases
 4 targeted to positions where National Grid’s market studies show that increases in
 5 compensation are necessary and progression is needed to bring cash compensation levels
 6 closer to the market median. In its initial filing, the Company projected the following
 7 increases to non-union payroll:

Effective Date	Percentage
July 1, 2018	3.0%
July 1, 2019	3.0%
July 1, 2020	3.0%
July 1, 2021	3.0%

8
 9 The forecasted increases in management wages are based on market studies currently
 10 available to National Grid and are in line with the average wage increases over the last 10
 11 years.

12
 13 For collective bargaining unit employees, the Company projected the following
 14 contractual increases in its initial filing:

15

1 **Local 12431**

2 2.25 percent (as of June 24, 2017)

3 2.25 percent (as of June 23, 2018)

4 **Local 310**

5 2.5 percent (as of May 12, 2017)

6 2.5 percent (as of May 12, 2018)

7 2.75 percent (as of May 12, 2019)

8 3.0 percent (as of May 12, 2020)

9 3.0 percent (as of May 12, 2021)

10 **Local 310B**

11 2.5 percent (as of July 20, 2017)

12 2.5 percent (as of May 12, 2018)

13 2.75 percent (as of May 12, 2019)

14 3.0 percent (as of May 12, 2020)

15 3.0 percent (as of May 12, 2021)

16 In addition, in its initial filing, the Company explained that the Local 12431 contract

17 expires on June 1, 2019, which is a year after the last contractual base pay increase.

18 Therefore, in its initial filing, the Company included a base pay increase in its revenue

19 requirements, assuming that a new contract is negotiated.

20

21 In its initial filing, the Company also included adjustments to the Test Year expense for

22 employee medical, dental, and other benefit plans. The specific details of these

23 adjustments were discussed in the initial pre-filed direct testimony of Company Witness

24 Melissa A. Little.

25

1 **Q. How does the Settlement Agreement address the Company’s proposal for recovery**
2 **of incremental FTE positions over the three-year term of the Rate Plan?**

3 A. Under the Settlement Agreement, the Company has agreed to incorporate the cost of 169
4 incremental FTEs and to smooth out recovery of the costs associated with that
5 incremental labor over the three-year term of the Rate Plan. To smooth out the costs of
6 the incremental FTEs for customers, the Company agreed to incorporate approximately
7 50 percent of the remaining hires in Rate Year 1³ and the remaining 50 percent in Rate
8 Years 2 and 3, with approximately two-thirds assigned to Rate Year 2 and one-third
9 assigned to Rate Year 3, rather than incorporating all of these costs in the Rate Year, as
10 initially proposed.

11
12 **Q. How does the Settlement Agreement address changes in employee compensation and**
13 **benefits over the three-year term of the Rate Plan?**

14 A. As discussed in the testimony of Company Witness Melissa A. Little and shown in
15 Attachment 12, Page 6, the Settlement Agreement incorporates average annual increases
16 in Narragansett Electric union payroll of 3.36 percent, 3.11 percent, and 2.72 percent for
17 Rate Year 1, Rate Year 2, and Rate Year 3, respectively; and average annual increases of

³ The Settlement Agreement addresses the needed change in base distribution rates through agreement on allowed revenue requirements for Narragansett Electric and Narragansett Gas for the twelve-month period ending August 31, 2019 (Rate Year 1) and the two subsequent twelve-month periods ending August 31, 2020 (Rate Year 2) and August 31, 2021 (Rate Year 3). Rate Year 1, Rate Year 2, and Rate Year 3 are collectively referred to herein as the “Rate Years” and individually as a “Rate Year”. The Rate Years replace the initial structure of a Rate Year, followed by Data Year 1 and Data Year 2, as described earlier in our testimony regarding employee compensation and benefits and the recovery of incremental FTEs.

1 2.92 percent, 2.73 percent, and 2.24 percent for Narragansett Gas union payroll for Rate
2 Year 1, Rate Year 2, and Rate Year 3, respectively. For non-union personnel, a payroll
3 increase of 3.0 percent per year is incorporated into the revenue requirement for the
4 three-year term of the Rate Plan.

5
6 **IV. Balancing of Interests**

7 **Q. What are the principal areas of change from the Company's original proposal**
8 **relating to the recovery of employee-related costs?**

9 A. The Settlement Agreement recognizes that (1) the Company has a need to hire
10 incremental FTEs for both the electric and gas business over the three-year term of Rate
11 Plan; and (2) the Company must provide reasonable and competitive compensation to all
12 of its employees in order to attract and retain qualified personnel. In recognition of the
13 cost impact for customers, however, the Company has agreed to smooth out the cost of
14 incremental personnel by pushing cost recovery out to Rate Year 2 and Rate Year 3.

15
16 **Q. How do these protections assure that the optimal balancing of interests is achieved**
17 **in relation to the addition of incremental FTEs?**

18 A. As the Company has noted throughout this proceeding, the Company has an aging
19 workforce with the potential for significant retirements in the near future. In addition, to
20 maintain an adequate workforce to continue meeting its obligation to provide a high level
21 of service to its customers, the Company recognized challenges it has had with hiring a

1 sufficient number of trained workers. Because the qualification process for electric and
2 gas workers requires a minimum of between one and four years, properly identifying,
3 planning, and hiring of additional electric and gas employees to ensure that an adequate
4 workforce is available to meet the needs of customers is prudent and a good business
5 practice.

6
7 In addition, the Company continues to experience significant increases in DG
8 applications, and its internal and external resources are currently strained to an
9 unsustainable level. As described in the Company's initial filing, from calendar year
10 2012 through the majority of calendar year 2017, the Company experienced dramatic
11 increases in the number of total and complex DG interconnection applications received,
12 both in volume of applications received and in the size (megawatts) of the applications.
13 The DG interconnection work in Rhode Island impacts all engineering, design, and
14 mapping departments in National Grid. The requested FTEs are incremental to current
15 staffing levels to handle the increase in DG interconnection work, and should not be
16 considered normal course of business.

17
18 **Q. Why is it necessary to account for increases in employee compensation and benefits**
19 **over the three-year term of the Rate Plan?**

20 A. To provide safe and reliable utility service to customers, National Grid must attract,
21 retain, and engage high performing, qualified personnel. To accomplish this, National

1 Grid provides a total compensation package that recognizes and rewards excellence,
2 maintains fair and competitive market pay and benefits for employees, and encourages
3 employees to improve skills while providing a safe working environment. Doing so
4 under the cost containment pressures faced by all companies is a critical challenge. To
5 meet this challenge, National Grid has developed a “Total Rewards Program” to provide
6 employees with an overall compensation, benefit, and pension package that is market
7 competitive, offers flexibility and choice, and supports a high performance culture by
8 directly linking performance to rewards. By maintaining a comprehensive and
9 competitive approach to total rewards that establishes appropriate levels of pay and
10 benefits, National Grid can attract and retain a high quality workforce and motivate
11 employees to perform at high levels.

12
13 The compensation elements of the total rewards package are cash compensation, which
14 includes both fixed and variable pay and a number of benefits, along with medical and
15 dental plans, life insurance, a 401(k) savings plan, retirement plans, other post-
16 employment benefits, vacations, and holidays. It is National Grid’s philosophy to require
17 employees to share the costs of certain benefits, consistent with market practice;
18 however, over time, the Company experiences increases in the normal elements included
19 in an employee’s compensation. These elements are typically allowed for inclusion in
20 rates and have been included in the three-year term of the Rate Plan.

21

THE NARRAGANSETT ELECTRIC COMPANY

d/b/a NATIONAL GRID

RIPUC Docket Nos. 4770/4780

Settlement Testimony

Witnesses: Heaphy, Rosario, Amaral, Constable, and Dionne

Page 16 of 16

1 V. **Conclusion**

2 Q. **Does this conclude your testimony?**

3 A. Yes.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witness: Hevert

PRE-FILED SETTLEMENT TESTIMONY

OF

ROBERT B. HEVERT

Dated: June 6, 2018

Table of Contents

I.	Introduction and Qualifications	1
II.	Settlement ROE, Equity Ratio, and Overall Rate of Return.....	2
III.	Conclusion	8

1 **I. Introduction and Qualifications**

2 **Q. Please state your name, affiliation, and business address.**

3 A. My name is Robert B. Hevert. I am a Partner at ScottMadden, Inc. (ScottMadden),
4 located at 1900 West Park Drive, Suite 250, Westborough, Massachusetts, 01581.

5
6 **Q. Did you submit Direct and Rebuttal Testimony in this proceeding?**

7 A. Yes, I filed direct testimony (Direct Testimony) and rebuttal testimony (Rebuttal
8 Testimony) on behalf of the Narragansett Electric Company d/b/a National Grid (the
9 Company). In my Direct and Rebuttal Testimonies, I recommended an ROE of 10.10
10 percent, within a range of 10.00 percent to 10.75 percent, and affirmed the Company's
11 proposed capital structure.¹

12
13 **Q. What is the purpose of your Settlement Testimony?**

14 A. The purpose of my settlement testimony in this proceeding² is to support the June 5,
15 2018 settlement agreement (Settlement Agreement) between the settling parties.³ In

¹ Pre-Filed Direct Testimony of Robert B. Hevert at Bates Pages 6-7; Rebuttal Testimony of Robert B. Hevert, at Bates page 5.

² As used here, unless otherwise, noted, "this proceeding" refers to Docket No. 4770, which is the Company's general rate case filing dated November 27, 2017. Docket No. 4780 involves the Company's proposed Power Sector Transformation (PST) filing, which is also part of the settlement agreement described above.

1 particular, my testimony addresses the agreed-upon Return on Equity (ROE), capital
2 structure, and overall Rate of Return contained in the Settlement Agreement.⁴
3

4 **II. Settlement ROE, Equity Ratio, and Overall Rate of Return**

5 **Q. Are you familiar with the terms of the Settlement Agreement as it relates to the**
6 **Company's Return on Equity?**

7 A. Yes. I understand that the Settling Parties have adopted an ROE of 9.275 percent (the
8 Settlement ROE), and a capital structure including 50.95 percent common equity, 0.09
9 percent preferred stock, 47.85 percent long-term debt, and 1.11 percent short-term debt. I
10 further understand that the overall Rate of Return contained in the Settlement is 6.99
11 percent for the Company's electric operations, and 7.19 percent for its natural gas
12 operations.
13

³ The term "Settling Parties" refers to the Company; Division of Public Utilities and Carriers; the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

⁴ In the Settlement Agreement, I refer to the 9.275 percent ROE as the "Stipulated ROE". I refer to the 6.99 percent overall Rate of Return for the Company's electric operations and the 7.19 percent overall Rate of Return for the Company's natural gas operations as the "Stipulated Rate of Return".

1 **Q. In general, do you support the Company's decision to agree to the Settlement ROE?**

2 A. Yes. Although the Settlement ROE is below the lower bound of my recommended range
3 (*i.e.*, 10.00 percent), I recognize that the Settlement represents negotiations among the
4 Settling Parties regarding numerous, otherwise-contested issues. I understand the
5 Company's view is that, taken as a whole, the Settlement Agreement, including the
6 Earnings Sharing Mechanism and the Performance Incentive Mechanisms, will enable it
7 to maintain its financial integrity, and to attract capital when and as needed, at reasonable
8 rates and terms.

9
10 **Q. Please summarize your position regarding the Settlement ROE.**

11 A. Although the Settlement ROE falls below my recommended range and within the bottom
12 quartile the analytical results presented in my Rebuttal Testimony (which are based on
13 current market conditions), it is within the overall range of results presented in my Direct
14 and Rebuttal Testimonies. I note that 9.275 percent falls at the 68th percentile of my
15 Constant Growth Discounted Cash Flow (DCF) results, and at the approximate midpoint
16 of all DCF model results, including the Multi-Stage forms.⁵ While I continue to believe
17 the Constant growth DCF method should be given less weight than other methods, I
18 recognize the Settlement ROE is consistent with prior Commission decisions regarding
19 the consideration given that method.

⁵ As reported in my Rebuttal Testimony.

1 As discussed throughout my Direct and Rebuttal Testimonies, capital market conditions
2 continue to evolve, causing the models used to estimate the Cost of Equity to produce a
3 wide range of estimates. Those market conditions, which include a fundamental shift in
4 monetary policy by the Federal Reserve, together with the cash flow-related effects of the
5 Tax Cut and Jobs Act, create a level of uncertainty suggesting increasing capital costs.
6 Although it remains my view that those conditions affect the consideration that should be
7 given to different models, I also recognize the benefits associated with the decision to
8 enter into the Settlement. I therefore believe the 9.275 percent Settlement ROE is a
9 reasonable resolution of a complicated and often-contentious issue.

10
11 **Q. Are there other considerations that are important in reviewing the Settlement Rate**
12 **of Return?**

13 A. Yes. As noted in my Rebuttal Testimony, the Company's credit rating and outlook
14 depend substantially on the extent to which rating agencies view the regulatory
15 environment credit supportive, or not.⁶ I noted, for example, that Moody's finds the
16 regulatory environment to be so important that 50.00 percent of the factors that weigh in
17 its ratings determination are determined by the nature of regulation. Given the
18 Company's need to access external capital and the weight rating agencies place on the
19 nature of the regulatory environment, it is important to consider the rate of return reached
20 in the Settlement Agreement relative to those available in other jurisdictions.

⁶ Rebuttal Testimony of Robert B. Hevert at Bates page 94.

1 **Q. Is Rhode Island generally considered to have a constructive regulatory**
2 **environment?**

3 A. Rhode Island is considered to have an average regulatory environment. As discussed in
4 my Rebuttal Testimony, Regulatory Research Associates (RRA), which is a widely
5 referenced source of rate case data, provides an assessment of the extent to which
6 regulatory jurisdictions are constructive from investors' perspectives.⁷ As RRA explains,
7 less constructive environments are associated with higher levels of risk:

8 RRA maintains three principal rating categories, Above Average,
9 Average, and Below Average, with Above Average indicating a
10 relatively more constructive, lower-risk regulatory environment from
11 an investor viewpoint, and Below Average indicating a less
12 constructive, higher-risk regulatory climate from an investor
13 viewpoint. Within the three principal rating categories, the numbers 1,
14 2, and 3 indicate relative position. The designation 1 indicates a
15 stronger (more constructive) rating; 2, a mid-range rating; and, 3, a
16 weaker (less constructive) rating. We endeavor to maintain an
17 approximately equal number of ratings above the average and below
18 the average.⁸

19 Within RRA's ranking system, Rhode Island is rated "Average/2", which falls in the top
20 two-thirds of the 53 regulatory commissions ranked by RRA.⁹

21

⁷ Rebuttal Testimony of Robert B. Hevert at Bates page 94.

⁸ Source: Regulatory Research Associates, accessed June 3, 2018. *See, also*, Rebuttal Testimony of Robert B. Hevert at Bates page 94.

⁹ Source: Regulatory Research Associates, accessed June 4, 2018.

1 **Q. Did you consider those distinctions in your review of authorized returns relative to**
2 **the Settlement ROE?**

3 A. Yes. Across the 96 electric rate cases since January 2015, the median authorized Rate of
4 Return in jurisdictions ranked Average/2 and above was 7.37 percent, 38 basis points
5 above the 6.99 percent stipulated Rate of Return for the Company’s electric operations
6 (see Table 1, below).

7 **Table 1: Average Authorized ROR (Electric) by RRA Ranking¹⁰**

	AVERAGE/ 2 AND ABOVE	AVERAGE/ 3 AND LOWER
Average	7.30%	7.44%
Median	7.37%	7.44%
Maximum	8.46%	8.91%
Minimum	6.18%	6.11%
Percentile (6.99%)	22.80%	8.30%
	Overall	
Average	7.36%	
Median	7.43%	
Maximum	8.91%	
Minimum	6.11%	
Percentile	16.40%	

8

9 **Q. Did you consider similar data for the Company’s natural gas operations?**

10 A. Yes. As demonstrated in Table 2 (below), the Settlement Rate of Return for the
11 Company’s natural gas operations is 23 basis points below the median authorized Rate of
12 Return (7.42 percent).

¹⁰ Source: Regulatory Research Associates. Excludes jurisdictions that include zero-cost capital in the capital structure (Arkansas, Florida, Indiana, and Michigan).

1 **Table 2: Average Authorized ROR (Natural Gas) by RRA Ranking¹¹**

	Average/2 and Above	Average/3 and Lower
Average	7.33%	7.41%
Median	7.42%	7.35%
Maximum	8.46%	8.64%
Minimum	5.75%	6.71%
Percentile (7.19%)	28.70%	23.60%
	Overall	
Average	7.36%	
Median	7.38%	
Maximum	8.64%	
Minimum	5.75%	
Percentile	27.30%	

2

3 **Q. What conclusions do you draw from that data?**

4 A. Simply that the Settlement Rates of Return fall toward the low end of returns recently
5 authorized by other regulatory commissions. In my view, the certainty associated with
6 the Settlement Agreement mitigates, at least to some extent, potential concerns with the
7 relatively low overall Rates of Return.

8

9 **Q. Is it your opinion that the Settlement Capital Structure also is reasonable?**

10 A. Yes. As discussed in my Direct Testimony, one measure of assessing the reasonableness
11 of a utility's capital structure is to consider the actual capital structures of its peers.¹² As
12 noted above, the rate of returned under the Settlement Agreement for the Company's

¹¹ Source: Regulatory Research Associates. Excludes jurisdictions that include zero-cost capital in the capital structure (Arkansas, Florida, Indiana, and Michigan).

¹² Pre-Filed Direct Testimony of Robert B. Hevert at Bates Page 80.

1 electric and natural gas operations fall at the low end of the range of those recently
2 authorized in other jurisdictions, suggesting that the capital structure and related cost
3 components taken together, are conservative, but within the range of industry practice.

4

5 **III. Conclusion**

6 **Q. Does this conclude your Settlement Testimony?**

7 **A.** Yes, it does.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witnesses: Gilbert, DeMauro, and Ravipaty

JOINT PRE-FILED SETTLEMENT TESTIMONY

OF

JOHN GILBERT

DANIEL J. DEMAURO

MUKUND RAVIPATY

Dated: June 6, 2018

Table of Contents

I. Introduction..... 1

II. Purpose and Structure of Testimony..... 3

III. Summary of IS Settlement Provisions 4

IV. Balancing of Interests 10

V. Conclusion 13

1 **I. Introduction**

2 **Q. Mr. Gilbert, by whom are you employed and in what capacity?**

3 A. I am employed by National Grid UK as Senior Vice President and acting U.S. Chief
4 Information Officer. In this position, I am responsible for leading and continuously
5 improving the performance of the Information Services (IS) organization, overseeing
6 internal IS workforce development, and partnering with other aspects of National Grid's¹
7 organization to develop, build, and implement new technologies and IS strategies to
8 support business initiatives and customer needs.

9

10 **Q. Did you submit rebuttal testimony on May 9, 2018 on behalf of the Company?**

11 A. Yes.

12

13 **Q. Mr. DeMauro, by whom are you employed and in what capacity?**

14 A. I am employed by National Grid USA Service Company, Inc. (Service Company), a
15 subsidiary of National Grid, as Director of U.S. IS Regulatory Compliance. My current
16 responsibilities include the oversight of IS activities in regulatory proceedings for all of
17 National Grid's U.S. operating companies, including The Narragansett Electric Company
18 d/b/a National Grid (the Company).

19

¹ National Grid USA (National Grid).

1 **Q. Did you submit initial testimony on November 27, 2017 on behalf of the Company in**
2 **Docket No. 4770?**

3 A. Yes.

4

5 **Q. Mr. Ravipaty, by whom are you employed and in what capacity?**

6 A. I am employed by the Service Company as Director, Global Head Security Services,
7 Design, and Architecture. My responsibilities include overseeing the development of
8 cyber-security strategy and architecture to ensure that National Grid's cyber security
9 protections are developed to keep pace with the evolving threats and capabilities of
10 hostile individuals, groups, and nations, thereby enabling and supporting resilient
11 business operations and customer service.

12

13 **Q. Did you submit initial testimony on November 27, 2017 on behalf of the Company in**
14 **Docket No. 4770?**

15 A. Yes. On behalf of the Company, I submitted pre-filed joint direct testimony on
16 November 27, 2017 and pre-filed joint rebuttal testimony on May 9, 2018 in
17 Docket 4770.

18

1 **II. Purpose and Structure of Testimony**

2 **Q. What was the purpose of your initial testimony in this docket?**

3 A. The purpose of our initial testimony was to support the Company's request for recovery
4 of costs associated with several major IS investments and initiatives that will be placed
5 into service after the end of the test year, which is the twelve-month period ending
6 June 30, 2017 (the Test Year) but before the end of this proceeding², thereby qualifying
7 as post-Test Year adjustments. Our testimony also described National Grid's IS function
8 and the services IS provides to the Company.

9

10 **Q. Please describe the purpose of this settlement testimony.**

11 A. On June 5, 2018, the Company reached a comprehensive settlement on all issues in
12 Docket No. 4770 and Docket No. 4780, establishing a multi-year rate plan (Rate Plan or
13 MRP), with a three-year term. The purpose of this settlement testimony is to present the
14 arrangement agreed to by the Settling Parties³ with respect to the recovery of costs
15 associated with the post-Test Year IS work. This settlement testimony will focus on: (1)

² As used here, unless otherwise noted, "this proceeding" refers to Docket No. 4770, which is the Company's general rate case filing dated November 27, 2017. Docket No. 4780 involves the Company's proposed Power Sector Transformation (PST) filing, which is also part of the settlement agreement described above.

³ The term "Settling Parties" refers to the Company; Division of Public Utilities and Carriers; the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 the details of the arrangement reached with the Settling Parties; and (2) the reasons that
2 the Public Utilities Commission (PUC) should approve the recovery construct established
3 by the settlement as the optimal balancing of interests.

4
5 **Q. How is this testimony structured?**

6 A. Section I of this testimony presents the Introduction. Section II presents the Purpose and
7 Structure of this testimony. Section III presents a description of the agreed upon
8 arrangement for recovery of costs associated with post-Test Year IS projects over the
9 three-year term of the Rate Plan. Section IV discusses the reasons that the settlement
10 construct represents the optimal balancing of interests relating to the implementation of
11 IS projects and recovery of the associated capital costs and operating and maintenance
12 (O&M) expenses.

13
14 **III. Summary of IS Settlement Provisions**

15 **Q. What were the key elements of the Company's IS proposal in its initial filing made**
16 **on November 27, 2017?**

17 A. As described in the Company's initial filing dated November 27, 2017, the IS projects
18 that will be completed in the post-Test Year period July 1, 2017 through August 31, 2021
19 are designed to: (i) replace obsolete and unsupported systems and infrastructure; (ii)
20 reduce operational/cyber risks and inefficiencies; (iii) meet evolving customer and
21 business demands; and (iv) facilitate other key utility and market trends. The following

1 sections highlight two areas of IS investments: Cyber Security and Technology
2 Modernization. IS projects in the Test Year included many of the initial phases of Cyber
3 Security projects. In the Company's initial proposal, the post-Test Year period included
4 the second phase of Cyber Security and the initial phases of the Technology
5 Modernization projects. Most of the IS projects that the Company requested for inclusion
6 in rates are associated with rent expense periods of five to seven years, which is
7 significantly shorter than the Company's typical utility plant assets. For the period from
8 the end of the Test Year through the end of the Rate Year⁴, \$4,266,032 of rent expense
9 will be accumulated on these IS projects. For the period from the end of the Test Year,
10 June 30, 2017 through the end of Data Year 1 (*i.e.*, the twelve-month period ending
11 August 31, 2020), the Company testified that it expected \$10,623,847 of rent expense
12 will be accumulated on these IS projects. For the period from the end of the Test Year
13 through the end of Data Year 2⁵ (*i.e.*, the twelve-month period ending August 31, 2021),
14 \$17,859,814 of rent expense will be accumulated on these IS projects – a significant
15 amount under the circumstances of the case.

16
17 **Q. Were there any additional IS costs included in the Rate Year and Data Years in the**
18 **Company's initial filing?**

19 **A.** Yes. The Company's initial filing included the costs of 64 additional full-time equivalent
20 employees who will be hired at the Service Company in the post- Test Year period. The

⁴ The term "Rate Year" is the twelve-month period ending August 31, 2019.

⁵ Data Year 1 and Data Year 2 are referred to herein collectively as the Data Years.

1 majority of the new employees will be hired for the Cyber Security and Program Delivery
2 teams to strengthen National Grid's cyber security capabilities and deliver the expanded
3 IS Capital Plan, respectively. In its initial filing, the Company explained that it will add
4 28 Cyber Security positions in the following areas: Cyber Security Operations Center
5 personnel who represent the first line of defense for identifying and responding to cyber
6 threats; Risk and Business Information Security Operations analysts, who work closely
7 with functional teams across National Grid to identify risk and establish appropriate
8 controls to safeguard Company assets; and Project Managers responsible for the
9 implementation of security toolsets that address emerging threats.

10
11 The Company also explained that it will add 25 Program Delivery positions to support
12 directly the delivery of new solutions to the Company's gas and electric operations and
13 the delivery of large capital programs, such as the IS Technology Modernization
14 initiative. These positions include program managers, solution architects, and business
15 analysts. The remaining positions include roles in Commercial Management and
16 Administration to address external partner contracts that will expire over the next two
17 years and to strengthen further the Company's oversight of third-party contracts.

