STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S GAS DISTRIBUTION ADJUSTMENT CHARGE	: : :	DOCKET NO. 4955

REPORT AND ORDER

I. Introduction

On August 1, 2019, the Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed its annual Distribution Adjustment Charge (DAC) with the Rhode Island Public Utilities Commission (PUC or Commission), for effect November 1, 2019.[1] On September 3, 2019, the Company made a supplemental DAC filing with updated and new testimony, schedules, factors, and a bill impact analysis. On October 4, 2019 and October 8. 2019, the Division of Public Utilities and Carriers (Division) filed memoranda from its Chief Accountant, John Bell, and its Consultants, Jerome Mierzwa and Lafayette Morgan, Jr., of Exeter Associates, Inc, in which the Division recommended approval of all proposed DAC factors. On October 22, 2019, the PUC conducted an evidentiary hearing. At an Open Meeting on October 25, 2019, the PUC approved the Company's filing.

II. The Distribution Adjustment Charge Filing

The DAC is filed annually to establish a factor to reconcile estimated gas costs to actual gas costs included in rates over the twelve-month period beginning the first of November. The DAC provides for funding, or the reconciliation and refund, of amounts associated with the Company's specific programs. It also facilitates the timely rate

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[1] All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at http://www.ripuc.org/eventsactions/docket/4955page.html.

recognition of incentive/penalty provisions. As part of the instant DAC filing, the Company also submitted an Annual Environmental Report for Gas Service, dated July 31, 2019; the Revenue Decoupling Mechanism Reconciliation Filing, dated June 28, 2019; and the FY2019 Gas Infrastructure, Safety and Reliability (ISR) Plan Annual Reconciliation, dated August 1, 2019.

In support of its filing, National Grid submitted the prefiled joint testimony of Ann E. Leary, Manager of New England Pricing for National Grid USA Service Company Inc. and Ryan M. Scheib, Analyst in the New England Pricing Group, joint testimony of Jeffrey D. Oliveira, Revenue Requirements Specialist, Rhode Island, for National Grid USA Service Company, Inc. and Jeffrey H. Allen, Lead Analyst; and testimony of Melissa A. Little, Director of New England Revenue Requirements for National Grid USA Service Company. The purpose of Mr. Scheib's and Ms. Leary's joint testimony was to describe the changes to and reconciliation of the various DAC factors[2] and to propose new factors, which were to become effective November 1, 2019.[3] Accompanying the Scheib-Leary testimony was a series of schedules that calculated each of the factors comprising the DAC.[4] The testimony provided that for the average residential heating customer utilizing 845 therms, the impact of the proposed DAC factor would result in an annual increase of $3.80 in the DAC factor, and $0.12 in Gross Earnings Tax, for a total increase of $3.92 or 0.3 %. Mr. Oliveira's & Mr. Allen's joint testimony addressed the Pension Adjustment

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[2] The components of the 2019 DAC factor include: a System Pressure factor, an Advanced Gas Technology factor, an Environmental Response Cost factor, a Pension Adjustment factor, an Arrearage Management Adjustment factor, a Reconciliation factor, an Earnings Sharing Mechanism factor, a Low Income Discount Recovery factor, a Service Quality factor, a Tax Credit Factor, a Storm Net Revenue Factor, and a Low Income Assistance Program Base Rate funding Reconciliation Factor.
[3] Scheib-Leary Direct Test. at 3 (Aug. 1, 2019).
[4] Sch. RMS/AEL 1S-1 through RMS/AEL 1S-18.

Factor (PAF). Ms. Little's testimony addressed the Earnings Sharing Mechanism factor (ESM).

III. The Distribution Adjustment Charge Factors

The components of the 2019 DAC factor include;: a System Pressure factor (SP); an Advanced Gas Technology factor (AGT); an Environmental Response Cost factor (ERC); a Pension Adjustment factor (PAF); an Arrearage Management Adjustment factor (AMAF); an Earnings Sharing Mechanism factor (ESM); a Low Income Discount Recovery factor (LIDRF); a Service Quality factor (SQP); a Revenue Decoupling Adjustment (RDA) factor; rate class specific Infrastructure, Safety, and Reliability (ISR) factors; a Firm Revenue Credit Factor; and two reconciliation factors for last year's DAC factors. In addition, the Company proposed three new DAC factors: an Excess Accumulated Deferred Income Tax credit factor (ADIT); a Storm Net Revenue factor; and a Low Income Assistance Program Base Rate Funding Reconciliation factor (LIAP).[5]

The System Pressure Factor (SP)[6]

In the 2017 DAC filing, the Commission approved a measure whereby the Company would annually evaluate whether to recover any LNG costs through the SP factor.[7] For the 2019 filing, the Company conducted an engineering study and determined that 32,505 Dths of LNG from the Company's Exeter LNG facility were needed to maintain pressure in the distribution system. Therefore, the Company proposed to allocate $163,175

[5] The three new factors result from the provisions of the Amended Settlement Agreement in Docket No. 4770; http://www.ripuc.org/eventsactions/docket/4770-4780-NGrid-AmendedSettlement(Redlined)_8-10-18.pdf. This order will discuss all factors in the order presented by the filing's schedules.
[6] Sch. RMS-AEL-2.
[7] Order No. 23678, Docket No. 4846, 2018 Distribution Adjustment Charge Filing; http://www.ripuc.org/eventsactions/docket/4846-NGrid-Ord23678%20(10-3-19).pdf.

from the Gas Cost Recovery (GCR) mechanism through the DAC, which resulted in a proposed SP factor of $0.0003 per therm.[8]

The $163,175 is based upon pricing the 32,404 dth at $5.02/dth. The Division's experts, Mr. Mierzwa and Mr. Morgan, noted that in Docket No. 4963, the Gas Cost Recovery filing, the Company projected the average cost of LNG at $4.42/dth and recommended that the same figure be used in this docket. They acknowledged that because of the volumes, the change in the price per dth does not change the proposed SP factor.

