

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-2
Date of Request: 3.2.18
Response Due Date: 3.23.18 (rolling by agreement)
Subject/Panel: Book 2—Hevert (Return on Equity)

1. How do you factor in whether the Company will be successful in navigating power sector transformation in estimating future earnings growth estimates? What sources do you rely upon?

Response can be found on Bates page(s) 1-11.

2. Reference the statement on p. 8, ll. 11-13, that “To provide the PUC with a reasoned basis for setting an appropriate ROE in this case, I relied on three widely accepted methods, which I applied to a proxy group of comparable, publicly traded electric utility companies.” Please provide the basis for the statement that the methods referenced herein are “widely accepted,” including a list of all research, reports, publications, and other documentation relied upon.

Response can be found on Bates page(s) 12.

3. Reference the statement on p. 9, ll. 1-2, that “Those factors include the Company’s small size relative to the proxy group, its projected capital expenditure plans, and its revenue stabilization mechanisms.” Please explain how the Company’s position as part of a bigger multi-state and multi-national company factors into estimating the Cost of Equity.

Response can be found on Bates page(s) 13-15.

4. Reference p. 9, ll. 6-9 - “risk premium” approaches - how do they differ from other approaches such as the DCF method?

Response can be found on Bates page(s) 16.

5. Reference the statement on p. 10, ll. 17-20, that “An authorized ROE that is well below returns authorized for other utilities: (1) runs counter to the *Hope* and *Bluefield* ‘comparable risk’ standard; (2) would place the Company at a comparative disadvantage; and (3) makes it difficult for the Company to compete for capital at reasonable terms.” How does the company structure of National Grid impact these factors?

Response can be found on Bates page(s) 17.

6. Reference p. 11, ll. 18-19. What are the key characteristics of utility market valuations?

Which arise in states where the commission has launched a PST proceeding?

Response can be found on Bates page(s) 18.

7. Reference p. 12. What evidence supports the view that valuation increases are reflective of change from a historically discounted valuation position?

Response can be found on Bates page(s) 19.

8. Reference p. 12, ll. 19-21. Please provide the Company's basis for the assertion that the growth of distributed generation makes utility operations more risky than ever, including all research, reports, publications, and other documentation in support of this assertion.

Response can be found on Bates page(s) 20-99.

9. Reference p. 21, Table 2. Please provide an Excel spreadsheet table containing the information in Table 2 for the years 2001 through 2016.

Response can be found on Bates page(s) 100.

10. Reference p. 21, Table 2. How did the Company select the years reflected in Table 2?

Response can be found on Bates page(s) 101.

11. Reference p. 22, ll. 13-15. Please describe and provide complete and detailed information as to:

- a. Why did the Company exclude companies whose regulated income over the most 3 years represent less than 60% of combined total income?
- b. Which companies did the Company exclude?
- c. Why did the Company apply a 3-year time period?

Response can be found on Bates page(s) 102.

12. Reference p. 22. How many of the remaining companies are directly owned subsidiaries of a larger holding company that also owns other distribution utilities?

Response can be found on Bates page(s) 103.

13. Reference p. 24, Table 3. Please describe:

- a. Which companies were eliminated?
- b. What ROE do the excluded companies currently enjoy?

Response can be found on Bates page(s) 104.

14. Reference p. 25.

- a. How did the Company adjust for the fact that Narragansett Electric Co. ("Narragansett") does not own generation and that proxy group utilities do?
- b. What is the power sector transformation status of the proxy utilities?

Response can be found on Bates page(s) 105.

15. Reference p. 36.

- a. Please quantify the impacts of adjustments the Company made based on predictions relating to the unwinding of Quantitative Easing policies.

- b. What time period did the Company evaluate?
- c. What change in interest rates did the Company assume?
- d. How does this translate to changing the weight of the Constant Growth DCF analysis results?
- e. What would have been the result if this adjustment had not been made?

Response can be found on Bates page(s) 106-107.