18
19 **Q. How does the settlement address the Company's IS projects?**

20 A. Under the provisions of the Settlement Agreement, the Company will continue to
21 implement the Cyber Security and IS Technology Modernization Programs during the

1 term of the Rate Plan. The Cyber Security and IS Technology Modernization Programs
2 are shared investments across all National Grid operating companies, which will be
3 implemented and owned by the Service Company, with a portion of the costs allocated to
4 the Company. The total Service Company costs of the Cyber Security and IS
5 Technology Modernization Programs for capital expenses and project operating expenses
6 relating to the capital investment (excluding run the business costs) are \$162.9 million
7 through Fiscal Year (FY) 2022.

8
9 **Q. How does the settlement address the recovery of costs associated with post-Test**
10 **Year IS projects?**

11 A. There are three components to the cost recovery structure established by the Settlement
12 Agreement in relation to the Company's post-Test Year projects. These three
13 components relate to: (1) capital cost recovery; and (2) deferral of amounts over or under
14 the estimated recovery levels incorporated into the Rate Plan; and reporting and
15 regulatory review relating to IS project implementation and cost-recovery issues.

16
17 **Q. Please explain how each of these components is resolved in the Settlement**
18 **Agreement.**

19 A. The Settlement Agreement resolves the following three components:

20 1. *Capital Investment Levels for the Company.* Under the Settlement Agreement,
21 the revenue requirements for Narragansett Electric and Narragansett Gas are

1 calculated to include only 85 percent of the Company's share of allocated rent
2 expense from the Service Company post-Test Year IS capital projects, which is
3 based on the annual revenue requirement on forecasted Cyber Security and IS
4 Technology Modernization Programs capital investments. The rent expense
5 charged to the Company for the Cyber Security and IS Technology Modernization
6 Programs includes the return on, and the amortization of, the Company's
7 allocated portion of current Cyber Security and IS Technology Modernization
8 Program capital investments and incremental Cyber Security and IS Technology
9 Modernization Programs capital investments that the Company forecasts will be
10 placed in service during the Rate Years. The Settlement Agreement does not limit
11 the Company's flexibility during the term to substitute, change, or modify the
12 timing of its Cyber Security and/or IS Technology Modernization Programs
13 capital investments to deliver the scope of the Cyber Security and/or IS
14 Technology Modernization Programs.

- 15 2. *Deferral.* The Settlement Agreement provides that, if the Company incurs costs
16 less than the amount of the revenue requirements for Narragansett Electric and
17 Narragansett Gas that are included in base distribution rates for the items
18 authorized for recovery, the Company will be allowed to create a regulatory
19 liability to defer that amount, which will be returned to customers during the next
20 general rate case or extension of the Rate Plan governed by the Settlement
21 Agreement, subject to the PUC's review of the reasonableness and prudence of

1 such costs. If the Company incurs costs in excess of the revenue requirement
2 amounts for Narragansett Electric and Narragansett Gas that are included in base
3 distribution rates for the described items, the Company may defer that amount and
4 recover the excess amount during the Company's next general rate case or
5 extension of the Rate Plan governed by the Settlement Agreement. The Company
6 will accrue carrying charges on the deferral balances using the pre-tax weighted
7 average cost of capital (WACC).

- 8 3. *Cyber Security and IS Technology Modernization Programs Reporting.* Under
9 the Settlement Agreement, the Company is required to submit quarterly Cyber
10 Security and IS Technology Modernization Programs reports with the PUC and
11 the Division within 60 days after the end of each quarter of each Rate Year. The
12 report will address the status of the Cyber Security and IS Technology
13 Modernization Programs and budgets, including: (i) a narrative explaining overall
14 program status; (ii) detail on budgets and actual spending; (iii) identification of
15 allocations of costs to the Company; and (iv) explanations of variances between
16 budgets and actual spending. In the report for the last quarter of each Rate Year
17 (quarter ending March 31), the Company is required to include (i) any cost or
18 timeline differences that exceed ten percent for the Rate Year; and (ii) the latest
19 Cyber Security and IS Technology Modernization Programs sanction papers
20 authorized during that Rate Year.

1 In addition, the Company has also committed to work with the Division to accommodate
2 more in-depth reviews by the Division, PUC Staff, or the Division's consultants of these
3 programs during the term of the Rate Plan. The Company will submit to the Division and
4 PUC the report produced by the independent cyber security consultant who reviewed the
5 Company's cyber security investments and strategy no later than 30 days after the
6 approval of the Settlement Agreement, subject to confidential treatment.
7

8 **IV. Balancing of Interests**

9 **Q. What are the main changes from the Company's original proposal relating to the**
10 **recovery of costs associated with IS investments?**

11 A. The Settlement Agreement recognizes that the itemized IS projects will be implemented
12 in Rhode Island and will benefit Rhode Island customers. Therefore, for cost recovery,
13 the Settlement Agreement incorporates the following customer protections: (1) the
14 Settlement Agreement limits cost recovery of and on post-Test Year IS capital projects in
15 the Rate Year to 85 percent of the Rate Year allocated revenue requirements to
16 Narragansett Gas and Narragansett Electric; (2) the Settlement Agreement establishes
17 that, in the event that actual post-Test Year IS project costs are greater than 85 percent,
18 the Company is allowed to create a regulatory asset to defer the balance of charges for
19 future recovery subject to National Grid's demonstration of cost and implementation
20 results; and (3) the Settlement Agreement establishes that, in the event that actual post-
21 Test Year IS projects costs related to these investments are less than 85 percent, the

1 Company is required to create a regulatory liability to defer the balance of charges for the
2 benefit of customers, accruing carry charges at the WACC.

3 These customer protections resulted in a Rate Year revenue requirement reduction of
4 \$(597,612) and \$(235,346) for Narragansett Gas and Narragansett Electric, respectively.

5

6 **Q. What other protections are established to reduce the approved revenue**
7 **requirements or to provide other benefits to customers?**

8 A. Three changes were made to the Company's initial proposals that reduce the annual
9 revenue requirements or provide other benefits to customers.

10

11 First, the rent expense that is charged to Narragansett Electric and Narragansett Gas by
12 the Service Company is designed to capture the annual revenue requirements associated
13 with the IS projects allowed for recovery. The Company has agreed to compute the
14 Service Company's annual revenue requirement using the return on equity (9.275
15 percent) and capital structure authorized by this Settlement Agreement. This has the
16 effect of reducing the annual cost included in the revenue requirements.

17

18 Second, the Settlement Agreement reduces the Company's request by \$57,275 and
19 \$37,261 for Narragansett Electric and Narragansett Gas, respectively, as a result of the
20 fact that the Company has agreed to smooth the hiring of the requested FTEs over the
21 three years of the MRP. Of the total FTEs requested, 34 remain open to be filled. The

1 Company will retain 50 percent, or 17 of the open positions in the Rate Year. Two-thirds
2 of the remaining 17 openings will be deferred to Rate Year 2, and one-third of the
3 remaining openings will be deferred to Rate Year 3.

4
5 Third, at the Division's request, the Company has committed to a reporting schedule that
6 will inform the PUC of the progress of IS projects and associated costs. The Company
7 has committed to a quarterly reporting schedule that will provide useful and timely
8 information to the PUC, including: (i) a narrative explaining overall program status; (ii)
9 detail on budgets and actual spending; (iii) identification of allocations of costs to the
10 Company; and (iv) explanations of variances between budgeted and actual spending. The
11 reporting process will facilitate the Division and PUC's in-depth review of the IS projects
12 during the term of the Rate Plan.

13
14 **Q. How do these protections assure that the optimal balancing of interests is achieved**
15 **in relation to the identified IS projects?**

16 A. As the Company has represented through this proceeding, National Grid's proposed
17 investments to upgrade IS infrastructure and applications are necessary to enable benefits
18 to customers from initiatives such as the Customer Contact Center Technology Upgrade,
19 providing adequate cyber security and physical security protections to customer data and
20 business operations, and enhancing integration to improve user experience with
21 significant investments. As systems approach end of life and require replacement, it is a

1 prudent and normal course of business for a company to evaluate and upgrade its
2 operational systems taking into consideration changing business requirements.

3 The Company has utilized its existing systems to serve customers for as long as possible,
4 and now these systems must be replaced so that the Company can continue providing
5 reliable service to customers.

6
7 The IS projects identified in the Settlement Agreement are necessary to continue to
8 provide safe and reliable service to customers and to position the Company to improve
9 that service over time. Because these projects are a necessity, the Company's request in
10 this case is to recover the costs associated with taking reasonable and appropriate steps to
11 secure service to customers. The Settlement Agreement accomplishes this result with a
12 series of customer protections that will serve the interests of customers in providing
13 oversight of the program and its costs as the critical mission is achieved.

14

15 **V. Conclusion**

16 **Q. Does this conclude your testimony?**

17 **A. Yes.**

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witnesses: Johnston and Connolly

JOINT PRE-FILED SETTLEMENT TESTIMONY

OF

ANTHONY H. JOHNSTON

AND

CHRISTOPHER J. CONNOLLY

Dated: June 6, 2018

Table of Contents

I.	Introduction.....	1
II.	Purpose and Structure of Testimony.....	2
III.	Summary of Settlement Agreement Provisions on Gas Business Enablement	4
IV.	Balancing of Interests	12
V.	Conclusion	16

1 **I. Introduction**

2 **Q. Mr. Johnston, by whom are you employed and in what capacity?**

3 A. I am employed by National Grid USA Service Company, Inc. (Service Company), a
4 subsidiary of National Grid USA (National Grid). I am the Senior Vice President for
5 National Grid's Gas Business Enablement Program. In this role, I am accountable for the
6 design, development, and delivery of the Gas Business Enablement Program and its
7 anticipated benefits.

8
9 **Q. Have you previously submitted testimony in this rate case proceeding?**

10 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Mr.
11 Connolly in this proceeding on behalf of The Narragansett Electric Company d/b/a
12 National Grid (the Company).¹ On May 9, 2018, I submitted pre-filed joint rebuttal
13 testimony with Mr. Connolly in this proceeding on behalf of the Company.

14
15 **Q. Mr. Connolly, by whom are you employed and in what capacity?**

16 A. I am employed by the Service Company as Vice President of Process and Business
17 Requirements for the Gas Business Enablement Program. In this role, I am responsible
18 for developing standard business processes across the operating companies and the

¹ The term "Company" refers to The Narragansett Electric Company's electric and gas distribution operations on a collective basis. 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 our testimony, we will refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, we will use the terms "Narragansett Electric" or "Narragansett Gas," respectively, as appropriate.

1 implementation of capabilities in the new solutions driven from business requirements
2 that will support enhanced customer satisfaction, improved safety and compliance
3 performance, and enhanced employee engagement.
4

5 **Q. Have you previously submitted testimony in this rate case proceeding?**

6 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Mr.
7 Johnston in this proceeding on behalf of the Company. On May 9, 2018, I also submitted
8 pre-filed joint rebuttal testimony with Mr. Johnston in this proceeding on behalf of the
9 Company.
10

11 **II. Purpose and Structure of Testimony**

12 **Q. Mr. Johnston and Mr. Connolly, what was the purpose of your initial testimony in
13 this docket?**

14 A. The purpose of our initial joint testimony was to provide information regarding National
15 Grid's multi-year, enterprise-wide, gas-business program referred to as the Gas Business
16 Enablement Program and to present the Company's proposal for associated cost recovery.
17 Through the Gas Business Enablement Program, the Company will replace and upgrade
18 systems that serve to provide three, inter-related, core operating capabilities – Work
19 Management, Asset Management, and Customer Enablement. These three core operating
20 capabilities are necessary to support National Grid's U.S. gas distribution business.
21 National Grid estimates that it currently relies on more than 100 sub-systems,

1 applications, databases, or spreadsheet systems across its U.S. gas business to perform the
2 work processes that support these capabilities. With full implementation of the Gas
3 Business Enablement Program, this number will be reduced to less than 30 systems, sub-
4 systems, and/or applications across six gas distribution companies operating in three
5 jurisdictions (Rhode Island, Massachusetts, and New York). In Rhode Island
6 specifically, National Grid estimates that implementation of the Gas Business
7 Enablement Program will reduce the number of systems, applications, databases, and
8 spreadsheet systems used by Narragansett Gas from approximately 37 to 19. In addition
9 to the major benefits that gas customers will experience, electric customers will benefit
10 by the fact that the field-mobile solution will be utilized by both gas and electric
11 Customer Meter Services field workers, just as the customer relationship management
12 application will be utilized by customer call center representatives serving both gas and
13 electric customers.

14
15 **Q. Please describe the purpose of your settlement testimony.**

16 A. On June 5, 2018, the Company reached a comprehensive settlement in Docket No. 4770,
17 establishing a Multi-Year Rate Plan (Rate Plan) with a three-year term. The purpose of
18 our settlement testimony is to present the arrangement agreed to by the Settling Parties²

² The “Settling Parties” refers to the Company, the Division of Public Utilities and Carriers (Division); the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People’s Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam’s East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger

1 with respect to the recovery of costs associated with the implementation of the Gas
2 Business Enablement Program. This settlement testimony will focus on (1) the details of
3 the arrangement reached with the Settling Parties; and (2) the reasons the Public Utilities
4 Commission (PUC) should approve the recovery construct established by the settlement
5 as the optimal balancing of interests.

6
7 **Q. How is your settlement testimony structured?**

8 A. Section I of this testimony presents the Purpose and Structure of our testimony. Section
9 II presents a description of the agreed upon arrangement for recovery of costs associated
10 with Gas Business Enablement over the three-year term of the Rate Plan. Section III
11 discusses the reasons that the settlement construct represents the optimal balancing of
12 interests relating to the implementation of Gas Business Enablement and recovery of the
13 associated capital costs and operating and maintenance expenses. Section IV is the
14 Conclusion to our testimony.

15
16 **III. Summary of Settlement Agreement Provisions on Gas Business Enablement**

17 **Q. What was the Company's original proposal for recovery of Gas Business**
18 **Enablement costs?**

Corporation (each, individually a Settling Party). PPL intervened in Docket No. 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 A. The record in this case shows that the total cost of the Gas Business Enablement Program
2 for National Grid's U.S. gas distribution business is currently approximately \$478.3
3 million over the period from Fiscal Year 2017 to Fiscal Year 2023. Of this amount,
4 approximately \$315.1 million represents capital costs and approximately \$163.2 million
5 represents one-time operating expenses necessary to complete the Gas Business
6 Enablement initiatives.

7
8 Because the Gas Business Enablement Program is a shared investment, only a portion of
9 the total investment would be allocated to Narragansett Gas and Narragansett Electric.

10 The allocation of costs among operating affiliates sharing in the investment would be in
11 the form of rent expense as part of the overall Information Services Service Company
12 rent expense allocated to Narragansett Gas and Narragansett Electric. The total costs for
13 Gas Business Enablement attributable to Narragansett Gas and Narragansett Electric are
14 estimated at \$11.0 million in non-recurring operating expense and \$32.8 million in
15 Service Company capital costs.

16
17 Based on this cost estimate, as reflected in the Company's initial filing, the Narragansett
18 Gas portion of the annual rent expense attributable to the Gas Business Enablement
19 Program investment was \$2.4 million, \$2.8 million, and \$3.2 million in the twelve-month
20 period ending August 31, 2019 (Rate Year) and the two subsequent twelve-month periods
21 ending August 31, 2020 (Data Year 1) and August 31, 2021 (Data Year 2), respectively,
22 as shown in Schedule MAL-36, Page 5 provided with the pre-filed direct testimony of

1 Company Witness Melissa A. Little. Narragansett Electric's portion of the annual rent
2 expense attributable to the Gas Business Enablement Program investment was estimated
3 to be \$619,818 in the Rate Year and \$611,224 and \$557,442 in Data Year 1 and Data
4 Year 2, respectively, as shown on Schedule MAL-36, Page 11. As shown on Schedule
5 MAL-36, Page 6, the Company's expense in the Rate Year is \$1.1 million associated
6 with its \$10.2 million share of the total incremental operating expense for Narragansett
7 Gas.

8
9 In addition, although it is unknown whether the savings estimates can be achieved, the
10 Company made an adjustment to the Rate Year and Data Years for Narragansett Gas to
11 reflect its allocated share of the estimated savings from Gas Business Enablement
12 Program initiatives. The adjustment reduced the revenue requirement by \$0.057 million
13 in the Rate Year, \$0.371 million in Data Year 1, and \$0.768 million in Data Year 2.

14
15 Lastly, in its initial filing, the Company proposed to defer operating expenses incurred
16 prior to the Rate Year and amortize those costs over a ten-year period based on the
17 projected deferral balance at August 31, 2018. Cumulative operating expenses incurred
18 by the Company for Gas Business Enablement through June 30, 2017 totaled \$1.5
19 million. The Company also proposed to defer all post-Test Year Gas Business
20 Enablement one-time operating costs on the Company's books to be amortized over a
21 ten-year period, with return. The resulting annual amortization of \$1,016,617 would be

1 recoverable in the Company's cost of service over the ten-year period commencing
2 September 1, 2018.

3
4 Therefore, based on the Company's initial proposal, for Gas Business Enablement
5 expenses that the Company forecasts will be incurred during the Rate Year, the Company
6 would recover rent expense consisting of the ten-year amortization amount with return in
7 the total amount of \$28.7 million at the Rate Year projected levels based on the estimated
8 dates those investments are placed in-service. Operating expenses incurred during the
9 Rate Year would be recovered over a ten-year period, which is the useful life of the Gas
10 Business Enablement capital investments. Incremental run-the-business costs would be
11 recovered at the Rate Year projected levels net of incremental savings.

12
13 **Q. What is the status of implementing the Gas Business Enablement Program in Rhode**
14 **Island?**

15 A. The first phase of Gas Business Enablement implementation in Rhode Island is complete
16 as of April 2018. The first phase accomplished the implementation of the work-
17 management functionalities supporting the Instrumentation and Regulation and Corrosion
18 functions and processes for field collections and customer meter services activities, basic
19 scheduling, dispatching, and field data capture.

20

1 The next phase of implementation will occur in Fiscal Year 2019 for Rhode Island. This
2 second phase will involve systems and capabilities to enhance the customer experience
3 by upgrading capabilities, such as field visibility to customer payment history, field
4 acceptance of credit card payments, field printing, call center visibility to collections
5 status, and field visibility to maps. This phase will also involve full deployment of
6 capabilities across Field Mobile applications to support all Customer Meter Services
7 activities, including real-time communications between call center, dispatch, field
8 employees, and other customer support groups. Lastly, the standard Geographic
9 Information System data model will be fully utilized in Rhode Island once
10 implementation is completed.

11
12 **Q. How does the settlement address the recovery of costs associated with the Gas**
13 **Business Enablement Program?**

14 A. There are five components to the cost recovery structure established by the Settlement
15 Agreement in relation to Gas Business Enablement. These five components relate to (1)
16 capital cost recovery; (2) recovery of non-recurring operating and maintenance expense;
17 (3) recovery of incremental “run-the-business” costs; (4) deferral of amounts over or
18 under the estimated recovery levels incorporated to the Rate Plan; and (5) reporting and
19 regulatory review relating to Gas Business Enablement implementation and cost-recovery
20 issues.

21

1 **Q. How are each of these components resolved in the Settlement Agreement?**

2 A. The Settlement Agreement resolves these four components in the following manner:

3 1. *Capital Investment Levels for the Company.* The Rate Plan revenue requirements
4 for Narragansett Electric and Narragansett Gas are calculated to include 85
5 percent of the Company's share of total program costs, as charged to the
6 Company by the Service Company in the form of rent expense, which represents
7 the annual revenue requirement on forecasted Gas Business Enablement Program
8 capital investments. The rent expense charged to the Company for the Gas
9 Business Enablement Program includes the return on, and the amortization of, the
10 Company's allocated portion of current Gas Business Enablement Program
11 capital investments along with incremental Gas Business Enablement Program
12 capital investments that are forecasted to be placed in service during the Rate
13 Years.³ The Settlement Agreement does not alter the Company's flexibility
14 during the term to substitute, change, or modify the timing of its Gas Business
15 Enablement Program capital investments to deliver the scope of the Gas Business
16 Enablement Program.

17

³ The Settlement Agreement addresses the needed change in base distribution rates through agreement on allowed revenue requirements for Narragansett Electric and Narragansett Gas for the twelve-month period ending August 31, 2019 (Rate Year 1) and the two subsequent twelve-month periods ending August 31, 2020 (Rate Year 2) and August 31, 2021 (Rate Year 3). Rate Year 1, Rate Year 2, and Rate Year 3 are collectively referred to herein as the "Rate Years" and individually as a "Rate Year". The Rate Years replace the initial structure of a Rate Year, followed by Data Year 1 and Data Year 2 as described earlier in our testimony explaining the Company's original proposal for recovery of Gas Business Enablement costs.

1 2. *10-Year Amortization of Operating and Maintenance (O&M) Costs for the*
2 *Company.* The Rate Plan revenue requirements for Narragansett Electric and
3 Narragansett Gas for each Rate Year include 85 percent of the Company's
4 forecasted annual non-recurring O&M expense for the Gas Business Enablement
5 Program to be charged to the Company during each Rate Year, amortized over 10
6 years and including a return at Narragansett Electric's and Narragansett Gas's
7 weighted average cost of capital (WACC), as applicable.

8
9 3. *Run-the-Business Costs.* The revenue requirements include forecasted
10 incremental costs to maintain the Gas Business Enablement technology in the
11 Rate Years at the levels proposed by the Company in its initial filing: \$779,580
12 for Rate Year 1, \$1.2 million for Rate Year 2, and \$1.3 million for Rate Year 3 for
13 Narragansett Gas. In the Company's initial request, it included an offset to these
14 run-the-business costs representing 100 percent of Type I forecasted O&M
15 savings. As part of the settlement, the Company has agreed to further offset these
16 costs by an amount representing 85 percent of Type II forecasted O&M savings
17 expected to be realized as a result of the Gas Business Enablement Program. The
18 adjustment to reflect these additional savings result in a reduction to the revenue
19 requirement of \$49,823 in Rate Year 1, \$157,867 in Rate Year 2, and \$265,584 in
20 Rate Year 3.

- 1 4. *Deferral.* To the extent that the Company incurs costs less than the amount of the
2 Narragansett Electric and Narragansett Gas revenue requirements included in base
3 distribution rates for the items described in the Settlement Agreement, the
4 Company would be authorized under the Settlement Agreement to create a
5 regulatory liability to defer that amount to be returned to customers during the
6 next general rate case or extension of the Rate Plan governed by the Settlement
7 Agreement, subject to the PUC's review of the reasonableness and prudence of
8 such costs. To the extent that the Company incurs costs in excess of the amount
9 of the Narragansett Electric and Narragansett Gas revenue requirements included
10 in base distribution rates for the items described in the Settlement Agreement, the
11 Company would be eligible to defer that amount and recover the excess amount
12 with total cost recovery not to exceed the Company's forecasted allocated cost of
13 \$43.8 million (\$38.3 million for Narragansett Gas and \$5.5 million for
14 Narragansett Electric) during the Company's next general rate case or extension
15 of the Rate Plan governed by this Settlement Agreement. The Company will
16 accrue carrying charges on the deferral balances using the pre-tax WACC.
17
- 18 5. *Gas Business Enablement Program Reporting.* The Settlement Agreement
19 requires the Company to submit quarterly Gas Business Enablement Program
20 reports with the PUC and the Division within 60 days after the end of each quarter
21 of each Rate Year. The quarterly report must address the status of the Gas

1 Business Enablement Program and budget, including (i) a narrative explaining
2 overall program status; (ii) detail on budgets and actual spending;
3 (iii) identification of allocations of costs to the Company; and (iv) explanations of
4 variances between budgeted and actual spending. The Company has also
5 committed to work with the Division to accommodate more in-depth reviews by
6 the Division, PUC Staff, or the Division's consultants of the systems associated
7 with Gas Business Enablement during the term of the Rate Plan.

8
9 **IV. Balancing of Interests**

10 **Q. What are the principal areas of change from the Company's original proposal**
11 **relating to the recovery of costs associated with Gas Business Enablement?**

12 A. The Settlement Agreement recognizes that Gas Business Enablement will be
13 implemented in Rhode Island and will benefit Rhode Island customers. In terms of cost
14 recovery, the Settlement Agreement incorporates the following customer protections:
15 (1) the Settlement Agreement limits cost recovery of and on capital in each Rate Year to
16 85 percent of the allocated revenue requirement to Narragansett Gas and Narragansett
17 Electric for each Rate Year; (2) the Settlement Agreement limits the recovery of non-
18 recurring operating expenses in each Rate Year to 85 percent of that Rate Year non-
19 recurring operating expenses listed in the Company's response to data request Division 3-
20 58; (3) the Settlement Agreement establishes that, to the extent that the Company incurs
21 actual Gas Business Enablement costs greater than 85 percent, the Company is allowed to

1 create a regulatory asset to defer the balance of charges for future recovery not to exceed
2 the Company's forecasted allocated cost of \$43.8 million during the Rate Plan or
3 extension thereof, subject to National Grid's demonstration of cost and implementation
4 results; and (4) the Settlement Agreement establishes that, in the event that actual Gas
5 Business Enablement costs related to these investments are less than 85 percent during
6 the Rate Plan or extension thereof, the Company is required to create a regulatory
7 liability to defer the balance of charges for the benefit of customers. As noted earlier in
8 our testimony, the Company will accrue carrying charges on the deferral balances using
9 the pre-tax WACC.

10
11 These customer protections, in addition to reductions stemming from the Tax Cuts and
12 Jobs Act of 2017 and lowered Return on Equity, resulted in a Rate Year revenue
13 requirement reduction of \$1.3 million and \$158,934 for Narragansett Gas and
14 Narragansett Electric, respectively.

