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Memorandum

To: Luly Massaro, Clerk
Rhode Island Public Utilities Commission

From: Jerry Mierzwa and Lafayette Morgan, Jr.
Exeter Associates, Inc.
Consultants to the Division of Public Utilities and Carriers

Date: October 8, 2019

Subject: Review of National Grid's 2019 DAC Filings, Docket 4955.

Introduction

This memorandum addresses our review of the 2019 Annual Gas Distribution Adjustment Clause (DAC) and Revenue Decoupling Mechanism filings (RDM) by National Grid (the Company) in this proceeding. We will address all factors except those to be addressed by Division witness Bell. We will also summarize the drivers of the levels of the DAC rates that National Grid proposes and our findings and recommendations. Witness Bell will address the Company's Pension Adjustment Factor (PAF), the Tax Credit Factor, and the ISR revenue requirement reconciliation.

On June 28, 2019, National Grid filed its gas RDM Reconciliation for the period April 1, 2018 to March 31, 2019. The filing was supported by the joint testimony of witnesses Ryan M. Scheib and Ann E. Leary. The RDM filing presents the Company's March 31, 2019 RDM reconciliation balance that is used to compute the Revenue Decoupling Adjustment (RDA) factor that is incorporated in the Company's 2019 annual DAC filing. The RDM Reconciliation filing explains the RDM reconciliation and provides the reconciliation amount for the period April 1, 2018 through March 31, 2019. The Company's filing shows that, for this period, the Company over-recovered its target revenue per customer by $10,271,482.

On August 1, 2019, National Grid filed its annual DAC filing with the Commission. The DAC was established in Docket No. 3401 to provide for the annual reconciliation and recovery of the costs of specific programs that have been identified for annual reconciliation and recovery. In this year's DAC, the following factors have been presented:

1. The System Pressure factor ("SP");
2. The Advanced Gas Technology factor ("AGT");
3. The Environmental Response Cost factor ("ERCF");
4. The Pension Adjustment Factor ("PAF");
5. The Arrearage Management Adjustment Factor ("AMAF");
6. The Reconciliation Factor ("R");
7. The Earnings Sharing Mechanism ("ESM");
8. The Low Income Discount Recovery Factor ("LIDRF");
9. The Service Quality Factor ("SQP");
10. The Tax Credit Factor;
11. The Storm Net Revenue Factor;
12. The Low Income Assistance Program Base Rate Fund Reconciliation Factor;
13. The Revenue Decoupling Adjustment;
14. The Revenue Decoupling Mechanism Reconciliation;
15. The ISR Infrastructure Safety; and
16. The Firm Revenue Credit Factor

National Grid's proposed DAC changes are supported by the August 1, 2018 joint direct testimony of Ryan M. Scheib and Ann E. Leary. The August 1, 2018 testimony identifies the various DAC components and proposes the new factors that will become effective November 1, 2019.

On September 3, 2019, National Grid provided a supplemental filing to its August 1, 2019 annual DAC filing. The supplemental filing includes the joint supplemental testimony and schedules of Ryan M. Scheib and Ann E. Leary. The DAC factors proposed in that testimony are not the final factors because certain underlying data for the development of all the factors was not yet available.

In their September 3, 2019 supplemental filing, Mr. Scheib and Ms. Leary incorporate updates to reflect the 2019-2020 throughput forecast used to compute the DAC factors. They also update the Reconciliation Factors to include actual data for July 2019 and reflect incremental revenue that the Company billed in September 2018 resulting from the impact of the change in base distribution rates on September 1, 2018.

Overall the Company's DAC proposals yield an overall credit to be provided to customers through the DAC of $8,337,520.

Based on our review, the increase in the DAC credit is driven primarily by three factors: (1) the over-collection in the RDA Reconciliation; (2) an increased amount in the Tax Credit Factor; and (3) the credit to customers of the remaining amount held in the LIAP Base Rate Funding account.

System Pressure Factor

It has been established that maintaining proper operating pressure in the Company's distribution system is required to provide adequate service to customers. While the system pressure factor has evolved over past years, the Company and the Division have determined that gas from the Company's Exeter liquefied natural gas ("LNG") facility is needed to maintain system pressure. During the evaluation of the DAC in Docket 4846, the Company and the Division determined that the Exeter LNG costs quantified by the Company at that time, were not sufficient to warrant the computation of a System Pressure Factor. Thus, in that proceeding the System Pressure Factor was set at zero. This agreement was approved by the Commission.