16. Reference p. 36, ll. 10-19. Please explain how ROEs awarded over the past nearly 40 years (since 1980) establish a basis for an appraisal of reasonableness. Please provide all research, reports, publications, and other supporting documentation the Company relied upon.

Response can be found on Bates page(s) 108.

17. Reference p. 50. How does the Company's Market Risk Premium method account for the regulated nature of utilities, especially a distribution-only utility like Narragansett?

Response can be found on Bates page(s) 109.

18. Reference p. 58, ll. 12-13. Please explain in detail and provide complete and detailed documentation as to why "the mean results do not necessarily provide an appropriate estimate of the Company's Cost of Equity."

Response can be found on Bates page(s) 110.

19. Reference p. 60. How does the Company's size risk analysis account for the fact that Narragansett is one of 3 National Grid utilities operating in the northeast?

Response can be found on Bates page(s) 111.

20. Reference p. 60, ll. 13-20. Do the Company's citations on the "small size premium," or any of the studies the Company references, account for the small utility being a part of a larger regional and international holding company?

Response can be found on Bates page(s) 112.

21. Reference p. 60, l. 20 to p. 61, l. 3. Why is trading volume relevant to Narragansett?

Response can be found on Bates page(s) 113.

22. Reference Section B - Capital Expenditures, beginning on p. 62. Is it the Company's position that the ROE should be directly correlated with level of capital expenditures?

Response can be found on Bates page(s) 114.

23. Reference p. 64.

- a. Please explain the correlation, if any, between power sector transformation and capital spending.
- b. Does the Rhode Island PST increase capital requirements?
- c. Why or why not?
- d. If yes, by how much does the Rhode Island PST increase capital requirements?

Response can be found on Bates page(s) 115.

24. Reference p. 64. Does the Company's opinion about the relationship between PST and capital requirements account for performance-based earnings incentives? Does it matter if these incentives are asymmetrical or symmetrical?

Response can be found on Bates page(s) 116.

25. Reference p. 64, l. 15.

- a. Is it the Company's opinion that capital spending is a focus of Narragansett's management? Please explain.
- b. Has the Company seen any evidence that this capital spending has strained credit metrics for Narragansett or for the parent company National Grid? Please explain.

Response can be found on Bates page(s) 117-126.

26. Reference p. 65, ll. 5-7.

- a. Please explain what the Company means by the statement that "the Company's need to access the capital markets will continue, and there is considerable uncertainty regarding how the transformation will affect utility companies."
- b. Please explain how this uncertainty impacts the Company's ROE recommendations.

Response can be found on Bates page(s) 127.

27. Reference p. 66-68.

- a. Please explain whether revenue stabilization and cost recovery methods provide any ROE benefits to ratepayers, either for the Company or for its peer group of utility companies.
- b. Does the Company have evidence that revenue stabilization and cost recovery methods have reduced the cost of capital for the utility sector in general?
- c. Please provide copies or citations to publicly available sources to support your response.

Response can be found on Bates page(s) 128.

28. Reference p. 71. If the Company's view is that the Decoupling Act should not now be used to make an adjustment to the Company's ROE, what is the Company's view of the purpose of the repeal of the prohibition on consideration of decoupling and its effect on ROE?

Response can be found on Bates page(s) 129.

29. Reference p. 71, ll. 9-18.

- a. Has the Company evaluated the extent to which revenue stabilization mechanisms impact the Company's revenues as compared to its peers? Please explain.
- b. What are the key metrics of the stabilization mechanisms' impacts on revenues?

Response can be found on Bates page(s) 130.

30. Reference p. 71, ll. 14-15.

- a. Please explain how the impact of the forms of revenue stabilization mechanisms should be compared given the wide variety in such mechanisms.
- b. Please provide analysis conducted to support the conclusion that because "all proxy companies have such mechanisms in place in at least one jurisdiction," it is therefore not appropriate to reduce the Company's ROE in connection with its rate mechanisms.

Response can be found on Bates page(s) 131.