

July 21, 2020

VIA ELECTRONIC MAIL

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

**RE: Docket 4770 – Electric Earnings Sharing Mechanism
Earnings Report - Twelve Months Ended December 31, 2019
Responses to PUC Data Requests – Set 1**

Dear Ms. Massaro:

On behalf of National Grid¹ enclosed please find a copy of the Company's responses to the Public Utilities Commission's (PUC) First Set of Data Requests in the above-referenced docket.²

Please be advised that the Company submitted its response to PUC 1-1 on July 7, 2020.

Thank you for your attention to this transmittal. If you have any questions regarding this filing, please contact me at 401-784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

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

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

² Per practice during the COVID-19 emergency period, the Company is providing a PDF version of the responses to the PUC's Data Requests in this matter. The Company will provide the Commission Clerk with a hard copy and, if needed, additional hard copies of the filing at a later date.

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.



Jennifer Brooks Hutchinson, Esq.

July 21, 2020
Date

**National Grid Docket No. 4770 (Rate Application) & Docket No. 4780 (PST)
Combined Service list updated 7/8/2020**

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PUC 1-2

Request:

Please explain in reasonable detail the nature of the operation and maintenance expense labeled as the Block Island Transmission System (BITS) reserve for future repairs, including without limitation (i) the type of costs expected to be incurred, (ii) why those costs are expected to be incurred, (iii) the specific plant and/or equipment to which the expenses relate, and (iv) a schedule itemizing the cost components within the reserve estimate.

Response:

(i)-(iii). The BITS facilities include the sea2shore transmission cable between the Town of New Shoreham and the mainland of the state and related facilities:

- Approx. 20 miles of 34.5kV submarine cable with fiber optic cable between the Town of New Shoreham and the mainland
- New 34.5 kV substation on Block Island, including two switched reactors for voltage control;
- New 34.5 kV switching in Narragansett, RI, including two switched reactors for voltage control;
- Approx. 1 mile of combined overhead and underground infrastructure on Block Island
- Approx. 4 miles of combined overhead and underground infrastructure on the mainland in the Town of Narragansett

Due to the unique location of the submarine cable, the repair costs which may involve a repair crew and vessel can be substantial. The routine inspection and maintenance as well as possible repair costs are listed below:

Equipment	Inspection/Maintenance	Annual Cost	Frequency	Failure Repair Cost
Mainland Land Cable	Underground Manholes and Contents Inspection	\$10,000 annually; \$80,000 every five years	Annual and 5 years	\$100,000 to \$200,000
Island Land Cable	Underground Manholes and Contents Inspection	\$10,000 annually; \$45,000 every five years	Annual and 5 years	\$100,000 to \$200,000

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Equipment	Inspection/Maintenance	Annual Cost	Frequency	Failure Repair Cost
Submarine Cable	Annual conformance reporting requirements, Burial Depth Survey, and Matting inspection	\$25,000 annually, \$225,000 every five years	Annual and 5 years	Up to tens of millions
Entire Station Block Island	Visual & Operational (V&O) inspections; Infrared (IR) inspections	\$12,000	2 months-V&O & Annual IR	Up to \$1 Million
Battery System	Diagnostic Testing	\$2,000	Annual	\$20,000
Emergency Generator	Maintenance & Operation Simulation	\$3,000	Annual	\$50,000
HVAC System	Maintenance	\$2,000	Biannual	\$20,000
2 - Oil Filled Switched Reactors	Diagnostic Testing & Maintenance	\$2,200	6 Years	\$200,000 each
7 Circuit Breakers	Diagnostic Testing & Maintenance	Not significant	10 years	\$40,000 each
5 Switch Motor Operators	Operational Testing & Maintenance	\$2,000	6 Years	\$20,000 each
Grounding Transformer	Oil Sampling & Dissolved Gas Analysis (DGA)	\$200	2 years	\$300,000
BIPCO Power Transformer	Oil Sampling & DGA analysis	\$400	1 year	\$800,000
Entire Station Dillon Corner	V&O IR	\$8,000	2 months-V&O & Annual IR	Up to \$1 Million
Battery System	Diagnostic Testing	\$1,600	Annual	\$20,000
Emergency Generator	Maintenance & Operation Simulation	\$2,000	Annual	\$50,000
HVAC System	Maintenance	\$1,000	Biannual	\$20,000
2 - Oil Filled Switched Reactors	Diagnostic Testing & Maintenance	\$1,800	6 Years	\$200,000 each
6 Circuit Breakers	Diagnostic Testing & Maintenance	Not significant	10 years	\$40,000 each
Capacitor Bank	None	None	None	\$40,000