15
16 **Q. What other protections are established for the benefit of customers?**

17 A. At the Division's request, the Company has committed to a reporting schedule that will
18 enable the PUC and the Division to review the progress of Gas Business Enablement and
19 associated costs. As the Company has indicated throughout this proceeding, National
20 Grid has already incorporated the role of an independent consultant into the Gas Business
21 Enablement Program, as the "Value Assurance" role. National Grid retained PA

1 Consulting as the Value Assurance partner, and PA Consulting is charged with reviewing
2 and evaluating progress on the implementation plan. PA Consulting is providing an
3 important “checks and balances” in the Value Assurance role and is conducting periodic
4 “mini reviews” to document status and progress. The Company has committed to a
5 quarterly reporting schedule that will incorporate the information and findings set forth in
6 the PA Consulting evaluations as part of the quarterly reports to the PUC.

7
8 The quarterly reports will present information on the status of the Gas Business
9 Enablement Program and budget, including (i) a narrative explaining overall program
10 status; (ii) detail on budgets and actual spending; (iii) identification of allocations of costs
11 to the Company; and (iv) explanations of variances between budgeted and actual
12 spending. The reporting process will facilitate in-depth review and monitoring by the
13 Division, PUC Staff, or the Division’s consultants of the systems associated with Gas
14 Business Enablement during the term of the Rate Plan.

15
16 **Q. How do these protections assure that the optimal balancing of interests is achieved**
17 **in relation to Gas Business Enablement?**

18 A. As the Company has represented through this proceeding, Gas Business Enablement is a
19 program to replace core utility systems at the end of their useful lives and to standardize
20 gas business processes and capabilities in three inter-related operating platforms over a
21 five-year period. The capabilities these platforms support are Work Management, Asset

1 Management, and Customer Enablement. These are indispensable utility operating
2 platforms that are relied on by gas and electric distribution companies across the industry
3 for the safe and reliable delivery of service to utility customers. For National Grid's U.S.
4 gas distribution business, completion of this five-year work effort is critically needed to
5 replace a number of disparate, aged systems at the end of their useful life. The outcome
6 of this important effort will be to enable significant improvements in (1) the ability of
7 National Grid's employees to perform their job functions effectively; (2) the ability of
8 management to institute effective and efficient work management and data-control
9 processes across the U.S. gas distribution business; (3) the satisfaction of customers, who
10 seek engagement with the Company on a range of interactions that take place during
11 routine and non-routine operations; and (4) the resiliency, reliability, and cyber-security
12 protection of systems critical to the safe and effective delivery of gas service to
13 customers.

14
15 Given the imperative inherent in the undertaking of this initiative, the provisions of the
16 Settlement Agreement are focused on establishing a path for the recovery of reasonably
17 and prudently incurred costs of the system. The Gas Business Enablement costs are
18 reasonably incurred for the following reasons:
19

- 1 1. A serious failure of one of the legacy systems currently comprising the work
2 management, asset management, and customer engagement processes could
3 significantly impact the Company's operating capability and gas safety program
4 in the future.
- 5 2. Complexity resulting from manual workarounds and security issues caused by a
6 lack of vendor-supported upgrades increases system risk over time.
- 7 3. As systems approach end of life and require replacement, it is the normal course
8 of business for a company to evaluate and upgrade its operational systems taking
9 into consideration changing business requirements.

10
11 The Gas Business Enablement Program is necessary to continue to provide safe and
12 reliable service to customers and to position the Company to improve that service over
13 time. The program is a necessity, and the Company's request in this case is simply to
14 recover the costs associated with taking eminently reasonable and appropriate steps to
15 secure service to customers. The Settlement Agreement accomplishes this result with a
16 series of customer protections that will serve the interests of customers in providing
17 oversight of the program and its costs as the critical mission is achieved.

18
19 **V. Conclusion**

20 **Q. Does this conclude your testimony?**

21 **A. Yes.**

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witness: Allis

PRE-FILED SETTLEMENT TESTIMONY

OF

NED W. ALLIS

Dated: June 6, 2018

Table of Contents

I. Introduction.....1

II. Purpose and Structure of Testimony..... 2

II. Summary of Depreciation-Related Settlement Provisions..... 3

IV. Conclusion..... 6

1 **I. Introduction**

2 **Q. Mr. Allis, by whom are you employed and in what position?**

3 A. I am a consultant with Gannett Fleming Valuation and Rate Consultants, LLC (Gannett
4 Fleming), which is part of the global infrastructure firm Gannett Fleming, Inc. My
5 current position is Project Manager, Depreciation and Technical Development. I am
6 responsible for conducting depreciation, valuation, and original cost studies; determining
7 service life and salvage estimates; conducting field reviews; presenting recommended
8 depreciation rates to clients; and supporting such rates before state and federal regulatory
9 agencies. I am also responsible for Gannett Fleming's depreciation software, training of
10 depreciation staff, and the development of solutions for technical issues related to
11 depreciation.

12
13 **Q. Have you previously submitted testimony in this rate case proceeding?**

14 A. Yes. On November 27, 2017, I submitted pre-filed direct testimony in this proceeding in
15 support of the depreciation studies performed for The Narragansett Electric Company
16 d/b/a National Grid's (the Company)¹ electric plant and gas plant (collectively, the
17 Depreciation Studies, and individually, a Depreciation Study). On May 9, 2018, I
18 submitted rebuttal testimony in this proceeding in support of the Depreciation Studies.

¹ The term "Company" refers to The Narragansett Electric Company's electric and gas distribution operations on a collective basis. 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 my testimony, I refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, I will use the terms "Narragansett Electric" or "Narragansett Gas," respectively, as appropriate.

1 **II. Purpose and Structure of Testimony**

2 **Q. What was the purpose of your initial testimony in this docket?**

3 A. The purpose of my initial testimony was to support and explain the Depreciation Studies
4 performed for Narragansett Electric’s electric plant (see Schedule NWA-2-ELECTRIC
5 attached to my pre-filed direct testimony for Narragansett Electric) and for Narragansett
6 Gas’ gas plant (see Schedule NWA-2-GAS attached to my pre-filed direct testimony for
7 Narragansett Gas). The Depreciation Studies set forth the calculated annual depreciation
8 accrual rates by account as of December 31, 2016.

9

10 **Q. What is the purpose of your settlement testimony?**

11 A. On June 5, 2018, the Company reached a comprehensive settlement in Docket No. 4770,
12 establishing a Multi-Year Rate Plan (Rate Plan) with a three-year term. The purpose of
13 my settlement testimony is to present the terms agreed to by the Settling Parties² with
14 respect to the depreciation rates for Narragansett Electric and Narragansett Gas. In
15 particular, my settlement testimony summarizes the changes to the net salvage estimates
16 for Account 368 for Narragansett Electric and Accounts 376 and 380 for Narragansett
17 Gas.

² The “Settling Parties” refers to the Company; the Division of Public Utilities and Carriers; the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People’s Power and Light; Sierra Club; Natural Resources Defense Council; Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam’s East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a “Settling Party”). Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak’s motion, Amtrak is not yet a party to this proceeding.

1 **Q. How is your testimony structured?**

2 A. Section I is the Introduction. Section II presents the Purpose and Structure of my
3 testimony. Section III summarizes the settlement provisions. Section IV is the
4 Conclusion to my testimony.

5

6 **III. Summary of Depreciation-Related Settlement Provisions**

7 **Q. What were the key determinations resulting from the Company's Depreciation**
8 **Studies in the initial filing made on November 27, 2017?**

9 A. The depreciation rates set forth in the Company's Depreciation Studies as of December
10 31, 2016 reflected the rates at which I concluded that the full cost of Narragansett Electric
11 and Narragansett Gas assets should be recovered through depreciation expense. These
12 rates were derived through the use of widely accepted, professional methods and
13 procedures for determining depreciation rates. The service life and net salvage
14 parameters in the Depreciation Studies were also developed on the basis of established,
15 valid methodologies in the practice of depreciation studies. The depreciation rates were
16 based on the average service life procedure, remaining life technique, and straight line
17 method.

18

19 For Narragansett Electric, the overall outcome of the Depreciation Study was an increase
20 in depreciation expense of approximately \$4.3 million as of December 31, 2016. This
21 impact was due to an increase in depreciation expense for electric transmission plant. For
22 electric distribution and general plant, the Depreciation Study for Narragansett Electric

1 resulted in a net decrease in depreciation expense of approximately \$0.7 million as of
2 December 31, 2016. For Narragansett Gas, the overall outcome of the Depreciation
3 Study was a decrease in depreciation expense of \$71,463 as of December 31, 2016.
4

5 **Q. How does the Settlement Agreement address the Company's proposal for recovery**
6 **of depreciation expense over the three-year term of the Rate Plan?**

7 A. As discussed in the testimony of Company Witness Melissa A. Little, the Settlement
8 Agreement shows that the Settling Parties adopted a reduction in total depreciation
9 expense of \$3.1 million when compared to the Company's initial filing. For certain
10 accounts, the Company's depreciation rates for Narragansett Electric and Narragansett
11 Gas have been reduced from the Company's initial filing and are set forth in Attachment
12 2, Schedule 6-ELEC and Schedule 6-GAS to the Settlement Agreement.
13

14 The changes in depreciation expense adopted by the Settling Parties in the Settlement
15 Agreement are limited to the net salvage estimates for one electric and two gas
16 distribution plant accounts.³ Specifically, from the Company's initial filing submitted on
17 November 27, 2017, the Settlement Agreement (1) changed the net salvage estimate for
18 Narragansett Electric Account 368 (Line Transformers) from -50 percent to -42 percent;
19 (2) changed the net salvage estimate for Narragansett Gas Account 376 (Mains) from -70
20 percent to -61 percent; and (3) changed the net salvage estimate for Narragansett Gas

³ For some of these accounts, the Company has multiple subaccounts that were studied on an aggregate basis in the Depreciation Studies. The changes agreed to in the Settlement Agreement impact each subaccount for these accounts.

1 Account 380 (Services) from -80 percent to -72 percent. These estimates produced the
2 depreciation rates included in Attachment 2 to the Settlement Agreement.

3
4 **Q. Have you reviewed the depreciation rates and accruals adopted for purposes of the**
5 **Settlement Agreement?**

6 A. Yes. I stand by the conclusions and methodologies of the Depreciation Studies that I
7 prepared for the Company's initial filing; however, my understanding is that the
8 Settlement Agreement is intended to represent an integrated, comprehensive resolution of
9 all contested issues, including depreciation expense and the proposed depreciation rates.
10 Within that context, my understanding is that the Company's agreement on depreciation
11 expense and the net salvage estimates was not made as a result of any changes to the
12 methodologies underlying the Depreciation Studies, including the method used to
13 forecast future net salvage amounts.

14
15 Rather, the net salvage estimates agreed to by the Settlement Parties modify the net
16 salvage estimates that I proposed in the Depreciation Studies included in the Company's
17 initial filing. Specifically, the resultant net salvage estimates represent more gradual
18 changes from the net salvage estimates incorporated into the Company's current
19 depreciation rates. As a result, the settled depreciation rates are within an overall
20 reasonable range for the Company's assets within the context of the Settlement
21 Agreement. As is a common practice for depreciation studies, additional historical data

1 will be available for future depreciation studies and, therefore, future depreciation rates
2 can continue to reflect any updated information that may be available at that time.

3

4 **IV. Conclusion**

5 **Q. Does this conclude your testimony?**

6 **A. Yes.**

JOINT PRE-FILED SETTLEMENT TESTIMONY
OF
THE POWER SECTOR TRANSFORMATION PANEL

Kayte O'Neill

Robert D. Sheridan

Carlos A. Nouel

Meghan McGuinness

Dated: June 6, 2018

Table of Contents

I.	Introduction	1
II.	Purpose and Structure of Testimony.....	2
III.	Overall Scope and Impact of PST Settlement Provisions.....	5
IV.	Detailed Description of PST Investments Addressed in the Settlement Agreement.....	12
	<i>Grid Modernization</i>	12
	<i>AMF</i>	14
	<i>Clean Energy Programs</i>	18
	1. Electric Transportation Initiative	18
	2. Electric Heat Initiative	24
	3. Energy Storage Initiative.....	26
	<i>Engagement and Guidance in Support of PST Programs</i>	27
V.	Capital Efficiency Mechanism For Electric.....	29
VI.	Summary of Settlement Performance-Based Incentive Mechanisms	31
VII.	Consistency of the Settlement Agreement with Docket 4600 Guidelines.....	42
VIII.	Conclusion	46

1 **I. Introduction**

2 **Q. Ms. O'Neill, Mr. Sheridan, and Ms. McGuinness, are you the same individuals who**
3 **filed rebuttal testimony on May 9, 2018, on behalf of The Narragansett Electric**
4 **Company d/b/a National Grid (the Company) in Docket No. 4770?**

5 A. Yes, we are.

6
7 **Q. Mr. Nouel, please state your name and business address.**

8 A. My name is Carlos A. Nouel. My business address is 40 Sylvan Road, Waltham,
9 Massachusetts 02451.

10

11 **Q. By whom are you employed and in what capacity?**

12 A. I am employed by National Grid USA Service Company, Inc. and currently hold the
13 position of Vice President, New Energy Solutions. My responsibilities include
14 developing and launching innovative energy solutions and technologies that deliver value
15 for National Grid's customers and communities and accelerate progress toward a
16 sustainable energy future.

17

18 **Q. Please describe your educational background and professional experience.**

19 A. I received a Bachelor of Science in Industrial Engineering from the Andres Bello
20 Catholic University in Caracas, Venezuela in 2003 and a Master in Business and
21 Administration from Hult International Business School in Cambridge, Massachusetts in

1 2009. I also hold an Executive Certificate in Strategy and Innovation from the
2 Massachusetts Institute of Technology in Cambridge, Massachusetts. I joined National
3 Grid in 2009 and have held various positions of increasing responsibility in the areas of
4 Supply Chain, Project Management, Energy Efficiency, Smart Grid, Strategy and
5 Partnerships. I assumed my current role in May 2016.
6

7 **Q. Have you previously testified before the Rhode Island Public Utilities Commission**
8 **(PUC) or any other regulatory commissions?**

9 A. I testified before the PUC at the technical sessions in Docket No. 4780. Also, I have
10 testified before the New York Public Service Commission on behalf of the Company's
11 New York affiliate.
12

13 **II. Purpose and Structure of Testimony**

14 **Q. Please describe the purpose of this testimony.**

15 A. The purpose of this settlement testimony is to present the settlement agreed to by and
16 among the Settling Parties¹ with respect to the Company's Power Sector Transformation

¹ The term "Settling Parties" refers to the Company; the Division of Public Utilities and Carriers (Division); the Office of Energy Resources (OER); the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene in Docket No. 4770 out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 (PST) Vision and Implementation Plan (PST Plan) that supports Rhode Island’s efforts to
2 transform the power sector and to execute upon the Company’s long-term vision for an
3 affordable, sustainable energy system for customers.

4
5 On June 5, 2018, the Company reached a comprehensive settlement in the Company’s
6 general rate case (Docket No. 4770), establishing a Multi-Year Rate Plan (Rate Plan),
7 with a three-year term. In addition to setting base distribution rates, the settlement
8 includes a PST Plan within the Rate Plan to modernize the electric distribution system
9 and enable technologies that will reduce greenhouse gas emissions and help to control
10 costs for customers.

11
12 The Company initially proposed the PST Plan as part of its Application for Approval of a
13 Change in Electric and Gas Base Distribution Rates Pursuant to R.I. Gen. Laws §§ 39-3-
14 10 and 39-3-11 (the Application) in Docket No. 4770. In December 2017, the PUC
15 separated the PST Plan from the Application and created Docket No. 4780 to assess the
16 PST Plan. After the PUC initiated Docket No. 4780, the Company revised its request
17 related to the PST Plan and requested: (1) approval of the Company’s proposed PST
18 Provision, which included the methodology for the recovery of PST Plan costs on a fully
19 reconciling basis; (2) approval of its proposed annual PST Plan process, whereby the
20 Company would submit annual PST Plans for the PUC and the Division to review and

1 approve PST investments; (3) approval of \$2 million in Rate Year² funding to begin
2 design work on the Company's proposed Advanced Metering Functionality (AMF)
3 investments;(4) approval of new performance incentive mechanisms; and (5) findings by
4 the PUC on the categories of proposed PST investments outlined in the Company's PST
5 Plan filing. Our settlement testimony details the major components of the Company's
6 PST filing from Docket No. 4780 that are presented in the Settlement Agreement entered
7 into by and among the Company and the Settling Parties on June 5, 2018 (the Settlement
8 Agreement), how the Settlement Agreement balances the interests among the parties in
9 relation to power sector transformation, and the reasons why the PUC should approve the
10 Settlement Agreement.

11
12 **Q. How is the testimony structured?**

13 A. Section I and Section II are an Introduction and Purpose and Structure of Testimony,
14 respectively. Section III discusses the overall scope and impact of the PST provisions of
15 the Settlement Agreement, including how the Settlement balances the interests of
16 customers, the State of Rhode Island, and the Company. Section IV is a detailed
17 description of the specific PST investments addressed in the Settlement Agreement.
18 Section V discusses the capital efficiency mechanism for the electric business. Section
19 VI contains a summary of the performance incentive mechanisms addressed in the
20 Settlement Agreement. Section VII discusses how the Settlement Agreement is

² The Rate Year is the twelve-month period ending August 31, 2019.

1 consistent with the Docket No. 4600 rate design principles, and the goals and Framework.
2 Section VIII is the Conclusion.

3
4 **III. Overall Scope and Impact of PST Settlement Provisions**

5 **Q. Please describe the scope of the Settlement Agreement with respect to PST.**

6 A. As described in the settlement testimony of Company Witness Timothy Horan, the
7 Settlement Agreement is a comprehensive arrangement designed to settle all outstanding
8 issues in Docket No. 4770, as well as in Docket No. 4780. As noted above, as part of the
9 Settlement Agreement, the Company has agreed to a three-year Rate Plan, commencing
10 September 1, 2018, which, if approved by the PUC, will enable, among other things,
11 commencement of several PST initiatives, which are currently under review in
12 Docket No. 4780, without the creation of a separate ratemaking mechanism operating
13 outside of base distribution rates. These initiatives include certain foundational
14 investments to enable a modern grid, the next phase of work on a path to deployment of
15 AMF, an electric transportation initiative, an electric heat initiative, a strategic
16 electrification marketing fund, a storage demonstration program, a capital efficiency
17 mechanism, and performance incentive mechanisms associated with clean energy
18 investments. These PST initiatives are consistent with the Docket 4600 goals and
19 Framework to advance the electric power system and create a platform that will empower
20 the Company's customers. Additional details of the PST-related settlement terms are

1 discussed in Section IV of our joint testimony, and more particularly described in
2 Sections 14 through 20 of the Settlement Agreement.

3
4 **Q. Please summarize the specific PST initiatives included in the Settlement Agreement.**

5 A. The Settlement Agreement provides for the commencement of the following PST
6 initiatives, a number of which were identified in the Company's original PST Plan filing
7 in Docket No. 4780.

8
9 (1) Grid Modernization Foundational Investments. A System Data Portal, Control
10 Center Enhancements, consisting of Distribution Supervisory Control and Data
11 Acquisition (DSCADA)/Advanced Distribution Management System (ADMS) ,
12 Remote Terminal Unit (RTU) Separation, and other grid modernization
13 investments relating to Information Services and Cyber Security.

14
15 (2) Grid Modernization Plan (GMP). In response to feedback from the Division and
16 other Parties the Company has agreed to develop a comprehensive GMP that will
17 provide a full assessment of the various grid modernization initiatives being
18 contemplated in parallel with the deployment of AMF, over a five-year to ten year
19 time horizon including a review of currently proposed and potential future
20 programs and technologies, noting how they all fit together.

21

- 1 (3) An Updated AMF Business Case and refined proposal to deploy AMF and time
2 varying rates for RI customers in the most cost-effective way and in coordination
3 with the Company’s New York jurisdiction.
4
- 5 (4) An Electric Transportation Program that will include (i) Off-Peak Charging
6 Rebate Pilot, (ii) Charging Station Demonstration Program, (iii) Discount Pilot for
7 Direct Current Fast Charging (DCFC) Station Accounts, (iv) fleet advisory
8 services, and (v) Electric Transportation Initiative Evaluation.
9
- 10 (5) An Electric Heat Program that will provide incentives for the purchase of air and
11 ground source heat pumps to residential customers currently heating with
12 delivered fuels or electric resistance heaters.
13
- 14 (6) A Strategic Electrification Marketing Fund to enable effective outreach and
15 education for consumers in relation to electrification of transport and heat.
16
- 17 (7) An Energy Storage Program that will include both behind-the-meter and
18 distribution facing energy storage demonstration projects.
19
- 20 (8) Capital Efficiency Mechanism associated with capital investments in the
21 Narragansett Electric ISR, to address the efficiency of capital spending.

1 (9) Performance Incentive Mechanisms focused on areas that advance state energy
2 policy goals and drive benefits for Rhode Island customers.
3

4 **Q. What are the fundamental changes that the Settlement Agreement makes in relation**
5 **to the Company's initial PST proposals?**

6 A. In reaching agreement on the Rate Plan, the Company has relinquished its request to
7 establish a separate fully-reconciling cost-recovery mechanism (*i.e.*, the PST Provision),
8 through which to fund PST investments and to conduct the annual PST Plan process.
9 Instead, the Settlement Agreement affords more traditional recovery of the PST
10 investments through base rates over the term of the Rate Plan with a downward-only
11 deferral mechanism for certain clean energy investments, as discussed below.
12

13 In addition, the Settlement Agreement contains a revised suite of performance incentive
14 mechanisms from those which were initially presented in the Company's PST Plan. The
15 performance incentive mechanisms are discussed in Section V of our joint testimony, and
16 more fully described in Section 19 of the Settlement Agreement.
17

18 Lastly, in reaching agreement on the Rate Plan, the Company agreed to eliminate several
19 elements of the original PST Plan. These elements are: Feeder Monitoring Sensors
20 (Chapter 3); Company Electric Vehicle Fleet Expansion program (Chapter 5); Ground
21 Source Heat Pump program (Chapter 6); Community Base Outreach (Chapter 6); and Oil

1 Dealer Training (Chapter 6); Solar for Income-Eligible program and Income-Eligible
2 Rewards program (Chapter 8).

3
4 **Q. Why is the Company agreeing to recover the cost of PST investments through the**
5 **Rate Plan rather than its originally proposed PST Provision?**

6 A. The important principle here is that there is a timely path for recovery of reasonable and
7 prudently incurred costs associated with PST investments, which can occur in different
8 ways. In its original PST Plan filing, the Company proposed the PST Provision to
9 provide for the recovery of forecasted and actual PST-related incremental capital and
10 operation and maintenance costs through an annual planning process, subject to an annual
11 reconciliation. Flexibility to undertake new investments and respond to emerging
12 technologies in the industry, as well as having the opportunity for substantial stakeholder
13 participation in the planning and execution of those investments were key drivers of the
14 PST Provision and annual Plan process.

15
16 In agreeing to the Rate Plan, the Company, along with the other Settling Parties,
17 established a framework that satisfies these key objectives. Cost recovery for
18 foundational investments and clean energy programs creates a path for the Company to
19 meaningfully advance the ongoing transformation of the power sector over the three
20 years of the Rate Plan, while the establishment of a PST Advisory Group and an annual
21 evaluation process creates a forum through which to engage, seek input, and respond to

1 stakeholder feedback and to track progress on delivery of these important programs.

2 Also, the agreed-upon Rate Plan framework allows for the three-year plan to be reopened
3 during the term of the Rate Plan in certain situations, if necessary, to move forward with
4 additional grid modernization initiatives, as outlined in the GMP, or deployment of AMF,
5 if approved by the PUC.

6
7 In total, the agreed-upon Rate Plan framework for PST appropriately balances the
8 interests of customers, the State of Rhode Island, and the Company by providing a
9 reasonable path for cost recovery to support the implementation of new grid
10 modernization and clean energy investments; by providing sufficient flexibility and cost
11 transparency over a three-year term; and by enabling a pathway towards power sector
12 transformation in Rhode Island.

13
14 **Q. Are there any other ways in which the Settlement Agreement balances the interests**
15 **of customers and the Company?**

16 A. Yes. Section 20 of the Settlement Agreement recognizes that there is still uncertainty in
17 the timing and control of certain “special sector” programs, *i.e.*, electric transportation
18 program, electric heat program, and the storage demonstration program; therefore, the
19 Settling Parties agreed it was appropriate to implement a separate deferral mechanism
20 with respect to these special sector programs. Through this mechanism, the costs and
21 annual base distribution rate allowance allocated to each of the special sector programs

1 will be separately monitored and reconciled at the end of each Rate Year. To the extent
2 the base distribution rate allowance allocated to the specific program exceed the actual
3 costs incurred, the Company will record the difference to a regulatory liability account,
4 which if caused by a reasonable delay in implementation, will be applied when the
5 program costs are later incurred. If the deferral was caused by a cost reduction or funds
6 not spent for reasons other than a reasonable delay, the deferral will be held for the
7 benefit of customers, subject to the PUC's determination on how it should be applied. If
8 the costs of a program exceed the revenues allocated to that program, the Company will
9 bear the cost of the overspending. Unlike the PST Provision, this mechanism allows for a
10 downward adjustment only; however, the Company may seek PUC approval to record the
11 difference to a regulatory asset for recovery at a later date for prudently incurred costs
12 where the additional costs were caused by a factor outside of the Company's control.

13
14 This deferral mechanism is another way in which the Rate Plan balances the interests of
15 customers and the Company, while advancing clean energy programs, providing cost
16 transparency, and reducing risk for new and emerging technologies.

