

April 29, 2019

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
Excess Deferred Income Tax True-Up – Supplemental Compliance Filing
Revised Pre-Filed Joint Direct Testimony**

Dear Ms. Massaro:

On behalf of National Grid,¹ I enclose for filing with the Public Utilities Commission (PUC) one original and nine copies of the Company's revised pre-filed joint direct testimony, which is redlined to show the changes from the Company's pre-filed joint direct testimony filed with the PUC on March 1, 2019, in the above-referenced docket.

As discussed in the testimony, the Company implemented a deferred tax module within its PowerTax system to calculate the split between protected and unprotected plant-related excess accumulated deferred income taxes (ADIT) and to calculate the annual excess ADIT amortization of protected plant under the Average Rate Assumption Method. The Company recently discovered that the book reserve that was booked at the time of the Company's acquisition of the Rhode Island gas distribution assets from Southern Union Company in August 2006 was not brought into the deferred tax module and allocated based on vintage and tax class and split between book and tax basis adjustments, with the remainder classified as method/life differences. This error only affects the Company's gas distribution operations (Narragansett Gas). The Company has corrected the error to the deferred tax module within the PowerTax system and is filing the revised pre-filed joint direct testimony to reflect the change to the Narragansett Gas protected and unprotected plant-related balances (Page 13 of 31), revised Narragansett Gas revenue requirements (Page 16 of 31), amortization of excess ADIT (Page 18 of 31), and overall bill impact for a residential heating customer using 845 therms per year (Page 30 of 31). The Company apologizes for this error and any inconvenience it may have caused the PUC, the Division, and Dave Efron, consultant to the Division.

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

Luly E. Massaro, Commission Clerk
Docket 4770 – Revised Pre-Filed Joint Direct Testimony
April 29, 2019
Page 2 of 2

Thank you for your attention to this transmittal. If you have any questions, please contact me at 781-907-2153.

Very truly yours,

A handwritten signature in blue ink that reads "Celia B. O'Brien". The signature is written in a cursive style.

Celia B. O'Brien

Enclosures

cc: Docket 4770 Service List
Jonathan Schrag, Division
John Bell, Division
Al Mancini, Division
Leo Wold, Esq.
Christy Hetherington, Esq.

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

April 29, 2019

Date

Docket No. 4770 - National Grid – Rate Application
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THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC Docket No. 4770
In Re: Excess Deferred Tax True-Up
[Revised Direct Testimony](#)
Witnesses: Bushmich, Little, Pini, and Pieri

REVISED PRE-FILED JOINT DIRECT TESTIMONY

OF

PAMELA D. BUSHMICH

MELISSA A. LITTLE

MICHAEL J. PINI

ROBIN E. PIERI

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1 **I. Introduction**

2 **Pamela D. Bushmich**

3 **Q. Ms. Bushmich, please state your full name and business address.**

4 A. My name is Pamela D. Bushmich, and my business address is 40 Sylvan Road, Waltham,
5 Massachusetts 02451.

6

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

8 A. I am the Director of Income Tax – Massachusetts Jurisdiction for the National Grid USA
9 Service Company, Inc. (Service Company). The Service Company provides engineering,
10 financial, administrative, management, and other technical support to direct and indirect
11 subsidiary companies of National Grid USA (National Grid). In my current role, I
12 provide services to the Service Company for both its gas and electric businesses in New
13 England, including The Narragansett Electric Company d/b/a National Grid (the
14 Company).¹ One of my functional responsibilities is to coordinate the process of
15 providing income tax information in regulatory filings for all National Grid affiliated
16 utility companies, including the Company.

17

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. Where there is a need to refer to the individual electric and gas distribution operations of the Company, the terms “Narragansett Electric” or “Narragansett Gas,” respectively, are used in this testimony.

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

2 A. I have a Bachelor of Science in Business Administration with majors in Accounting and
3 Finance from Nichols College and a Master of Science in Taxation from Bentley
4 University. From 1996 to 2000, I worked at Bay State Gas Company as a senior tax
5 analyst. I started at National Grid in 2000 as a senior tax analyst and progressed through
6 various levels in the income tax department to my present position of Director.

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

10 A. Yes. On February 21, 2018, I submitted supplemental direct testimony in the Company's
11 annual Electric Infrastructure, Safety, and Reliability (ISR) Plan for Fiscal Year (FY)
12 2019 regarding the Company's Revised ISR Plan Revenue Requirement.

13
14 **Melissa A. Little**

15 **Q. Ms. Little, please state your full name and business address.**

16 A. My name is Melissa A. Little, and my business address is 40 Sylvan Road, Waltham,
17 Massachusetts 02451.

18
19 **Q. By whom are you employed and in what capacity?**

20 A. I am Director, New England Revenue Requirements for the Service Company. My
21 current duties include revenue requirement responsibilities for National Grid's gas and
22 electric distribution activities in New England, including the Company.

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

2 A. In 2000, I received a Bachelor of Science degree in Accounting Information Systems
3 from Bentley College (now Bentley University). In September 2000, I joined
4 Pricewaterhouse Coopers LLP in Boston, Massachusetts, where I worked as an associate
5 in the Assurance practice. In November 2004, I joined National Grid as an Analyst in the
6 General Accounting group. After the merger of National Grid and KeySpan Corporation
7 in 2007, I joined the Regulation and Pricing department as a Senior Analyst in the
8 Regulatory Accounting function while also supporting the Revenue Requirement team
9 for the Company's upstate New York affiliate, Niagara Mohawk Power Corporation. In
10 July 2011, I joined the New England Revenue Requirement team and was promoted to
11 Lead Specialist in the Regulation and Pricing department, where my duties included
12 revenue requirement responsibilities for National Grid's gas and electric distribution
13 activities in New England, including the Company. In August 2017, I was promoted to
14 my current position.

