PUC 1-1

Request:

Regarding the regulatory lag created by the Capital Efficiency Incentive:

a. Assuming there is a $1M penalty, please confirm whether National Grid will be allowed to include the penalty in a future (e.g., the subsequent) Infrastructure, Safety, and Reliability (ISR) revenue requirement for one year? If so, please explain how this is consistent with the statutory requirements of ISR rate setting.
b. Assuming there is a $1M penalty that is not subsequently recovered through the following year's (or a future) ISR revenue requirement, please explain whether the Division would still describe this as a regulatory lag or a permanent penalty.
c. If the $1M penalty can be recovered through a mechanism in the fourth year's revenue requirement, is it the Division's position that the Capital Efficiency Incentive is mimicking the value of a one-year regulatory lag rather than true regulatory lag?
d. Assuming National Grid is entitled to a $1M incentive, please indicate in what year and through what mechanism the $1M is recovered in the revenue requirement.

Response:

(a) No. The penalty would NOT be recoverable from ratepayers through the ISR or any other mechanism. It would be a one-time penalty permanently absorbed by shareholders.

(b) It is a permanent penalty. The use of the term "regulatory lag" was merely an analogy that may have caused confusion, rather than clarity.

When the Division indicated the penalty would be similar to partial regulatory lag, what the Division meant was the penalty would result in the utility crediting customers an amount of money that has a one-time negative financial effect on the Company. This financial penalty would be similar to the financial effect on the utility if the utility experienced a one or two-year loss of revenue requirement caused from regulatory lag on a portion of its revenue requirement associated with capital investment in projects that are placed in service before the costs are allowed in rates.

(c) No. The penalty is never recovered from customers. The penalty is a separate calculation based on a separate metric and formula designed to reward or penalize the Company for achieving or missing the three-year budget target.

(d) An incentive would be a one-time financial reward that is credited to the Company in such manner as the Commission allows during the year following the measurement of performance. Since performance against the three-year aggregate budget is measured after the third fiscal year of the ISR (i.e., after FY 2021), the reward would be credited to the Company near the end of the three-year rate plan. The choices of timing and how this incentive could be received by the Company are numerous and likely would be proposed in any settlement for Commission consideration. For example, the reward could be (i) netted against refunds otherwise owed to ratepayers, (ii) included in an annual filing that coincides with other changes in rates, or (iii) deferred as a credit applied in the next three-year plan, among other alternatives, among other possible alternatives.

Prepared by Tim Woolf and Jonathan Schrag

PUC 1-2

Request:

How will the three-year budget set in the Capital Efficiency Incentive be designed to ensure that the efficiencies were caused by National Grid's achievements and not by third parties (fewer customer requirements, for example) or through deferral of projects, timing of CIAC payments, etc.?

Response:

There would be a provision that allows the Division and the Company to adjust the final target for known conditions outside of the Company's control, subject to Commission approval. As a practical matter, each year during the ISR process, a review of the conditions can take place.

The Division contemplates an annual process that allows adjustments to be made for relatively obvious conditions that unfairly skew the original intent of the budgetary target. But in order to send an effective financial signal, the Division realizes we must accept that some conditions having nothing to do with actual utility behavior will occur that may affect outcomes to one degree or another. Absent a very granular, micro-review of every project, it is not possible as a practical matter to address every circumstance that may have been fortuitously beneficial or unfortunately detrimental to the utility because it results in lower or higher costs outside of the utility's control. But the risk is symmetrical. Nevertheless, the Division sees a significant benefit resulting from the financial signal to the utility that encourages the Company to be as efficient as possible in managing its capital investments. The risks of over-rewarding or over-penalizing also can be managed by placing caps or other parameters around the reward/penalty mechanism.

Prepared by Tim Woolf and Jonathan Schrag

PUC 1-3

Request:

For all programs and sub-programs proposed by the Division that are associated with a performance incentive (excluding the Capital Efficiency Incentive), and that propose a range of achievement levels and associated incentives:

a. Provide the $/metric value for each proposed achievement level;
b. For any responses in part a that do not have a uniform $/metric value for all achievement levels, please provide a justification for the variation.

Response:

a) The dollar per metric value for each proposed achievement level is provided in the table below.

			Incentives ($/metric)					
			2019	2019	2020	2020	2021	2021
Performance Incentive Mechanism	**Metric**	**$/metric unit**	Medium	High	Medium	High	Medium	High
System Efficiency								
Transmission Peak Demand Reduction	MW Trans	$/kW Trans	10	14	11	15	12	15
FCM Peak Demand Reduction	MW FCM	$/kW FCM	18	24	30	40	42	56
Distributed Energy Resources	----	----	----	----	----	----	----	----
Demand Response - Residential	MW Peak	$/kW peak	64	34	37	28	31	26
Demand Response - C&I	MW Peak	$/kW peak	20	17	31	29	41	41
Electric Heat Initiative	Tons CO2	$/ton CO2	0.41	0.50	0.39	0.46	0.39	0.46
Electric Vehicle Initiative	Tons CO2	$/ton CO3	0.27	0.22	0.26	0.22	0.26	0.23
Behind-the-Meter Storage	MW Peak	$/kW peak	78	78	104	104	137	137
Utility-Scale Storage	MW Peak	$/kW peak	65	65	119	119	182	182
Non-Wires Alternatives	MW Peak	$/kW peak	36	36	56	56	81	81

b) The variation in the $/metric value across different achievement levels (i.e., Medium versus High) is due to the incentives for unquantified benefits that were assigned to the different achievement levels. Table 5 in the Exhibit Synapse-03 presents the incentives for unquantified benefits that were assigned to every PIM proposed by the Division. As indicated in that table, the variation in the incentives for unquantified benefits across different achievement levels are not proportional to the variation of the metric.

For example, the Residential Demand-Response PIM is assigned one basis point for the unquantified benefits for both the Medium and the High levels of achievement, but the High level target (and thus benefits, and thus incentive) is twice that of the Medium level.

The Utility-Scale Storage and the NWA PIMs, on the other hand, have consistent $/metric values at different achievement levels. In these cases, the incentives for unquantified benefits increase in the High case by the same proportion as the metric themselves (i.e., by a factor of two).

Prepared by Tim Woolf