17

18

1 **IV. Detailed Description of PST Investments Addressed in the Settlement Agreement**

2 *Grid Modernization*

3
4
5 **Q. Are there any key differences between the Company's originally proposed grid**
6 **modernization investments and those included in the Settlement Agreement?**

7 A. Yes. The Settling Parties agreed that the Company will implement several of the
8 originally proposed foundational initiatives within the Rate Plan, as listed in Section III
9 above, with the costs for those investments to be recovered through base rates as opposed
10 to a separate reconciling mechanism, as originally proposed. Also, as part of the
11 Settlement Agreement, and not included in the original filing, the Company has agreed to
12 develop a comprehensive GMP that will provide a full assessment of the various grid
13 modernization initiatives being contemplated in parallel with the deployment of AMF,
14 over a five-year to ten year time horizon including a review of currently proposed and
15 potential future programs and technologies, noting how they all fit together. The GMP
16 will present implementation plans outlining the details and technologies over a five-year
17 horizon plus an outline of how this plan aligns with the longer term (approximately 10-
18 year roadmap). While the GMP will provide a road map of investments beyond the term
19 of the current Rate Plan, the Company is not proposing to fund those investments as part
20 of this filing; such requests will be included as part of future general rate case, Rate Plan,
21 or Infrastructure, Safety, and Reliability filings.

22

1 **Q. Does the Settlement Agreement provide for a process by which the GMP will be**
2 **filed with the PUC?**

3 A. Yes. The Company will use reasonable efforts to file the GMP with the PUC within a
4 reasonable time after the filing of the Updated AMF Business Case (defined below), but
5 not later than six (6) months following such filing.

6
7 If the PUC determines that implementation of any grid modernization initiatives
8 identified in the GMP, and not already funded as part of this Settlement Agreement,
9 should move forward and Narragansett Electric must begin to incur costs during the Rate
10 Plan to begin the implementation process, the Settlement Agreement provides that the
11 Rate Plan may be re-opened to include the revenue requirement for any such approved
12 initiatives during the term of the Rate Plan in base distribution rates, as approved by the
13 PUC.

14
15 **Q. Why should the PUC approve the Grid Modernization-related PST investments?**

16 A. The PUC should approve the Grid Modernization-related PST investments delineated by
17 the Settlement Agreement because these investments represent a careful balancing of
18 interests between costs and advancing the state's policy objectives for the benefit of
19 customers. The suite of foundational initiatives agreed to in the Settlement Agreement
20 represent an initial step and ramp up of efforts towards meeting state policy objectives in
21 relation to grid resiliency and efficiency, and integration of distributed generation. At the

1 same time, these initiatives represent a coordinated deployment of prudent investments in
2 which system synergies across National Grid's jurisdictions can be realized resulting in
3 cost savings for customers.

4
5 **Q. Are there any aspects of the Company's originally proposed Grid Modernization-**
6 **related PST investments that are not addressed by the Settlement Agreement?**

7 A. Yes. During settlement, the Company agreed to eliminate the feeder monitoring sensors
8 from its portfolio of investments. While the feeder monitoring sensors provide more
9 granular monitoring of the system, which is required for distribution system planning and
10 grid operations with increased distributed energy resources (DER) penetration, the
11 Company agrees with Division Witness Mr. Booth that a future deployment of AMF may
12 provide some such functionality, and, therefore, was ultimately amenable to eliminating
13 them from this Rate Plan. To the extent use cases arise that cannot be fulfilled by AMF,
14 or in the event that AMF is not approved, the Company may consider such investments as
15 part of a future Rate Plan.

16
17 AMF

18 **Q. Please describe which of the Company's originally proposed AMF investments are**
19 **addressed by the Settlement Agreement.**

20 A. Under the Settlement Agreement, as per its original filing, the Company is requesting
21 \$2 million in funding to commence the next phase of work to refine and update its AMF

1 business case (the Updated AMF Business Case). This \$2 million represents the
2 Company's forecasted share of the allocated costs, which will be included in the revenue
3 requirement and spread out evenly over the three years of the Rate Plan. The Company
4 has agreed to coordinate its design and procurement efforts during this phase with the
5 development of a similarly updated AMF business case for the Company's New York
6 affiliate, which is being conducted as part of a collaborative with the New York Public
7 Service Commission Staff and other interested parties in that jurisdiction. Provided the
8 PUC approves the Company's request for funding for the Updated AMF Business Case,
9 the Company will engage with the Division, OER, and other stakeholders in Rhode
10 Island via the PST Advisory Group, or relevant subcommittee (described below), to
11 explore and develop a common understanding of specific AMF proposal areas, a
12 customer engagement plan for AMF, including the role of non-regulated power producers
13 (NPP), and assumptions upon which a proposal to develop time varying rates will be
14 based.

15
16 **Q. Does the Company plan to file the Updated AMF Business Case with the PUC?**

17 A. Yes, the Company will file the Updated AMF Business Case with the PUC by
18 December 1, 2018 for review and approval, in a separate docket, of the funding necessary
19 to deploy statewide AMF in Rhode Island in a timeframe consistent with the Updated
20 AMF Business Case. To the extent the PUC determines that deployment of AMF should
21 move forward and the Company must incur costs during the Rate Plan to begin the

1 deployment process, the Settlement Agreement provides that the Rate Plan may be re-
2 opened to propose the revenue requirement for any such approved initiatives during the
3 term of the Rate Plan in base distribution rates, as approved by the PUC.
4

5 **Q. What elements will the Company include in the Updated AMF Business Case?**

6 A. The Updated AMF Business Case study will include a cost estimate to be used for
7 purposes of establishing future revenue requirements for the deployment of AMF in
8 Rhode Island. In addition, the Updated AMF Business Case will include an evaluation of
9 shared communications infrastructure and various ownership models for some elements
10 of the AMF solution in Rhode Island, and will address the potential for incremental
11 revenues that might be obtainable from these models in the future. Furthermore, the
12 Updated AMF Business Case will address data governance regarding customer, NPP, and
13 third party access to system and customer data. Additional elements of the Updated
14 AMF Business Case are delineated in Section 16 of the Settlement Agreement.
15

16 **Q. Please describe the AMF stakeholder process.**

17 A. By July 1, 2018, the Company will convene a preliminary meeting with Division staff
18 and the OER to develop a common understanding of the next phase of work, to identify
19 areas of the current AMF Business Plan requiring further exploration or refinement, and
20 identify areas for input from the PST Advisory Group (discussed below), or relevant
21 subcommittee. Section 16 of the Settlement Agreement sets out a timeline for the

1 Company and stakeholders to work together between July 1, 2018 and December 1, 2018
2 to explore and develop a common understanding of specific AMF proposal areas, a
3 customer engagement plan, assumptions for time varying rates, and to answer any
4 questions, comments, or proposed modifications, following which time the Company will
5 file the Updated AMF Business Case with the PUC.
6

7 **Q. Why should the PUC approve the AMF-related investments allowed by the**
8 **Settlement Agreement?**

9 A. The AMF-related investments allowed by the Settlement Agreement continue a phased
10 approach to the development and implementation of AMF in Rhode Island and progress
11 toward time-varying rates consistent with Docket 4600 goals. These investments will
12 take advantage of ongoing efforts by the Company's New York affiliate, leverage
13 continued input from interested stakeholders in Rhode Island, and offer significant
14 benefits for customers, and for the Company in its role as grid operator. The investments
15 also will allow for further refinement of the Company's AMF business case, which will
16 be subject to review by the PUC to ensure that AMF is implemented in the most cost-
17 effective way in Rhode Island.
18

1 Clean Energy Programs

2
3 1. Electric Transportation Initiative

4
5 **Q. What aspects of the Company’s electric transportation proposal are addressed by**
6 **the Settlement Agreement?**

7 A. Under the Settlement Agreement, Narragansett Electric will implement a phased electric
8 transportation initiative over the term of the Rate Plan, consisting of several components
9 as originally proposed in its PST Plan, plus some new components as agreed to with the
10 Settling parties: (i) Off-Peak Charging Rebate Pilot, (ii) Charging Station Demonstration
11 Program, (iii) Discount Pilot for Direct Current Fast Charging (DCFC) Station Accounts,
12 (iv) fleet advisory services and (v) Electric Transportation Initiative Evaluation.

13
14 **Q. What modifications does the Settlement Agreement make to the Off-Peak Charging**
15 **Rebate Pilot?**

16 A. The Settlement Agreement does not make any significant changes to the rebate pilot. As
17 originally proposed, participating customers will earn a rebate for every kWh charged
18 between 9 p.m. and 1 p.m. The off-peak charging rebate will be 6 cents per kWh during
19 the summer months (June through September), and 4 cents per kWh in all other months.
20 The Settlement Agreement specifies that Narragansett Electric may offer the higher
21 rebate value in the winter months if, for example, system conditions warrant, or to
22 otherwise modify the rebate value. Also, Narragansett Electric agreed that it would

1 evaluate the rebate value following the first full year of the program, and include any
2 findings and recommendations in the Annual Evaluation Report (discussed below).

3
4 **Q. What modifications does the Settlement Agreement make to the Charging Station
5 Demonstration Project?**

6 A. First, the Settlement Agreement limits the number of sites that Narragansett Electric may
7 own and operate. Narragansett Electric had originally proposed to own and operate up to
8 50 percent of Level 2 charging ports to be developed as part of the Charging Station
9 Demonstration Project; however, to balance the interests of the competitive market,
10 Narragansett Electric agreed in settlement that it may own and operate up to 39 percent of
11 the total Level 2 charging ports (*i.e.*, 126 out of a total of 320). Of this amount,
12 Narragansett Electric may not own or operate any Level 2 ports associated with
13 workplace locations or corporate light duty fleet, but may own and operate up to one
14 hundred percent (100%) Level 2 ports for government light duty fleet and in the
15 following underserved segments where absent utility intervention, market barriers might
16 exist to deployment of electric vehicle (EV) charging site hosts: Income Eligible
17 community sites and Multi-Family apartment buildings. Additionally, Narragansett
18 Electric may own and operate up to fifty percent (50%) of the Level 2 ports associated
19 with public transit. Narragansett Electric may also own and operate up to twenty-two
20 percent (22%) of the DCFC ports to be developed as part of this initiative (*i.e.*, 10 out of

1 a total of 46 ports currently forecast to be deployed based on the proposed program
2 budget).

3
4 Second, the Settlement Agreement modifies certain requirements for Site Host
5 participation in the Charging Station Demonstration Project. For all Make-Ready sites,
6 Site Hosts will have the choice of both EV charging equipment and network services.
7 The Company will pre-qualify options for equipment and network services, with all pre-
8 qualified equipment having open standards for communications and operations. For
9 Company-operated sites, Site Hosts have the option to determine its NPP or retail
10 electricity supplier and pricing to the site customer or use a per kWh regulated rate linked
11 to the electric standard offer service commodity rate and service via the Company's EV
12 supply equipment (regulated charging rate). Site Hosts will have network access to the
13 station to set pricing and review usage reports and be required to include pricing
14 information as part of the data and utilization sharing. If the Site Host chooses to set a
15 price below the Narragansett Electric's regulated rate, the Site Host will be will be
16 credited or charged, as applicable, the difference in the revenue collected net of the
17 revenue that would otherwise be collected under the regulated rate.

18
19 Third, the Settlement Agreement modifies certain requirements for DCFC stations. For
20 Make-Ready and Company-operated DCFC stations, the Company will work closely
21 with the PST Advisory Group, or relevant subcommittee, to ensure that DCFC stations

1 deployed under the Charging Station Demonstration Project are complementary to
2 deployments using the Volkswagen Settlement funds administered by Rhode Island
3 Department of Environmental Management. Narragansett Electric will coordinate the
4 Make-Ready sites with OER and will reserve up to 25 percent (25%) of the DCFC ports
5 to be allocated to state funded, supported, or hosted stations that deliver benefits to the
6 public. Of the four public DCFC stations, Narragansett Electric will operate no more
7 than two, with an exclusive focus on underserved areas. Additionally, one DCFC station
8 will be co-located with an energy storage unit. The remaining two public DCFC sites
9 proposed in the Company's original filing will become Make-Ready sites.

10
11 Finally, the Settlement Agreement provides that for Make-Ready sites where the Site
12 Host is the customer of record, the Site Host will have sole discretion to select
13 competitive generation supply or standard offer for the energy supply for the charging
14 station. For Company-operated sites (both Level 2 and DCFC) where Narragansett
15 Electric is the customer of record, Narragansett Electric will undertake a commodity
16 RFP, including comparison with standard offer prices, ensure the best value for
17 customers when setting its regulated charging rate.

18

1 **Q. What modifications does the Settlement Agreement make to the Discount Pilot for**
2 **DCFC station accounts?**

3 A. The Discount Pilot for DCFC stations is, for the most part, the same as originally
4 proposed in the PST Plan, with the exception that 25 percent (25%) of the stations in
5 receipt of the discount must enable electric public transport. In addition, the discount will
6 be equal to 100 percent (100%) of the distribution demand charge for a period of three
7 years from the start of service, and will be phased out over years four, five, and six with
8 the details of such phasing out to be included in the next Rate Plan.

9

10 **Q. Please describe the fleet advisory services.**

11 A. The fleet advisory service is a new component of the program and was not included in
12 Narragansett Electric's original proposal. It replaces the originally proposed Company
13 Fleet Expansion program and is a result of settlement discussions with the Settling
14 Parties. Narragansett Electric will, through a combination of internal and third party
15 expertise, offer an advisory service to support electrification of customer fleets, the scope
16 of which will include conducting long-term fleet electrification studies for a total of
17 approximately twelve (12) fleet operators in Rhode Island, including government light-
18 duty, corporate light-duty, public transit, government medium/heavy-duty (on-road and
19 off-road), and municipal school buses. Narragansett Electric will reallocate 36 percent

20

1 (36%) of the funds previously identified for the Company Fleet Expansion program to
2 fleet advisory services, with 25 percent (25%) of the newly allocated funds to be used to
3 address fleets owned by government or public transit entities.
4

5 **Q. What is the Electric Transportation Initiative Evaluation?**

6 A. Stakeholder engagement and collaboration within the electric transportation program was
7 a key concern for many of the Settling Parties, including Narragansett Electric. To that
8 end, and as per its original filing, Narragansett Electric has committed to evaluating each
9 element of the electric transportation initiative on an annual basis and to share its
10 learnings with stakeholders and industry participants. Narragansett Electric will produce
11 and publicly present an Annual Report describing implementation of the electric
12 transportation initiative, documentation of the information gained through this initiative,
13 and recommendations to enhance the program. The Company will file a copy of the
14 Annual Evaluation Report with the PUC. The process for implementing any findings or
15 recommendations contained in the Annual Report will be through a separately established
16 PST Advisory Group (discussed below).
17

18 **Q. Why should the PUC approve the terms relating to electric transportation**
19 **encompassed in the Settlement Agreement?**

20 A. The settled electric transportation initiative maintains elements that are important to all
21 parties and customers. The revised initiative strikes an appropriate balance between

1 advancing the state’s important policy goals of developing electric transportation
2 infrastructure and minimizing costs of the program. The terms of the Settlement
3 Agreement also ensure that the incentives provided under the electric transportation
4 initiative will benefit a wide-range of customers, with a particular emphasis on the low
5 income community, and will be used to support future industry developments. Finally,
6 the Settlement Agreement ensures that the electric transportation initiative follows a
7 collaborative approach through the establishment of a Strategic Electrification
8 subcommittee of the PST Advisory Group and by sharing lessons learned with
9 stakeholders, industry participants, and the PUC through the Annual Evaluation Report.

10
11 2. Electric Heat Initiative

12
13 **Q. What modifications does the Settlement Agreement make to the Electric Heat**
14 **Initiative?**

15 A. As part of settlement, Narragansett Electric agreed to eliminate the proposal previously
16 included in Docket No. 4780 to convert one large commercial or industrial oil heated
17 building to Geothermal Heat Pumps and the associated funding. The electric heat
18 initiative still consists of equipment incentives, as originally proposed, to lower the
19 upfront cost barriers for Rhode Island residential customers to convert to efficient cold-
20 climate air-source or ground-source heat pump systems. Narragansett Electric will offer
21 rebates to a mix of standard offer service, competitive supply, and Income Eligible
22 customers. For Income Eligible customers, the rebate level will be 100 percent (100%)
23 of the all-in cost of heating capacity.

1 In addition, Narragansett Electric agreed to eliminate the originally proposed community
2 outreach and oil dealer training programs, and to shift those dollars to a newly created
3 strategic electrification marketing fund.

4
5 **Q. Why should the PUC approve the settlement terms related to the Company's**
6 **electric heat investments within the PST Program?**

7 A. The settlement terms include a larger budget for equipment incentives that will deliver
8 direct benefits to participating residential customers by lowering the upfront cost of
9 converting residential heating systems.

10
11 **Q. Please describe the strategic electrification marketing fund.**

12 A. To respond to Division and other stakeholder input, Narragansett Electric agreed to create
13 a strategic electrification marketing fund to support the electric transportation and electric
14 heat initiatives. To achieve this important objective, the Settling Parties agreed to
15 reallocate the funds previously identified for transportation outreach and education in the
16 electric transportation initiative, and outreach and oil dealer training in the electric heat
17 initiative (\$0.2 million in Rate Year 1; \$0.2 million in Rate Year2 and \$0.3 million in
18 Rate Year 3). Narragansett Electric agreed to work with the Division and the PST
19 Advisory Group (discussed below), or the relevant subcommittee, on the goals for the
20 strategic electrification marketing fund and use of the fund during the Rate Plan. The

1 strategic electrification fund ensures appropriate funding and support for marketing and
2 development of electrification initiatives over the term of the Rate Plan.

3
4 3. Energy Storage Initiative

5
6 **Q. What aspects of the Energy Storage Initiative are addressed by the Settlement**
7 **Agreement?**

8 A. The Settlement Agreement supports deployment of energy storage in Rhode Island with a
9 different model than originally proposed, but one that is supported by the Settling Parties.
10 The terms provide that Narragansett Electric will demonstrate two energy storage
11 solutions: (i) one behind-the-meter storage system co-located with a DCFC site, which
12 will consist of an approximately 250 kW two hour energy storage system supporting
13 approximately six DCFC ports; and (ii) one front-of-the-meter storage system, which will
14 consist of an approximately 500 kW three hour energy storage system for the primary
15 purpose of realizing distribution system value. Narragansett Electric will procure each
16 storage solution through a competitive RFP process, which will request proposals for
17 both a system with a service agreement owned by third parties, and Engineering
18 Procurement and Construction delivered systems owned by the utility, to explore
19 alternative ownership models on a like for like basis as well as benefits associated with
20 each model. Narragansett Electric will share the draft RFP with stakeholders, via the
21 PST Advisory Group, for feedback.

22

1 **Q. Why should the PUC approve the settlement terms relating to the energy storage**
2 **components of the PST Program?**

3 A. The settlement terms relating to the energy storage demonstration reflect support from
4 stakeholders for an energy storage component, and incorporates feedback and beneficial
5 revisions to the program design from stakeholders throughout this proceeding. The RFP
6 process to select each energy storage solution for the demonstration projects will ensure
7 that the proposals with the best value are selected. Narragansett Electric has committed
8 to sharing the draft RFP with stakeholders, and to working with the Division and OER to
9 ensure an independent, transparent and fair procurement and selection process.

10

11 *Engagement and Guidance in Support of PST Programs*

12 **Q. Does the Settlement Agreement provide for specific additional stakeholder**
13 **engagement and guidance in support of the PST Programs?**

14 A. Yes. Based on the level of uncertainty about the performance and results, and delivery of
15 the clean energy programs over the term of the Rate Plan, the Settling Parties recognized
16 the need for broad stakeholder engagement, review, and guidance. To formalize this
17 engagement, Narragansett Electric has agreed to establish a PST Advisory Group, to be
18 chaired by the Company and whose members will include the Division, OER, and
19 representatives from the following interests: environmental, clean energy industry, low
20 income, NPP, community groups, and other members as the Company, the Division, and
21 OER may agree. The purpose of the PST Advisory Group will be to review, at a high

1 level, progress on the delivery of all PST components of the Rate Plan (Grid
2 Modernization, AMF, time-varying rates, Electric Transportation, Electric Heat, Strategic
3 Electrification Marketing Fund, Storage, and Performance Incentive Mechanisms) and to
4 provide guidance and prioritization to support the successful delivery of these
5 components as a holistic suite. The PST Advisory Group will also consist of various
6 subcommittees with respect to individual programs, such as a Strategic Electrification
7 subcommittee and a Grid Modernization/AMF subcommittee.

8
9 The PST Advisory Group will meet quarterly, commencing October 2018, to discuss the
10 progress and challenges in the development and implementation of the PST components
11 of the Rate Plan, along with emerging insights and learnings. The first PST Advisory
12 Group meeting after the end of each Rate Year will include an annual evaluation of
13 program results from the prior year's performance. Additional details regarding the PST
14 Advisory Group are set forth in Section 17(e) of the Settlement Agreement.

15
16 **Q. Does the Settlement Agreement provide for PUC oversight of the PST programs?**

17 A. Yes. In conjunction with the PST Advisory Group's annual evaluation and review,
18 Narragansett Electric will file any recommendations requiring a transfer of funds between
19 the clean energy programs, following review by the PST Advisory Group, with the PUC
20 for review and approval.

21

1 In addition, Narragansett Electric will file its plan for use of the strategic electrification
2 marketing fund with the Division for approval, taking into consideration feedback from
3 the PST Advisory Group. In the event the Division and Narragansett Electric reach
4 agreement within 30 days following the plan filing, Narragansett Electric will file the
5 plan with the PUC as an informational filing; however, in the event Narragansett Electric
6 and the Division do not reach agreement within 30 days the Company may file its
7 proposal for use of the fund to the PUC for review and approval.
8

9 **V. Capital Efficiency Mechanism For Electric**

10 **Q. How does the Settlement Agreement address the capital efficiency mechanism?**

11 A. In the original PST Plan filing, the Company proposed a capital efficiency incentive as
12 one category of performance-based incentive mechanisms that would reward the
13 Company for efficient delivery of complex capital projects included in the Company's
14 electric ISR Plan and improvements in efficient delivery of overhead distribution line
15 projects. The Settlement Agreement modifies this incentive mechanism by implementing
16 a three-year aggregate capital spending target that will be established through the annual
17 ISR process for each year of Narragansett Electric's ISR Plans for all ISR-eligible capital
18 projects (as defined in the Settlement Agreement).
19

20 Under this mechanism, the ISR Plans would continue to operate as they currently do;
21 however, this mechanism will be included in the Rate Plan to address the efficiency of

1 the capital spending program. Actual three-year spending will be measured against the
2 three-year capital spending target established in respect of fiscal years 2020, 2021, and
3 2022. At end of the three fiscal years, if capital spending is below the three-year capital
4 spending target, savings will be shared with customers and Narragansett Electric based
5 on 50 percent (50%) of the approximate revenue requirement variance associated with the
6 underspending; if capital spending is above the deadband (equal to \$2,500,000) of the
7 three-year capital spending target, Narragansett Electric will incur a penalty of 100
8 percent (100%) of the approximate revenue requirement variance associated with the
9 overspending above the deadband. Section 18 of the Settlement Agreement further
10 explains the mechanics of the Capital Efficiency mechanism.

11
12 **Q. Is there flexibility to adjust the capital spending targets?**

13 A. Yes. The Settlement Agreement provides that during the ISR planning process for fiscal
14 years 2020, 2021, and/or 2022, if Narragansett Electric and the Division mutually agree
15 to add, remove, or defer capital projects for events, conditions, or other reasons beyond
16 the Company's reasonable control that were not anticipated when the target was set, the
17 Company and the Division may adjust the capital spending target, subject to the PUC's
18 approval. The Settlement Agreement contains examples of events or conditions that may
19 result in a change to the capital spending target: the impact of a critical system safety
20 failure, unforeseen reliability need, legislative or regulatory changes, and/or major new
21 customer requests.

1 **Q. Is there a cap on the amount of the incentive or penalty?**

2 A. Yes, the reward earned or penalty incurred is capped at \$2 million.

3

4 **Q. Why should the PUC approve the capital efficiency mechanism?**

5 A. The Company's ability to identify efficiencies in the delivery of capital investments has
6 the potential to generate meaningful savings for customers over time. However, under the
7 current regulatory framework there is no reward if the utility identifies and delivers such
8 efficiencies. The capital efficiency mechanism, together with the Rate Plan framework,
9 represents an initial step toward a framework that provides a more equal incentive for the
10 delivery of operating and capital cost-savings. Unlike the original proposal, the capital
11 efficiency mechanism in the Settlement Agreement also includes a penalty in the event
12 there is overspending above a certain threshold. This reward/penalty structure incents
13 Narragansett Electric to deliver its electric ISR Plans on budget and control costs for
14 customers.

15

16 **VI. Summary of Settlement Performance-Based Incentive Mechanisms**

17 **Q. Please describe the scope of the Settlement Agreement with respect to performance
18 incentive mechanisms.**

19 A. The Company's original performance incentive mechanisms were designed to advance
20 Rhode Island's energy policy goals, provide broad new benefits to customers, and reward
21 performance in delivering key programs and objectives aligned with state policy goals, as

1 described in detail in Chapter 9 of the PST Plan. During settlement, it was clear that
2 performance incentives were important to stakeholders to advance state policy objectives
3 and as a key component of the Rate Plan, with a particular emphasis on system efficiency
4 and distributed energy resources and supporting low-income customers. The Settlement
5 Agreement represents a starting point for the role of performance incentive mechanisms
6 in Rhode Island, which the parties acknowledged may evolve over time as power sector
7 transformation progresses.