15
16 **Q. Have you previously filed testimony or testified before the PUC?**

17 A. Yes. I have testified before the PUC on numerous occasions, including in support of the
18 Company's revenue requirement for the Company's Application to Change Electric and
19 Gas Base Distribution Rates in Docket No. 4770 and the Proposed Power Sector
20 Transformation (PST) Vision and Implementation Plan in Docket No. 4780. In addition,

1 I have testified as the revenue requirement witness in numerous Gas and Electric ISR
2 Plan proceedings and in other matters before the PUC.

3
4 **Michael J. Pini**

5 **Q. Please state your name and business address.**

6 A. My name is Michael J. Pini, and my business address is 40 Sylvan Road, Waltham,
7 Massachusetts 02451.

8
9 **Q. By whom are you employed and in what capacity?**

10 A. I am a Lead Program Manager in the New England Gas Pricing department for the
11 Service Company. My responsibilities include the design, implementation, and
12 administration of rates and tariffs for Narragansett Gas and the Company's Massachusetts
13 affiliates, Boston Gas Company (Boston Gas) and Colonial Gas Company (Colonial
14 Gas), each d/b/a National Grid.

15
16 **Q. Please provide your educational background and professional experience.**

17 A. I earned a Bachelor of Science in Economics and Finance from Bentley University in
18 2010. In 2009, I joined National Grid as an intern in the Support Services function within
19 the Gas Operations department. In 2010, I became an Associate Analyst in the
20 Regulatory Compliance department. In 2011, I joined the New England Electric Pricing
21 group and was promoted to Analyst in 2012. In 2013, my responsibilities changed to

1 supporting Boston Gas and Colonial Gas, and, in 2014, I was promoted to Senior Analyst
2 in the same capacity. In 2017, I was promoted to Lead Program Manager, supporting the
3 Company.

4
5 **Q. Have you previously testified before the PUC?**

6 A. I have not testified before the PUC, but I have testified before the Massachusetts
7 Department of Public Utilities on several occasions related to the Gas System
8 Enhancement Plan for Boston Gas and Colonial Gas, namely, to present the calculation
9 of the Gas System Enhancement Plan Factors and customer bill impacts associated with
10 the implementation of the Gas System Enhancement Plan Factors.

11
12 **Robin E. Pieri**

13 **Q. Please state your full name and business address.**

14 A. My name is Robin E. Pieri, and 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 a Senior Analyst for Electric Pricing, New England in the Regulation and Pricing
19 department of the Service Company. This department provides rate-related support to the
20 Company.

21

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

2 A. In 1998, I graduated from the University of Massachusetts in Lowell, Massachusetts
3 with a Bachelor of Science degree in Psychology. For approximately 15 years before
4 joining National Grid, I was employed by Advantage Resourcing America (Advantage)
5 as a Senior Financial Analyst, where I was responsible for budgeting, forecasting, and
6 analysis for numerous Advantage business units around the world, as well Advantage's
7 Corporate Division. Prior to working at Advantage, I held various positions in
8 accounting and finance. In March 2015, I began my employment with National Grid as a
9 Senior Analyst in the New England Electric Pricing department.

10

11 **Q. Have you previously testified before the PUC?**

12 A. Yes, I have submitted pre-filed testimony in several dockets, including the 2017 and 2018
13 Electric Revenue Decoupling Mechanism filings (Docket Nos. 4699 and 4824,
14 respectively). Additionally, I have testified in dockets related to the Company's
15 Arrearage Management Program (Docket No. 4651), Company-Owned LED
16 Streetlighting Proposal (Docket No. 4628), Request for Approval of Storm Contingency
17 Fund Replenishment (Docket No. 4686), and most recently I have submitted testimony in
18 Docket No. 4930, the 2019 Electric Annual Retail Rate Filing.

19

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

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

3 A. The purpose of our testimony is to update the gas and electric revenue requirements and
4 associated distribution rates to reflect the true-up of the excess accumulated deferred
5 income tax (ADIT) as provided in Article II, Section C.22.a. of the Amended Settlement
6 Agreement among the Parties² approved by the PUC on August 24, 2018, in Docket No.
7 4770 (the Amended Settlement Agreement).

8

9 **Q. Please describe the Excess Deferred Taxes True Up provision of the Amended**
10 **Settlement Agreement.**

11 A. To account for revisions to the corporate tax rate modified by the federal Tax Cuts and
12 Jobs Act (Tax Act), the Company had recorded the \$116 million and \$51 million
13 estimates of customer-related excess ADIT for Narragansett Electric and Narragansett
14 Gas, respectively, to a tax regulatory liability account in recognition that customers will
15 be credited those excess deferred taxes.³ At the time the Parties entered into the
16 Amended Settlement Agreement, the Company had not yet completed its fiscal year

² The term “Parties” means collectively 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, as more specifically described in the Amended Settlement Agreement.

³ See also Attachment 24 of the Amended Settlement Agreement, which is a copy of the Company’s response to PUC 4-1 (Supplemental) filed in this docket. For ease of reference, the Company has provided a copy of its response to PUC 4-1 (Supplemental) as Attachment NG-1 to this testimony.

