

The Narragansett Electric Co. d/b/a National Grid—Application for Approval of a Change in Electric and Gas Base Distribution Rates (filed on November 27, 2017)

Docket 4770

Request for Information

Requesting Party: New Energy Rhode Island (NERI)
To: National Grid
Request No.: NERI 29-1 through 29-5
Date of Request: 3.22.18
Response Due Date: Rolling
Subject/Panel: Book 12—Gorman—COSS

29-1. Please refer to NERI 7-2, referencing p. 15, ll. 7-8 of Mr. Gorman’s testimony, and the Company’s response. For questions (a) through (c) below, please provide data in spreadsheet form.

- a. Please confirm that the testimony refers only to costs properly classified in 586, 587, and 597 as costs to “maintain customer-related distribution assets” are classified solely as customer costs.
- b. Please confirm whether and the extent to which costs associated with distribution and distribution maintenance costs in accounts 588-595, and 598 are classified as customer costs.
- c. Exhibit HSG-1D indicates that costs in accounts 588, 589, and 590 are functionalized as “Billing” costs. Please explain the rationale for this functionalization and the specific kinds of costs in these categories that are functionalized as Billing costs.

Response can be found on Bates page(s) 1-2.

29-2. Please refer to NERI 7-4 and 7-5, referencing p. 15 of Mr. Gorman’s testimony, and the Company’s response. In response to NERI 7-4 (a), for example, Mr. Gorman states that: “Plainly, these assets and costs are *primarily* a function of the number of customers served, and *bear no relation* to demand or usage.” (emphasis added) Are there any customer costs that are (1) classified or functionalized as customer costs do not vary exclusively with number of customers (that is are only “primarily a function of the number of customers served”), and (2) that do not vary with usage or profile (bear “no relation to demand or usage”)? What drives those costs? In other words, the witness describes costs “primarily” driven by customer count, but does not explain what the secondary or tertiary drivers of these costs would be. If yes, please list and describe these costs and their drivers.

Response can be found on Bates page(s) 3-5.

29-3. Please refer to the Company response to NERI 7-6. Please list, describe, and quantify the costs relating to “customer service, field services, billing, and accounting” that the Company would incur for customers who do not use electric service after they have set up

their customer account. In other words, aside from account establishment, billing setup, new service drop (if required), and meter installation, what costs within the categories of “customer service, field services, billing, and accounting” are incurred for a connected customer that does not use any electric service?

Response can be found on Bates page(s) 6.

29-4. Please refer to HSG-1C-1.

- a. Please describe how the Company calculated the per customer kW cost on line 10.
- b. Please provide HSG-1C-1 in Excel format, with formulas enabled.

Response can be found on Bates page(s) 7.

29-5. Has Standard & Poor's or any other rating agency published a more recent ratings report/analysis than the one attached to NERI 2-25? Please provide copies of such or similar reports.

Response can be found on Bates page(s) 8.

NERI 29-1

Request:

Please refer to NERI 7-2, referencing p. 15, ll. 7-8 of Mr. Gorman's testimony, and the Company's response. For questions (a) through (c) below, please provide data in spreadsheet form.

- a. Please confirm that the testimony refers only to costs properly classified in 586, 587, and 597 as costs to "maintain customer-related distribution assets" are classified solely as customer costs.
- b. Please confirm whether and the extent to which costs associated with distribution and distribution maintenance costs in accounts 588-595, and 598 are classified as customer costs.
- c. Exhibit HSG-1D indicates that costs in accounts 588, 589, and 590 are functionalized as "Billing" costs. Please explain the rationale for this functionalization and the specific kinds of costs in these categories that are functionalized as Billing costs.

Response:

- a. The costs to "maintain customer-related distribution assets" include the costs recorded in FERC Account 586, Operation of Meter Expenses; Account 587, Operation of Customer Installation Expenses; and Account 597, Maintenance of Meters, as well as allocated portions of other accounts, for example, Account 580, Distribution Operations-Supervision and Engineering.

Account 587, Operation of Customer Installation Expenses, was inadvertently classified as demand-related; this had a very small effect on the allocated cost of service study results because the account value was \$0.1 million out of total O&M of \$45.0 million.

The other two accounts were classified as customer-related.

- b. The classification of the costs in these accounts is shown on Exhibit HSG-1G-4 (Bates Pages 126-130 of Book 12). The costs functionalized to Primary Distribution are demand-related; the costs functionalized to Secondary Distribution are classified using internal allocators or demand-related; the costs functionalized to Billing are classified as customer-related.
- c. It was not appropriate to directly assign any of these costs to a single function because they represent activities that are required for various functions. Therefore, as Exhibit

HSG-1D shows (Bates Pages 73-78 of Book 12), these costs are functionalized, respectively, based on the internal allocators Distribution-Labor, Plant and Distribution-Labor. Accordingly, a portion of the costs were functionalized to Billing.

