



State of Rhode Island
Division of Public
Utilities & Carriers

April 6, 2018

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

**RE: Docket 4770 - The Narragansett Electric Co. d/b/a National Grid -
Application to Change Electric and Gas Distribution Revenue Requirements
and Associated Rates**

Enclosed for filing with the Commission in this Docket is the Direct Testimony of the Division of Public Utilities and Carriers (Division), in the form of ten separate witness testimonies. The filing provides the Commission with the Division's response to National Grid's request for increases in base distribution rates for the electric and gas distribution businesses. For the benefit of the Commission, this cover letter provides a brief summary of some of the Division's key recommendations in this case.

Recommended Reductions to the Base Distribution Rate Increases

The Division recommends the distribution rate increases being sought by National Grid for the electric and gas distribution businesses be substantially reduced. When measured against the original filing on November 27, 2018, the Division's combined recommendation is 84% lower. When measured against the revised revenue requirement filed with the Commission on March 2, it is 75% lower. In sum, the Division calculates the revenue deficiency as \$8.9 million for electric and \$2.4 million for gas, or \$11.3 million for the combined distribution businesses. Below is a chart showing the differences between the Company's and Division's revenue deficiency positions:

	National Grid's Original Filing of Nov. 27	Revised Company Filing of March 2	Division's Adjustments	Division's Position
Electric	\$41,295	\$27,434	(\$18,497)	\$8,938
Gas	\$30,323	\$18,408	(\$16,001)	\$2,407
Combined Total	\$71,618	\$45,842	(\$34,498)	\$11,345

The adjustments that result in the Division's calculation are set forth in the revenue requirement testimony of the Division's witnesses. But, in general, the most significant adjustments, among others, relate to:

- Lowering the Company's request for a return on equity of 10.1%. The Division proposes an ROE of 8.5% for electric and 9% for gas,
- An error made by the Company equal to approximately \$6.7 million relating to a miscalculation of deferred income taxes which was identified by the Division prior to the March 2 filing of the Company,
- Adjustments to the depreciation rates based on the Division's evaluation of the Company's depreciation study,
- Adjustments to National Grid Service Company Rents related to IT Investments,
- Cost reductions relating to the Company's request to add a substantial number of new employees during the rate year,
- Lowering the Company's request for management employee annual wage increases, and
- Adjustments relating to proposed increases resulting from the Company's Gas Business Enablement program.

Rate Design

In addition to the Division recommending a reduction in the Company's revenue requirement, the Division also is making certain recommendations relating to the design of rates. Among other matters, the most significant relate to:

- Supporting the Company's proposal to adopt a total bill discount for low income customers, instead of the current discount which applies only to distribution,
- A recommendation to increase the A-60 low income total bill discount from the Company's proposed 15% to 25%. In addition, the Division proposes a discount "addder" of 5% for customers entering the program through certain prescribed programs that indicate a greater financial need, and
- Recommending the Commission deny the Company's request to increase the fixed customer charge from \$5.00 to \$8.50 for residential electric customers.

After the Company's consultants complete their review of the recently filed updated schedules relating to the allocated cost of service studies and rate design, the Division will be filing supplemental testimony that may address other revenue allocation and rate design issues.

Transforming the Electric Distribution Business and Associated Ratemaking

In the past, the distribution rate case would only address the rate request, rate design, and revenue requirement for rates being re-set in the year following the Commission's order. However, as the Commission is well aware, the electric utility industry is changing dramatically. In Rhode Island, an initiative was commenced last year to consider how Rhode Island should respond in the context of grid modernization and other transformative policies that we have referred to as "Power Sector Transformation."

The Company subsequently self-defined certain activities as Power Sector Transformation or "PST" and included many proposals in its original rate case filing. Shortly after the filing, the Commission made a preliminary procedural determination to open a separate docket to review the PST proposals. The PST portion of the filing, however, also contained a proposal for recovering the costs of those initiatives outside of base distribution rates through a cost tracker.

In evaluating the PST proposals in light of the rate case, it became apparent to the Division that many of the initiatives included in the filing are projects that are foundational and directly related to the operation of the core distribution business. As a result, the Division's recommendations also address the cost recovery for some of those initiatives for inclusion in base distribution rates, as opposed to the PST cost tracker proposed by the Company.