THE NARRAGANSETT ELECTRIC COMPANY

d/b/a NATIONAL GRID

RIPUC Docket No. 4770

In Re: Excess Deferred Tax True-Up

[Revised Direct Testimony](#)

Witnesses: Bushmich, Little, Pini, and Pieri

Page 8 of 31

1 ended March 31, 2018 federal income tax return, which would enable the Company to
2 calculate more accurately excess deferred taxes and the timing over which they should be
3 returned to customers. With the filing of the fiscal year ended March 31, 2018 federal
4 income tax return in December 2018, the estimates would become final, and the excess
5 deferred tax regulatory liability would be adjusted to reflect that final balance.

6
7 The Amended Settlement Agreement provided for a reduction to Narragansett Electric
8 and Narragansett Gas revenue requirements by a high-level estimate of excess ADIT
9 amortization of \$5.1 million and \$2.0 million, respectively. The Company agreed to true
10 up these estimates in a supplemental compliance filing to be filed with the PUC in
11 Docket No. 4770 after the Company filed its Fiscal Year 2018 federal income tax return
12 in December 2018. The true-up would reconcile the impact of the actual excess deferred
13 tax amortization with the estimated amounts identified above and determine the final
14 revenue requirements for Narragansett Electric and Narragansett Gas effective
15 September 1, 2018. From the supplemental revenue requirements, the Company would
16 calculate the difference between the revenue requirements it began recovering
17 September 1, 2018, and the revenue requirements in the supplemental compliance filing
18 in Docket No. 4770 (Deferred Tax Differential). The Company agreed to submit to the
19 PUC for its review and approval a filing to address the ratemaking treatment of the
20 Deferred Tax Differential for Narragansett Electric and Narragansett Gas no later than
21 March 1, 2019.

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

2 A. Section I is the Introduction. Section II presents the Purpose and Structure of our
3 testimony. Section III presents the updated amounts of excess ADIT and the associated
4 amortization and discusses the reasons for the differences in these amounts from what
5 was included in the electric and gas revenue requirements in the Company's August 16,
6 2018 Compliance Filing in Docket No. 4770 approved by the PUC on August 24, 2018
7 (Compliance Filing). Section IV presents the updated electric and gas revenue
8 requirements, the difference in the revenue requirements from those included in the
9 Compliance Filing, and a discussion of what changed in the respective revenue
10 requirement as a result of the true up of excess ADIT. Section V presents the Company's
11 proposal regarding the ratemaking treatment of the change in the Narragansett Electric
12 revenue requirements for Rate Year 1 (i.e., September 1, 2018 through August 31, 2019),
13 Rate Year 2 (i.e., September 1, 2019 through August 31, 2020), and Rate Year 3 (i.e.,
14 September 1, 2020 through August 31, 2021), including proposed base distribution rates
15 and bill impacts for Rate Year 2 and Rate Year 3, and proposed tariff revisions. Section
16 VI presents the Company's proposal regarding the ratemaking treatment of the change in
17 the Narragansett Gas revenue requirements for Rate Year 1, Rate Year 2, and Rate
18 Year 3, including proposed base distribution rates and bill impacts for Rate Year 2 and
19 Rate Year 3, and proposed tariff revisions. Section VII is the Conclusion to our
20 testimony.

21

1 **Q. Has the Company included attachments to this filing?**

2 A. Yes, the Company has included the following attachments:⁴

3 Attachment NG-1, Company’s Response to PUC 4-1 (Supplemental) in Docket No. 4770

4 Attachment NG-2, IRS, Private Letter Ruling, Section 167 – Depreciation, PLR
5 201534001

6 [Revised](#) Supplemental Compliance Attachment 1, Narragansett Electric and Narragansett
7 Gas Revenue Requirement Settlement Terms, Rate Years 1, 2, 3

8 [Revised](#) Supplemental Compliance Attachment 2, Narragansett Electric and Narragansett
9 Gas Revenue Requirements, Rate Years 1, 2, 3

10 Supplemental Compliance Attachment 8, Narragansett Electric Revenue Allocation

11 Supplemental Compliance Attachment 9, Narragansett Electric Distribution Rate Design

12 Supplemental Compliance Attachment 10, Narragansett Electric Bill Impacts

13 Supplemental Compliance Attachment 13, Narragansett Electric Redlined Tariff

14 [Revised](#) Supplemental Compliance Attachment 16, Narragansett Gas Revenue
15 Allocation, Firm and Non-Firm Distribution Rate Design

16 [Revised](#) Supplemental Compliance Attachment 17, Narragansett Gas Bill Impacts

17 [Revised](#) Supplemental Compliance Attachment 19, Narragansett Gas Redlined Tariff

18 [Revised](#) Supplemental Compliance Attachment 31, Narragansett Electric and
19 Narragansett Gas Calculation of Revised Excess Accumulated Deferred Income Taxes &
20 Amortization

21

⁴ The attachments referred to as “Supplemental Compliance Attachment” reflect the updates presented in this filing to the same attachments filed with the PUC in the Compliance Filing.

1 **III. Update in Excess ADIT**

2 **Q. Why does the total of excess ADIT change from the amounts in Docket No. 4770 by**
3 **filing the consolidated federal income tax return?**

4 A. The Company's tax return process began with a provision at its fiscal year end of
5 March 31, 2018, which was the best estimate at that time of the permanent and temporary
6 book/tax differences⁵ that would be included in the consolidated federal income tax
7 return. For the FY 2018 provision, the Company also booked its best estimate of the
8 federal income tax rate change, based on the provision numbers, and the associated
9 excess ADIT. The Company also made a broad estimate of the annual amortization of
10 excess ADIT to include in the revenue requirements for Narragansett Electric and
11 Narragansett Gas in the Compliance Filing. After the provision, the Company spent
12 several months calculating the actual tax return book/tax differences, filed the tax return
13 in December 2018, and booked true-up entries to the provision that included a true-up to
14 the excess ADIT numbers. The main differences reflected in the true-up were related to
15 plant differences for the repair deduction and bonus depreciation offset by an increase to
16 net operating loss (NOL).