At the hearing, Ms. Leary testified that the Company no longer needs LNG to maintain system pressure because the Southern Rhode Island Gas Expansion project would be coming online in the fall of 2019.[9] However, instead of adjusting the SP factor at this time, the Company proposed leaving the factor as proposed and adjusting in next year's reconciliation. The Division agreed.

Advanced Gas Technology Factor (AGT)[10]

The AGT Program was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase gas use during periods of low demand. Greater off-peak usage reduces the unit cost of the gas delivery system for all customers. The AGT Program provides rebates for technologies including 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.[11]

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[8] Sch. RMS/AEL-2.
[9] Hr'g Tr. at 11(Oct. 22, 2019)
[10] Sch. RMS-AEL-3.
[11] Scheib-Leary Direct Test. at 7-8.

Mr. Scheib and Ms. Leary reported that as of the end of March 2019, the AGT Program balance was $713,409, not including interest earned of $25,777 which is credited to customers through the DAC's reconciliation factor.[12] The Company's commitments for AGT funding included the fourth and final $300,000 payment to Toray Plastics America, Inc. and a $50,000 payment to another customer, both made in August 2018.

Prior to Docket No. 4770, the AGT program had previously been funded annually with $300,000 from base rates. Pursuant to the Settlement in Docket No 4770, the AGT will be funded through the DAC. Since there is a sizable balance in the program's fund and since there are not presently any customers in the program, the Company did not propose any new funding in this year's DAC. Therefore, the proposed factor for this year is zero.

Environmental Response Cost Factor (ERC)[13]

"The Environmental Response Cost factor 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 ERC factor includes recovery of environmental costs for removing and replacing mercury regulators and addressing meter disposal issues, among other work."[14] The ERC factor includes the amortization of the most recent ten years of Environmental Response costs.

[12] Sch. RMS-AEL-3 at 2.
[13] Sch. RMS-AEL-4.
[14] Scheib-Leary Direct Test. at 9.

On July 31, 2019, the Company filed its annual Environmental Response Cost Report containing descriptions of the environmental projects and fiscal year (FY) 2019 activities.[15] The report enumerated costs of $2,395,051 for the period April 2019 through March 2020 that would be recovered over the 12 months beginning November 2019. The Company currently recovers $1,310,000 annually in base rates for environmental response costs, leaving $1,085,051 to be recovered from customers through the DAC. The ERC factor was calculated by dividing $1,085,051 by forecasted throughput of 42,163,808 decatherms and then divided by 10 to derive a factor of $0.0025 per therm.[16]

In its September 3, 2019 filing, the Company submitted an updated 2019-2020 forecast which decreased throughput by 510,771 dth, and resulted in a slight change to the ERC factor from $0.0025 per therm to $0.0026 per therm.[17]

The Division's review of this factor found that the Company's claimed costs for FY 2019 were well-documented and explained in reasonable detail. The Division did not find any costs which were inappropriate for recovery and recommended that the Commission approve the revised factor.[18]

Pension Adjustment Factor (PAF)[19]

The PAF is designed to recover from, or credit to, customers the prior year's reconciliation balance resulting from the comparison of the Company's actual Pension and Post-Retirement Benefits Other than Pensions (PBOP) expenses to the Company's Pension and PBOP allowances included in base distribution rates, plus carrying charges.[20] The

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[15] Annual Environmental Report for FY19; http://www.ripuc.org/eventsactions/docket/4955-NGrid-2019GasEnvironmentRept%20(7.31.19).pdf.
[16] Scheib-Leary Direct Test. at 10.
[17] Scheib-Leary Supp. Test. at 5 (Sept.3, 2019).
[18] Exeter Associates, Inc. Memo at 5.
[19] Sch. RMS-AEL-5.
[20] Scheib-Leary Supp.Test. at 10-11; Testimony of Jeffrey D. Oliveira at 4 (Aug. 1, 2019).

PAF is based on the difference between the Company's actual pension and PBOP expense, funded at a minimum finding obligation level, for the twelve month period ending March 31, 2018 and the expense allowance included in base distribution rates.[21]

If the Company does not fund its Pension and PBOP plans at the required Minimum Funding Obligation level, then the Company will be required to pay a carrying charge to its customers at the weighted average cost of capital. Mr. Oliveira's Schedule JDO-JHA-1 illustrated that the Company under-recovered Pension expenses in the amount of $362,972 and over-recovered PBOP expenses in the amount of $1,251,941 for the twelve-month period ending March 31, 2019. During this same timeframe, the Pension liability was slightly under-funded, resulting in a carrying charge of $27,258.[22] The Pension Adjustment credit factor of $ 0.0022 per therm was calculated by dividing the net over-recovery of actual Pension and PBOP expenses by the forecast throughput of 42,163,808 decatherms and then dividing by 10.[23] The Pension Factor was $0.0007 per therm and the PBOB Factor was ($0.0029)per therm. Therefore, the combined Pension & PBOB Factor was ($0.022) per therm. The Division had no recommended adjustments to the PAF.[24]