Among the Division's policy recommendations is the Division's position that costs associated with grid modernization and related activities that take place over a period of years should be addressed in multi-year rate plans rather than cost trackers. The Division is hopeful that a multi-year rate plan settlement can be negotiated in this case. However, if that does not occur, the Division makes recommendations that would set future ratemaking policy toward multi-year planning, review, and ratemaking, including integrating capital planning under the ISR within the multi-year processes.

Some of the more significant matters in this area relate to recommendations that the Commission:

- Put in place new performance-based incentive mechanisms (PIMs) that send clear financial signals to the Company to accomplish targeted goals that lower peak electricity usage, lower greenhouse gas emissions, stabilize costs, and meet other important long-term objectives relating to the integration of distributed energy resources,
- Recognize the need to have PIMs established at the same time as the Company's return on equity is set in the rate case to avoid over-earnings and to appropriately incentivize the Company,

- Approve a new earnings sharing mechanism that alters the Company's existing mechanism to take into account the new PIMs and encourage efficient business practices while at the same time protecting ratepayers from excessive utility earnings,
- Direct the Company to implement the GIS Enhancements project and the System Data Portal project, the costs of which the Division has included in its revenue requirement calculation for the rate year,
- Direct the Company to conduct the Advanced Metering Infrastructure (AMI) Study with its New York affiliate. The Division has included Rhode Island's fair share of the costs in its revenue requirement calculation for the rate year, amortized over three years,
- Direct the Company to file a comprehensive grid modernization plan that takes into account the prospective deployment of AMI, consistent with the AMI study results,
- Require that the results of the AMI study and the grid modernization plan be filed with the Commission for review and appropriate stakeholder participation,
- Direct the Company to file its next combined distribution rate case no later than the first quarter of 2020, for new rates to take effect in 2021. The filing should consist of a multi-year rate plan that granularly forecasts cost incurrence over each year, including AMI and grid modernization initiatives, the approved costs of which would be reflected in base distribution rates over the three-year period.

There are many other matters addressed in the Division's filing. Those described above are only the more prominent ones to which the Division is drawing the Commission's attention.

List of Division Witness Testimony

The Division's case consists of ten separate witness testimonies, as follows:

- (1) Overview and Policy Vision – Tim Woolf: This testimony presents a policy vision for how this rate case fits into the ongoing transformation of the electric power sector and how the structure of a multi-year rate plan, rather than the Company's proposed tracker mechanism, is best suited to protect Rhode Island ratepayers during a period of technology change;
- (2) Revenue Requirement – Michael Ballaban and David Effron: The Division's adjustments to the Company's proposed revenue requirement for the rate year is provided by Michael Ballaban and David Effron;
- (3) Review of Gas Business Enablement – Tina Bennett: Ms. Bennett addresses the Company's transformative gas business initiative;
- (4) Reviewing Foundational Electric Distribution Initiatives – Greg Booth: Mr. Greg Booth's testimony provides an evaluation of the foundational distribution initiatives that

need to be addressed in this rate case, that were also included in the Company's original PST filing that was transferred to Docket 4780;

(5) Return on Equity – Matt Kahal: The Division's recommendation for a return on equity for the Company's electric and gas distribution businesses is addressed by Mr. Matt Kahal;

(6) Benefit/Cost Ratios, PIMS, and Earnings Sharing – Tim Woolf and Melissa Whited: Tim Woolf and Melissa Whited address the benefit cost analysis used for evaluating new transformative projects. They also propose a series of new performance-based mechanisms that are designed to work in tandem with the Company's return on equity and earnings sharing mechanism;

(7) Depreciation – Roxie McCullar: The Company's depreciation study is evaluated by Ms. Roxie McCullar;

(8) Income Eligible Discount A-60 Rates – Roger Colton: The Division's recommendation for an enhanced low income discount is addressed by Mr. Roger Colton;

(9) Electric Rate Design – John Athas: The Company's allocated cost of service study and rate design for electric rates is evaluated by Mr. John Athas; and

(10) Gas Rate Design – Bruce Oliver: The Company's allocated cost of service study and rate design for gas rates is evaluated by Mr. Bruce Oliver.

The Division looks forward to engaging with the Commission, the Company and other intervenors through the remainder of the case to achieve a cleaner,, more affordable and more secure energy future for Rhode Island.

Respectfully,



Macky McCleary

Administrator
Rhode Island Division of Public Utilities and Carriers