17

⁵ 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.

1 **Q. In its response to Division 1-31 in this docket, the Company stated that it would be**
2 **implementing a deferred tax module within its PowerTax system. Has the Company**
3 **implemented this deferred tax module?**

4 A. Yes. The Company keeps all tax related depreciation and the tax basis of its plant assets
5 in its PowerTax system. At the time of the Compliance Filing, the PowerTax system
6 calculated book-to-tax depreciation timing differences for the current fiscal year only;
7 therefore, the Company was unable to provide the amounts for protected and unprotected
8 plant related deferred taxes at that time. To identify and to calculate protected and
9 unprotected property balances, the Company needed to implement a deferred tax module
10 in PowerTax to match up the historic book depreciation amounts, by vintage and by asset
11 type. The new deferred tax model was also needed to accurately determine the timing of
12 the reversal of the underlying plant related book-to-tax timing differences, which
13 establishes the timing for the pass back to customers of the protected excess deferred
14 federal income taxes.

15
16 The Company has now implemented the deferred tax module within its PowerTax system
17 to correctly calculate the split between protected and unprotected plant excess ADIT and
18 to calculate the annual excess ADIT amortization of protected plant under the Average
19 Rate Assumption Method (ARAM). The project began by balancing the book plant cost
20 balances between PowerPlant, the system of record for book plant records, and
21 PowerTax, the system of record for tax plant records, by vintage and asset class. Because

1 the book reserve is not kept in the PowerTax system, the book reserve was brought into
2 the deferred tax module and allocated based on vintage and tax class and split between
3 book and tax basis adjustments, with the remainder classified as method/life differences.
4 The method/life differences encompass the difference between book depreciation lives
5 and tax depreciation lives and the methods used such as straight line for book and
6 accelerated depreciation methods for tax such as bonus depreciation. The excess ADIT
7 associated with method/life differences is protected under the normalization rules and all
8 other excess ADIT is considered unprotected from the normalization rules. The system is
9 also able to calculate the amortization of protected excess ADIT under ARAM by
10 applying the current book depreciation rates against the March 2018 balances and
11 projecting the reversals of temporary differences into the future.

12
13 **Q. Why is the Narragansett Gas unprotected plant balance so much larger than it is for**
14 **Narragansett Electric?**

15 A. The Narragansett Gas unprotected plant balance is ~~\$44.951.1~~ million compared to the
16 Narragansett Electric unprotected plant balance of \$17.8 million. This disparity is caused
17 by the tax repair methodology that the Company uses to accelerate income tax expensing
18 from additions that are capitalized for book purposes. Each fiscal year, the Company
19 performs a study of book capital additions to determine if they qualify as a repair for
20 income tax purposes. Historically, there has been a much higher percentage of additions

1 qualifying as a repair for Narragansett Gas. The repair basis adjustment within PowerTax
2 is classified as an unprotected balance.

3
4 **Q. Why does the excess ADIT on the NOL zero out the protected plant amortization?**

5 A The Company has relied on several Internal Revenue Service (IRS) Private Letter Ruling
6 (PLR) requests that concluded the NOL deferred tax asset is linked with the plant-related
7 deferred tax liability for the difference between book and tax depreciation. In PLR
8 201534001, a copy of which is provided as Attachment NG-2, the IRS uses the concept
9 of “last dollars deducted,” which means the Company calculates taxable income in any
10 given year without the book/tax depreciation difference and then with the depreciation
11 difference. The NOL created by that difference is then the offset to the deferred tax on
12 book/tax depreciation differences. The Company consistently has applied the NOL
13 deferred tax asset against the plant related deferred tax liability for deferred taxes
14 assigned to rate base, as the normalization rules require. It follows that the rate change
15 on the NOL is also linked to the rate change on protected property. As the protected
16 excess ADIT amortizes, the Company is also reversing, in an equal amount, the unfunded
17 ADIT for the NOL. After the NOL rate change, ADIT is fully amortized, the Company
18 will then return the remainder of the protected excess ADIT to customers.

19

1 **Q. In the Amended Settlement Agreement, the Company was requesting to recover**
2 **unfunded ADIT from customers related to the Service Company timing differences.**
3 **The present filing is proposing a credit to customers of excess ADIT. Why is there a**
4 **significant change in Service Company rate change related taxes?**

5 A. At March 31, 2018, the Company calculated its best estimate, prior to filing the
6 consolidated federal income tax return, of the deferred tax results of changing the
7 statutory federal rate from 35 percent to 21 percent. Certain rate change results were
8 recorded as a credit to the income statement as they were considered shareholder items.
9 The remainder of the deferred tax rate change was recorded to a tax regulatory account.
10 Timing differences related to non-qualified pension accounts, charitable contribution
11 carryforwards, and share-based compensation are examples of these items. Any tax rate
12 change related to an underlying account that is not funded by the customer is considered
13 a shareholder item. In addition to plant, one of the largest temporary differences at the
14 Service Company is related to pension and other post-employment benefit (OPEB)
15 liabilities. As customers fund these expenses, the rate change was recorded to a tax
16 regulatory asset. After further analysis, it was recognized that a significant portion of the
17 pension and OPEB related deferred taxes were recorded through Other Comprehensive
18 Income (OCI) to match the increase in pension and OPEB pre-tax liabilities that were
19 recorded through OCI. As customers do not reimburse the Company for pension or
20 OPEB expenses until these expenses are recycled out of OCI into the income statement,

1 the Company determined that the rate change on the OCI deferred taxes is more
2 appropriately a shareholder item and adjusted the tax regulatory account appropriately.