8
9 The agreed-upon performance incentive mechanisms represent a different mix of
10 measures, metrics and targets than was originally proposed in the Company's initial PST
11 Plan filing, and were developed in response to stakeholder input. These performance
12 incentive mechanisms are summarized below.

13
14 **Q. Please describe the performance incentive mechanisms that are addressed in the**
15 **Settlement Agreement.**

16 A. Narragansett Electric will implement seven performance incentive mechanisms (across
17 three categories) intended to advance state policy goals and drive benefits for Rhode
18 Island customers: (1) System Efficiency: Annual MW Capacity Savings; (2) Distributed
19 Energy Resources: Installed Energy Storage Capacity; (3) Distributed Energy Resources,
20 CO2: Electric Vehicles; (4) Distributed Energy Resources, CO2: Electric Heat; (5)
21 Distributed Energy Resources: Light Duty Government and Commercial Fleet

1 Electrification; (6) PST Enablement: Awarded Low-income and Multi-unit EVSE Sites;
2 and (7) PST Enablement: Distributed Generation (DG) Interconnection – Time to ISA.
3 Within each of the three groupings, the Company is proposing a set of performance
4 incentive mechanisms that will encourage successful delivery of new programs and
5 broader Company activities aligned with Rhode Island state goals and in doing so create
6 value for customers. Each performance incentive is comprised of (1) a metric to capture
7 Company results for the specific area of interest; (2) targets that indicate performance
8 goals or milestones for each metric; and (3) a financial incentive associated with the
9 achievement of each target. The System Efficiency and Distributed Energy Resource
10 metrics include minimum, mid, and maximum targets, with an increasing earning
11 opportunity at each level, as well as the ability to earn proportionally for achievements
12 that fall between target levels up to the maximum level. The revised metrics and
13 maximum earnings are shown in the table below.

Category and Supporting Metrics	Maximum Annual Earnings Opportunity (\$1,000)		
	2019	2020	2021
System Efficiency	\$456	\$717	\$1,039
Annual MW Capacity Savings	\$456	\$717	\$1,039
Distributed Energy Resources	\$694	\$815	\$998
Installed Energy Storage Capacity	\$139	\$139	\$148
CO2: Electric Vehicles	\$276	\$367	\$497
Light Duty Government and Commercial Fleet Electrification	\$92	\$122	\$166
CO2: Electric Heat	\$187	\$187	\$187
PST Enablement	\$282	\$283	\$189
Activated Apartment Building and Disadvantaged Community EVSE	\$94	\$94	\$0
Interconnection -- Time to ISA	\$188	\$189	\$189
Total	\$1,432	\$1,815	\$2,227

14
15
16

1 Additional details regarding the specific targets for each performance incentive are
2 further described in Section 19 of the Settlement Agreement.

3
4 **Q. What are the primary differences between the Narragansett Electric’s initial filed**
5 **performance incentive mechanisms and the performance incentive mechanisms**
6 **incorporated into the Rate Plan as part of the Settlement Agreement?**

7 A. The Settling Parties developed new performance incentives that were fewer in number
8 and offer a lesser degree of overall incentive compensation than originally proposed. The
9 System Efficiency and Distributed Energy Resources categories were modified, as shown
10 in the table above, to reflect stakeholder input. For example, the Annual MW Capacity
11 Savings performance incentive mechanism, which measures Narragansett Electric’s
12 efforts to reduce peak demand using a bottom-up approach, replaced the Annual FCM
13 Peak Demand Reduction performance incentive mechanism proposed in Chapter 9 of the
14 PST Plan, which was an outcome-based peak reduction metric, to address stakeholder
15 concerns about outcome-based peak reduction targets being sufficiently tied to
16 Narragansett Electric’s efforts. Also, the agreed-upon performance incentive
17 mechanisms no longer include a category for Network Services. Instead, the Settling
18 Parties established a new category of incentives for PST Enablement to reward
19 Narragansett Electric for activities that support broad access to the benefits of power

20

1 sector transformation activities, or otherwise provide foundational support for power
2 sector transformation objectives. This category includes the following performance
3 incentives:

- 4 • Activated Apartment Building and Disadvantaged Community EVSE: This
5 incentive would award Narragansett Electric for the activation of EVSE sites for
6 apartment buildings and disadvantaged communities ahead of schedule.
- 7 • Distributed Generation (DG) Interconnection – Time to ISA: This performance
8 incentive would award Narragansett Electric based on the extent to which it
9 exceeds tariff timelines for providing an executable interconnection service
10 agreement.

11 In addition, the Settlement Agreement contains scorecard metrics for demonstration and
12 evaluation to set baselines for potential future incentives. These include the following:

- 13 • DG Interconnection: Narragansett Electric will track the number of business
14 days from an executed ISA to distribution system modifications by category of
15 interconnection (simple, expedited, or standard).
- 16 • DG-Friendly Substation Transformers: Narragansett Electric will base reporting
17 on the number of 3VO installations completed.
- 18 • Utilization of EVSE in Low-Income Areas: Narragansett Electric will report on
19 utilization rates at all EVSE sites installed through the Charging Station
20 Demonstration program.

- 1 • Reduction of Uncollectable Debt: Narragansett Electric will report enrollment in
2 the Arrearage Management Plan (AMP) at the point of potential termination from
3 service.
- 4 • Increased Stability of Service through Increased Enrollment in the Low Income
5 Discount: Narragansett Electric will report enrollment in the low-income
6 discount, represented by number of customers receiving delivery service on Rate
7 A-60.
- 8 • NPP Residential Customer Demand Response Participation: Narragansett
9 Electric will work with NPPs to measure the number of NPP residential
10 customers participating in the Company's Connected Solution program or any
11 future demand response program that works with WiFi-enabled or smart
12 thermostat(s) and other connected smart devices to reduce electricity use during
13 periods of high energy demand.

14
15 **Q. How will the value of each incentive be calculated?**

16 A. The incentive value will be established by first estimating the quantified net benefits of
17 the relevant initiative using Narragansett Electric's benefit-cost analysis (BCA)
18 assumptions and methodology, and then applying 45 percent (45%) of the quantified net
19 benefits to determine the utility incentive, and the remaining 55 percent (55%) going to
20 customers. Next, the utility incentive will be increased to account for unquantified
21 benefits, such as improved reliability and market transformation in support of distributed

1 energy resources. Section 19 of the Settlement Agreement calculates the estimated
2 utility incentive in terms of dollars, using the return on equity that was agreed to as part
3 of the Settlement Agreement. The magnitude of the utility incentive will be set based on
4 the BCA conducted in support of the performance incentive mechanisms in the
5 Settlement Agreement, as shown on Attachment 28 of the Settlement Agreement.
6

7 **Q. How will the PUC be able to evaluate the Company's performance under these**
8 **metrics?**

9 A. Narragansett Electric will file an annual performance incentive mechanism report with
10 the PUC no later than March 1 annually (1) comparing the Company's performance
11 relative to each performance incentive mechanism target; (2) describing the savings
12 achieved; (3) calculating incentives earned, including proration of any incentives related
13 to metric achievement between the minimum, midpoint, and the maximum target levels;
14 and (4) any targets not achieved. Narragansett Electric will file a mid-year update on or
15 before September 1 annually that describes its progress toward each performance
16 incentive mechanisms metric and the actions it has taken to achieve target performance.
17

18 **Q. How did the Company evaluate the benefits of the settled performance incentive**
19 **mechanisms?**

20 A. The Company conducted a BCA in support of the performance incentive mechanisms
21 with quantifiable benefits (System Efficiency and Distributed Energy Resource). For the

1 Heat and Electric Transportation programs, the Company revised their respective
2 program BCAs to better reflect the terms of the Settlement Agreement, and to support the
3 calculation of the relevant performance incentives that are tied to each program's net
4 benefits. The BCA results for the Heat and Electric Transportation programs are
5 included in Attachment 28 to the Settlement Agreement. The benefits quantified for each
6 performance incentive mechanism are summarized below.

- 7 • Annual MW Capacity Savings: Avoided Forward Capacity Market (FCM)
8 costs; avoided transmission, and distribution capacity costs; and avoided peak
9 energy costs.
- 10 • Installed Energy Storage Capacity: Avoided FCM costs; avoided transmission
11 and distribution capacity costs; and avoided peak energy costs.
- 12 • CO2 Consumer Electric Vehicles and Light Duty Government and
13 Commercial Fleet Electrification: All program net benefits per the revised
14 program BCA. Key benefits include avoided (non-electric) fuel costs,
15 avoided CO2 emissions, and avoided criteria pollutants and other
16 environmental costs.
- 17 • CO2: Electric Heat: All program net benefits per the revised program BCA.
18 Key benefits include avoided (non-electric) fuel costs, avoided CO2
19 emissions, and avoided criteria pollutants and other environmental costs.

20

1 **Q. How did the Company evaluate the net benefits of performance incentive**
2 **mechanisms for incentives where the costs of the activities that will support**
3 **achievement of the targets are uncertain?**

4 A. Establishing a certain and meaningful incentive value is essential in order to most
5 effectively drive Company performance in the delivery of the objectives supported by
6 these incentives. For two performance incentive mechanisms, setting the incentive size
7 based on BCA requires a presumption of cost-effectiveness.

8
9 First, the Company's demand response initiatives are expected to play an important role
10 in achievement of the Annual MW Capacity Savings targets. It is not clear at this point
11 that these programs will be demonstrated as cost-effective based on quantifiable benefits
12 in their initial years – however, given their expected value to the system as they are
13 further developed and expanded, their importance to enabling investment in and
14 development of load management solutions, and the potential savings to participating
15 customers, they are assumed to be cost-effective (via the assumed ratio of costs to
16 benefits for the incentive overall, which reflects compliance by multiple resources) for
17 the purpose of setting the value of the Annual MW Capacity Savings incentive.

18 Second, the Installed Energy Storage Capacity performance incentive mechanism targets
19 have been assumed to be cost-effective. This assumption is reasonable given that 1) the
20 Company would not utilize storage to meet a system need unless cost-effectiveness was
21 clearly demonstrated, and 2) customers would not be likely to install energy storage

1 unless there was an economic benefit to doing so. Absent opportunities for cost-
2 effective storage, the Company would not expect to achieve these targets.

3
4 **Q. Has the Company made any changes to its key BCA assumptions relevant to**
5 **performance incentive mechanisms?**

6 A. The Company's original BCAs did not include benefits associated with avoided
7 transmission and distribution capacity costs. While as a general rule, project and
8 resource-specific values are preferable to system average values when conducting benefit
9 cost analysis of specific distributed generation or distributed energy resource
10 investments, given the uncertainty about the presence and magnitude of these potential
11 benefits, and in response to stakeholder input, the Company has incorporated values for
12 avoided transmission and distribution capacity in its BCA for the performance incentive
13 mechanisms that are equal to half of the values used in its analysis of energy efficiency
14 programs. This is a reasonable assumption for the purposes of estimating the potential
15 benefits to customers of the Annual MW Capacity Savings and Installed Energy Storage
16 Capacity performance incentive mechanisms.

17
18 **Q. How will the performance incentive mechanisms be funded?**

19 A. Narragansett Electric proposes to recover any approved performance incentives
20 earned for achieving the performance incentive mechanism targets through the operation
21 of the Revenue Decoupling Mechanism (RDM) Provision, RIPUC No. 2201. If

1 approved, the Company will make an annual filing with the PUC to request recovery of
2 performance incentives earned pursuant to the metrics and targets. If the recovery is
3 approved, such incentives will be included in the Company's annual RDM reconciliation
4 filing.

5
6 **Q. Why should the PUC approve the settlement terms relating to the performance**
7 **incentive mechanisms?**

8 A. The basis for approving the proposed performance incentive mechanisms is the same as
9 explained in the Company's original PST Plan filing (Chapters 2 and 9). New objectives
10 around sustainability, system efficiency, resiliency, grid modernization, distributed
11 energy resource integration, and customer engagement have gained prominence with
12 regulators and customers. Increasingly, these new objectives are transforming
13 expectations for electric distribution utilities. In Rhode Island, these objectives are
14 fundamental to the energy policy goals articulated through Docket 4600 and the Power
15 Sector Transformation initiative. The settled performance incentive mechanisms
16 represent a mix of incentives to align broader policy goals and customer outcomes that
17 the Settling Parties deemed most important with Narragansett Electric's financial
18 interests. This represents the first step in a broader evolution of the regulatory framework
19 that will unfold as the power sector transforms, bringing new opportunities to customers.
20 Successful implementation of these incentives is likely to foster further innovation in the
21

1 Rhode Island power sector, by providing both Narragansett Electric and regulators with
2 the confidence to identify and propose new areas for incentives that might drive further
3 efficiencies and customer benefits.

4
5 **VII. Consistency of the Settlement Agreement with Docket 4600 Guidelines**

6 **Q. Did the Company specifically consider the rate design principles identified by the**
7 **PUC in the Docket 4600 Guidance Document?**

8 A. Yes. The PUC stated in the Docket 4600 Guidance Document that a proposed rate design
9 would be determined to be reasonable if it accomplished the following:

- 10 • Ensures safe, reliable, affordable, and environmentally responsible electricity service
11 today and in the future;
12
13 • Promotes economic efficiency over the short and long term;
14
15 • Provides efficient price signals that reflect long-run marginal cost;
16
17 • Identifies future rates and rate structures that appropriately address “externalities”
18 that are not adequately counted in current rate structures;
19
20 • Empowers consumers to manage their costs;
21
22 • Enables a fair opportunity for utility cost recovery of prudently incurred costs and
23 revenue stability;
24
25 • Ensures that all parties should provide fair compensation for value and services
26 received and should receive fair compensation for value and benefits delivered;
27
28 • Constitutes a design that is transparent and understandable to all customers;
29
30 • Ensures that any changes in rate structures are be implemented with due
31 consideration to the principle of gradualism in order to allow ample time for
32 customers (including DER customers) to understand new rates and to lessen
33 immediate bill impacts;

- 1
- 2 • Provides opportunities to reduce energy burden, and address low income and
- 3 vulnerable customers' needs;
- 4
- 5 • Ensures consistency with policy goals (e.g., environmental, climate (Resilient Rhode
- 6 Island Act), energy diversity, competition, innovation, power/data security, least cost
- 7 procurement, etc.); and
- 8
- 9 • Evaluates rate structures based on whether they encourage or discourage
- 10 appropriate investments that enable the evolution of the future energy system.
- 11

12 As discussed in Company Witness Timothy Horan's testimony, the overall Rate Plan

13 framework will provide customers access to safe and reliable energy delivery services, at

14 the lowest reasonable cost over the long term, in an environment with ever-evolving

15 demands relating to energy use and the reduction of greenhouse gas emissions. Related

16 to PST, the Rate Plan framework allows Narragansett Electric a fair opportunity to

17 recover prudently-incurred costs, receive fair compensation, and realize revenue stability

18 for the PST investments it will deliver.

19

20 In addition, the settled performance incentive mechanisms are designed to award

21 Narragansett Electric for achieving specific performance metrics. These performance

22 metrics require the Company to meet specific targets including reducing peak load,

23 increasing customer participation in PST programs, increasing integration of distributed

24 generation, and reducing carbon emissions. These performance metrics, therefore,

25 incentivize the Company to meet the rate design objectives identified in Docket 4600

26 including ensuring an affordable, sustainable clean energy future for Rhode Island and

27 ensuring consistency with policy goals such as energy diversity and innovation.

1 Finally, the Company included a cap on its proposal for savings sharing related to capital
2 projects. Customers will share in 50 percent (50%) of any savings realized, and all
3 savings earned beyond the cap will be returned to customers thereby providing a balance
4 between Company and customer interests.

5
6 **Q. Do the provisions of the Settlement Agreement address the goals and Framework**
7 **that the PUC adopted in its Report and Order and the Guidance Document issued**
8 **in Docket 4600?**

9 A. Yes. The PST settlement provisions are designed to further each of the eight distinct
10 goals for the electric system that the PUC adopted in Docket 4600:

- 11 ● Provide reliable, safe, clean, and affordable energy to Rhode Island customers
12 over the long term (this applies to all energy use, not just regulated fuels);
- 13 ● Strengthen the Rhode Island economy, support economic competitiveness, retain
14 and create jobs by optimizing the benefits of a modern grid and attaining
15 appropriate rate design structures;
- 16 ● Address the challenge of climate change and other forms of pollution;
- 17 ● Prioritize and facilitate increasing customer investment in their facilities
18 (efficiency, distributed generation, storage, responsive demand, and the
19 electrification of vehicles and heating) where that investment provides
20 recognizable net benefits;
- 21 ● Appropriately compensate distributed energy resources for the value they provide
22 to the electricity system, customers, and society;
- 23 ● Appropriately charge customers for the cost they impose on the grid;
- 24 ● Appropriately compensate the distribution utility for the services it provides;
- 25 ● Align distribution utility, customer, and policy objectives and interests through
26 the regulatory framework, including rate design, cost recovery, and incentives.

1 The Company, in its original PST filing, described how each of the proposed PST
2 investments addressed the Docket 4600 Goals and Framework. Each of the Narragansett
3 Electric’s PST settlement investment categories are designed to advance, or at the very
4 least, be neutral to, the eight goals articulated in the Docket 4600 Guidance Document.
5 Table 1, below, compares each goal adopted in Docket 4600 to the five categories of PST
6 investments agreed upon in the Settlement Agreement.

Table 1

GOALS FOR “NEW” ELECTRIC SYSTEM	Modern Grid	AMF	Electric Transport	Electric Heat	Storage
Provide reliable, safe, clean, and affordable energy	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Strengthen the Rhode Island economy	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Address climate change and other forms of pollution	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Prioritize and facilitate increasing customer investment in their facilities	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Appropriately compensate distributed energy resources	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>
Appropriately charge customers for the cost they impose on the grid	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Neutral</i>	<i>Neutral</i>
Appropriately compensate the distribution utility	<i>Neutral</i>	<i>Y</i>	<i>Y</i>	<i>Neutral</i>	<i>Neutral</i>
Align distribution utility, customer, and policy objectives and interests	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Y</i>	<i>Neutral</i>

8
9

1 **Q. Did the Company consider the Docket 4600 Guidance Document when developing**
2 **the Rhode Island-specific BCA?**

3 A. Yes. In developing the Rhode Island-specific BCA, the Company applied the Benefit-
4 Cost Framework to the extent it is able. All elements of the Company's PST Plan,
5 including its proposed Grid Modernization investments, have been qualitatively assessed
6 against the Docket 4600 goals, both individually and as a portfolio. For the Electric
7 Transportation Initiative, the Electric Heat Initiative, and the Energy Storage Initiative,
8 where the Company is able to quantify and monetize benefits, the Company applied a
9 Rhode Island-specific BCA methodology considering the guidance provided in the
10 Docket 4600 BCA Framework, including the benefit and cost categories included in
11 Appendix 2.1. Where benefits cannot be quantified or reasonably attributed to specific
12 investments, a best-fit/least cost methodology is appropriate, and the Company has
13 applied this methodology to justify the foundational (or core platform) Grid
14 Modernization investments.

15

16 **VIII. Conclusion**

17 **Q. Does this conclude your testimony?**

18 A. Yes.

PRE-FILED SETTLEMENT TESTIMONY

OF

MELISSA A. LITTLE

Dated: June 6, 2018

Table of Contents

I.	Introduction.....	1
II.	Purpose and Structure of Testimony.....	2
III.	Summary of Settlement Provisions for Revenue Requirements and Ratemaking.....	5
IV.	Balancing of Interests	20
V.	Conclusion	26

1 **I. Introduction**

2 **Q. Ms. Little, by whom are you employed and in what position?**

3 A. I am Director, New England Revenue Requirements for National Grid USA Service
4 Company, Inc. (the Service Company). The Service Company provides engineering,
5 financial, administrative, corporate, management, and other technical support to direct
6 and indirect subsidiary companies of National Grid USA (National Grid). My current
7 duties include revenue requirement responsibilities for National Grid’s electric and gas
8 distribution activities in New England, including the electric and gas operations of The
9 Narragansett Electric Company d/b/a National Grid (the Company).¹

10

11 **Q. Have you previously submitted testimony in this rate case proceeding?**

12 A. Yes. On November 27, 2017, I submitted pre-filed direct testimony on behalf of the
13 Company. On May 9, 2018, I submitted pre-filed rebuttal testimony on behalf of the
14 Company.

15

¹ The term “Company” refers to The Narragansett Electric Company’s electric and gas distribution operations on a collective basis. 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 my testimony, I will refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, I will use the terms “Narragansett Electric” or “Narragansett Gas,” respectively, as appropriate.

1 **II. Purpose and Structure of Testimony**

2 **Q. What was the purpose of your initial testimony in this docket?**

3 A. My initial testimony served several purposes. First, my testimony provided the revenue
4 requirement calculation and existing revenue deficiency for Narragansett Electric, and
5 separately for Narragansett Gas, for the twelve-month period ending August 31, 2019
6 (the Rate Year). The cost of service established in my testimony for Narragansett
7 Electric and for Narragansett Gas served as the basis for the allocated cost of service
8 studies presented by Company Witness Howard S. Gorman for Narragansett Electric and
9 Company Witness Paul M. Normand for Narragansett Gas. In addition, my testimony
10 included forecast revenue requirement data for the two twelve-month periods ending
11 August 31, 2020 (Data Year 1) and August 31, 2021 (Data Year 2) for informational
12 purposes.

13
14 Second, my testimony set forth the Company's calculation of the rate base upon which
15 the Company would earn a return. The rate-base calculation was performed in a manner
16 consistent with the rate-base calculation underlying the rates set in the Company's most
17 recent rate case, Rhode Island Public Utilities Commission (PUC) Docket No. 4323, The
18 Narragansett Electric Company d/b/a National Grid Application for Approval of Change
19 in Electric Base Distribution Rates and Gas Delivery Service Rates (2012 Rate Case).

20 My testimony explained the Company's proposal for structuring the recovery of the
21 return of and on rate base through base distribution rates and the gas and electric
22 Infrastructure, Safety, and Reliability (ISR) Plans, which work in tandem under Rhode

1 Island law. The rate base calculation was the same for Narragansett Electric and
2 Narragansett Gas.

3
4 Third, my testimony discussed the Company's cash working capital study for
5 Narragansett Electric and Narragansett Gas and associated cash working capital rate base
6 allowance.

7
8 Fourth, my testimony discussed recovery of costs associated with initiatives proposed by
9 the Company to further its ability to provide safe and reliable service to customers.

10 These costs were included in the Rate Year and Data Year revenue requirements.

11
12 Fifth, my testimony discussed the Company's Storm Contingency Fund (Storm Fund).

13
14 Sixth, my testimony discussed the Company's other miscellaneous proposals and
15 administrative matters relating to (1) the timing of the filing of Narragansett Gas Annual
16 Report and annual earnings sharing mechanism with the PUC; (2) a request to combine
17 funding for costs associated with employee pension obligations and post-retirement
18 benefits other than pension (PBOP) for purposes of the carrying charge calculation
19 relating to each of Narragansett Electric and Narragansett Gas; and (3) a request for the
20 PUC to authorize exogenous cost treatment for the incremental costs incurred by the
21 Company associated with potential legislative or regulatory changes.

22

1 **Q. Please describe the purpose of your settlement testimony.**

2 A. On June 5, 2018, the Company reached a comprehensive settlement in Docket No. 4770,
3 establishing a Multi-Year Rate Plan (Rate Plan), with a three-year term. The purpose of
4 my settlement testimony is to present the arrangement agreed to by the Settling Parties²
5 with respect to revenue requirement and ratemaking issues. My settlement testimony will
6 focus on (1) the details of the settlement reached with the Settling Parties; and (2) the
7 reasons that the PUC should approve the recovery construct established by the settlement
8 as the optimal balancing of interests.

9
10 **Q. How is your settlement testimony structured?**

11 A. Section I of my settlement testimony presents the Introduction. Section II presents the
12 Purpose and Structure of this testimony. Section III presents a description of the agreed-
13 upon settlement for revenue requirements and related ratemaking issues over the three-
14 year term of the Rate Plan. Section IV discusses the reasons that the settlement construct
15 represents the optimal balancing of interests relating to the calculated revenue
16 requirements and related ratemaking issues. Section V is the Conclusion to my
17 testimony.

² The “Settling Parties” refers to the Company; the Division of Public Utilities and Carriers (the Division); the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People’s Power and Light (PPL); Sierra Club (SC); Natural Resources Defense Council (NRDC); Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island; Wal-Mart Stores East, LP and Sam’s East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a Settling Party). PPL intervened in Docket No. 4770 individually. SC and NRDC intervened in Docket No. 4780 jointly with PPL. Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak’s motion, Amtrak is not yet a party to this proceeding.

1 **III. Summary of Settlement Provisions for Revenue Requirements and Ratemaking**

2 **Q. What were the key elements of the Company's proposed revenue requirements in its**
3 **initial filing made on November 27, 2017?**

4 A. The Company proposed separate revenue requirements for Narragansett Electric and
5 Narragansett Gas. The Company based its initial proposed revenue requirements on
6 actual results for the historical Test Year, normalized to reflect a representative twelve-
7 month level of revenue and expenses for that period, and then adjusted for pro forma
8 changes through the end of the Rate Year. The Company determined rate base for
9 Narragansett Electric and Narragansett Gas as of August 31, 2019, based on the actual
10 five-quarter average balances as of June 30, 2017, with certain pro forma adjustments
11 made for ratemaking purposes. Based on this data, for Narragansett Electric, the
12 Company calculated a total Rate Year revenue requirement of \$320,487,337, and an
13 existing revenue deficiency of \$41,294,907. For Narragansett Gas, the Company
14 calculated a total Rate Year revenue requirement of \$244,846,133, and an existing
15 revenue deficiency of \$30,322,543. Forecast data provided the basis for computing the
16 Company's revenue requirements for Narragansett Electric and Narragansett Gas for the
17 Rate Year and Data Years.