In the DAC filing the Company indicates that it has conducted an engineering study and determined that 32,505 dekatherms (dth) of gas from the Company's Exeter LNG facility are needed to maintain pressure in the Company's distribution system. The Company also proposed to allocate $163,175 from the Company's Gas Cost Recovery ("GCR") mechanism to be recovered through the DAC for system pressure. The $163,175, is based upon pricing the 32,505 dth at $5.02 per dth. As a result, the Company is proposing to include a System Pressure factor for November 1, 2019 of $0.0003 per therm.

Exeter is also involved in the review of National Grid's GCR filing. In that filing, we have observed the Company is claiming a projected average cost of LNG of $4.42 per dth.[1] As a matter of consistency, we believe it would be appropriate to use the $4.42 price in the determination of the System Pressure Factor. We acknowledge that because of the volumes the change in the price does not change the proposed System Pressure factor for November 1, 2019 of $0.0003 per therm.

[1] Schedule EDA/SAJ-1

Advanced Gas Technology ("AGT") Factor

The AGT Program provides rebates for technologies such as combined heat and power ("CHP") systems, natural gas-powered fleet vehicles, chilling systems, electrical generators, process heating, desiccant dehumidifiers, and residential high efficiency space heating equipment. The program was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. The rationale for the program is to increase off-peak usage which reduces the unit cost of the gas delivery system for all customers by generating additional distribution revenues.

At the end of March 2019, the AGT Program had a balance of $713,409, excluding an interest balance of $25,777 accumulated for the 12-month period April 2018 through March 2019. Consistent with the DAC Settlement in Docket No. 4339, interest earned on the AGT Program balance is credited to customers through the DAC's reconciliation factor instead of accumulating in the program fund balance.

During 2018, payments under the program totaling $350,000 were made. $300,000 was for final payment of a Commission approved $1.8 million AGT Program rebate to Toray Plastics (America), Inc. and a rebate of $50,000 was also made in August 2018 to a second customer.

For 2019-2020, the Company is proposing an AGT factor in the DAC of zero. There are no projected payments during the upcoming DAC year and no projected inflows of funds into the program. We inquired whether there is any potential program payment to customers from the AGT program on the horizon. It is our understanding that there are Industrial Customers considering Combined Heat and Power projects, but those projects are in the early stages. Therefore, no AGT funding has been committed at this time. It should be noted that pursuant to the Amended Settlement Agreement in Docket No. 4846, effective September 1, 2018, funding of the AGT program will no longer be provided from base distribution rates. Instead, future funding for the program will be made through the AGT factor of the DAC.

Environmental Response Costs

According to National Grid, the Environmental Response Cost factor ("ERCF") is designed to provide the Company recovery of its reasonable and prudently incurred costs for evaluation, remediation, and clean-up of sites associated with the Company's ownership and/or operation of manufactured gas plants ("MGP"), manufactured gas storage facilities, and MGP-related off-site waste disposal locations. In addition, the ERCF includes recovery of environmental costs for removing and replacing mercury regulators and addressing meter disposal issues.

The ERCF is based upon a 10-year amortization of each year's environmental response costs which is then compared to the environmental cost amount recovered in base distribution rates. For the 10-year period FY 2010 to FY 2019, the total annual proposed Environmental Response Costs to recover are $2,395,051 which is compared to the annual base rate allowance of $1,310,000. The difference between these two figures is $1,085,051. When the $1,085,051 is recovered over the projected volumes, the result is an ERCF of $0.0026 per therm.

We have reviewed the calculations supporting National Grid's computed ERCF in this proceeding and conclude that the Company's claimed ERCF costs for FY 2019 are well-documented and cross-referenced to the annual Environmental Report filed with the Commission. From our examination of the information the Company has provided, no costs were identified for which recovery through the ERCF appear to be inappropriate. Based on these observations, the Company's ERCF appears to be appropriate for acceptance by the Commission as proposed.

Arrearage Management Program Costs

The Arrearage Management Adjustment Factor ("AMAF") is designed to recover the arrears forgiven associated with Arrearage Management Program (AMP) participants who have not satisfied the conditions of R.I. Gen. Laws § 39-2-1(d)(2) in the calendar year, as well as the amount of arrearages of customers who have successfully satisfied the conditions of R.I. Gen. Laws § 39-2-1(d)(2).

We reviewed the arrearage forgiveness amount for calendar year 2018. We did not find any issues which would lead to a change in the amount claimed by the Company. Therefore, we recommend the Company's claim be accepted.

Reconciliation Factors

The reconciliation factor of the DAC is designed to reconcile the actual amounts approved to be reflected in the DAC factors from the prior year and actual revenue billed through the DAC. It also allows for a true-up of those costs whose balances were forecasted at October 31 in order to calculate the DAC factors for November 1. The Company has calculated a total reconciliation of the prior year DAC of $1,066,372 which it proposes to recover based on $.0025 per therm. We reviewed the supporting calculation and recommend the Commission authorize recovery.