3
4 **IV. Updated Narragansett Electric and Narragansett Gas Revenue Requirements**

5 **Q. What are the total revised Narragansett Electric and Narragansett Gas revenue**
6 **requirements due to the updated excess ADIT?**

7 A. The total revised Narragansett Electric revenue requirements are \$292.9 million in Rate
8 Year 1, \$296.5 million in Rate Year 2, and \$298.8 million in Rate Year 3. The total
9 revised Narragansett Gas revenue requirements are ~~\$218.5~~~~218.2~~ million in Rate Year 1,
10 ~~\$224.1~~~~223.9~~ million in Rate Year 2, and ~~\$227.5~~~~227.2~~ million in Rate Year 3.

11
12 **Q. Please summarize the change in the Narragansett Electric and Narragansett Gas**
13 **revenue requirements related to the updated excess ADIT.**

14 A. The updated excess ADIT results in increases to the Narragansett Electric revenue
15 requirements of \$1.8 million in Rate Year 1, \$1.5 million in Rate Year 2, and \$1.2
16 million in Rate Year 3 compared to the Narragansett Electric revenue requirements
17 included in the Compliance Filing. The updated excess ADIT results in decreases to the
18 Narragansett Gas revenue requirements of ~~\$0.20~~~~0.4~~ million in Rate Year 1, ~~\$0.20~~~~0.4~~ million
19 in Rate Year 2, and ~~\$0.30~~~~0.5~~ million in Rate Year 3 compared to the revenue requirements
20 included in the Compliance Filing.

21

1 Line item comparisons for both the Narragansett Electric and Narragansett Gas revenue
2 requirements have been provided in Supplemental Compliance Attachment 2 at Schedule
3 Summary-ELEC and Schedule Summary-GAS, respectively.

4
5 The revised amortization of excess ADIT affects the following components of the
6 Narragansett Electric and Narragansett Gas revenue requirements: (1) ADIT in rate base,
7 (2) income tax expense, (3) Service Company rent expense, and (4) flow-through impacts
8 to uncollectible expense, cash working capital in rate base, and return on rate base.

9
10 **Q. Please explain the revisions made to Narragansett Electric and Narragansett Gas**
11 **rate base for updated excess ADIT.**

12 A. In its Compliance Filing, Narragansett Electric assumed amortization of excess ADIT of
13 \$5.1 million annually in its calculation of rate base per Compliance Attachment 2,
14 Schedule 11-ELEC, Pages 11 and 12. The revised Narragansett Electric excess ADIT
15 calculation results in amortization of \$1.7 million annually through rate base, the
16 derivation of which is shown in Supplemental Compliance Attachment 31 on Page 3,
17 Line 27. Amortization of excess ADIT serves to reduce the amount of ADIT in rate base,
18 and ADIT is a rate base deduction. Therefore, because revised excess ADIT amortization
19 for Narragansett Electric is lower than the estimated excess ADIT amortization reflected
20 in the Compliance Filing, the revised rate base is lower than the rate base included in the
21 Compliance Filing for Narragansett Electric. The revised calculation of Narragansett

1 Electric's rate base is provided in Supplemental Compliance Attachment 2, Schedule 11-
2 ELEC. Changes made to the ADIT component of rate base for excess ADIT are shown
3 on Pages 11 and 12 of that schedule.

4
5 The Narragansett Gas revenue requirement assumed amortization of excess ADIT
6 totaling \$2.0 million annually in its calculation of rate base per Compliance Attachment
7 2, Schedule 11-GAS, Pages 11 and 12. The revised Narragansett Gas excess ADIT
8 calculation results in amortization of ~~\$1.51.7~~ million annually through rate base, the
9 calculation of which can be found in [Revised](#) Supplemental Compliance Attachment 31
10 at Page 4, Line 27. Because revised excess ADIT amortization for Narragansett Gas is
11 lower than the estimated excess ADIT amortization included in the Compliance Filing,
12 the revised rate base is lower than the rate base included in the Compliance Filing for
13 Narragansett Gas. The revised calculation of Narragansett Gas's rate base is provided in
14 [Revised](#) Supplemental Compliance Attachment 2, Schedule 11-GAS. Changes made to
15 the ADIT component of gas rate base for excess ADIT are shown on Pages 11 and 12 of
16 that schedule.

17
18 **Q. Please explain the revisions made to Narragansett Electric and Narragansett Gas**
19 **income tax expense for updated excess ADIT.**

20 A. The offset to excess ADIT amortization in rate base is a reduction to income tax expense.
21 The Narragansett Electric revenue requirement in the Compliance Filing assumed a

1 reduction in income tax expense of \$5.1 million in each Rate Year related to the
2 amortization of excess ADIT. The revised annual amortization of Narragansett Electric
3 excess ADIT is \$1.7 million, which leads to an increase to income tax expense in each
4 Rate Year of \$3.4 million as compared to income tax expense in the Compliance Filing.
5 The Narragansett Gas revenue requirement in the Compliance Filing assumed a reduction
6 in income tax expense of \$2.0 million in each Rate Year related to the amortization of
7 excess ADIT. The revised annual amortization of Narragansett Gas excess ADIT is
8 \$1.57 million, therefore resulting in an \$0.53 million increase to income tax expense in
9 each Rate Year as compared to income tax expense included in the Compliance Filing.
10

11 **Q. Please explain the revisions made to Service Company rent expense for updated**
12 **excess ADIT.**