18
19 Within the proposed revenue requirements, the rate-base computation included a
20 projected level of capital investment commensurate with the levels approved in the
21 Company's Fiscal Year 2018 Electric and Gas ISR Plan filings, in Docket Nos. 4682 and
22 4678, respectively, through the end of the Rate Year and the Data Years. The Company

1 indicated that inclusion of that ISR Plan capital investment in rate base, and the resulting
2 recovery through base distribution rates beginning September 1, 2018 would cause a
3 reduction in the amount of ISR Plan revenue recovered by the Company through that
4 mechanism.

5
6 **Q. Did the Company prepare schedules to support your initial filed revenue**
7 **requirement calculations for Narragansett Electric and Narragansett Gas?**

8 A. Yes. The proposed revenue requirements were supported by a cost of service analysis
9 contained in Schedule MAL-1-ELEC and Schedule MAL-1-GAS to Schedule MAL-42,
10 which presented supporting schedules for each component including the normalizing and
11 pro forma adjustments to Test Year data.

12
13 **Q. Under the Settlement Agreement, what are the proposed revenue requirements for**
14 **Narragansett Electric and Narragansett Gas?**

15 A. The Rate Plan represents a comprehensive settlement of the contested issues in this
16 proceeding, covering a three-year term effective September 1, 2018. As initially filed,
17 the Company's overall proposal requested (1) that the PUC set new base distribution
18 rates based on revenue requirements calculated through the Rate Year; and (2) that the
19 PUC institute a new mechanism to recover Power Sector Transformation (PST) costs.

20
21 The Settlement Agreement does not institute a new mechanism to recover PST costs, but
22 instead establishes an overall ratemaking plan with a three-year term that will allow a

1 recovery path for the Company's reasonably and prudently incurred costs of operation,
2 including PST, while balancing the interests of customers in terms of instituting customer
3 protections, smoothing bill impacts, and enabling the achievement of overarching policy
4 goals for safe and reliable service.

5
6 Specifically, in the Company's initial filing, the Company demonstrated an existing
7 revenue deficiency of \$41,294,907 for Narragansett Electric and \$30,322,543 for
8 Narragansett Gas, with a distribution rate increase effective September 1, 2018 to recover
9 these deficiencies. Under the Rate Plan, base distribution rates would be set annually
10 over a three-year period, providing a base revenue increase of approximately \$20 million
11 for Narragansett Electric and approximately \$14.3 million for Narragansett Gas, which is
12 a significant reduction from the original requested increase for both components of the
13 Company's regulated operations.

14
15 In addition, the Rate Plan provides for an annual increase each year to enable funding for
16 the Company's PST Plan initiatives authorized by the Settlement Agreement and
17 discussed in the settlement testimony of Company Witnesses Kayte O'Neill, Robert D.
18 Sheridan, Carlos A. Nouel, and Meghan McGuinness (PST Panel). If the Settlement
19 Agreement is approved, authorized PST investments would include the following
20 initiatives: (1) Grid Modernization Foundational Investments; (2) Grid Modernization
21

1 Plan; (3) an updated Advanced Meter Functionality business case; (4) an Electric
2 Transportation Program; (5) an Electric Heat Program; (6) a Strategic Electrification
3 Marketing Fund; and (7) an Energy Storage Program.
4

5 In terms of timing, the Settlement Agreement establishes a ratemaking framework to span
6 a three-year term following the Test Year.³ Rate Year 1 is the period September 1, 2018
7 through August 31, 2019. Rate Year 2 is the period September 1, 2019 through
8 August 31, 2020. Rate Year 3 is the period September 1, 2020 through August 31, 2021.
9

10 The specific base distribution rate annual revenue requirements for Narragansett Electric
11 and Narragansett Gas for each of the Rate Years of the Rate Plan (*i.e.*, Rate Year 1, Rate
12 Year 2, and Rate Year 3), with and without PST, are presented in Table 1, below:

³ The Test Year for this proceeding is the period from July 1, 2016 through June 30, 2017.

Table 1
Revenue Requirement Increases Commencing September 1, 2018

	Narragansett Electric (in \$M)	Narragansett Gas (in \$M)	Total
Base Case			
Rate Year 1	\$14.1	\$5.5	\$19.6
Rate Year 2	\$3.9	\$5.5	\$9.4
Rate Year 3	<u>\$2.0</u>	<u>\$3.3</u>	<u>\$5.3</u>
Subtotal – Base Case	\$20.0	\$14.3	\$34.3
Power Sector Transformation			
Rate Year 1	\$5.3	\$1.4	\$6.7
Rate Year 2	\$4.1	\$0.5	\$4.6
Rate Year 3	<u>\$1.9</u>	<u>\$0.6</u>	<u>\$2.5</u>
Subtotal - PST	\$11.3	\$2.5	\$13.8
Base Case plus PST			
Rate Year 1	\$19.4	\$6.9	\$26.3
Rate Year 2	\$8.0	\$6.0	\$14.0
Rate Year 3	<u>\$3.9</u>	<u>\$3.9</u>	<u>\$7.8</u>
TOTAL	<u>\$31.3</u>	<u>\$16.8</u>	<u>\$48.1</u>

Q. Did the Company prepare schedules to support the Rate Plan-related revenue requirement calculations for Narragansett Electric and Narragansett Gas?

A. Yes. The Rate Plan-related revenue requirements are supported by full cost of service analyses for each Rate Year under the Rate Plan, as contained in Attachment 2 to the Settlement Agreement. Attachment 2 is organized as a series of Schedules 1 through 42 that correspond with the revenue requirement schedules filed with my testimony in the Company’s initial November 27, 2017 filing, as well as with the first-revised and second-revised revenue requirement filings made on March 2, 2018 and May 9, 2018,

1 respectively. For example, Attachment 2, Schedule 1-ELEC corresponds with Schedule
2 MAL-1-ELEC.

3
4 **Q. What are the primary differences between the Company’s initial filed revenue**
5 **requirements and the revenue requirements and ratemaking elements incorporated**
6 **into the Rate Plan as part of the Settlement Agreement?**

7 A. To reach a settlement in these proceedings, the Company accepted many of the
8 downward adjustments to operating expenses and rate base recommended by the
9 Division. A breakdown of the changes to the proposed revenue requirements is shown in
10 Table 2, below:

1
2
3

Table 2
Modifications from Initial Filing on November 27, 2017

	Rate Year 1 (in \$M)	Rate Year 2 (in \$M)	Rate Year 3 (in \$M)
Company Incremental Base Rate Request			
<i>November 27, 2017 Initial Base Rate Request</i>	\$71.6		
Correct Accumulated Deferred Income Taxes in Rate Base	(\$6.7)		
Reduce Federal Income Tax rate per Tax Act ⁴	(\$19.3)		
Other expense adjustments	<u>\$0.2</u>		
<i>March 2, 2018 (REV-1) Base Rate Request</i>	\$45.8		
Refund of Excess Deferred Taxes	(\$9.0)		
Administrative and General Expense Reclassification to Capital	<u>(\$4.5)</u>		
<i>March 2, 2018 (REV-1) Adjusted Base Rate Request</i>	\$32.4⁵		
Settlement Adjustments			
Subtotal - Expense Adjustments	(\$12.5)	\$0.0	\$0.0
Subtotal - Rate Base Adjustments	(\$3.1)	\$0.0	\$0.0
Adjustment to Revenue Requirement for Rate Base Change	<u>(\$0.3)</u>		
<i>Total Adjustments</i>	(\$12.7)	\$0.0	\$0.0
<i>Settlement Base Rate Request</i>	\$19.6	\$9.4	\$5.3
Incremental PST Recovery			
<i>Annual PST Increases</i>	\$6.7	\$4.6	\$2.5
Total Settlement - Base Case plus PST	\$26.3	\$14.0	\$7.8

⁴ The Tax Cuts and Jobs Act of 2017 (the Tax Act).

⁵ As described in Section 4.h. (Narragansett Electric) and Section 8.h. (Narragansett Gas) of the Settlement Agreement, the Company will include all other revenue requirement adjustments identified in this docket (1) during discovery, (2) in the preparation of the May 9, 2018 rebuttal cost of service, and (3) resulting from changes presented in the rebuttal testimony in its compliance filing revenue requirement. These adjustments account for the difference between the Company's adjusted March 2, 2018 request of \$32.4 million and the request of \$34.3 million submitted with the Company's rebuttal filing on May 9, 2018.

1 The items listed below are the drivers of the primary expense and rate base adjustments
2 made to the Company's proposed revenue requirements for purposes of the settlement for
3 Narragansett Electric and Narragansett Gas. Quantification of the impact of each of these
4 changes is provided in Attachment 1 to the Settlement Agreement:

- 5 ▪ Reduction of income tax expense to reflect an annual credit to customers related
6 to the Company's excess deferred income taxes generated by the Tax Act at the
7 levels proposed by the Division.
- 8 ▪ Reduction of Administrative and General operating and maintenance (O&M)
9 expenses for a reclassification to capital.
- 10 ▪ Funding for the Company's share of Service Company unfunded excess deferred
11 income taxes.
- 12 ▪ Reduction of authorized return on equity (ROE) from 10.1 percent to 9.275
13 percent.
- 14 ▪ Use of the Division's adjusted capital structure for Narragansett Gas and
15 Narragansett Electric and use of the Division's long-term debt rate for
16 Narragansett Gas. Using the Division's capital structure for both Narragansett
17 Gas and Narragansett Electric reduces the cost of capital due to a reduction in
18 the equity component of the capital structure from 50.97 to 50.95 percent, along
19 with 47.85 percent long-term debt, 1.11 percent short-term debt, and 0.09
20 percent preferred stock. Also, the cost of long-term debt is reduced for
21 Narragansett Gas from 5.18 percent to 5.10 percent.

- 1 ▪ Modification of depreciation accrual rates to reduce depreciation expense.
- 2 ▪ Reduction of Service Company rents associated with Gas Business Enablement,
- 3 Information Systems (IS), and Facilities projects to incorporate the authorized
- 4 ROE of 9.275 percent.
- 5 ▪ Reduction of Service Company rents for Gas Business Enablement “slippage”
- 6 adjustment (15 percent) and incorporation of Type II savings.
- 7 ▪ Reduction of Service Company rents for IS projects “slippage” adjustment (15
- 8 percent).
- 9 ▪ Reduction to uncollectible write-off rate for gas operations. This adjustment
- 10 reduces the average Narragansett Gas write-off rate from 2.08 percent to 1.91
- 11 percent.
- 12 ▪ Smoothing of incremental distributed generation- (DG) related full-time
- 13 equivalents (FTEs) over the three-year term, rather than implementation entirely
- 14 as of the start of new rates on September 1, 2018.
- 15 ▪ Smoothing of incremental gas and electric FTEs over the three-year term, rather
- 16 than implementation entirely as of the start of new rates on September 1, 2018.
- 17 ▪ Reduction of the Growth Forecast for Narragansett Gas.
- 18 ▪ Reduction of Depreciation Expense, Depreciation Reserve, and Accumulated
- 19 Deferred Income Taxes, related to modification of the Gas Growth forecast.
- 20

1 **Q. What are the drivers of the rate changes that occur as of September 1, 2019 and**
2 **September 1, 2020 (i.e., for Rate Year 2 and Rate Year 3)?**

3 A. Attachment 1 to the Settlement Agreement, at Pages 3 and 4, itemizes and quantifies cost
4 changes that cause the base-distribution rate increases for Rate Year 2 and Rate Year 3.

5 The cost drivers are summarized as follows:

- 6 • **Labor and Labor-Related Benefit Costs** (\$2.2 million/\$1.9 million). These
7 changes track the payroll increases that the Company will experience for union and
8 non-union personnel, as presented in the Company's initial filing by Company
9 Witness Maureen P. Heaphy. This increase also includes the smoothed out cost of
10 168 incremental FTEs, which is net of expected retirements.
11
- 12 • **Service Company Rents** (\$0.4 million/(\$0.2) million). These changes are made to
13 reflect a projected net increase in Service Company Rents in Rate Year 2, followed
14 by a decrease in Rate Year 3, which follows from the profile of projects forecast to be
15 in service, net of reduced return on existing projects as their average net book value
16 decreases through time due to amortization. Both Rate Year 2 and Rate Year 3 reflect
17 a "slippage adjustment" of 15 percent from the allocated revenue requirement
18 allocated to Narragansett Electric and Narragansett Gas.
19
- 20 • **Other O&M cost increases** (\$0.1 million/(\$0.1) million). Increases in other O&M
21 costs to run the business mostly are offset by decreases in pension expense based on
22 actuarial forecasts.
23
- 24 • **Rate Base Additions for Narragansett Electric** (approximately \$2 million).
25 Incremental capital investment associated with facilities expenditures will be
26 incorporated into rate base. Associated increases in depreciation expense will follow
27 as a flow-through impact of the incremental investment.
28
- 29 • **Rate Base Additions for Narragansett Gas** (approximately \$21-\$22 million).
30 Incremental capital investment associated with Gas Growth capital expenditure will
31 be incorporated into rate base. Associated increases in depreciation expense will
32 follow as a flow-through impact of the incremental investment.
33

1 **Q. How are capital additions recovered through the ISR mechanism accounted for in**
2 **the Settlement Agreement, particularly in relation to the annual base distribution**
3 **rate increases to take effect in Rate Year 1, Rate Year 2, and Rate Year 3?**

4 A. Under the Settlement Agreement, rate base for Narragansett Electric and Narragansett
5 Gas for the Rate Years will be calculated to include a projected level of capital
6 investment commensurate with the levels provided in the Company's fiscal year 2018
7 Electric and Gas ISR Plan filings, in Docket Nos. 4682 and 4678, respectively, through
8 the end of Rate Year 1. Narragansett Electric and Narragansett Gas rate base for the Rate
9 Years will be calculated to include non-ISR capital additions through August 31, 2021.⁶
10 Narragansett Electric and Narragansett Gas' rate base for the Rate Years also will reflect
11 the unamortized cost of long-term debt issuance expense. No incremental ISR-related
12 capital additions will be included in Narragansett Electric or Narragansett Gas' rate base
13 for Rate Year 2 or Rate Year 3. Therefore, ISR-related capital additions made during the
14 twelve-month periods ending August 31, 2020 and August 31, 2021 will be included for
15 recovery in future ISR Plans.

16
17 **Q. How has the Company incorporated the cost increases for incremental FTEs over**
18 **the three-year term to mute the impact of cost increases for customers?**

19 A. The Company's recalibration of FTE costs is shown as follows in Attachment 3 to the
20 Settlement Agreement at Workpaper 4:

⁶ Capital additions currently recovered through the ISR will be included in rate base as of September 1, 2018, concurrent with the effective date of new base distribution rates in these proceedings. Therefore, the capital-related portion of the ISR factor will be set to zero as of September 1, 2018.

1 Pages 10 through 13 feature three new columns to indicate which of the 168 requested
2 rate year positions already have been hired (Column (h)); which positions are specific to
3 DG (Column (i)); and whether those specific DG positions are likely to be hired in Rate
4 Year 1, Rate Year 2, or Rate Year 3 (Column (j)).

5
6 Next, Page 14 outlines the Company's original request disaggregated by Incremental
7 Distributed Generation, Incremental Additions, Incremental Overtime, and Incremental
8 Attrition. The FTE counts and dollars correspond to the information provided on Pages
9 10 through 13.

10
11 Page 15 uses the information from Pages 10 through 13, Column (h) to break down the
12 number of Incremental Distributed Generation and Incremental Additions FTEs that have
13 been hired to date, and subtracts those numbers from the original number of requested
14 FTEs to determine the number of remaining FTEs to shape across the three years.

15
16 Page 16 then calculates the number of FTEs and associated salaries that should remain in
17 Rate Year 1 and Rate Year 2. The schedule includes the timing of specific DG positions,
18 as identified on Page 13, Columns (i) and (j), and includes approximately half of all other
19 remaining positions and dollars from Page 15 in Rate Year 1. Rate Year 2 includes
20 approximately two-thirds of the remaining half.

21

1 Page 17 then completes the shaping in Rate Year 3 by including the timing of specific
2 DG positions and approximately one-third of the remaining half, or the difference
3 between the remaining FTEs and the prior two years.
4

5 **Q. Are there any provisions of the Settlement Agreement that pertain to storm cost**
6 **recovery for Narragansett Electric?**

7 A. Yes. For Narragansett Electric, the Settlement Agreement establishes certain parameters
8 related to the recovery of storm-related restoration costs. The provisions included in the
9 Settlement Agreement are the following:

10 **Non-Deferrable Storm Expense.** The Settlement Agreement provides that the
11 amount of non-deferrable storm expense allowed for recovery through base
12 distribution rates will be set at \$3,193,756⁷ annually, subject to certain
13 qualifications. These qualifications are as follows: If the actual level of non-
14 deferrable storm expense in any calendar year, commencing with 2019, is greater
15 than \$5,193,756, then the amount in excess of \$5,193,756 will be charged to the
16 Storm Fund. If the actual level of non-deferrable storm expense in any calendar
17 year, commencing with 2019, is less than \$1,193,756, then the amount by which
18 \$1,193,756 exceeds the actual non-deferrable storm expense in that calendar year
19 will be credited to the Storm Fund. Because new base distribution rates go into
20

⁷ This amount is the five-year average of non-deferrable storm expense for the period covering the twelve months ended June 30, 2013 to the twelve months ended June 30, 2017 (see Schedule MAL-31 (Rev-2) at Page 7, Line 13, Column (e)).

1 effect on September 1, 2018, the deadband for 2018 will be applied to the average
2 of \$3,722,000⁸ for 8/12ths of the year and \$3,193,756 for 4/12ths of the year, or
3 \$3,545,919.

- 4
- 5 ■ **Storm Contingency Fund.** The Storm Fund is subject to the provisions of the
6 Docket No. 4686 Settlement Agreement. The total Narragansett Electric base
7 distribution rate recovery of Storm Fund contributions effective September 1,
8 2018 will be \$7.3 million annually, including:

- 9 (1) \$4.3 million in annual base distribution rate contributions; and
- 10 (2) \$3.0 million of supplemental Hurricane Sandy base distribution rate
11 contributions through their currently scheduled expiration in March 2021.
12 Thereafter, the continuation of this supplemental \$3.0 million annual
13 Storm Fund contribution will be subject to PUC review.

14 In addition, a contribution of \$21.1 million annually is credited to the Storm Fund
15 from the Storm Fund Replenishment Factor through its currently scheduled
16 expiration in June 2021.

17

⁸ The amount of non-deferrable storm expense allowed for recovery through base distribution rates for Narragansett Electric was set at \$3,722,000 in the 2012 Rate Case. This amount is the five-year average of non-deferrable storm costs for calendar years 2007 to the 2011 test year in the Company's last general rate case. As agreed to in the PUC-approved Amended Settlement Agreement in the 2012 Rate Case, a \$2,000,000 deadband was established, which would trigger additional charges to the Storm Fund for non-deferrable storm costs in excess of \$5,722,000 in a calendar year, or a credit to the Storm Fund if non-deferrable storm costs were less than \$1,722,000. See Paragraph (9), at 3 of the Joint Proposal and Settlement Agreement between the Company and the Division filed on September 25, 2017 in Docket No. 4686 and approved by the PUC on April 27, 2018 (the Docket No. 4686 Settlement Agreement).

1 **Q. Are there additional impacts from the Tax Act that are addressed by the Settlement**
2 **Agreement?**

3 A. Yes. At the end of Fiscal Year 2018, the Service Company reduced its total net deferred
4 tax asset on its balance sheet by \$96.8 million to account for the reduced income tax rate.
5 This balance consists mainly of timing differences for accruals for employee
6 compensation and benefits, pension and post-retirement benefits other than pension
7 obligations, and timing differences related to net operating losses offset by accelerated
8 deductions for plant. The Company calculated the estimated life over which these assets
9 will reverse based on when the associated cash payments would have an impact on the
10 Service Company's taxable income. Using a weighted average of these lives, the
11 Company calculated a period of 3.38 years over which customers will fund this asset, and
12 the asset will amortize accordingly. This derives total unfunded tax amortization at the
13 Service Company of \$28.6 million annually.

14
15 To determine the allocation of this annual amortization, the Service Company utilized a
16 three-point general allocator (net margin, net plant, and O&M costs) to allocate the
17 annual Service Company unfunded deferred tax amortization to the Company. This
18 allocation results in approximately 7.93 percent of the Service Company's total annual
19 amortization being allocated to Narragansett Electric, or \$2.3 million annually; and 2.73
20 percent to Narragansett Gas, or \$0.8 million annually. This annual amortization has been
21 reflected in the Settlement Agreement revenue requirement as an offset to Service
22 Company rent expense, as shown in Attachment 2, Schedule 17.

1 **IV. Balancing of Interests**

2 **Q. What are the aspects of the Settlement Agreement that indicate a balancing of the**
3 **Company's proposals with customer interests?**

4 A. There are several aspects of the Settlement Agreement that represent concessions to the
5 customer interest and indicate the Settlement Agreement achieves the proper balance of
6 interests. In entering into the Settlement Agreement, the Company worked to achieve
7 three critical objectives: (1) to assure that there is adequate recovery of the operating
8 costs that must be reasonably and prudently incurred to provide safe and reliable service
9 to customers; (2) to achieve a level of stability in the ratemaking structure so that it will
10 be possible to avoid the need for a subsequent base-distribution rate increase for a period
11 of time that will allow the business to focus on its operations; and (3) to meet the interests
12 of customers and the broader economy in the State of Rhode Island by developing the
13 tools necessary to provide safe and reliable service consistent with overarching policy
14 goals, without overly burdensome bill impacts for customers. Fundamentally, the
15 Settlement Agreement achieves this balance by providing the Company with a recovery
16 path for costs associated with incremental staffing and the replacement or upgrading of
17 critical information systems, while modifying other elements of the ratemaking formula
18 to smooth bill impacts for customers. The tradeoffs that the Company has made to
19 achieve settlement are significant, and are comprised of the following:

20

- 1 ▪ Significant reduction of the proposed base revenue increase.
- 2 ▪ Relinquishment of the proposed PST Provision, which would have allowed
- 3 reconciling recovery of O&M and capital costs incurred to promote PST objectives.
- 4 ▪ An 82.3 basis-point reduction from the Company's proposed ROE. The Company's
- 5 proposed ROE was developed using valid and appropriate analysis of market
- 6 conditions. The agreed upon ROE is also lower than the Company's currently
- 7 authorized ROE.
- 8 ▪ A reduction in depreciation expense of \$3.1 million annually, reducing the
- 9 Company's cash flow from operations.
- 10 ▪ Up-front reductions to the proposed cost recovery for Gas Business Enablement and
- 11 IS projects to incorporate savings associated with avoided costs (Type II savings),
- 12 and requiring a payback to customers if actual costs are below estimates (or allowing
- 13 recovery of actual costs if greater than the reduced level included in rates).
- 14 ▪ Reduction to the Narragansett Gas growth forecast, reducing forecasted capital
- 15 investment included in base distribution rates.
- 16

17 **Q. Are there any other protections established for customer interests?**

18 A. Yes. The Settlement Agreement establishes an Earnings Sharing Mechanism for

19 Narragansett Electric and Narragansett Gas.

20

21 For Narragansett Electric, the Earnings Sharing Mechanism will encompass the following

22 principal elements:

1 **Annual Earnings Report.** The Company will continue to file with the PUC and the
2 Division annual earnings reports for each calendar year for Narragansett Electric
3 consistent with and in a form similar to that which the Company has been filing for
4 several years, most recently in Docket No. 4323. The timing of the filing of the annual
5 earnings report for Narragansett Electric shall be May 1 of each year.

6
7 **Calculation of Earnings for Annual Earnings Report.** The Company will show the
8 calculation of the regulatory earned return on distribution rate base and the earned return
9 on distribution common equity in three ways: (1) Actual Earnings for the applicable
10 calendar year, (2) Base Earnings for the applicable calendar year, and (3) ESM Earnings
11 for the applicable calendar year.

- 12 • **“Actual Earnings”** means earnings including all Performance Incentives
13 earned for the applicable calendar year.
- 14 • **“Base Earnings”** means earnings excluding all Performance Incentives
15 earned for the applicable calendar year. The Base Earnings calculation
16 also shall exclude any financial penalties incurred by Narragansett Electric
17 that may have been assessed by the PUC or the Division during the
18 calendar year, and the report shall disclose those excluded amounts
19 separately.
- 20 • **“ESM Earnings”** means Base Earnings, plus earnings from the EE
21 Performance Incentive, plus earnings from the Performance Incentive
22 Mechanisms Incentives defined in the settlement, each for the applicable calendar
23 year, plus any earnings from any future incentive that may be approved by the PUC
24 which, at the time of approval, the PUC expressly specifies shall be
25 included in the calculation of ESM Earnings (if not specified for inclusion, such new
26 incentive shall be excluded from this calculation).
- 27
28

1 In terms of the sharing of earnings, the Settlement Agreement establishes a “Sharing
2 Threshold”, which is the allowed ROE plus the maximum applicable performance
3 incentives potential in the calendar year (in basis points) for energy efficiency, plus the
4 maximum PST-related performance incentives in the calendar year (in basis points), for
5 Narragansett Electric.