The Reconciliation Factor also contains a Revenue Decoupling Mechanism Reconciliation. The reconciliation allows for the true-up of any Revenue Decoupling credit or surcharges that are passed on to customers during the prior year. National Grid proposes to credit customers $291,094 or $0.001 per therm. We have reviewed the calculations and recommend the Commission authorize the credit to customers.

The Low Income Discount Recovery Factor

The Low Income Discount Recovery Factor ("LIDRF") is determined annually based upon the estimated annual amount of low income discounts applied to the bills of eligible customers receiving service on Rates 11 and 13. The estimated discount is based on applying a 25 percent discount to Rates 11 and 13 customer bills. The Company is proposing a $0.0138 per therm charge to cover the cost of this program. We recommend the Commission approve this charge to recover the cost of this program.

Service Quality Plan

The Company's Service Quality Plan from Docket No.3476 requires National Grid to report the results of its service quality metrics on a quarterly basis. The Service Quality Plan also requires the Company to credit any resulting penalty to customers through the DAC. The Company's FY 2019 second quarter report filed on March 12, 2019 indicates that the Company incurred a penalty of $75,000 for its performance for Meter Testing during calendar year 2018. The Company has proposed a Service Quality Performance factor of $0.0001 per therm to be credited to customers effective November 1, 2019 for the $75,000 penalty related to its performance relative to the Meter Testing metric. The Commission should allow this credit.

Storm Net Revenue Credit

In the Amended Settlement Agreement in Docket No. 4770, the Storm Net Revenue Factor was derived to provide a credit to customers for the value of services performed by the Company's employees in other jurisdictions. In accordance with the Amended Settlement Agreement, the Company proposes to credit customers 75 percent of the Net Revenue of $754,809 received by the Company. We recommend the Commission authorize the proposed Storm Net Revenue factor credit of $0.0013 per therm.

Low Income Assistance Program Base Rate Funding Reconciliation

In accordance with the Amended Settlement Agreement in Docket No. 4770, the Company has eliminated the Low Income Assistance Program ("LIAP") Base Rate Funding Program. At the conclusion of the program, there was a remaining balance of $1,228,172 in the LIAP Base Rate Funding account which the Company proposes to return to customers through a DAC credit. We recommend the Commission authorize this one-time credit to customers through the DAC.

Revenue Decoupling Adjustment

For the Revenue Decoupling reconciliation period (i.e., National Grid's fiscal year ended March 31, 2019), the Company's base rate revenue was over-collected by $10,271,482. National Grid's computed over-collections by rate class are as follows:

Residential Non-Heat (incl Low Income)	$122,788
Residential Heat (incl Low Income)	($8,681,155)
Small C&I	($857,589)
Medium C&I	($855,526)
Net Over-Collection of Target Recovery	($10,271,482)

The overall net over-collection was caused by the colder than normal weather for the 12-month period ended March 31, 2019 as shown below.

Actual vs. Normal Billing Degree Day Comparison for April 2018 - March 2019

Month/Year	Actual Billing Degree Days	Normal Billing Degree Days
Apr-18	725	640
May-18	328	351
Jun-18	100	126
Jul-18	11	15
Aug-18	0	0
Sep-18	11	20
Oct-18	136	154
Nov-18	510	426
Dec-18	863	751
Jan-19	991	1,029
Feb-19	1,034	1,028
Mar-19	956	898
Total	5,664	5,439
Degree Day Difference	226	
Degree Day Difference (%)	4.1%	

As can be seen above, out of the Company's net over-recovery of $10,271,482, Residential Heating customers were responsible for $8,681,155 while the Small and Medium C&I customers were responsible for $1,713,115. Based upon the forecasted throughput, the total overcollection would result in a credit to customers of $0.353 per therm for the period November 2019 to October 2020. We have verified the amount of the over-collection and the Company's calculated credit per therm and recommend its adoption by the Commission.

Revenue Credit

The Company included the revenue credit associated with a large C&I customer, pursuant to the Company's 2012 Rate Case Settlement Agreement. According to the Settlement Agreement, 50 percent of any incremental distribution revenue billed to this customer is to be credited back to all customers through the reconciliation of the DAC until the Company's next general rate case. In this proceeding, the Company is including the revenue credit through August 2018. After August 2018, new rates were put into effect and the Company is no longer bound by the previous settlement because it has complied with the terms of the Settlement. The Company has reflected $135,581 in the DAC for credit back to customers. We recommend the Commission accept this proposal.