NERI 29-2

Request:

Please refer to NERI 7-4 and 7-5, referencing p. 15 of Mr. Gorman's testimony, and the Company's response. In response to NERI 7-4 (a), for example, Mr. Gorman states that: "Plainly, these assets and costs are *primarily* a function of the number of customers served, and *bear no relation* to demand or usage." (emphasis added) Are there any customer costs that are (1) classified or functionalized as customer costs do not vary exclusively with number of customers (that is are only "primarily a function of the number of customers served"), and (2) that do not vary with usage or profile (bear "no relation to demand or usage")? What drives those costs? In other words, the witness describes costs "primarily" driven by customer count, but does not explain what the secondary or tertiary drivers of these costs would be. If yes, please list and describe these costs and their drivers.

Response:

As stated in the Company's response to NERI 7-4(a), a copy of which is provided as Attachment NERI 29-2 for ease of reference, these assets and costs are primarily a function of the number of customers served, and bear no relation to demand or usage. Having established the primary cost driver, and having ruled out demand or usage as cost drivers, there is no need to consider what the secondary and tertiary drivers of cost might be. In any event, Mr. Gorman is not aware of any other cost driver that would have a meaningful cost-causation effect on these costs.

NERI 7-4

Request:

Subject: Book 12—Gorman—COSS

Reference p. 15, ll. 8-10.

- a. Please explain how the Company uses the standard or definition that “customer-related costs are primarily a function of the number of customers served” to classify costs.
- b. Please confirm whether the Company’s method is similar or different from “minimum-system,” “zero-load,” or other similar methods to apply its definition of “customer-related.”
- c. Please provide a detailed list of all costs that do not vary with the number of customers served.

Response:

- a. The costs that the Company has classified as customer-related are service drops and meters and related operation and maintenance (O&M) costs (discussed in the Company’s response to NERI 7-2), and Customer Records, Accounting, and Collection costs and Customer Service Costs (discussed in the Company’s response to NERI 7-1). The Company also classified allocated portions of General Plant and Administrative and General (A&G) costs as customer-related. Plainly, these assets and costs are primarily a function of the number of customers served, and bear no relation to demand or usage.
- b. The studies listed in part b. to this data request are used to determine the customer-component of assets such as conductors and transformers. The Company did not perform any of those studies and did not classify any portion of conductors or transformers as customer-related.
- c. The Company classified costs as either demand-related or customer-related, as described in the pre-filed direct testimony of Mr. Gorman. The costs that vary with the number of customers and bear no relation to demand or usage, as identified in the Company’s responses to NERI 7-1 and NERI 7-2, were classified as customer-related. All other costs were classified as demand-related. Please see Schedule HSG-1D, the results of the Company’s functionalization study, where the last column on the right labeled Billing is customer-related, and Schedule HSG-1E for the classification of the amounts functionalized as Primary Dist and Secondary Dist columns from Schedule HSG-1D between demand-related and customer-related. These schedules indicate the types of

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costs by FERC Account that are functionalized and classified as demand-related and customer-related.

NERI 29-3

Request:

Please refer to the Company response to NERI 7-6. Please list, describe, and quantify the costs relating to “customer service, field services, billing, and accounting” that the Company would incur for customers who do not use electric service after they have set up their customer account. In other words, aside from account establishment, billing setup, new service drop (if required), and meter installation, what costs within the categories of “customer service, field services, billing, and accounting” are incurred for a connected customer that does not use any electric service?

Response:

The Company needs to have the full array of services available to each customer, each month, regardless of past or present usage. The Company does not have a fee-for-service business model. Instead, as a utility, the Company it is ready to serve customers when they request services from the Company.

NERI 29-4

Request:

Please refer to HSG-1C-1.

- a. Please describe how the Company calculated the per customer kW cost on line 10.
- b. Please provide HSG-1C-1 in Excel format, with formulas enabled.

Response:

- a. The amounts on Line 10 of Schedule HSG-1C-1 (Bates Page 62 of Book 12) represent the cost per kW-month; they are not per-customer costs.

The amounts on Lines 2-4 of that schedule are the annual revenue requirements allocated to each rate class for the three demand-related functional classifications; the sum of demand-related costs is on Line 5. The total is divided by the class NCP, then divided by 12 months to determine the monthly revenue requirement per kW-month.

- b. Please note that in this docket, Narragansett Electric previously submitted Schedule HSG-1 in Excel format in its initial filing with the Rhode Island Public Utilities Commission on November 27, 2017, and in response to DON 1-1 and Wal-Mart 1-1.

NERI 29-5

Request:

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Has Standard & Poor's or any other rating agency published a more recent ratings report/analysis than the one attached to NERI 2-25? Please provide copies of such or similar reports.

Response:

Standard & Poor's has not published any more recent reports specifically regarding the Company other than the report that is attached to the Company's response to NERI 2-25. However, Standard & Poor's published a report regarding National Grid plc on August 11, 2017. The most recent report by Moody's regarding the Company was published on August 29, 2017. These reports, along with all rating agency reports concerning the Company and its affiliates published since January 1, 2014, are provided as attachments to the Company's response to PUC 1-10.