6
7 If and when the combination (sum) of Base Earnings, Energy Efficiency Performance
8 Incentive earnings, Performance Incentive Mechanisms Incentive earnings, each for the
9 applicable calendar year, exceed the Sharing Threshold, excess earnings sharing will
10 begin. For the first 100 basis points of excess earnings above the Sharing Threshold, 50
11 percent of the excess earnings in this tier will be credited to customers and 50 percent
12 will be retained by the Company. For any excess earnings more than 100 basis points
13 above the Sharing Threshold, 75 percent of the excess earnings will be credited to
14 customers and 25 percent will be retained by the Company.

15
16 The Settlement Agreement provides that any excess electric earnings credited to
17 customers will be credited to the Storm Fund, unless the PUC otherwise directs the credit
18 to customers in another manner.

19
20 For Narragansett Gas, the Earnings Sharing Mechanism will encompass the following
21 principal elements:

1 **Annual Earnings Report.** The Company will continue to file with the PUC and the
2 Division annual earnings reports for Narragansett Gas consistent with and in a form
3 similar to that which the Company has been filing for several years, most recently in
4 Docket No. 4323. However, the Company’s Annual Report to the PUC for Narragansett
5 Gas will now reflect the twelve-month period ending December 31 as opposed to the
6 Company’s fiscal year ending March 31. The timing of the filing of the annual earnings
7 report for Narragansett Gas will change from September 1 to May 1 each year to align
8 with the timing of the filing of the Company’s earnings report for Narragansett Electric
9 on May 1 of each year. The Company will file its gas earnings report for Fiscal Year
10 2018 on or before September 1, 2018. The Company will file its first gas earnings report
11 for the twelve-month period ending December 31, 2018 by May 1, 2019.

12
13 **Calculation of Earnings for Annual Earnings Report.** For purposes of the earnings
14 reports, the Company will calculate the earnings of Narragansett Gas showing earnings
15 with and without applicable performance incentives.

16
17 **Earnings Sharing With Customers.** If and when the Narragansett Gas base earnings
18 exceed 9.5 percent in any Rate Year, the amount in excess of 9.5 percent will be deemed
19 “shared earnings.”

20

- 1 • ROE > 9.5% and <= 10.0%: If the level of earned ROE exceeds 9.5 percent
2 but is less than or equal to 10.0 percent, 50 percent of the shared earnings in
3 this tier will be credited to customers and the Company will retain 50 percent
4 of the shared earnings, which will not be reflected in any earnings reports.
- 5 • ROE > 10.0% and <= 10.5%: If the level of earned ROE exceeds 10.0
6 percent but is less than or equal to 10.5 percent, 75 percent of the shared
7 earnings in this tier will be credited to customers and the Company will retain
8 25 percent of the shared earnings, which will not be reflected in any earnings
9 reports.
- 10 • ROE > 10.5%: If the level of earned ROE exceeds 10.5 percent, 90 percent of
11 the shared earnings above 10.5 percent will be credited to customers and the
12 Company will retain 10 percent of the shared earnings, which will not be
13 reflected in any earnings reports.

14

15 The Company will retain 100 percent of any excess gas earnings of the Actual Total
16 Earnings (earnings including all performance incentives) that are attributable to any of
17 the performance incentives. Any excess gas earnings credited to customers will be
18 credited to the Distribution Adjustment Clause, unless the PUC otherwise directs the
19 credit to customers in another manner.

20

21

22

1 **Q. What action is the Company requesting by the PUC on the Settlement Agreement?**

2 A. The Company is requesting that the PUC review and assess the Settlement Agreement
3 and all of its provisions to confirm that the balancing of interests reflected in the
4 Settlement Agreement properly allows a path for recovery of reasonable and prudent
5 utility costs and establishes a stable ratemaking framework to further Rhode Island's
6 long-term policy objectives, without imposing overly burdensome bill impacts on
7 customers.

8

9 **V. Conclusion**

10 **Q. Does this conclude your testimony?**

11 A. Yes.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Commission's Fourth Set of Data Requests
Issued December 21, 2017

PUC 4-1 SUPPLEMENTAL

Request:

Please recalculate the revenue requirement for each Narragansett Electric and Narragansett Gas that results from the changes to the tax code made in H.R.-1 The Tax Cuts & Jobs Act. If the companies are still working through all of the Act to determine all of the impacts, at a minimum, please recalculate the revenue requirement to reflect the change in the corporate tax rate from 35% to 21% and supplement the response after full analysis has been completed.

Response:

As suggested by the question, adjustments to the Company's proposed revenue requirements for Narragansett Electric and Narragansett Gas are appropriate to account for revisions to the corporate tax rate modified by the federal Tax Cuts and Jobs Act (Tax Act). There are several ramifications that flow from the change in the corporate tax rate and some of these ramifications will take time to evaluate and quantify. National Grid is fully engaged in the process of identifying the cost reductions that will flow to customers of all of its regulated utility operations. It is clear that the change in tax rate will have an impact on both annual income-tax expense and balances of Accumulated Deferred Income Tax and Excess Deferred Federal Income Tax. Also, it is clear that it will be necessary to align the Company's proposed revenue requirements with the specifications of the Tax Act by the time that rates go into effect for this proceeding.

The Company has not yet had sufficient time to rerun all of the revenue requirement models to determine the precise reduction that would flow through the Company's entire revenue requirement proposals for this proceeding as a result of the change in corporate tax rate. Although it is a relatively straightforward calculation for the first year revenue requirement, flowing the change through the future years is a more involved exercise. For the first year impact, the Company estimates a reduction to the revenue requirements of approximately \$19.3 million in total for Rhode Island customers, which is a \$9.7 million reduction for Narragansett Electric and a \$9.6 million reduction for Narragansett Gas. Please refer to Attachment PUC 4-1 for summary revenue requirement schedules reflecting this reduction.

The Company will supplement this response as soon as reasonably possible to provide a more detailed analysis.

Supplemental Response:

On March 2, 2018, the Company submitted revised revenue requirements for Narragansett Electric and Narragansett Gas with the Public Utilities Commission (PUC) reflecting the reduction in the federal income tax rate from 35 percent to 21 percent, and also recalculated the projected deferred income tax components of rate base to reflect a provision of the Tax Act that

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Commission's Fourth Set of Data Requests
Issued December 21, 2017

ceases bonus depreciation on capital investment after September 27, 2017. As a consequence of the reduction in the federal income tax rate, the Company restated all of its net deferred tax liability balances based on the new 21 percent federal income tax rate because the Company will be paying income taxes as the book/tax timing differences reverse at that 21 percent federal income tax rate. The Company's net deferred tax liability is a liability for income taxes to be paid in the future to the federal government. The 14 percent decrease to the federal income tax rate and aforementioned restatement of the Company's net deferred tax liability balances reflects the fact that the Company's liability to the federal government has been reduced. Deferred taxes for the Company are primarily the result of differences in the timing of when a cost is expensed (*i.e.*, deducted) on its federal income tax return, and when it is expensed on the Company's books. These are referred to as "book-to-tax return differences" or "book/tax timing differences". In general, costs are expensed on an accelerated basis for tax return purposes than they are on the Company's books. The most prevalent book/tax timing difference relates to plant which is expensed for tax purposes faster than it is depreciated on the Company's books.

With the limited exception of the change in deferred income taxes associated with non-recoverable expenses, the Company has recorded an excess deferred tax liability to offset the net reduction to its net deferred tax liability balances. This excess deferred tax liability is a regulatory liability account representing an amount ultimately owed entirely to customers. Certain property related excess deferred taxes are referred to as "protected" excess deferred taxes. Pursuant to the Tax Act, the timing of the pass back of protected excess deferred taxes must align with the timing of when the Company will receive the benefit from the federal government of the reduction in the tax rate. This will occur when the underlying book/tax timing differences reverse and the Company ultimately pays income tax at a 21 percent tax rate for a cost that it deducted prior to the Tax Act at the 35 percent tax rate then in effect. Until that time, the Company has no benefit to return to customers. The Company would violate the normalization rules under the Tax Act if it were to provide customers with the benefit of protected excess deferred taxes prior to the time that it earned that benefit. Protected excess deferred income taxes will be passed back to customers beginning September 1, 2018 when new base distribution rates go into effect, through the end of the depreciable book life of the last fully depreciated asset that was placed into service prior to January 1, 2018.

Certain plant-related excess deferred taxes and all non-plant related excess deferred taxes are considered to be "non-protected". The plant-related non-protected excess deferred taxes include those associated with deferred income taxes generated by the "capital repairs" tax deduction for certain plant assets recorded on the Company's books that were eligible for immediate deduction as an expense on the Company's federal income tax return. There are no restrictions on the timing in which non-protected excess deferred income taxes are returned to customers; however, it would be prudent to align the timing of non-protected amounts within a reasonable period of time in which the Company will earn the benefit. Should federal income tax rates increase in the future, in addition to increased customers' bills attributable to the increase in the income tax

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Commission's Fourth Set of Data Requests
Issued December 21, 2017

rates, customers would also be required to return any non-protected excess deferred taxes that were prematurely provided to them.

At this time, the Company estimates that total protected and non-protected excess deferred taxes to be approximately \$116 million and \$51 million for Narragansett Electric distribution and Narragansett Gas, respectively. Please see the components of the Company's estimated excess deferred income taxes in the Company's responses to Division 31-1 and Division 31-2, Attachment DIV 31-1, and Attachment DIV 31-2. These estimates are based on the temporary differences in effect on December 31, 2017 adjusted by an estimate of the temporary difference movement between December and March 31, 2018.

Attachment DIV 31-1 and Attachment DIV 31-2 present the data categorized by property related and non-property related amounts. The Net Operating Loss (NOL) deferred taxes are included with the property related deferred taxes as the NOL is caused by the plant deductions for repairs and bonus depreciation and is currently included in rate base calculations. The Company has also estimated the split of deferred taxes between the transmission and distribution operations. Approximately \$98 million of the Narragansett Electric distribution excess deferred taxes of \$116 million is property-related and the remaining \$18 million is non-property related. Approximately \$47 million of the Narragansett Gas excess deferred taxes of \$51 million is property-related and the remaining \$4 million is non-property related. The Company is unable to provide the amounts for protected and unprotected property related deferred taxes at this time. The Company currently keeps all tax related depreciation and the tax basis of its plant assets in its PowerTax system. At present, the PowerTax system calculates book-to-tax depreciation timing differences for the current fiscal year only. To identify and to calculate protected and unprotected property balances, the Company needs to implement a deferred tax module in PowerTax to match up the historic book depreciation amounts, by vintage year of investment and by asset type. The new deferred tax model is also needed to accurately determine the timing of the reversal of the underlying plant related book/tax timing differences, which will establish the timing for the pass back to customers of the protected excess deferred federal income taxes. The project is currently under bid and is expected to commence in May 2018.

The Company has recorded the \$116 million and \$51 million estimates of customer related excess deferred federal income tax to a tax regulatory liability account as described above in recognition that customers will be refunded those excess deferred taxes. The Company will be able to calculate more accurately excess deferred taxes when its fiscal year ended March 31, 2018 audited financial statements are completed during the late summer. 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.

At this time, the Company is proposing to reduce its Narragansett Electric and Narragansett Gas revenue requirements by a high level estimate of excess deferred income tax amortization of \$4.1

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Commission's Fourth Set of Data Requests
Issued December 21, 2017

million and \$1.8 million, respectively. The Company would propose to 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 would reconcile the impact of the actual excess deferred tax amortization with the estimated amounts identified above, and would 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 proposes to 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 whether to provide annual adjustments in the Narragansett Electric and Narragansett Gas RDM reconciliation filings if the differences are determined to be relatively small such that adjusting base distribution rates would not be needed.

In developing the high level estimate of excess deferred income tax amortization, the Company must be careful not to violate the normalization rules of the Tax Act and amortize more protected excess deferred taxes than allowed. Also, as described above, the Company needs to implement a deferred tax module in PowerTax before it can determine the protected and non-protected portions of its property related excess deferred taxes. For this high level estimate, the Company proposes to amortize 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 expects that the majority of its non-protected excess deferred taxes will be property related; consequently, the Company proposes to amortize all non-protected excess deferred taxes over the average remaining service lives of 22 years and 25 years for Narragansett Electric distribution and Narragansett Gas property, respectively. The calculation of these lives was provided in the Company's response to Division 31-4, Attachment DIV 31-4. The high level estimate of excess deferred tax amortization is calculated as follows:

Narragansett Electric:

Property related excess deferred taxes	\$98 million/30 years=\$3.3 million
Non-property excess deferred taxes	\$18 million/22 years=\$0.8 million

Narragansett Gas:

Property related excess deferred taxes	\$47 million/30 years=\$1.6 million
Non-property excess deferred taxes	\$ 4 million/25 years=\$0.2 million

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Commission's Fourth Set of Data Requests
Issued December 21, 2017

Prior to the commencement of hearings in this docket, the Company will update its Narragansett Electric and Narragansett Gas revenue requirements reflecting the excess deferred tax amortization of \$4.1 million and \$1.8 million for Narragansett Electric distribution and Narragansett Gas, respectively. The overall combined benefits of the Tax Act reflecting the change in the federal income tax rates from 35 percent to 21 percent, the changes to the bonus depreciation rules, and the proposed return of excess deferred income taxes total \$13.8 million for Narragansett Electric and \$11.4 million for Narragansett Gas.

It is important to note that this does not reflect an allocation of net excess deferred taxes of National Grid USA Service Company, Inc. (Service Company). All Service Company net excess deferred tax amounts are unprotected. The Company is still determining the timing of the reversal of the underlying deferred taxes as well as the Company's allocated share. Certain excess deferred tax amounts are in an asset position and could result in an increase in amortization expense. The Company will supplement this response as soon as reasonably possible once an estimate of Service Company amortization can be determined.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Division's Twenty-First Set of Data Requests
Issued February 2, 2018

Division 21-10 (Supplemental)

Request:

Please refer to the Company's response to DIV 3-17, and please explain if there have been any changes to its capitalization policies since the Company's last base rate case (Docket 4323).

Response:

No. There have not been any changes to the capitalization policies since the Company's last general rate case (Docket No. 4323).

Supplemental Response:

Under National Grid's prior practices, work activities performed in support of construction were capitalized through two methods, either through direct charging or use of an overhead clearing account. Certain construction-supporting Administrative and General (A&G) activities are directly charged to work orders tied to a specific construction project or series of specific construction projects. Other construction-supporting A&G activities were charged to specific construction projects through the existing capital clearing process. National Grid's Controllershship undertook a comprehensive review of all of its accounting practices as a result of a change in external audit firms. That review resulted in National Grid performing a comprehensive assessment of all A&G activities that directly or indirectly support construction activities. Following a competitive solicitation process, National Grid engaged PA Consulting, a third-party consulting firm, to undertake a time study to assess the percentage of time employees spend on construction-related A&G activities. As a result of that review and supporting time study, National Grid determined that an adjustment was necessary to capitalize work activity performed in direct or indirect support of construction consistent with commonly accepted industry practices and allowed for by the FERC Uniform System of Accounts (USoA).

To identify the A&G functions and costs that support construction activities, National Grid relied on the USoA and National Association of Regulatory Utility Commissioners guidance that suggests time studies are an appropriate method of determining the portion of A&G expense that can be capitalized and credited to USoA Account 922, administrative expenses transferred - credit. The objective of the time study was to determine the percentage of A&G-related activities that support construction and should appropriately be capitalized. That percentage was then applied to expenses charged to USoA Accounts 920, administrative and general salaries, and 921, office supplies and expenses, for each of National Grid's regulated utility operating companies to determine the amount to be applied to capital and credited to USoA Account 922. The study performed by PA Consulting included an analysis of labor and non-labor expenses charged to USoA Accounts 920, 921, and 923, outside services employed.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Division's Twenty-First Set of Data Requests
Issued February 2, 2018

Time studies were performed, covering a four-week period of work activities, and for those areas where it was appropriate, statistical analysis was utilized to estimate the percentage of base labor that supports construction activities. This base labor capitalization percentage, along with the statistical analyses, was used to determine the percentage of non-labor expenses that directly or indirectly support construction activities. After making certain normalizing adjustments (for example, where the January through February 2018 timeframe of the time study was not representative of the construction support provided during a typical year (e.g., an individual in the Finance Department is temporarily dedicated full time to the startup of a capital project)), and reconciling the study results, the results were applied to the 2017 calendar year financial data to determine the overall A&G capitalization result.

Based on the study results, PA Consulting recommended that National Grid capitalize a percentage of costs recorded in USoA Accounts 920 and 921 at the regulated operating utility level. National Grid has reviewed the study results in detail and concurs with its findings. For the full fiscal year ending March 31, 2018, that results in approximately \$60.9 million in total A&G costs capitalized and credited to USoA Account 922 for all of National Grid USA. Of this amount, \$4.1 million¹ is the reduction to expense for Narragansett Electric and \$2.0 million for Narragansett Gas.

Specifically, PA Consulting recommended that 9.26 percent of costs in those accounts be capitalized. That percentage, however, included the capitalization of payroll taxes and benefits. Because the revenue requirements calculation flows through the labor capitalization ratio to payroll taxes and benefits, a lower capitalization percentage of 7.96 percent was applied in the cost of service models so as not to double count the effect of the capitalization on payroll taxes and benefits. The computation of the adjustment to the revenue requirements is described in more detail below.

With few exceptions, nearly all A&G salaries of National Grid USA Service Company, Inc. (Service Company), the associated labor overheads on those salaries, and departmental expenses of A&G functions of the Service Company were charged to expense in the Test Year (i.e., the twelve-month period ended June 30, 2017). Because those costs included in the Test Year represent a non-recurring expense, the Company is making a normalizing adjustment to remove them from the cost of service.

As described in the pre-filed direct testimony of Company Witness Melissa A. Little at Pages 27 through 34 (Bates Pages 31 through 38 of Book 8), the calculation of Rate Year (i.e., the twelve-

¹ The total impact to the combined Electric Distribution and Transmission business is \$4.7 million. The \$4.1 million impact to Narragansett Electric distribution, stated above, is an estimate until the A&G expenses billed to New England Power Company under the Integrated Facilities Agreement (IFA) are finalized for the calendar year 2018. For purposes of this response, the Company has used the calendar year 2016 IFA salary allocator of 13.66 percent to estimate the impact to Narragansett Electric distribution of the A&G salary adjustment, which is consistent with the IFA salary allocator utilized in the Company's proposed cost of service in this docket.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
Responses to Division's Twenty-First Set of Data Requests
Issued February 2, 2018

month period ended August 31, 2019) labor in the Company's revenue requirements included the application of an "O&M Portion" ratio to derive Rate Year O&M base wages. The Company's application of the findings from the Service Company A&G Overhead Study will reduce the amount of labor charged to O&M in the Rate Year; the Company therefore adjusted the O&M Portion ratio calculated on Schedule MAL-12 (REV-2), Pages 8 and 9 at Line 6 (Bates Pages 154 and 155 of Book 3). Specifically, the Company multiplied total Test Year Service Company O&M base wages by 7.96 percent (see Workpaper MAL-4 (REV-2), Page 16 (Bates Page 190 of Book 4)). The resulting adjustment was subtracted from Test Year Service Company O&M base wages (Schedule MAL-12 (REV-2), Pages 8 and 9 at Line 5 (Bates Pages 154 and 155 of Book 3)), and added to capitalized base wages (Line 4). As a result, Narragansett Electric and Narragansett Gas' O&M portions of labor decreased from 63.49 percent and 64.58 percent, respectively, in the Company's March 2, 2018 filing, to 57.38 percent and 59.14 percent, respectively. The Company then multiplied total Test Year Service Company O&M variable pay and overtime wages (Workpaper MAL-4 (REV-2), Page 2, Lines 56 and 84 (Bates Page 176 of Book 4)) by 7.96 percent each. The resulting adjustments were subtracted from Test Year Service Company O&M variable pay and overtime (Schedule MAL-12 (REV-2), Pages 8 and 9, Lines 8 and 9 (Bates Pages 154 and 155 of Book 3)). Those reduced O&M wages were then escalated through the Rate Year and then adjusted to exclude the executive and financial components of variable pay.

Those adjustments then flow through to Payroll Tax on Schedule MAL-8 (REV-2), Health Care on Schedule MAL-13 (REV-2), Group Life on Schedule MAL-14 (REV-2), and Thrift Plan expense on Schedule MAL-15 (REV-2).

Contractors and Employee Expenses were also reduced by 7.96 percent of the normalized Test Year Service Company costs, as included on Schedule MAL-30 (REV-2), Page 5, Lines "Contractors" and "Employee Expenses," Columns (g) through (i) (Bates Page 6 of Book 4).

The total revenue requirement impact of the Service Company A&G Overhead Study is a reduction of \$4,528,959 for Narragansett Electric and \$2,292,491 for Narragansett Gas.

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket Nos. 4770/4780
Settlement Testimony
Witnesses: Leary, McCabe, Gorman, and Normand

JOINT PRE-FILED SETTLEMENT TESTIMONY

OF

ANN E. LEARY

SCOTT M. MCCABE

HOWARD S. GORMAN

PAUL M. NORMAND

Dated: June 6, 2018

Table of Contents

I. Introduction..... 1

II. Purpose and Structure of Testimony..... 3

III. Summary of Pricing-Related Settlement Provisions for Narragansett Electric 5

IV. Summary of Pricing-Related Settlement Provisions for Narragansett Gas 14

V. Conclusion21

1 **I. Introduction**

2 **Q. Ms. Leary, by whom are you employed and in what capacity?**

3 A. I am employed by National Grid USA Service Company, Inc. (Service Company), a
4 subsidiary of National Grid USA (National Grid). I am Manager of Gas Pricing for the
5 Service Company. In this role, I am responsible for the design, implementation, and
6 administration of gas rates and tariffs for The Narragansett Electric Company d/b/a
7 National Grid (the Company)¹ and its affiliates, Boston Gas Company and Colonial Gas
8 Company, each d/b/a National Grid.

9
10 **Q. Have you previously submitted testimony in this rate case proceeding?**

11 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Scott M.
12 McCabe in this proceeding on behalf of the Company. On May 9, 2018, I submitted pre-
13 filed joint rebuttal testimony with Mr. McCabe in this proceeding on behalf of the
14 Company.

15
16 **Q. Mr. McCabe, by whom are you employed and in what capacity?**

17 A. I am employed by the Service Company as Manager of New England Electric Pricing in
18 the Regulation and Pricing department. In this role, my responsibilities include the

¹ The term “Company” refers to The Narragansett Electric Company’s electric and gas distribution operations collectively. Together, the electric and gas distribution operations of The Narragansett Electric Company represent the entirety of the regulated operations conducted in Rhode Island by the Company. In our testimony, we will refer to the regulated entity as the Company. Where there is a need to refer to the individual electric and gas distribution operations of the Company, we will use the terms “Narragansett Electric” or “Narragansett Gas,” respectively, as appropriate.

1 design, implementation, and administration of electric rates and tariffs for the Company
2 and its affiliates, Massachusetts Electric Company and Nantucket Electric Company,
3 each d/b/a National Grid.
4

5 **Q. Have you previously submitted testimony in this rate case proceeding?**

6 A. Yes. On November 27, 2017, I submitted pre-filed joint direct testimony with Ms. Leary
7 in this proceeding on behalf of the Company. On May 9, 2018, I submitted pre-filed joint
8 rebuttal testimony with Ms. Leary in this proceeding on behalf of the Company.
9

10 **Q. Mr. Gorman, by whom are you employed and in what capacity?**

11 A. I am President of HSG Group, Inc.
12

13 **Q. Have you previously submitted testimony in this rate case proceeding?**

14 A. Yes. On November 27, 2017, I submitted pre-filed direct testimony in this proceeding on
15 behalf of the Company. On May 9, 2018, I submitted pre-filed rebuttal testimony in this
16 proceeding on behalf of the Company.
17

18 **Q. Mr. Normand, by whom are you employed and in what capacity?**

19 A. I am a management consultant and President of Management Applications Consulting,
20 Inc.
21

22 **Q. Have you previously submitted testimony in this rate case proceeding?**

1 A. Yes. On November 27, 2017, I submitted pre-filed direct testimony in this proceeding on
2 behalf of the Company. On May 9, 2018, I submitted pre-filed rebuttal testimony in this
3 proceeding on behalf of the Company.

4

5 **II. Purpose and Structure of Testimony**

6 **Q. Ms. Leary and Mr. McCabe, what was the purpose of your initial testimony in this**
7 **docket?**

8 A. The purpose of our initial testimony was to (1) explain the development of Rate Year
9 revenue used in the electric and gas cost of service studies supported by Company
10 Witness Melissa A. Little and in the electric and gas allocated cost of service studies
11 supported by Company Witness Howard S. Gorman (for Narragansett Electric) and
12 Company Witness Paul M. Normand (for Narragansett Gas); (2) present the Company's
13 low income discount proposal for customers on the electric retail delivery service tariff
14 Low Income Rate A-60 (Rate A-60), and Low Income Residential Non-Heating Rate 11
15 (Rate 11) and Low Income Residential Heating Rate 13 (Rate 13) in the gas tariff,
16 including recovery of the discount and proposed tariff provisions to enable the Company
17 to provide the discounts to customers on these rate classes obtain recovery of those
18 discounts; (3) present revised fees for Narragansett Electric and Narragansett Gas; and (4)
19 present the Company's proposed electric and gas tariffs and proposed changes to existing
20 tariff provisions.

21

22 **Q. Mr. Gorman, what was the purpose of your initial testimony in this docket?**

1 A. The purpose of my initial testimony was to present and support Narragansett Electric's
2 allocated cost of service study, proposed class revenue allocation and rate design, and the
3 typical bill impacts resulting from the rates proposed in this proceeding.