Arrearage Management Adjustment Factor (AMAF)[25]

Pursuant to R.I. Gen Laws 39-2-1 (d) (2), the Company is permitted to surcharge customers for amounts that have been forgiven through the Arrearage Management Plan (AMP) over the prior calendar year. This surcharge is collected through the AMAF. The program is designed to collect the entire balance of arrearages resulting from program

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[21] Oliveira Test. at 6.
[22] Scheib-Leary Supp. Test. at 11.
[23] Scheib-Leary Direct Test. at 11.
[24] Memo of John Bell at 2 (Oct. 4, 2019), as corrected at the hearing; http://www.ripuc.org/eventsactions/docket/4955-DIV-Memo%2010-4-19.pdf.
[25] Sch. RMS- AEL-6.

participants who have not satisfied the program requirements, as well as the arrearages of those customers who have successfully satisfied their requirements, subject however, to a bad debt test.

For unsuccessful participants, the amount of arrearage forgiven by the Company to that point shall remain forgiven and written off by the Company. Unsuccessful participants include: (1) a participant who misses more than two payments of the twelve month payment plan; (2) a participant who does not pay the entire amount due under the twelve month payment plan by the conclusion of the twelve months; (3) a participant that opts out of the payment plan prior to its conclusion; and (4) a participant who moves out of the Company service territory prior to conclusion of the payment plan. However, the amount of arrearage written off by the Company is recoverable in full.

The recovery of the arrearage amounts forgiven by the Company through the AMP is dependent on the following criteria: (1) If a customer does not satisfy the conditions of R.I.G.L. § 39-2-1(d)(2), the amount of arrearage forgiven by the Company to that point shall remain forgiven and be written off by the Company. However, the amount of arrearage forgiven by the Company is recoverable in full; (2) If a customer does satisfy the conditions of R.I.G.L. § 39-2-1(d)(2), all arrearage amounts forgiven will be treated as bad debt. At the end of each calendar year, the Company will perform a test to determine if the amount of bad debt for the year exceeds the adjusted allowable bad debt from the Company's most recent general rate case. This adjusted allowable bad debt will be calculated using the distribution uncollectible amount determined in the last general rate case, updated for the current calendar year Gas Cost Recovery, DAC, commodity, and energy efficiency-related bad debt. Should the actual amount of bad debt incurred by the

Company for the year exceed this adjusted allowable bad debt amount, the Company will be entitled to recover, in the following year, all amounts of arrearage forgiven under R.I. Gen. Laws § 39-2-1(d)(2)(xiv) in the prior year in excess of the allowable bad debt. If, however, the amount of the arrearage forgiven under § 39-2-1(d)(2)(xiv) in excess of the adjusted allowable bad debt for a given year is not significant enough to calculate an annual reconciling factor for that year, the Company may reflect such amount in its next Revenue Decoupling Mechanism reconciliation filing.

The AMAF shall be a uniform per therm factor based on the estimated therms to be delivered by the Company to its gas customers over a 12-month period. For billing purposes, the AMAF will be included with the DAC charge on customers 'bills. Should any balance remain outstanding subsequent to the recovery of costs associated with the AMP as described above, the Company shall reflect this balance as an adjustment in the subsequent period.[26]

The Company forgave $100,691 in CY 2018 for customers who were successful participants in the AMP.[27] Schedule RMS-AEL-6 at Page 2, Line (8) demonstrates that the Company experienced $6,995,240 less bad debt in CY 2018 than the adjusted allowable bad debt of $11,979,260 shown on Line (6). Therefore, none of the arrearages forgiven for successful participants is recoverable.[28]

A total of $362,595 in arrearages was forgiven during CY 2018 for unsuccessful AMP participants. Of that amount, $62,119 was due to customers who voluntarily opted out of the AMP prior to successful completion and the balance of $300,476 was due to

[26] RIPUC NG-GAS No. 101B, Section 7, Schedule C, Sheet 9, Eleventh Revision; https://www.nationalgridus.com/media/pdfs/billing-payments/rigas_tariff.pdf.
[27] Scheib-Leary Direct Test. at 15; Sch. RMS-AEL-6 at 2.
[28] *Id*.

defaulting customers.[29] The total amount of recoverable arrearage forgiveness of $362,595 was divided by the forecasted dekatherms for November 2019 through October 2020, and divided by 10, to derive the proposed AMAF Factor of $0.0008 per therm.[30]

In its September 3, 2019 Supplemental filing, the Company further increased this factor from $0.0008 per therm to $0.0009 per therm, due to the decrease in forecast for 2019-2020. The Division reviewed the arrearage forgiveness amount for 2018, did not discover any issues, and recommended that the PUC accept the Company's claim.[31]

Revenue Decoupling Adjustment (RDA)[32]

The Company operates under a Revenue Decoupling Mechanism which provides for an annual reconciliation, known as the Revenue Decoupling Adjustment (RDA), of actual revenue-per-customer by rate class against a benchmark revenue-per-customer. On June 28, 2019 and in accordance with the provisions of the Company's gas tariff, the Company filed its annual RDA factor for the one-year period April 1, 2018 through March 31, 2019.[33] As shown on Schedule RMS/AEL-7S, Page 1, the RDA identified a base rate revenue over recovery of $10,271,482. The Company's original RDA credit factor of $0.351 per therm was updated on September 3, 2019 to $0.353 per therm after the forecast for the upcoming season was increased. The Division reviewed the Company's calculations and agreed with the Company's proposed RDA factor.[34]