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Equipment	Inspection/Maintenance	Annual Cost	Frequency	Failure Repair Cost
Overhead Infrastructure	Diagnostic Testing & Maintenance	\$10,000	Annual	Not significant
Total		\$93,200 - \$398,200		

(iv). All BITS facilities’ voltage is rated 34.5kV. Based on the Company’s asset classification rules, the BITS facilities are classified as distribution assets for accounting purposes. Under both New England Power Company’s (NEP) Tariff No. 1 and Schedule 21-NEP, this classification does not affect the Company’s ability to treat these facilities as “transmission” for ratemaking purposes.

Per NEP’s Electric Tariff 1 -

“For Customer-owned distribution facilities utilized by the Company for purposes of providing wholesale transmission service, effective as of the June billing month of each year , the Company will credit each monthly bill rendered to the Customer with one-twelfth of the annual costs determined by multiplying the sum of the applicable Customer’s: (i) Distribution Plant Assets; (ii) Shared Substation Assets, and; (iii) Buildings and Facilities, each as set forth in the Customer’s Service Agreement, by the Primary Distribution Carrying Charge based upon previous calendar year data.

The Primary Distribution Carrying Charge shall be calculated as follows for the applicable Customer:

I. The Primary Distribution System Carrying Charge shall be calculated annually based on actual calendar year data as reported in the FERC Form 1 and shall equal the sum of (A) Return and Associated Income Taxes, (B) Primary Depreciation Expense, (C) Primary Related Amortization of Loss on Reacquired Debt, (D) Primary Related Amortization of Investment Tax Credits, (E) Primary Related Municipal Tax Expense, (F) Primary Operation and Maintenance Expense, (G) Primary Related Administrative and General Expense, and (H) Primary Revenue Credit, divided by Total Primary Distribution Plant.”

According to the above formula rate, Operation & Maintenance (O&M) Expense and Administrative & General (A&G) Expense are components of the annual distribution system carrying charge billed to NEP for its use of the Company-owned BITS assets. The annual BITS surcharge imputed under the formula rate totaled \$19.2 million in CY 2019:

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	<u>Transmission Revenue Requirement:</u>	Net IFA (a)	BITS (b)	Total IFA & BITS Rev Req billed to NEP (a)+(b)
1	Return and Associated Income Taxes	\$65,267,832	\$4,839,76	\$70,107,593
2	Transmission Depreciation & Amortization Expense	\$19,106,409	\$3,569,62	\$22,676,033
3	Transmission Amortization of Loss on Reacquired Debt	\$59,573	\$8,292	\$67,865
4	Transmission Amortization of Investment Tax Credits	(\$1,560)	(\$2,015)	(\$3,575)
5	Transmission Municipal Tax Expense	\$16,162,255	\$1,643,18	\$17,805,444
6	Payroll Taxes	\$586,693		\$586,693
7	Transmission Administrative and General Expense	\$11,331,74	\$6,072,54	\$17,404,29
8	Transmission Operation and Maintenance Expense	\$10,521,95	\$3,076,20	\$13,598,15
9	Manual Journal entries - timing of accruals	(\$1,021,534)		(\$1,021,534)
10	Total Transmission Revenue Requirement	\$122,013,37	\$19,207,600	\$141,220,97