13 A. The amortization of Service Company excess ADIT is a component of the asset recovery
14 charge billed to Narragansett Electric and Narragansett Gas from the Service Company as
15 rent expense. As discussed above, the Compliance Filing included an estimate of the tax
16 rate change on Service Company ADIT, resulting in net unfunded excess ADIT, the
17 annual amortization of which would drive an increase in Service Company rent expense
18 of \$2.3 million annually for Narragansett Electric and \$0.8 million annually for
19 Narragansett Gas. These amounts are shown in [Revised](#) Compliance Attachment 2,
20 Schedule 17, Pages 6 and 7. The revised calculation of Service Company excess ADIT is
21 presented in [Revised](#) Supplemental Compliance Attachment 31, at Page 6. For the

1 reasons discussed in Section III of our testimony, the actual Service Company excess
2 ADIT at March 31, 2018, totaled a net liability to customers of \$4.9 million of which
3 7.93 percent is allocable to Narragansett Electric (net of expenses billed to New England
4 Power Company through the Integrated Facilities Agreement) and 2.73 percent is
5 allocable to Narragansett Gas, using the three-point general allocator. After applying the
6 3.38-year amortization period agreed upon in the Compliance Filing, the result is an
7 annual reduction to Service Company rent expense of \$0.1 million for Narragansett
8 Electric and \$40,000 for Narragansett Gas. The revised Service Company excess ADIT
9 drives a \$2.4 million decrease in Service Company rent expense in the Narragansett
10 Electric revenue requirement as compared to the Compliance Filing and a \$0.8 million
11 reduction in Service Company rent expense in the Narragansett Gas revenue requirement
12 as compared to the Compliance Filing. Revisions to Service Company rent expense can
13 be found at Supplemental Compliance Attachment 2, Schedule 17.

14
15 **V. Rate Proposals on Updated Narragansett Electric Revenue Requirements**

16 **Q. Please explain the Company's rate proposals regarding the updated Narragansett
17 Electric revenue requirements for Rate Year 1, Rate Year 2, and Rate Year 3 and
18 the change from the revenue requirements included in the Compliance Filing.**

19 **A.** The Company is proposing to address the changes in Narragansett Electric's annual
20 revenue requirements in two ways. First, for Rate Year 1, the Company is proposing to
21 recover the increase in the Rate Year 1 revenue requirement through the operation of the

1 Revenue Decoupling Mechanism (RDM) reconciliation filing in lieu of changing base
2 distribution rates. This treatment is provided through the Company's currently effective
3 Revenue Decoupling Mechanism Provision, RIPUC No. 2201.

4
5 Second, the increases associated with Rate Year 2 and Rate Year 3 are of an amount
6 sufficient enough to warrant a redesign of the base distribution rates for Rate Year 2 and
7 Rate Year 3.

8
9 **Q. Did the Company revise its revenue allocation to reflect Narragansett Electric's**
10 **updated revenue requirements for Rate Year 2 and Rate Year 3?**

11 A. Yes, as shown in Supplemental Compliance Attachment 8, Schedule 3, Page 3, the
12 Company recalculated the Rate Year 2 and Rate Year 3 revenue allocation using the same
13 methodology in the Compliance Filing.

14
15 **Q. How did the Company allocate the Rate Year 1 increase to the rate classes to**
16 **determine the updated distribution revenue allocation for Rate Year 2 and Rate**
17 **Year 3?**

18 A. The Company allocated the increase in Narragansett Electric's Rate Year 1 revenue
19 requirement using the final Rate Year 1 distribution revenue allocation approved in the
20 Compliance Filing. The Company believes that this is a reasonable approach to reflect
21 the updated revenue requirement across the rate classes and preserves the final revenue

1 allocation agreed to by the Parties in the Amended Settlement Agreement. The
2 Company does not believe that the Amended Settlement Agreement intended to reopen
3 the Parties' agreements pertaining to the allocation of base distribution revenue resulting
4 from the update to excess ADIT.

5
6 **Q. How did the Company design Narragansett Electric's revised base distribution rates
7 for Rate Year 2 and Rate Year 3?**

8 A. The Company preserved the provisions of the Amended Settlement Agreement with
9 respect to rate design, meaning that it maintained the stated customer charges from the
10 Amended Settlement Agreement in the updated rate design included in Supplemental
11 Compliance Attachment 9. Consequently, for the non-streetlighting rate classes, the
12 Company is proposing that each rate class's share of the increase in the Rate Year 2 and
13 Rate Year 3 revenue requirements is recovered through the per-kWh rates. Regarding the
14 streetlighting rate classes, the Company first determined the proposed Rate S-05 base
15 distribution rate to determine Rate S-05's distribution revenue that is removed from the
16 total streetlighting revenue requirement so that the proposed luminaire and pole charges
17 for the remaining streetlighting rate classes can be designed. This approach is consistent
18 with the approach used in the Compliance Filing.

19

1 **Q. Is the Company proposing to implement the revised base distribution rates for**
2 **Narragansett Electric shown in Supplemental Compliance Attachment 9, Schedule**
3 **4-I, Page 1, for Rate Year 2 and Rate Year 3?**

4 A. Yes, absent any other change to Narragansett Electric's revenue requirement for Rate
5 Year 2 and Rate Year 3, the Company is proposing that the revised base distribution rates
6 for Rate Year 2 and Rate Year 3 become effective September 1, 2019, and September 1,
7 2020, respectively. Pursuant to Article II, Section C.3, Narragansett Electric will submit
8 a filing by June 1, 2019, and June 1, 2020, in which it will request approval of its
9 Summary of Retail Delivery Rates tariff. If there are no other changes to Narragansett
10 Electric's revenue requirements for Rate Year 2 and Rate Year 3 beyond what is
11 presented in this filing, Narragansett Electric will reflect the base distribution rates
12 contained in Supplemental Compliance Attachment 9, Schedule 4-I, Page 1, in its
13 Summary of Retail Delivery Service Rates tariff, effective September 1, 2019, and
14 September 1, 2020, respectively.