[29] Scheib-Leary Direct Test. at 14; Sch. RMS-AEL-6 at 2.
[30] Scheib-Leary Direct Test. at 16; Sch. RMS-AEL-6 at 1.
[31] Exeter Associates, Inc. Memo at 5.
[32] Sch. RMS/AEL-7.
[33] Revenue Decoupling Mechanism Reconciliation filing; http://www.ripuc.org/eventsactions/docket/4955-NGrid-Gas-RDMFiling2019_6-28-19.pdf.
[34] Exeter Associates Inc Memo at 7.

Infrastructure, Safety & Reliability Reconciliation Factor (ISR)[35]

The Gas Tariff describes the Company's obligations to create and implement an annual Gas Infrastructure, Safety, and Reliability Plan. "In compliance with R.I. Gen Laws § 39-1-27.7.1, no later than January 1 of each year, the Company shall submit to the PUC a Gas Infrastructure, Safety, and Reliability Plan (Gas ISR Plan) for the upcoming fiscal year (April to March) for review and approval within 90 days. The Gas ISR Plan shall include the upcoming fiscal year's forecasted capital investment on its gas distribution system infrastructure and may include any other costs relating to maintaining safety and reliability that have been mutually agreed upon by the Division and the Company."[36]

The Tariff also requires the Company to annually calculate a reconciliation factor. "As part of its annual DAC filing, the Company shall submit by August 1 a reconciliation factor (either positive or negative) related to the ISR Factor recoveries and actual Cumulative Revenue Requirements and any associated costs approved for recovery through this mechanism to take effect annually for the twelve months beginning November 1 each year."[37]

On August 1, 2019, the Company submitted its FY 2019 ISR Plan Reconciliation which resulted in an under-recovery of $2,377,053.[38] For FY 2019, the Company spent $104.02 million for capital investment and operation and maintenance (O&M) expenses under its 2019 ISR Plan, which was approximately $2.69 million under the approved budget of $106.71 million.[39] The $2.69 million variance was calculated from a $0.90

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[35] Sch. RMS/AEL-8S.
[36] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A, Sheet 4.
[37] R.I.P.U.C. NG-Gas No. 101, Sec. 3, Sch. A, Sheet 5.
[38] FY 2019 ISR Plan Reconciliation, http://www.ripuc.org/eventsactions/docket/4781-NGrid-Gas%20ISR%20FY2019%20Reconciliation%20(8-1-19).pdf.
[39] Test. of Amy Smith at 4; http://www.ripuc.org/eventsactions/docket/4781-NGrid-Gas%20ISR%20FY2019%20Reconciliation%20(8-1-19).pdf.

million overspending in the Non-Discretionary category and underspending in the Discretionary category of $3.27 million.

To derive the ISR reconciliation factor per rate class, the Company allocated the FY 2019 revenue requirement on actual cumulative capital investment and O&M to rate classes based on the rate base allocation from the Company's 2017 rate case. This result was then compared to billed revenue from the billing of the ISR factors by rate class to arrive at the over-recovery or under-recovery of ISR Plan capital investment and O&M expense by rate class in accordance with the Company's DAC Provision. The Company then divided the total over-recovery for each rate class by the forecasted throughput for each rate class. Schedule RMS/AEL-8S shows the ISR reconciliation factors per rate class.[40] The Division reviewed the Company's proposed ISR factor and recommended approval for effect November 1, 2019.

Firm Revenue Credit Factor

The Company is including the revenue credit associated with a large C&I customer, as specified in Article III, Section A.4 of the 2012 Rate Case Settlement Agreement. Pursuant to the 2012 Rate Case 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 Schedule RMS/AEL-9, the Company details the distribution revenue that will be credited back to customers for the period April 2018 through August 2018. The Company included this revenue credit as part of its Reconciliation factor, as shown on RMS/AEL-10, Page 1, Line (13).

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[40] Scheib-Leary Direct Test at 18-19.

DAC Reconciliation Factors[41]

The reconciliation component of the DAC allows for the reconciliation of the actual amounts approved to be reflected in the DAC factors from the prior year and revenue billed through the DAC, along with a true-up for those items requiring a forecast of their balances at October 31 in order to calculate the DAC factors for November 1. In this filing, the individual items that are being reconciled fall into one of the following three general groupings, which are rate class specific: (1) those associated with the reconciliation of factors that are related to all rate classes; (2) those associated with the reconciliation of factors that are specific to the Residential and Small and Medium C&I rate classes; and (3) those associated with the reconciliation of factors related solely to the Large and Extra Large rate classes.[42]

1. All rate classes

The Company derives the Reconciliation factor applicable to all rate classes by adding up the 12-month balance ending October 2019 of these components[43], which represents a net amount due from customers of $976,660, plus the net 2018 true up surcharge of $253,412, the AGT interest credit of $25,777, and the revenue credit amount of $135,581, for a total surcharge of $1,068,714 to customers.[44] The total is divided by the forecasted throughput for the November 1, 2019 through October 31, 2020 period, divided

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[41] Sch. RMS/AEL-10S.