The \$141.2 million detailed in the chart above represents the total Transmission formula rate revenue requirements billed to New England Power Company in calendar year (CY) 2019 under the Integrated Facilities Agreement for NEP's use of BITS and other Transmission assets owned by the Company. The revenue received from NEP is recorded as contra-Wheeling expense as shown on Page 3 at Line 7 of the earnings report. The Company made a ratemaking adjustment to the Electric income statement on Page 3 of the earnings report in Column (b) to remove the impact of this revenue on distribution earnings. The Company then applied the Transmission expense amounts recovered from NEP against the corresponding expense line items in the Electric income statement as further ratemaking adjustments in Column (b).

The BITS formula rate revenue requirement of \$19.2 million, detailed in Column (b) of the chart above, is calculated by applying the Distribution Carrying Charge to the cost of the BITS assets. The Distribution Carrying Charge is determined based on the annual revenue requirement of all the Company's distribution assets as a percentage of Distribution Plant. It does not reflect actual costs incurred to operate and maintain the BITS system specifically. Under the Distribution Carrying Charge, as outlined above, \$6.1 million representing Administrative and General

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(A&G) costs and \$3.0 million representing Operation and Maintenance (O&M) costs were billed to NEP as components of the total \$19.2 million BITS surcharge for calendar year 2019.

The error made in the Company's CY 2019 distribution earnings report, as originally filed on May 5, 2020, was to exclude the imputed \$9.1 million of BITS-related A&G and O&M expense from the total Electric A&G and O&M expense on Page 3 in Column (b) as a ratemaking adjustment. The reduction to A&G and O&M expense on Line 9 and Line 10 of the earnings report agrees to the total IFA and BITS billings to NEP on Line 7 and Line 8 in the Transmission revenue requirement chart above.

However, as discussed in parts (i) through (iii) of this response, the Company did not actually incur \$9.1 million to operate and maintain the BITS assets in CY 2019 and would not expect to incur annual operating and maintenance costs at such a level until a significant repair to the BITS cable is warranted. To remove \$9.1 million of imputed BITS operating expense from the earnings report would significantly understate the amount of distribution operating expense incurred in CY 2019. Therefore, the Company submitted a revised CY 2019 distribution earnings report on June 24, 2020, which excludes the \$9.1 million of imputed BITS operating expense from the Transmission expense adjustment on Lines 9 and 10 in Column (b), such that the net revised reduction to Electric A&G and O&M expense related to Transmission assets would be \$11.3 million and \$10.3 million respectively (or said another way, the reduction to A&G and O&M expense only reflects the IFA-related expense recovered from NEP). The earnings report does include ratemaking adjustments to reduce total Electric expense for BITS-related depreciation expense and municipal tax expense.

The intent of this correction was not to establish a \$9.1 million operating expense reserve against future BITS-related costs incremental to the amount of operating expense reported in the Company's financial statements and FERC Form 1 for CY 2019. The intent was to reflect the proper ratemaking adjustment to remove Transmission-related expenses from total Electric results and arrive at the Electric distribution-only expense and net income upon which to calculate distribution-related return on equity.

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PUC 1-3

Request:

Please identify the date when the Company's accountants booked the \$9.1 million BITS reserve and provide copies of any accounting memos that recommended or reflected the final decision to book the reserve.

Response:

Please refer to the Company's response to PUC 1-2. The Company did not record a reserve on its books for \$9.1 million of BITS-related operation & maintenance expense.

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PUC 1-4

Request:

Please explain in reasonable detail why the company's accounting and financial processes did not include the \$9.1 million of BITS expenses in the earnings report originally filed, including without limitation exactly how the expense item was missed. Please also explain what steps the company is now taking to address any flaws in the Company's financial controls that allowed such a material item of costs to be missed in its financials.