15
16 **Q. Please present the impact of the updated excess ADIT and the proposal above on the**
17 **bills of Narragansett Electric customers.**

18 A. In Supplemental Compliance Attachment 10, the Company has revised the bill impacts to
19 reflect the proposed base distribution rates for Rate Year 2 and Rate Year 3. All other
20 rates and factors, such as the Renewable Energy Growth Program factors, the Low
21 Income Home Energy Assistance Plan (LIHEAP) Enhancement Charge, Transmission

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1 Energy Charges, Other Distribution Energy Charges, Transition Energy Charges, the
2 Energy Efficiency Program Charge, and the Renewable Energy Distribution Charge
3 remained unchanged from those factors included in the Compliance Filing in Compliance
4 Attachment 10. Because the Company is not proposing to change Narragansett Electric's
5 Rate Year 1 base distribution rates, the bill impacts associated with Rate Year 1 have not
6 changed and are the same as those contained in the Compliance Filing.

7
8 **Q. What is the overall bill impact on Narragansett Electric customers?**

9 A. As shown in Supplemental Compliance Attachment 10, the monthly bill increase for a
10 residential customer on Standard Offer Service and using 500 kWh per month is \$1.17, or
11 1.1 percent, in Rate Year 2 and \$0.41, or 0.4 percent in Rate Year 3. This compares to the
12 increase presented in the Compliance Filing for Rate Year 2 of \$1.03, or 0.9 percent, and
13 for Rate Year 3 of \$0.44, or 0.4 percent.

14
15 **Q. Does Narragansett Electric's proposal impact any of its currently-effective tariffs?**

16 A. Yes, it does. Narragansett Electric is proposing revisions to its RDM Provision to state
17 the amount that it will reflect in its RDM reconciliation for the Rate Year 1 increase, in
18 the next scheduled RDM reconciliation filing after the PUC issues a ruling on the
19 proposal presented above.

20

1 In addition, Narragansett Electric is proposing revisions to its RDM Provision in
2 Supplemental Compliance Attachment 13 associated with the Settlement Agreement filed
3 with the PUC for approval in Docket No. 4808 (the Docket No. 4808 Settlement).

4
5 **VI. Rate Proposals on Updated Narragansett Gas Revenue Requirements**

6 **Q. Please explain the Company's rate proposals regarding the updated Narragansett**
7 **Gas revenue requirements for Rate Year 1, Rate Year 2, and Rate Year 3 and the**
8 **change from the revenue requirements included in the Compliance Filing.**

9 A. The Company is proposing to address the changes in Narragansett Gas's annual revenue
10 requirements in two ways. First, for Rate Year 1, the Company is proposing to credit the
11 decrease in the Rate Year 1 revenue requirement through a new component to the
12 Distribution Adjustment Clause (DAC) provision of its gas tariff in lieu of changing base
13 distribution rates. This treatment is provided through Article II, Section C.22. of the
14 Amended Settlement Agreement for Narragansett Gas.

15
16 Second, the Company is proposing new base distribution rates for Rate Year 2 and Rate
17 Year 3 that would reflect the decreased revenue requirements for these years.

18
19 **Q. Please explain how the Company revised Narragansett Gas's Rate Year 1 revenue**
20 **targets for each rate class to reflect the reduction in base distribution revenue**
21 **resulting from the true-up of excess ADIT.**

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1 A. The Company allocated the decrease in Narragansett Gas's Rate Year 1 revenue
2 requirement presented earlier in this testimony to each rate class using the approved final
3 Rate Year 1 allocated distribution revenue from the Compliance Filing. The allocation of
4 Rate Year 1's decrease is shown in [Revised](#) Supplemental Compliance Attachment 16,
5 Page 3, Column (j). The Company then added this reduction to the approved allocated
6 distribution revenue to determine the revised Rate Year 1 distribution revenue allocation
7 for each rate classification.

8

9 **Q. Why did the Company use the final distribution revenue allocation for Rate Year 1**
10 **from the Compliance Filing to allocate the decrease in the Rate Year 1 revenue**
11 **requirement?**

12 A. Similar to Narragansett Electric, Narragansett Gas allocated the change in the Rate Year
13 1 revenue requirement using the final distribution revenue allocation for Rate Year 1, as
14 this is a reasonable approach that preserves the final revenue allocation agreed to by the
15 Parties in the Amended Settlement Agreement. The Company does not believe that the
16 Amended Settlement Agreement intended to reopen the Parties' agreements pertaining to
17 the allocation of base distribution revenue resulting from the update to excess ADIT. The
18 terms of the Amended Settlement Agreement were intended to afford the Company
19 latitude to reconcile the excess ADIT true up in an administratively efficient manner.

20

1 **Q. Did the Company revise the Narragansett Gas Rate Year 1 base distribution rates to**
2 **reflect the updated revenue requirement?**

3 A. Yes, it did, as explained below. As shown in the rate design contained in [Revised](#)
4 Supplemental Compliance Attachment 16, Pages 4 and 5, the Company maintained the
5 approved customer charges and demand charges included in the Compliance Filing and,
6 similar to Narragansett Electric, adjusted the volumetric rates to recover the revised
7 distribution revenue allocation identified in Supplemental Compliance Attachment 16,
8 Page 3. In addition, for those rate classifications with seasonal rates (i.e., Residential
9 Heating, Residential Low-Income Heating, and Small Commercial), the Company
10 applied the same seasonal adjustment percentage (Page 5, Column (g)) as was applied in
11 the Compliance Filing.