[42] Scheib-Leary Direct Test. at 25.

[43] The components are those which are reconciled on the basis of the gas year, from November 2018 through October, 2019: (1) System Pressure reconciliation; (2) AGT reconciliation; (3) Environmental Response Cost reconciliation; (4) Arrearage Management Program reconciliation; (5) Pension reconciliation; (6) PBOP reconciliation; (7) Low Income Discount Recovery reconciliation; and (8) prior reconciliation factors.

[44] Scheib-Leary Direct Test. at 26.

by 10 to derive a per-therm credit of $0.0025 for the 12-month period beginning November 1, 2019.[45]

2. Residential and Small and Medium C&I rate classes

The reconciliation of the RDA balance through the RDA factors that are only applicable to Residential and Small and Medium C&I customers results in a separate Reconciliation factor for this group of customers. This factor was derived by taking the RDM reconciliation ending balance as of October 31, 2019, which represents an over-recovery of the amount to be recovered through the RDA factor and RDA reconciliation factor of $291,094, as shown on Schedule RMS-AEL-10S, Page 1, Line (20), and dividing that total by the forecasted throughput of 29,033,207 dth for the Residential and Small and Medium C&I rate classes. This factor is then divided by 10 to derive a per-therm credit of $0.0010. The summary of this derivation is shown on Schedule RMS-AEL-10S, Page 1, Section 2.

3. Large and Extra Large rate classes

The Large and Extra Large Reconciliation factor includes the following components: (1) the prior reconciliation factor applicable to the Large and Extra Large rate classes; and (2) the reconciliation of the base rate allowances for the AGT Program, Environmental Response Costs, and low-income programs for the April 2018 through March 2019 period, which are subject to reconciliation in the DAC.[46] The reconciliation of these four components for customers receiving delivery service on only the Large and Extra Large rate classes results in a reconciliation credit factor of $0.0015 per therm. This factor was

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[45] The updated throughput forecast, coupled with other updates filed on Sept. 3, 2019, did not affect the proposed RDA factor which remained at $0.0025 per therm.

[46] Scheib-Leary Direct Test. at 28.

calculated by taking the ending balances of the base rate allowances at the end of March 2019, which is a credit balance of $75,896, and adding to it the balance of the Reconciliation factor associated with the previous reconciliation for these rate classes, which is an under-recovery of $68,958; resulting in a net amount due to Large and Extra Large customers of $6,958, an amount too small to derive a factor[47]

Earnings Sharing Mechanism Factor (ESM)[48]

Pursuant to the DAC provision of the Company's gas tariff, RIPUC NG-GAS No. 101, Section 3, Schedule A, if there are any excess earnings to be shared with customers, those earnings flow back to customers through the DAC. The Company's gas earnings are measured over the term of its fiscal year which ends on March 31. In accordance with the tariff, the determination of earnings subject to the ESM is based on a benchmark return on equity of 9.275%. The earnings sharing formula requires that any annual earnings annual earnings over 9.275% return on equity, and up to and including 100 basis points (i.e., 10.275%), will be shared 50% to customers and 50% to the Company. Any earnings more than 100 basis points in excess of 9.275% return on equity (i.e., exceeding 10.275%) shall be shared 75% to customers and 25% to the Company.

In its filing on August 1, 2019, the Company had calculated its earned return on common equity at 8.99%. However, during discovery, the Division determined that the Company had failed to include the amortization of excess deferred income taxes in the determination of the net income tax expense. On September 24, 2019, the Company filed a corrected Gas Earnings Sharing Mechanism calculation which increased the return on common equity from 8.99% to 9.01%. Since this return is still below the threshold of

[47] *Id*. at 29.
[48] Sch. RMS/AEL-12S.

9.275%, the ESM factor remained at zero. The Division concurred with the amended calculation and the proposed factor of $0.0000 per therm.[49]

Low Income Discount Recovery Factor (LIDRF)[50]

The Low Income Discount Recovery Factor is determined annually based upon the estimated annual amount of low income discounts applied to eligible customers 'bills receiving service of Rates 11 and 13.[51] The revenue billed through the LIDRF will be subject to reconciliation against the actual bill discounts provided during the twelve-month reconciliation period.[52] The Company proposed a LIDRF of $0.0138 per therm which was calculated by dividing the estimated discount provided to customers on Rates 11 and 13 of $5,288,107 by the updated forecasted throughput of 400,151,276 therms for the twelve months beginning November 1, 2019.[53] The Division recommended approval of this factor.[54]

Service Quality Factor (SQP)[55]

The Gas Service Quality Plan, implemented in 2003, was designed to ensure that the Company's gas customers receive a reasonable level of service and is comprised of five key aspects: service measures, benchmark standards, a penalty for not meeting benchmark standards, the penalty weight for each measure and the time period for measuring

[49] Memorandum from John Bell, Oct. 4, 2019; http://www.ripuc.org/eventsactions/docket/4955-DIV-Memo%2010-4-19.pdf.
[50] Sch. RMS/AEL-13.
[51] The LIDRF was established within the Company's last general rate case, Docket No. 4770. There, the PUC approved new discounted rates of 25% for qualifying customers, with an additional 5% discount for those residential customers receiving benefits through Medicaid, General Public Assistance or the Family Independence Program.
[52] The LIDRF is not assessed to the low-income customers.
[53] Scheib-Leary Supp. Test. at 4-5.
[54] Memo of Exeter Associates, Inc. at 6 (Oct. 8, 2019); http://www.ripuc.org/eventsactions/docket/4955-DIV-Memo-LaFayette-Mierzwa%2010-8-19.pdf.
[55] Sch. RMS-AEL 14; *See* Docket No. 3476; http://www.ripuc.org/eventsactions/docket/3476page.html.