Response:

Please refer to the Company's response to PUC 1-2. The \$9.1 million correction to CY 2019 operating expense is not related to an accounting error in the Company's books or financial statements. The error was made in adjusting the Company's total Electric financial results to remove the impact of BITS Transmission -related expense for electric distribution ratemaking purposes.

The Company has since revised its standard operating procedure documents outlining the preparation of the annual electric earnings report to capture this issue and avoid a similar error in future earnings reports.

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PUC 1-5

Request:

Has the Company or any of its affiliates over-reported earnings (due to a failure to recognize the \$9.1 million of BITS expenses) in any other public documents that have been published to shareholders, bondholders, or any other investors? If so, please identify them and explain what steps the Company has taken or will be taking to report and correct those public statements due to the error.

Response:

Please refer to the Company's response to PUC 1-2. There are no accounting or financial statement errors associated with the \$9.1 million correction to CY 2019 operating expense. The error was made in adjusting the Company's total Electric financial results to remove the impact of BITS Transmission -related expense for electric distribution ratemaking purposes.

For the reasons discussed above, neither the Company nor any of its affiliates have over-reported earnings in any other public documents that have been published to shareholders, bondholders, or any other investors.

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PUC 1-6

Request:

Is the accuracy of the Company's 2019 FERC Form 1 filing affected by the accounting error? If so, please explain what corrections will be made. If not, please explain why not.

Response:

The accuracy of the Company's 2019 FERC Form 1 filing is not affected.

Please see the Company's response to PUC 1-2. There are no accounting or financial statement errors associated with the \$9.1 million correction to CY 2019 operating expense. The error was made in adjusting the Company's total Electric financial results to remove the impact of BITS Transmission -related expense for electric distribution ratemaking purposes.

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PUC 1-7

Request:

The company's corrected earnings report labels the \$9.1 million BITS reserve as relating to Block Island Transmission O&M. If the label is accurate, please explain why the Company is allocating transmission expenses to distribution expenses, rather than treating the expenses as transmission which would be subject to FERC jurisdiction and, therefore, excluded from the distribution cost of service.

Response:

As indicated in the Company's response to PUC 1-2, the \$9.1 million is not actual BITS-related operating expense but imputed operating expense pursuant to the BITS surcharge formula rate billed to NEP. The actual BITS operating expenses are expected to be in the range of \$93,000 annually and up to \$398,000 every five to six years depending on the inspection schedule of each BITS asset. Therefore, reducing total Electric operating expense by an imputed \$9.1 million in Transmission operating expense not actually incurred to operate or maintain BITS assets would significantly understate the amount of operating expense incurred in CY 2019 to operate the electric distribution system.

The BITS-related rate base, depreciation expense and municipal taxes have been removed from total CY 2019 Electric financial results on Page 3 and Page 5 of the earnings report as part of the ratemaking adjustments made to arrive at the electric distribution rate base and net income.

PUC 1-8

Request:

After the costs of the BITS transmission O&M are incurred, does the Company expect to receive cost recovery through its Transmission Service Cost Adjustment Provision?

- a. If yes, please explain why such costs are recoverable through that adjustment provision. If not, please explain why not.
- b. If not recovered through the adjustment provision, is the expense properly categorized as a distribution expense that is recovered through base distribution rates if the expense appears in the test year of a rate case and is not normalized out as a one-time non-recurring expense? If not properly categorized in this way, explain why not.

Response:

The imputed amount of BITS-related operating expense is included in the BITS formula rate surcharge that the Company bills to NEP under the IFA. In turn, NEP includes the BITS surcharge amount in its transmission charges billed to the Company for local transmission service. Ultimately the Company recovers its total transmission expenses, including amounts billed by NEP for local transmission service, from its customers through its Transmission Service Cost Adjustment Provision.