4

5 **Q. Mr. Normand, what was the purpose of your initial testimony in this docket?**

6 A. The purpose of my initial testimony was to present and support Narragansett Gas'
7 allocated cost of service study and methods I employed to calculate costs by class of
8 service, and the development of the proposed class revenue targets, the individual
9 proposed rate designs, and the bill impacts.

10

11 **Q. Please describe the purpose of your settlement testimony.**

12 A. On June 5, 2018, the Company reached a comprehensive settlement in Docket No. 4770
13 and Docket No. 4780, establishing a Multi-Year Rate Plan (Rate Plan), with a three-year
14 term. The purpose of our settlement testimony is to present the settlement agreed to by
15 the Settling Parties² regarding the areas addressed in our respective testimonies and
16 schedules. This settlement testimony will focus on (1) the details of the arrangement
17 reached with the Settling Parties; and (2) the reasons the Public Utilities Commission

² The "Settling Parties" refers to the Company; the Division of Public Utilities and Carriers (Division); the Office of Energy Resources; the U.S. Department of the Navy and the Federal Executive Agencies; Conservation Law Foundation; Energy Consumers Alliance of New England, Inc. d/b/a People's Power and Light; Sierra Club; Natural Resources Defense Council; Acadia Center; Northeast Clean Energy Council; the George Wiley Center; New Energy Rhode Island (NERI); Wal-Mart Stores East, LP and Sam's East, Inc.; Direct Energy Business, LLC, Direct Energy Services, LLC, and Direct Energy Solar; ChargePoint, Inc.; and National Railroad Passenger Corporation (Amtrak) (each, individually a "Settling Party"). Amtrak filed a motion to intervene out of time, to which none of the other Settling Parties objected; however, until the PUC rules on Amtrak's motion, Amtrak is not yet a party to this proceeding.

1 (PUC) should approve the recovery construct established by the settlement as the optimal
2 balancing of interests.

3
4 **Q. How is your settlement testimony structured?**

5 A. Section I of our settlement testimony presents the Introduction. Section II presents the
6 Purpose and Structure of our testimony. Section III presents a description of the agreed
7 upon arrangement for cost allocation, rate design, related ratemaking issues, and tariffs
8 over the three-year term of the Rate Plan. Section IV discusses the reasons that the
9 settlement construct represents the optimal balancing of interests relating to cost
10 allocation, rate design, and related ratemaking issues. Section V is the Conclusion to our
11 settlement testimony.

12
13 **III. Summary of Pricing-Related Settlement Provisions for Narragansett Electric**

14 **Q. Are there any provisions of the Settlement Agreement that relate to the allocated
15 cost of service study for Narragansett Electric?**

16 A. Yes. The Settling Parties have agreed, for purposes of settlement in these proceedings, to
17 use the allocated cost of service study (ACOSS) presented by the Company in its initial
18 filing for Narragansett Electric, updated to reflect the settlement revenue requirement and
19 its components. The Narragansett Electric ACOSS was submitted as part of the initial
20 filing on November 27, 2017, and an updated ACOSS for Narragansett Electric was

1 submitted on May 9, 2018 in connection with Mr. Gorman's rebuttal testimony.³

2 Attachment 6 to the Settlement Agreement⁴ presents the ACOSS updated for the revenue
3 requirement and its components as provided in the Settlement Agreement (Settlement
4 ACOSS). Attachment 7 presents the related Development of Allocators used in the
5 Settlement ACOSS.

6
7 **Q. What does the Settlement Agreement establish in relation to revenue allocation and**
8 **rate design for Narragansett Electric?**

9 A. The Settlement Agreement establishes (1) Narragansett Electric's revenue allocation for
10 Rate Year 1, presented in Attachment 8, which was prepared consistent with the Updated
11 Revenue Allocation (Schedule HSG-3(R)) filed with the PUC on May 9, 2018; and (2)
12 Narragansett Electric's rate design for Rate Year 1, presented in Attachment 9, which
13 was prepared consistent with the rate design presented in the Company's initial filing
14 (Schedule HSG-4), as revised in rebuttal in Schedule HSG-4-D(R) filed with the PUC on
15 May 9, 2018, with additional modifications described below. These modifications will
16 be incorporated into the design of base distribution rates. In addition, the Settlement
17 Agreement provides that the revenue allocation reflecting adjustments to the core
18 business revenue requirement for Grid Modernization and Special Sector Programs, as
19 shown on Attachment 8, page 3.

20

³ See Rebuttal Testimony of Company Witness Howard S. Gorman, at Page 5 (Bates Page 7 of Rebuttal Book 6),
and Schedule HSG-1A(R), at Bates Page 37 of Rebuttal Book 6.

⁴ All attachments referenced in this settlement testimony are attachments to the Settlement Agreement.

1 **Q. Does the Settlement Agreement establish any modifications to the Company's**
2 **revenue allocation and proposed rate design for Narragansett Electric?**

3 A. Yes. The Settlement Agreement requires that the Narragansett Electric revenue
4 allocation and proposed rate design reflect the following, which have been incorporated
5 into the revenue allocation presented on Attachment 8 and the rate design presented in
6 Attachment 9:

- 7 ▪ A reduction to present revenue for Rate X-01 of \$322,000 (Attachment 8,
8 Schedule 3, Line 2), which is a reduction from Rate X-01 present revenue of
9 \$692,000 (Attachment 8, Schedule 3, Line 36) to \$370,000 (Attachment 8,
10 Schedule 3, Line 41), and which will move Rate X-01 revenue much closer to its
11 allocated rate year revenue requirement. This reduction balances a significant
12 benefit to Rate X-01, with a very slight impact on other rate classes.
- 13 ▪ A Rate A-16/Rate A-60 monthly customer charge of \$6.00 and a base distribution
14 per-kWh rate sufficient to recover the remaining Rate A-16/Rate A-60 revenue
15 requirement after consideration of the \$6.00 customer charge.
- 16 ▪ A phase-in of the Rate A-60 customer charge over the term of the Rate Plan, as
17 proposed by the Company in its initial filing as follows: a customer charge of
18 \$2.00 effective September 1, 2018; a customer charge of \$4.00 effective
19 September 1, 2019; and a customer charge of \$6.00 effective September 1, 2020.
- 20 ▪ A Rate C-06 monthly customer charge of \$10.00 and a base distribution per-kWh
21 rate sufficient to recover the remaining Rate C-06 revenue requirement after
22 consideration of the \$10.00 customer charge.

- 1 ▪ A Rate G-32 rate design that reflects the results of the ACOSS submitted on May
2 9, 2018 in Schedule HSG-1A(R), which redefines transmission level voltage to be
3 electric service received at no less than 69 kV.

4
5 **Q. Are there any other provisions of the Settlement Agreement that pertain to the**
6 **ACOSS, revenue allocation, or rate design for Narragansett Electric?**

7 A. Yes. There are a number of other provisions that are encompassed in the Settlement
8 Agreement pertaining to rate design and cost recovery issues for Narragansett Electric.
9 These items are:

- 10 ▪ For customers receiving delivery service on Rate A-60, (a) the percentage
11 discount off the total amount billed shall be 25 percent; and (b) customers
12 receiving benefits through Medicaid, General Public Assistance, and/or the
13 Family Independence Program will receive an additional discount of 5 percent off
14 the total amount billed. Narragansett Electric will implement the Low Income
15 Discount Recovery Factor (LIDRF) calculated in Attachment 20. Customers
16 billed on Rate A-60 will not be assessed the LIDRF.
- 17 ▪ A revision to the Credit for High Voltage Delivery (HVD) provision in the Large
18 Demand Rate (G-32) retail delivery service tariff (Rate G-32 Tariff) and Large
19 Demand Backup Service Rate (B-32) retail delivery service tariff (Rate B-32
20 Tariff), to define transmission level voltage as electric service at no less than 69
21 kV.

- 1 ▪ The Fox Point Hurricane Barrier (Hurricane Barrier) operated by the United
2 States Army Corps of Engineers (USACE)⁵ is designed to protect the City of
3 Providence from flooding and is tested periodically. The USACE has begun
4 conducting its periodic testing of the Hurricane Barrier during off-peak hours, as
5 defined in the Rate G-32 Tariff, to avoid the demand ratchet provision for the
6 assessment of billing demand that would occur for testing during peak hours. To
7 address the concerns raised by Navy/FEA with respect to the Hurricane Barrier, if
8 the Hurricane Barrier is operated during peak hours, as defined in the G-32 Tariff,
9 as a result of a weather event, (1) immediately following the operation of the
10 Hurricane Barrier during peak hours, the USACE will contact the Company, in
11 writing, notifying the Company that a weather event required the operation of the
12 Hurricane Barrier; (2) after review and confirmation of the conditions at the time
13 of the Hurricane Barrier’s operation during peak hours, the Company will waive
14 the demand ratchet provision resulting from the operation of the Hurricane Barrier
15 during peak hours, for the 11 billing months following the month of peak hour
16 operation (billing months 2 through 12). This waiver would be pursuant to the
17 Rate G-32 Tariff under the Demand provision, which defined billing demand
18 “under ordinary load conditions;” and (3) the USACE will be billed based on the
19 billing demand as determined pursuant to the Rate G-32 Tariff based on peak
20 hours metered demand measured in kW and kVa during the month of operation.
21 If the USACE tests the Hurricane Barrier during peak hours, the demand ratchet

⁵ The USACE is represented in these proceedings by the Navy on behalf of the FEA.

1 of the Rate G-32 Tariff would apply for the billing of distribution demand charges
2 in months 2 through 12. However, the USACE can avail itself of the Optional
3 Determination of Demand provision in the Rate G-32 Tariff. To ensure that the
4 billing account remains on Rate G-32 as a result of the Hurricane Barrier's
5 continued testing during off peak hours, Narragansett Electric has revised the
6 availability provision of the Rate G-32 Tariff to define customers eligible for Rate
7 G-32 based on metered demand during all hours, rather than billing demand,
8 which is determined during peak hours. This change will allow a large customer,
9 such as the USACE, to respond to the price signals of Rate G-32 and remain on
10 Rate G-32 and not be transferred to the General Commercial and Industrial (C&I)
11 Rate (G-02) tariff.

- 12 ■ For Rate S-05, the addition of another operating schedule allowing customer-
13 owned light-emitting diode (LED) streetlights to operate at an output level that
14 would result in 3,080 annual operating hour equivalents. As this operating
15 schedule is preferred by NERI as compared to the operating schedule
16 Narragansett Electric presented in its May 9, 2018 rebuttal testimony in Schedule
17 PP-6(R), Narragansett Electric will withdraw its May 9, 2018 operating schedule
18 proposal. In addition, for purposes of billing LED streetlights that operate at an
19 output level that is less than the Dusk-to-Dawn operating schedule existing in the
20 Rate S-05 tariff, the annual operating hour equivalent of such a streetlight shall be
21 compared to the operating schedules contained in the Rate S-05 tariff. If the
22 streetlight's annual operating hour equivalent is no more than five percent of an

1 existing operating schedule's annual operating hour equivalent, the streetlight
2 shall be placed on that operating schedule. If the streetlight's annual operating
3 hour equivalent exceeds the annual operating hour equivalent of an existing
4 operating schedule by more than five percent, the streetlight shall be placed on the
5 operating schedule with the next highest annual operating hour equivalent.

- 6 ■ A returned check fee of \$8.00.
- 7 ■ The Optional Telephone or Web Page Payment Provision, RIPUC No. 2154, will
8 be canceled.

9
10 **Q. Does the Settlement Agreement set forth any other specifications with respect to the**
11 **ACOSS, revenue allocation, and/or rate design for Narragansett Electric?**

12 A. Yes, the Settling Parties have agreed that Narragansett Electric will make all corrections
13 (1) identified during discovery; (2) in the preparation of the May 9, 2018 ACOSS and
14 rate design; and (3) resulting from changes presented in the rebuttal testimony of
15 Company Witness Howard S. Gorman in finalizing the ACOSS, revenue allocation, and
16 rate design in the attachments to the Settlement Agreement.

17
18 **Q. What is the overall bill impact on Narragansett Electric customers as a result of the**
19 **Settlement Agreement?**

20 A. Attachment 10 sets forth the electric bill impacts resulting from this Settlement
21 Agreement. The impact of this Settlement Agreement on the monthly bill of a 500 kWh
22 residential customer receiving Standard Offer Service, as compared to the rates which

1 were in effect at the time of the Company's filing in this case, in each of the Rate Years is
2 as follows:

	<u>Dollar</u> <u>Increase</u>	<u>Percent</u> <u>Increase</u>
3 Rate Year 1	\$4.27	4.1%
4 Rate Year 2	\$0.80	0.7%
5 Rate Year 3	\$0.39	0.4%

6
7
8
9 Attachment 12 presents the other rates and charges that are affected by this Settlement
10 Agreement, consistent with what the Company initially filed on November 27, 2017,
11 which are reflected in Attachment 10. Consistent with the impact of the results of a
12 general rate case and the PUC's rulings thereon, Narragansett Electric shall implement
13 changes to its other factors and charges associated with its various reconciling
14 mechanisms, effective September 1, 2018, to reflect the updated net write off percentage,
15 weighted average cost of capital (WACC), and consolidation of Rate G-32 and Rate G-
16 62. In its compliance filing pursuant the PUC's approval of the Rate Plan, Narragansett
17 Electric shall file schedules in support of the requisite changes to its other factors and
18 charges that will be reflected in its bills to customers effective September 1, 2018.
19 Attachment 13 contains the tariffs and tariff provisions proposed to become effective
20 September 1, 2018, marked to show changes from those currently in effect.

21

1 **Q. How were revenue allocation and rate design computed for Rate Year 2⁶ and Rate**
2 **Year 3?**

3 A. In accordance with the Settlement Agreement, the Rate Year 2 and Rate Year 3 increases
4 for the core business revenue requirement were allocated in proportion to core business
5 revenue targets for Rate Year 1. In addition, Rate Year 2 and Rate Year 3 adjustments
6 for Grid Modernization and Special Sector Programs also were allocated in proportion to
7 core business revenue targets for Rate Year 1. These computations are presented on
8 Attachment 8. Rate design for Rate Year 2 and Rate Year 3 is presented in Attachment 9.
9 Bill impacts for Rate Year 2 and Rate Year 3 are presented in Attachment 10.

10

11 **Q. What other changes to the electric tariffs are included in the Settlement Agreement?**

12 A. In addition to the changes in the base distribution rates, the level of the low income
13 discount for Rate A-60 customers, and any other tariff edits Narragansett Electric agreed
14 to making in its May 9, 2018 rebuttal testimony, Narragansett Electric has revised its
15 Pension Adjustment Mechanism Provision to reflect the Settling Parties' agreement
16 regarding how to determine whether minimum funding obligations have been met and, if
17 applicable, the calculation of the carrying charge. Narragansett Electric has revised the
18 Pension Adjustment Mechanism, as described above, to clarify that Narragansett Electric
19 is allowed to combine the funding of pensions and post-employment benefits other than

⁶ The Settlement Agreement addresses the needed change in base distribution rates through agreement on allowed revenue requirements for Narragansett Electric and Narragansett Gas for the twelve-month period ending August 31, 2019 (Rate Year 1) and the two subsequent twelve-month periods ending August 31, 2020 (Rate Year 2) and August 31, 2021 (Rate Year 3). Rate Year 1, Rate Year 2, and Rate Year 3 are collectively referred to herein as the "Rate Years" and individually as a "Rate Year".

1 pensions (PBOPs), thereby offsetting any deficiencies in PBOPs funding with any excess
2 pension funding.

3
4 **Q. Are there any changes to the electric tariffs that are not otherwise included in the
5 Settlement Agreement as part of this proceeding?**

6 A. No. The Settling Parties have agreed that the Settlement Agreement does not (and is not
7 intended to) amend, modify, or change in any respect any tariff or mechanism currently
8 in effect for Narragansett Electric for costs recovered outside of base distribution rates
9 pursuant to any statute or prior PUC order that are not specifically addressed in the
10 Settlement Agreement, or presented in Attachment 22 to the Settlement Agreement.

11
12 **IV. Summary of Pricing-Related Settlement Provisions for Narragansett Gas**

13 **Q. Are there any provisions of the Settlement Agreement that relate to the ACOSS for
14 Narragansett Gas?**

15 A. Yes. The Settling Parties have agreed, for purposes of settlement in these proceedings, to
16 use the ACOSS presented by the Company in its initial filing for Narragansett Gas
17 submitted on November 27, 2017, updated on April 3, 2018, and later updated in
18 Attachment 14 to the Settlement Agreement to reflect the settlement revenue requirement
19 and its components.

20
21 **Q. What does the Settlement Agreement establish in relation to revenue increases to
22 the various rate classes for Narragansett Gas?**

1 A. The Settling Parties have agreed that the revenue increase to the Residential Heating rate
2 classes (Rate 12 and Rate 13) will be set at the overall, total average increase for
3 Narragansett Gas, and the increase to the Non-Firm rate classes will be set at 50 percent
4 of the overall, total average increase. The increase to the remaining rate classes will be
5 set as a percentage of the total overall increase. The Settling Parties agreed to use the
6 percentages specified in Schedule BRO-3 of the testimony of Bruce R. Oliver on behalf
7 of the Division. The revenue allocation set forth in Attachment 16 shall be incorporated
8 into the design of base distribution rates.

9
10 **Q. Were any additional adjustments made to the revenue allocation used to design base**
11 **distribution rates?**

12 A. Yes. The revenue requirement detailed in Attachment 2, upon which the ACOSS in
13 Attachment 14 was developed, did not include the revenue requirement of \$1.4 million
14 for Grid Modernization. Therefore, in Attachment 16, this additional revenue
15 requirement has been added to the revenue allocation of the ACOSS results and allocated
16 to the firm rate classes based on the final revenue allocation of the ACOSS results.

17
18 **Q. Does the Settlement Agreement establish any modifications to the Company's**
19 **proposed rate design for Narragansett Gas?**

20 A. Yes. The Settlement Agreement adopts the Company's proposed rate design for
21 Narragansett Gas, subject to certain modifications described in Attachment 16.
22 Attachment 16 reflects the following:

- 1 ▪ A Rate 10/11 and 12/13 monthly customer charge of \$14.00 and base distribution
2 per-therm rates sufficient to recover the remaining revenue requirement for these
3 rate classes after consideration of the \$14.00 customer charge.
- 4 ▪ A Rate 21 (Small C&I) monthly customer charge of \$25.00 and base distribution
5 per-therm rates sufficient to recover the remaining revenue requirement for this
6 rate class after consideration of the \$25.00 customer charge.
- 7 ▪ Rates 12, 13, and 21 base distribution per-therm rates effective during the peak
8 months of November through April that are different than base distribution per-
9 therm rates effective during the non-peak months of May through October.
- 10 ▪ Non-Firm (Rates 60 and Rate 61) monthly customer charges shall not change
11 from the currently effective customer charges.

12

13 **Q. Does the Settlement Agreement set forth any other specifications with respect to the**
14 **ACOSS, revenue allocation, and/or rate design for Narragansett Gas?**

15 A. Yes. The Settling Parties have agreed that in finalizing the ACOSS, revenue allocation,
16 and rate design, Narragansett Gas shall make all corrections identified during discovery.

17 In addition, for customers receiving delivery service on Rates 11 and 13, (a) the
18 percentage discount off the total amount billed shall be 25 percent; and customers
19 receiving benefits through Medicaid, General Public Assistance, and/or the Family
20 Independence Program will receive an additional 5 percent discount off the total amount
21 billed. Narragansett Gas will implement the LIDRF calculated in Attachment 20.

22 Customers billed on Rates 11 and 13 will not be assessed the LIDRF.

1 **Q. How were revenue allocation and rate design computed for Rate Year 2 and Rate**
2 **Year 3?**

3 A. Pursuant to the Settlement Agreement, the Rate Year 2 and Rate Year 3 increases for the
4 core business revenue requirement and the incremental revenue requirement associated
5 with Grid Modernization were allocated in proportion to core business revenue targets for
6 Rate Year 1. These computations are presented in Attachment 16. Rate designs for Rate
7 Year 2 and Rate Year 3 are also presented in Attachment 16. Bill impacts for Rate Year
8 1, Rate Year 2, and Rate Year 3 are presented in Attachment 17.

9
10 **Q. How did the Company design rates for Rate Year 2 and Rate Year 3?**

11 A. In designing rates for Rate Year 2 and Rate Year 3, the Company kept constant all
12 customer charges and the demand rates for Rates 22, 23, 33, and 34. The Company
13 recovered the incremental revenue by adjusting the volumetric components distribution
14 rates of each rate class.

15
16 **Q. What is the overall bill impact on Narragansett Gas customers as a result of the**
17 **Settlement Agreement?**

18 A. Attachment 17 to the Settlement Agreement sets forth the gas bill impacts resulting from
19 this Settlement Agreement. The impact of this Settlement Agreement on the annual bill
20 of a 845 therm residential heating customer, as compared to the rates which were in effect
21 at the time of the Company's filing in this case, in each of the Rate Years is as follows:

22

	Dollar	Percent
	<u>Increase/(Decrease)</u>	<u>Increase/(Decrease)</u>
Rate Year 1	(\$2.01)	(0.2)%
Rate Year 2	\$18.13	1.5%
Rate Year 3	\$10.91	0.9%

6

7 Attachment 17 to the Settlement Agreement also presents the other rates and charges that
8 are impacted by this Settlement Agreement, consistent with what was initially filed on
9 November 27, 2017. Consistent with the impact of the results of a general rate case and
10 the PUC’s rulings thereon, the Company shall implement changes to its other factors and
11 charges associated with its various reconciling mechanisms, effective September 1, 2018,
12 to reflect the updated net write-off percentage, liquefied natural gas (LNG) operation and
13 maintenance (O&M) expense, the WACC, and cash working capital percentages. In its
14 compliance filing pursuant the PUC’s approval of the Rate Plan, the Company shall file
15 schedules in support of the requisite changes to its other factors and charges that will be
16 reflected in its bills to customers effective September 1, 2018.

17

18 **Q. Are there provisions within the Settlement Agreement regarding adjustments to test**
19 **year revenue resulting from the weather-normalization of test year billing units?**

20 **A.** Yes. Under the Settlement Agreement, Narragansett Gas will weather-normalize the
21 demand billing units of its Medium, Large, and Extra-Large C&I rate classes in future
22 general rate cases.

1 **Q. What other changes to Narragansett Gas' tariff are included in the Settlement**
2 **Agreement?**

3 A. In addition to the changes in the base distribution rates and to update the return check fee
4 to \$8.00 pursuant to the Settlement Agreement, the Settling Parties have also agreed to
5 make two additional changes to the language in Narragansett Gas' tariff. First, in the Gas
6 Cost Recovery (GCR) Clause in Narragansett Gas' tariff at Section 2, Gas Charge,
7 Schedule A, the Company has agreed to change the definition of the Supply Fixed Cost
8 Component as it pertains to the GCR Clause (Attachment 18) to represent that the LNG
9 O&M expense recovered through the GCR would be subject to reconciliation to actual
10 LNG O&M expense, similar to the other cost components of the GCR mechanism.
11 Additionally, the Settling Parties have agreed that Narragansett Gas will update language
12 in the Distribution Adjustment Clause (DAC) in its tariff, at Section 3, Distribution
13 Adjustment Clause, Sheet A, to clarify the determination of System Pressure costs
14 consistent with the Division's recommendation set forth in Mr. Oliver's testimony.
15 Finally, Narragansett Gas has revised its DAC regarding its Pension Adjustment
16 Mechanism to reflect the Settling Parties' agreement on determining whether minimum
17 funding obligations have been met and the calculation of the carrying charge, if
18 applicable, to clarify that Narragansett Gas is allowed to combine the funding of pensions
19 and post-employment benefits other than pensions (PBOPs), thereby offsetting any
20 deficiencies in PBOPs funding with any excess pension funding.

21

1 **Q. Are there any changes to Narragansett Gas' tariff that are not otherwise included in**
2 **the Settlement Agreement as part of this proceeding?**

3 A. Yes, the Company is proposing to remove the Optional Credit Card Payment Provision
4 from the tariff. Additionally, in the initial filing, Narragansett Gas included proposed
5 revisions to its tariff to incorporate its policies regarding contributions in aid of
6 construction (CIAC) from customers. In the tariff revisions, Narragansett Gas included
7 information on stated thresholds for when a CIAC would not be required from a
8 customer. Since that information is dependent upon the final WACC resulting from this
9 Rate Plan, the table as contained in Narragansett Gas' tariff initially filed has not yet been
10 updated to reflect this change. The Company will incorporate this change in Narragansett
11 Gas' tariff compliance filing when the PUC rules on the Rate Plan.

12
13 Other than the table associated with the proposed incorporation of the CIAC policies into
14 the gas tariff, there are no further revisions or changes to the gas tariff. The Settling
15 Parties have agreed that the Settlement Agreement in this proceeding does not (and is not
16 intended to) amend, modify, or change in any respect any tariff or mechanism currently
17 in effect for Narragansett Gas for costs recovered outside of base distribution rates
18 pursuant to any statute or prior PUC order that are not specifically addressed in the
19 Settlement Agreement or contained in Attachment 22 to the Settlement Agreement.

20
21 **Q. Please provide a copy of the most up-to-date version of Narragansett Gas' tariff that**
22 **will become effective September 1, 2018.**

1 A. Attachment 19 presents Narragansett Gas' tariff that is proposed to become effective
2 September 1, 2018.

3

4 V. **Conclusion**

5 Q. **Does this conclude your testimony?**

6 A. Yes.