performance to assess a penalty.[56] Any penalty issued to the Company is credited to customers through the DAC. This year, the Company incurred a penalty of $75,000 for its performance of Meter Testing during the 2018 calendar year, which resulted in a credit factor of $0.0001 per therm.[57]

Tax Credit Factor (TCF) or Excess Accumulated Deferred Income Tax (ADIT)[58]

"The Tax Credit Factor shall credit customers (1) pursuant to the settlement agreement in Docket 4808, a one-time tax credit of $3,064,228 for the period January 1, 2018 through August 31, 2018 associated with the reduced federal corporate income tax rate as a result of the Tax Cuts and Jobs Act; and (2) pursuant to Article II, Section C.22.a of the amended settlement agreement in Docket 4770, a one-time tax credit associated with the impact of the true-up of the excess Accumulated Deferred Income Tax (ADIT) for the period September 1, 2018 through August 31, 2019. The Company will determine the amount to be credited to customers by comparing the actual distribution revenue billed to firm customers during the period September 1, 2018 through August 31, 2019 and an estimate of the distribution revenue that would have been billed to firm customers if the actual impact of excess ADIT had been reflected in base distribution rates effective September 1, 2018. These one-time tax credit amounts will be credited to all firm customers during the period November 1, 2019 through October 31, 2020."[59]

[56] *See* RIPUC Docket No. 3476, Gas Service Quality Plan, http://www.ripuc.org/eventsactions/docket/3476page.html.
[57] Sch. RMS/AEL-14.
[58] Sch. RNS-AEL 15S; This factor is referred to in the filings both as the Tax Credit Factor (TCF) and the Accumulated Deferred Income Tax (ADIT).
[59] RIPUC NG-GAS No. 101, Section 3.10, Distribution Adjustment Charge, Sch. A., Sheets 10-11; https://www.nationalgridus.com/media/pdfs/billing-payments/rigas_tariff.pdf.

The Company proposed a credit to customers of $198,427 associated with the revenue requirement for Rate Year one in Docket No. 4770.[60] Pursuant to the Settlement in Docket No. 4808, the Company and the Division agreed that the Company had realized $3,064,228 in benefits from the reduction in the federal corporate income tax rate as a result of the Tax Cuts and Jobs Act for the period January 2018 through August 2018. They further agreed that the Company will credit customers through the ADIT Tax Credit factor, effective November 1, 2019. The original proposed credit factor of $0.0077 per therm was calculated by dividing the total tax credit of $3,262,655 by total throughput of 42,163,808 dth and dividing by 10.[61] The Company updated this credit factor to $0.0078 per therm in its Sept. 3, 2019 filing to reflect a decrease in the total throughput forecast. The Division reviewed and approved the calculation and recommended approval.[62]

Storm Net Revenue

The Storm Net Revenue factor is designed to credit customers for the seventy-five percent of the value of services performed by the Company's employees in other jurisdictions, including those outside of National Grid USA operating companies' service territories, as agreed to in the Amended Settlement Agreement in Docket No. 4770.[63] This is the first year that the DAC has included this factor. The Company's net revenue for performing storm response services in other jurisdictions was $754,809. The per therm credit factor of $0.0130 was calculated by dividing the customer share of the net revenue

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[60] Scheib-Leary Direct Test. at 21.
[61] *Id*. at 22; Sch. ARMS/AEL-15.
[62] Bell Memo at 3.
[63] Scheib-Leary Direct Test. at 23.

of $566,107 by firm throughput of 42,163,808 dth and dividing by 10.[64] The Division's experts reviewed this calculation and recommended approval.[65]

Low Income Assistance Program (LIAP) Base Rate Funding Reconciliation

In accordance with the Amended Settlement Agreement in the Company's last base rate case, Docket No.4770, funding for the LIAP was eliminated and replaced by other low income funding mechanisms. At the program's conclusion, the Company had a fund balance of $1,228,172. The Company proposed crediting this amount to customers though the DAC on a one-time basis. The proposed credit factor of $0.0029 was calculated by dividing the remaining LIAP fund balance of $1,228,172 by throughput of 42,163,808 dth and dividing by 10.[66] The Division's expert reviewed this credit factor and recommended approval.[67]

IV. The Commission's Hearing and Decision

On October 22, 2019, the Commission conducted a hearing on the Company's DAC filing. The Company's witnesses, Mr. Scheib, Ms. Leary, Mr. Oliveira, Mr. Allen, and Ms. Little were presented as a panel for cross-examination. Ms. Leary made one correction to her prefiled testimony regarding system pressure but emphasized that the change did not affect the system pressure factor, as filed. She indicated that a recent engineering study revealed that when the Company's Southern Rhode Island Gas Expansion project goes online in November 2019, the Company will not need to rely on LNG from the Exeter, Rhode Island LNG facility. The Company will address the reallocation of funding in a

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[64] Sch. RMS/AEL-16.
[65] Exeter Associates, Inc. Memo at 6.
[66] Scheib-Leary Direct Test. at 24.
[67] Exeter Associates, Inc's Memo at 6.

future reconciliation filing.[68] Mr. Allen explained that during 2019, there was a new accounting standard that was implemented, driving the under-recovery of pension costs and the over-recovery of OPEB costs.