12

13 **Q. Does the Company intend to bill customers the revised Rate Year 1 base**
14 **distribution rates shown in Supplemental Compliance Attachment 16?**

15 A. No, the Company is not proposing to change Narragansett Gas's base distribution rates
16 for Rate Year 1. Narragansett Gas will continue to bill customers the currently-approved
17 base distribution rates through Rate Year 1, which ends August 31, 2019. The Company
18 is proposing to credit the difference between actual distribution revenue billed to
19 customers from September 1, 2018, through August 31, 2019, and the amount
20 Narragansett Gas would have billed customers if the lower Rate Year 1 revenue
21 requirement been reflected in base distribution rates since September 1, 2018.

1 Consequently, it is necessary for the Company to design base distribution rates for Rate
2 Year 1 to estimate what Narragansett Gas would have billed customers. Because not all
3 of Narragansett Gas's customers are included in its RDM and Narragansett Gas's RDM
4 operates differently than Narragansett Electric's RDM, the Company will need to
5 determine this amount differently for Narragansett Gas than it did for Narragansett
6 Electric. The Company is proposing to credit the amount it calculates in its 2019-2020
7 Distribution Adjustment Charge (DAC) that will be filed on August 1, 2019, for effect
8 November 1, 2019. The Company anticipates that this credit will approximate the impact
9 on the Rate Year 1 revenue requirement from the true-up of excess ADIT.

10
11 **Q. How will the reduction to the revenue requirement impact Narragansett Gas's**
12 **Revenue Decoupling Adjustment?**

13 A. Narragansett Gas will reduce its Revenue Per Customer (RPC) benchmarks to reflect the
14 updated Rate Year 1 revenue requirement and will reduce the actual billed revenue
15 reflected in the RDM to reflect the revenue that would have billed to customers assuming
16 the revised Rate Year 1 base distribution rates including the Excess ADIT true-up shown
17 in [Revised Supplemental](#) Compliance Attachment 16, Page 11 were in effect. These
18 adjustments, which will be discussed in further detail in Narragansett Gas's RDM filings,
19 will ensure that customers receive the full benefit of the reduced revenue requirement
20 resulting from the excess ADIT true-up, as the amount will be credited through the DAC
21 and reconciled to the amount reflected in the RDM filing.

1 **Q. Did the Company determine Narragansett Gas's revenue allocations for Rate Year**
2 **2 and Rate Year 3?**

3 A. Yes, as shown in [Revised](#) Supplemental Compliance Attachment 16, Pages 7 through 9,
4 the Company recalculated Narragansett Gas's revenue allocations for Rate Year 2 and
5 Rate Year 3 using the same methodology used in the Compliance Filing.
6

7 **Q. Is the Company proposing to implement Narragansett Gas's revised distribution**
8 **rates shown in Supplemental Compliance Attachment 16, Page 1, for Rate Year 2**
9 **and Rate Year 3?**

10 A. Yes, the Company is proposing to implement the revised base distribution rates for
11 Narragansett Gas for Rate Year 2 and Rate Year 3 effective September 1, 2019, and
12 September 1, 2020, respectively.
13

14 **Q. Has the Company updated Narragansett Gas's bill impact?**

15 A. Yes, in [Revised](#) Supplemental Compliance Attachment 17, the Company revised
16 Narragansett Gas's bill impacts to reflect the proposed base distribution rates for Rate
17 Year 2 and Rate Year 3 as shown in [Revised](#) Supplemental Compliance Attachment 16,
18 Page 1. All other rate components, such as Gas Cost Recovery factors, DAC factors,
19 Energy Efficiency factors, and the LIHEAP Enhancement Charge, remain unchanged
20 from those factors included in Compliance Attachment 17 and Compliance Attachment
21 18. Since the Company is not proposing to change Narragansett Gas's Rate Year 1 base

1 distribution rates, the bill impacts associated with Rate Year 1 have not changed and are
2 the same as those contained in the Compliance Filing.

3
4 **Q. What is the overall bill impact on Narragansett Gas customers?**

5 A. As shown in [Revised](#) Supplemental Compliance Attachment 17, the annual bill increase
6 for a residential heating customer using 845 therms per year is ~~\$22.3321.73~~, or 1.8
7 percent, in Rate Year 2 and ~~\$11.7941.77~~, or 1.0 percent, in Rate Year 3. This compares
8 to the increase presented in the Compliance Filing for Rate Year 2 of \$23.01, or 1.9
9 percent, and for Rate Year 3 of \$11.94, or 1.0 percent.

10

11 **Q. Has Narragansett Gas updated its tariff to reflect the proposed base distribution**
12 **rates for Rate Year 2 and Rate Year 3?**

13 A. Yes, the Company is providing its currently-effective tariff marked to show changes for
14 the proposed base distribution rates for Rate Year 2 and Rate Year 3 in [Revised](#)
15 Supplemental Compliance Attachment 19.

16

17 **Q. Has Narragansett Gas made any other changes to its tariff?**

18 A. Yes, the Company has also updated Narragansett Gas's DAC provision, Section 3,
19 Schedule A, to include a proposed new DAC component that would credit to customers
20 (1) the credit for the impact from the reduction in the Rate Year 1 revenue requirement,
21 as described above, and (2) the credit associated with the Docket No. 4808 Settlement.

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1 VII. **Conclusion**

2 Q. Does this conclude your testimony?

3 A. Yes.