State of Rhode Island
Division of Public Utilities & Carriers

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Memo To: Luly Massaro, Commission Clerk

From : John Bell, Chief Accountant JB.

Date : October 4, 2019

Subject : Docket 4955, National Grid Gas – Distribution Adjustment Clause Filing for Effect November 1, 2019

On August 1, 2019, The Narragansett Electric Company d/b/a National Grid ("National Grid" or "the Company") submitted its Distribution Adjustment Clause (DAC) filing to the Public Utilities Commission for effect November 1, 2019, in accordance with the Company's gas Tariff, RIPUC NG No. 101, Section 3, Schedule A. On September 3, 2019, the Company submitted supplemental testimony and schedules to provide updates to the DAC Factors.

The Distribution Adjustment Clause includes several different components. This memo specifically addresses the Pension Adjustment Factor (PAF), the Earnings Sharing Mechanism ("ESM") factor, the Infrastructure, Safety, and Reliability (ISR) Plan reconciliation factors and the Excess Accumulated Deferred Income Tax Credit Factor. The Division comments on the components of the DAC not mentioned above are included in the memo of Division witness Lafayette Morgan, filed along with this memo.

Pension Adjustment Factor

The Pension Adjustment Factor (PAF) allows for the reconciliation of pension and post retirement benefits other than pensions (PBOP). It reconciles the difference between actual costs and the amounts included in base rates. As shown on schedule RMS/AEL-6, for the fiscal year ending March 31, 2019, there was an over-collection of pension costs of $362,972 and an under-collection of PBOP costs of $1,251,941. Based on forecasted throughput of 42,163,808 dth, the resulting factor is ($0.0022) per therm.

The Division submitted data requests to National Grid seeking additional information, documentation, and clarification relative to the PAF filing. On September 4, 2019, National Grid provided responses to the Division's requests. Based on its review of the Company's filings and the responses to associated data requests, the Division has no recommended adjustments to the Company's Gas PAF and recommends its approval for effect November 1, 2019.

Earnings Sharing Mechanism

National Grid calculated an ESM factor of zero in its filing of August 1, 2019. In the Division's review of the Company's calculation of the earned return on common equity for the twelve months ended December 31, 2018, the Division noted that the Company had not included the amortization of excess deferred income taxes in the determination of the net income tax expense.

The Division submitted data requests to National Grid seeking additional information, documentation, and clarification relative to the ESM. The Company submitted responses on September 4, 2019. In its responses, the Company acknowledged that amortization of excess deferred income taxes should have been included in the calculation of net income tax expense. On September 24, 2019, the Company filed a corrected Gas Earnings Sharing Mechanism calculation to reflect the amortization of excess deferred income taxes. The effect of the correction was to increase the earned return on common equity from 8.99% in the Company's original filing to 9.01%. However, as this is still below the 9.275% return on equity threshold, the ESM sharing factor is still zero in the Company's corrected filing.

Based on its review of the Company's filings and responses to associated data requests, the Division has no recommended adjustments to the Company's corrected ESM calculation of September 24, 2019 and recommends approval of the ESM factor of $0.0000 per therm.

Infrastructure, Safety and Reliability Plan Reconciliation Factor

On August 1, 2019, the Company submitted its Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2019 Reconciliation Filing in Docket 4781. The filing provides details of the actual FY 2019 revenue requirements of $15,405,282. This amount is based on actual cumulative capital investment and O&M expenses.

The calculation of the proposed ISR Reconciliation Factors included in the DAC filing is based on the revenue requirements from the Reconciliation Filing and the revenue billed through the ISR Plan factors. The difference in these amounts for FY 2019 is an under-recovery of $2,377,053. To calculate the rate class factors, the actual revenue requirement of $15,405,282 from the reconciliation filing is allocated to rate classes based on the rate base allocation from Docket 4770. These amounts are then compared to rate class revenues derived from the billing of the ISR Plan factors. The difference is then divided by the forecasted throughput for each rate class to derive the proposed ISR Reconciliation Factors. The details of the calculation and the proposed factors are included on Schedule RMS.AEL-8S of the Supplemental DAC filing.

The Division conducted a review and analysis of the reconciliation filing in Docket 4871 and the related calculation of the ISR Reconciliation Factors in the DAC filing and does not note any exceptions. The Division recommends approval of the Company's proposed ISR reconciliation factors for effect November 1, 2019.

Excess Accumulated Deferred Income Tax Credit Factor

The purpose of this factor is to credit customers with the benefits resulting from the Tax Cuts and Jobs Act for the period September 1, 2018 through August 31, 2019. This is in accordance with the Commission approved Second Compliance Filing in Docket 4770. The total credit is $3,262,655 and results in a factor of ($0.0077) per therm. The Division reviewed the calculation of the factor and finds it to be accurately calculated, and thus, recommends approval of the factor.