The Division's witnesses were Jerome Mierzwa, Mr. Lafayette Morgan and Mr. John Bell.[69] Mr. Bell testified that the Division did not object to the Company's proposal to address the change in need for the LNG in a reconciliation filing. Additionally, the Division agreed with the Company's wait and see approach to future AGT funding.[70] The Division supported the Company's filing and recommended approval.

At an Open Meeting held on October 25, 2019, the Commission unanimously approved the proposed factors as specifically set forth in Attachment RMS/AEL-1S. Specifically, the Commission considered and approved the following factors: System Pressure - \$0.0003 per therm; Advanced Gas Technology Program – \$0.0000 per therm; Environmental Response Cost – \$0.0025 per therm; Pension and Post-Retirement Benefits – (\$0.0022) per therm; Arrearage Management Adjustment –\$0.0009 per therm; Reconciliation Factor – \$0.0025 per therm for all customers; Earnings Sharing Mechanism - \$0.0000 per therm; Low Income Discount Recovery \$0.0138 per therm for Residential/Small/Medium C&I customers (excluding Residential Low income customers) and Large/Extra-Large customers; Service Quality factor – (\$0.0001) per therm; Tax Credit –(\$0.0078) per therm; Storm Net Revenue –(\$0.0013) per them, and Low Income Assistance Program –(\$0.0029) per therm.

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[68] Scheib-Leary Direct Test. at 11.
[69] Mr. Bell made a few typographical corrections to his prefiled testimony.
[70] Hr'g Tr. at 40.

In addition to the individual factors, the PUC approved an Uncollectible Percentage of 1.91%, resulting in an adjustment for uncollectibles of $0.0059 per therm for both Residential/Small/Medium C&I customers and Large/Extra-Large customers, and ($0.0081) for Low Income customers. The PUC also approved a Revenue Decoupling Adjustment charge of ($0.0353) for Residential/Small/Medium C&I customers, including Low Income customers and a Revenue Decoupling Reconciliation credit of ($0.0010) for Residential/Small/Medium C&I customers, including Low Income customers. The approval of all of the factors plus the 1.91% adjustment for uncollectibles and the Revenue Decoupling adjustments resulted in a base DAC factor of ($0.0304) per therm for Residential/Small/Medium C&I customers, ($0.0444) for Low Income customers, and $0.0059 per therm for Large/Extra-Large customers.[71]

In addition to the specific factors and adjustments set forth above, the PUC approved an ISR reconciliation component adjusted for uncollectibles which was added to the base DAC factor.[72] The resulting calculations revealed a DAC rate of $0.0696 per therm for Residential Non-Heating customers, $0.0556 per therm for Residential Non-Heating Low Income customers, $0.0007 per therm for Residential Heating customers, ($0.0133) per therm for Residential Heating Low Income customers, $0.0003 per therm for Small C&I customers, ($0.0168) per therm for Medium C&I customers, $0.0224 for Large Low Load C&I customers, $0.0141 per therm for Large High Load C&I customers, $0.0159 per therm for Extra-Large Low Load C&I customers, and $0.0096 per therm for Extra-Large High Load C&I customers.

[71] The specific factors for the various customer classes are set forth in Attachment A.
[72] The different ISR reconciliation amounts and components based on customer class are set forth in Attachment B.

The Commission found that the evidence presented by National Grid and the Division supported the reconciliation of the factors as set forth above. The Commission further found that the calculations supporting the factors were accurate.

ACCORDINGLY, it is hereby

(23881) ORDERED:

1. The System Pressure factor of $0.0003 per therm is approved for effect November 1, 2019.
2. The Advanced Gas Technology factor of $0.0000 per therm is approved for effect November 1, 2019.
3. Any interest earned on the balance in the Advanced Gas Technology fund shall continue to be credited to ratepayers.
4. The Environmental Response Cost credit factor of $0.0026 per therm is approved for effect November 1, 2019.
5. The Company shall continue to include in its annual Environmental Report for Gas Service all asset sales or exchanges involving real property that the Company has acquired or may acquire and that is funded by ratepayers through the DAC; any such future profits from the sale of land for which acquisition costs have been included in the Environmental Response Cost factor will be credited to ratepayers.
6. The Pension and Post-Retirement Benefits factor of ($0.0022) per therm is approved for effect November 1, 2019.
7. The Arrearage Management Adjustment factor of $0.0009 per therm is approved for effect November 1, 2019.

8. The Reconciliation factor of $0.0025 per therm is approved for effect November 1, 2019.
9. The Earnings Sharing Mechanism factor of $0.0000 is approved for effect November 1, 2019.
10. The Low-Income Discount Recovery Factor of $0.0138 per therm is approved for effect November 1, 2019. The factor will not be applied to Residential Low-Income classes.
11. The Service Quality Performance factor of $0.0000 per therm is approved for effect November 1, 2019.
12. The Tax Credit Factor of ($0.0078) per therm is approved for effect November 1, 2019.
13. The Storm Net Revenue Factor of ($0.0013) is approved for effect November 1, 2019.
14. The LIAP Base Rate Fund Reconciliation Factor of ($0.0029) is approved for effect November 1, 2019.
15. The Revenue Decoupling Adjustment factor of ($0.0353) per therm for Residential/Small/Medium C&I customers and Residential Low-Income customer is approved for effect November 1, 2019.
16. The Revenue Decoupling Adjustment Reconciliation factor of ($0.0010) per therm for Residential/Small/Medium C&I customers is approved for effect November 1, 2019.
17. The various ISR reconciliation and components as set forth in Appendix B of this Order are approved for effect November 1, 2019.