While O&M expenses are recovered through the Transmission Service Cost Adjustment Provision it is not an actual cost recovery. As noted above the operating expense is a calculated or an imputed amount based on the BITS formula rate. Since the operating expense is calculated each year based on the formula the actual BITS O&M expense would not be recovered through the Company's Transmission Service Cost Adjustment Provision when incurred. There is currently no mechanism which reconciles the actual annual BITS revenue requirement against the annual imputed BITS revenue requirement recovered through Transmission rates.

The Company excludes all BITS-related rate base and expense from its distribution cost of service and related distribution earnings calculations.

If actual BITS-related operating expenses are incurred during the test year of a distribution base rate case, those actual BITS operating costs along with the associated BITS rate base, depreciation expense and municipal tax expense will be normalized out of the test year financials and, therefore, no portion of BITS revenue requirement would be recovered through distribution base rates.

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PUC 1-9

Request:

If the BITS expense has been booked as a reserve, please explain why the Company has not booked an off-setting regulatory asset that would result in no earnings impact for 2019?

Response:

As indicated in the Company's responses to PUC 1-2 through PUC 1-7, no BITS O&M expenses were booked as a reserve in CY 2019. Actual BITS O&M expense will be recorded as incurred and will be normalized from total Electric operating expense to arrive at electric distribution operating expense for ratemaking and earnings reporting purposes. In turn, the amounts recovered from NEP through the BITS formula rate surcharge, BITS-related rate base, as well as depreciation expense and municipal tax expense on BITS-related assets have all been normalized from the total CY 2019 Electric financial results such that the actual BITS-related revenue requirement does not create an earnings impact in the CY 2019 distribution earnings report. This treatment of BITS-related assets and the associated annual revenue requirement on those assets is consistent with their treatment in the calculation of the distribution cost of service in RIPUC Docket No. 4770.

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Request:

Referring to Section 39-26.1-7(f), relating to the Block Island project, states in part:

“[T]he electric distribution company and its transmission affiliate are authorized to make a filing with the federal energy regulatory commission to put into effect transmission rates to recover all of the costs associated with the purchase of the transmission cable and related facilities and the annual operation and maintenance. The revenue requirement for the annual cable costs shall be calculated in the same manner that the revenue requirement is calculated for other transmission facilities in Rhode Island for local network service under the jurisdiction of the federal energy regulatory commission. The division shall be authorized to represent the State of Rhode Island in those proceedings before the federal energy regulatory commission, including the authority to enter into any settlement agreements on behalf of the state to implement the intention of this section. The division shall support transmission rates and conditions that allow for the costs related to the transmission cable and related facilities to be charged in transmission rates in a manner that socializes the costs throughout Rhode Island. Should the electric distribution company own, operate, and maintain the cable, the annual costs incurred by the electric distribution company directly or through transmission charges shall be recovered annually through a fully reconciling rate adjustment from customers of the electric distribution company and/or from the Block Island Power Company or its successor, subject to any federal approvals that may be required by law.” (emphasis added)

Please explain whether the BITS O&M reserve relates to future repairs of facilities related to the referenced transmission cable. If yes, please reconcile the Company's treatment in the revised earnings report with the language underlined above. If the reserve does not relate to such relate to the referenced cable, please explain why not.

Response:

Please refer to the Company's responses to PUC 1-2 through PUC 1-7. No BITS O&M reserve was recorded on the Company's books or created through adjustments to the distribution earnings report in CY 2019.

The annual revenue requirement of the BITS-related assets is calculated in accordance with the provisions of the Integrated Facilities Agreement Tariff (NEP's Electric Tariff No. 1), by applying a Primary Distribution Carrying Charge to the amount of BITS-related assets, resulting in imputed operating expense.

The Narragansett Electric Company
d/b/a National Grid
RIPUC Docket No. 4770
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Twelve Months Ended December 31, 2019
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Issued on June 30, 2020

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As stated in the Company's response to PUC 1-8, the BITS formula rate revenue requirement is recovered as a component Transmission rates through the annual Transmission Service Cost Adjustment presented in the Company's Annual Retail Rate filing.