18. The overall Distribution Adjustment Charges of $0.0696 per therm for Residential Non-Heating customers, $0.0556 per therm for Residential Non-Heating Low-Income customers, $0.0007 per therm for Residential Heating customers, ($0.0133) per therm for Residential Heating Low-Income customers, $0.0003per therm for Small C&I customers, ($0.0168) per therm for Medium C&I customers, $0.0224 per therm for Large Low Load C&I customers, $0.0141 per therm for Large High Load C&I customers, $0.0159 per therm for Extra-Large Low Load C&I customers, and $0.0096 per therm for Extra-Large High Load C&I customers are approved for effect November 1, 2019.
19. National Grid shall provide electronic versions of all spreadsheets at the time of its initial filing.

EFFECTIVE NOVEMBER 1, 2019 AT WARWICK, RHODE ISLAND. WRITTEN ORDER ISSUED AUGUST 19, 2020.

PUBLIC UTILITIES COMMISSION

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*Margaret E. Curran, Chairperson

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Marion S. Gold, Commissioner

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Abigail Anthony, Commissioner

*Chairperson Curran participated in the decision but was unavailable to sign.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.

Attachment A

National Grid - RI Gas

Docket No. 4955

PER PUC ORDER

			APPROVED		
Line No.		**Current**	**Residential/Small Medium C&I**	**Large/Extra-Large C&I**	**Residential Low Income**
1	System Pressure (SP) Factor	$ 0.000	$ 0.0003	$ 0.0003	$0.0003
2	Advanced Gas Technology (AGT) Factor	$ 0.0000	$ 0.0000	$ 0.0000	$0.0000
3	Environmental Response Cost (ERC) Factor	$ 0.0027	$ 0.0026	$ 0.0026	$0.0026
4	Pension Adjustment Factor	($0.0157)	($0.0022)	($0.0022)	($0.022)
5	Arrearage Management Adjustment		$0.0009	$0.0009	$0.0009
6	Reconciliation Factor (R)	$ (0.0022) LxLCI	($0.0025)	($0.0025)	($0.0025)
7	Earnings Sharing Mechanism (ESM)	$ 0.0000	$ 0.0000	$ 0.0000	$0.0000
8	Low Income Discount Recovery	$.0138	$ 0.0138	$ 0.0138	n/a
9	Service Quality Factor (SQ)	$ 0.0000	$ 0.0001	$ 0.0001	$0.0001
10.	Tax Credit Factor	n/a	($0.0078)	($0.0078)	($0.0078)
11.	Storm Net Revenue Factor (SNRF)	n/a	($0.0013)	($0.0013)	($0.0013)
12.	LIAP Base Rate Fund Reconciliation Factor	n/a	($0.0029)	($0.0029)	($0.0029)
13	**Subtotal**	**($0.0058)-($0.0080)**	$0.0058	$0.0058	($0.0080)
14	Uncollectible Percentage	1.91%	1.91%	1.91%	1.91%
15.	**DAC Adjusted for Uncollectibles**	**($0.0059)-($0.0081)**	**$0.0059**	**$0.0059**	**($0.0081)**
16.	Revenue Decoupling Adjustment (RDA)	($ 0.0200)	($0.0353)	$0.0000	($0.0353)
17.	Revenue Decoupling Adjustment Reconciliation	$ 0.0003	($0.0010)	$0.0000	($0.0010)
18	**DAC Factor**	**$ 0.0059-($0.0444)**	**($0.0304)**	**$0.0059**	**($0.0444)**

***All figures are per therm.**

Attachment B

National Grid - RI Gas

Docket No. 4955

DAC Factors including annual ISR component

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		ISR Reconciliation w/o uncollectible (therms)	Uncollectible Percentage	ISR Reconciliation* (therms)	Base DAC Component* (therms)	DAC Component Subtotal Rates* (therms)
		(a)	(b)	(c) = (a) x [1+(b)]	(d)	(e) = (c) + (d)
(16)	Res-NH	$0.0481	1.91%	$0.0490	($0.0304)	$0.0186
(17)	Res-NH-LI	$0.0481	1.91%	$0.0490	($0.0444)	$0.0046
(18)	Res-H	$0.0096	1.91%	$0.0098	($0.0304)	($0.0206)
(19)	Res-H-LI	$0.0096	1.91%	$0.0098	($0.0444)	($0.0346)
(20)	Small	$0.0095	1.91%	$0.0097	($0.0304)	($0.0207)
(21)	Medium	($0.0002)	1.91%	($0.0002)	($0.0304)	($0.0306)
(22)	Large LL	$0.0032	1.91%	$0.0033	$0.0059	$0.0092
(23)	Large HL	($0.0044)	1.91%	($0.0045)	$0.0059	$0.0014
(24)	XL-LL	$0.0048	1.91%	$0.0049	$0.0059	$0.0108
(25)	XL-HL	($0.0007)	1.91%	($0.0007)	$0.0059	$0.0052

*Factors Include Uncollectible Allowance