Raquel J. Webster
Senior Counsel

September 8, 2021

BY ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 4996 – Gas ISR FY2021 Reconciliation Filing
Docket 5165 – Distribution Adjustment Clause Filing
<u>Responses to Division Data Requests – Set 2</u>

Dear Ms. Massaro:

I have enclosed National Grid's[1] responses to the Division of Public Utilities and Carriers' Second Set of Data Requests issued in the above-referenced dockets.[2]

Thank you for your attention to this filing. If you have any questions, please contact me at 781-907-2121.

Very truly yours,

Raquel J. Webster

Enclosures

cc: Docket 4996 Service List
Docket 5165 Service List
Leo Wold, Esq.
Al Mancini, Division
John Bell, Division

[1] The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

[2] Per practice during the COVID-19 emergency period, the Company is providing a PDF version this report. The Company will provide the Commission Clerk with five (5) hard copies and, if needed, additional hard copies of this report upon request.

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Division 2-1

Request:

In the past, the depreciation expense included in the Gas ISR revenue requirement was calculated by applying the composite depreciation rate to the capital spend rather than to additions to plant in service. This method overstated the depreciation expense, as depreciation expense is not accrued on CWIP. Please explain how the one-time "cut-over" from capital spend to plant in service in the Gas ISR reconciliation addresses the cumulative effect of the prior overstatement of depreciation expense.

Response:

It is the Company's understanding that it was not the Commission's intent to retroactively apply the Gas ISR tariff revisions made effective April 1, 2021 to prior Gas ISR Plans. The one-time cutover from capital spend to plant in service in the FY 2021 Gas ISR reconciliation was not intended to address the cumulative effect of depreciation expense recovered on capital spending before that investment was placed into service through Gas ISR factors historically.

As described in the Company's response to PUC 1-11, as a one-time cutover, the Company removed the March 31, 2021 CWIP balances (from all historical ISR years) from the FY 2021 plant additions as part of the FY 2021 reconciliation to allow for the use of the annual plant additions reporting method to be used, starting in FY 2022, without the risk of double counting the investments. Had the Company not proposed to reduce the FY 2021 Gas ISR investment by the amount of pre-FY 2021 spending residing in CWIP, the Company would have been in a situation where every project placed in-service in FY 2022 and beyond would need to be analyzed to determine when the spending on that project occurred. Any spending incurred on or prior to March 31, 2021 would need to be reviewed for potential recovery in prior years, while spending after that date would be included. There are frequent occurrences of projects with spending spanning one or more years, which would result in situations where only a portion of a project would be eligible for recovery in future filings. The one-time cutover also addresses the depreciation expense on a going forward basis.

Please refer to Attachment DIV 2-1. Column (a) reflects CWIP balances by vintage year of spend, related to capital investment prior to FY 2021, the total of which agrees with the revised Attachment C on Bates Page 44 of the filing, provided in the Company's response to Division 1-1 as Attachment DIV 1-1-a. Column (e) represents the depreciation expense amounts included in each ISR Plan year related to that investment. Assuming new distribution rates

Division 2-1, page 2

effective on April 1, 2024, the net cumulative effect of the prior overstatement of depreciation expense over the 13-year period since the inception of the ISR Plan is $647,358 as shown on Line 12, Column (e) of the Attachment. On a going forward basis, the net cumulative effect of depreciation expense over the 4-year period from FY 2021 is $9,055, on Line 12, Column (f).

The Narragansett Electric Company
Gas Infrastructure, Safety, and Reliability Plan FY2021 Reconciliation
Depreciation on Pre FY 2021 Construction Work In Progress (CWIP)

		Current Year CWIP (a)	Prior Year Accumulated CWIP (b)	Depreciation on Current Year CWIP (c)	Depreciation on Prior Year CWIP (d)	Total Fiscal Year Depreciation (e)=(c)+(d)	Depreciation after FY 2020 (f)=(e)
1	FY 2012	$ 14,841	$ -	$ 251	$ -	$ 251	
2	FY 2013	$ 26,604	$ 14,841	$ 450	$ 502	$ 951	
3	FY 2014	$ 196,817	$ 41,445	$ 3,326	$ 1,401	$ 4,727	
4	FY 2015	$ 333,978	$ 238,262	$ 5,644	$ 8,053	$ 13,697	
5	FY 2016	$ 142,218	$ 572,240	$ 2,403	$ 19,342	$ 21,745	
6	FY 2017	$ 508,648	$ 714,458	$ 8,596	$ 24,149	$ 32,745	
7	FY 2018	$ 2,973,975	$ 1,223,106	$ 50,260	$ 41,341	$ 91,601	
8	FY 2019, Apr 2018 to Aug 2018	$ 581,881	$ 4,197,081	$ 9,834	$ 141,861	$ 151,695	
9	FY 2019, Sep 2018 to Mar 2019	$ 814,634	$ 3,555,856	$ 12,179	$ 106,320	$ 118,499	
10	FY 2020	$ 4,796,917	$ 4,370,490	$ 71,714	$ 130,678	$ 202,392	
11	FY 2021	$ (10,390,513)	$ 9,167,407	$ (155,338)	$ 274,105	$ 118,767	$ 118,767
12	FY 2022	$ -	$ (1,223,106)	$ -	$ (36,571)	$ (36,571)	$ (36,571)
13	FY 2023	$ -	$ (1,223,106)	$ -	$ (36,571)	$ (36,571)	$ (36,571)
14	FY 2024	$ -	$ (1,223,106)	$ -	$ (36,571)	$ (36,571)	$ (36,571)
15							
16	Total					**$ 647,358**	**$ 9,055**

Column Notes:

(a)	For Lines 1 through 10, see revised Attachment C on Bates Page 44		
(b)	Prior Year Column (a) + Column (b), except for 9 (b)		
(c)	For Lines 1 through 9, Column (a) * 3.38% * 50%	Docket 4323 composite depn rate	3.38%
(c)	For Lines 10 through 14, Column (a) * 2.99% * 50%	Docket 4770 composite depn rate	2.99%
(d)	For Lines 1 through 9, Column (b) * 3.38%		
(d)	For Lines 10 through 14, Column (b) * 2.99%		
(f)	Zero from Lines 1 through 10, Column (e) from Lines 11 through 14		

Line Notes:

8 (a)	FY 2019 CWIP * 5 / 12
9 (a)	FY 2019 CWIP * 7 / 12
9 (b)	7 (a)+8 (a)
11 (a)	Column (a), Sum of Line 1 through 10
16	Sum of Lines 1 through 14

Assumption: new base rates will be effective on April 1, 2024

Division 2-2

Request:

In response to PUC 6-7 in Docket 5099, the Company stated that Allowance of Funds Used During Construction (AFUDC) was not accrued on projects eligible for recovery through the Gas ISR. As a result of the April 1, 2021 tariff change, did the Company's policy related to the accrual of AFUDC on Gas ISR projects change. If so, please provide the current policy. Include in the response, the amount, if any, of AFUDC accrued on projects through March 31, 2021.

Response:

Yes, effective with the tariff change on April 1, 2021, the Company began to accrue AFUDC on new project dollars recorded to Construction Work in Progress and eligible for recovery through the Gas ISR. The Company is also accruing AFUDC on existing Gas ISR-eligible project dollars residing in CWIP at March 31, 2021 prospectively from April 1, 2021 forward. National Grid's AFUDC policy document has been updated to reflect this change. Please refer to the revised policy at Attachment DIV 2-2. The specific reference to Gas ISR projects is on page 2 of the Attachment.

No AFUDC has been accrued on Gas ISR-eligible projects through March 31, 2021.

Prepared by or under the supervision of: Melissa Little

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US ACCOUNTING POLICY

Accounting for Allowance for Funds Used During Construction (AFUDC)

TABLE OF CONTENTS

Section I: Purpose & Scope

National Grid USA (NGUSA or Company) is a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution and sale of both natural gas and electricity. NGUSA is an indirect, wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

Most of the Company's operations are conducted through its regulated utility subsidiaries. In addition, the Company has certain unregulated subsidiaries that provide energy related services to LIPA and other customers.

Constructing utility plant takes time, potentially resulting in the incurrence of significant carrying costs in advance of when the assets are ready for use and included in allowable costs for ratemaking purposes. Normally a regulated utility does not earn a return on assets under construction to cover financing costs incurred during the construction period. Therefore, regulators allow utilities to capitalize an allowance for funds used during construction (AFUDC), during the construction phase of a capital project, for future recovery. Only those incurred costs that are probable of recovery through future rates should be capitalized as part of utility plant (construction work in progress).

This document outlines National Grid's policy, procedures, and methodology for computing and capitalizing AFUDC. By adhering to these guidelines, we ensure the integrity, accuracy and validity of the AFUDC balance. This document also summarizes the underlying principles governing the accounting for this construction cost factor.

Section II: Policy

A. Definitions

The FERC Charts of account defines AFUDC, allowance for funds used during construction, as the net cost for the period of construction of borrowed funds used for construction purposes and a reasonable rate on the funds when so used, not to exceed without prior approval of the Commission allowances computed in accordance with the FERC formula, (see exhibit 1 in section IV).

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Accounting for Allowance for Funds Used During Construction (AFUDC)	

B. Policy

The FERC guidelines under the Natural Gas Act, the Federal Power Act, Federal Power Commission (FPC) and Order No. 561 outlines the following requirements:

- Rates shall be calculated annually.
- The cost rate for common equity shall be the rate granted common equity in the last rate proceeding before the ratemaking body having primary rate jurisdiction. If such cost rate is not available, the average rate actually earned during the preceding three years should be used.
- The short-term debt balances and related cost and the average balance for construction work in progress shall be estimated for the current year with appropriate adjustments as actual data becomes available.
- The cost rates for long term debt and preferred stock are the weighted average cost.
- The balances for long-term debt, preferred stock, and common equity are the actual book balances as of the end of the prior year.
- Public utilities are required to monitor their actual experience and adjust to actual at year end if a significant deviation should occur.

National Grid follows the outlined guidelines:

- During the work order creation process, a determination is made whether a work order is eligible to accrue AFUDC charges based upon the work order type selected during the work order creation process. The work order types listed below are considered ineligible to receive AFUDC and don't accrue AFUDC. Please note that the list is not comprehensive as other exceptions may exist.
  - Service installations, direct purchases of equipment and furniture, purchases of vehicles or power operated equipment;
  - Purchases and installation of transformers, regulators and meters;
  - Abandonments;
  - Blanket projects/work orders;
  - CIAC related constructions;
  - Preliminary Survey and Investigation ("PSI")
  - Gas ISR related projects in RI; Exclusion was effective prior to March 2021 and effective April 2021, it's no longer applicable.

- The capitalization period for AFUDC shall begin when two conditions are present:
  - Capital expenditures for the project have been incurred and charged to FERC account 107
  - Activities necessary to get the project ready for its intended use are in progress.

- The AFUDC ceases once the in-service date is determined and charges are transferred to the Completed Construction not Classified account (CCNC, FERC Account 106).
  - For work orders that have back dated in service dates, AFUDC charges will be automatically reversed out to reflect the accurate amount of accrued AFUDC.
  - For work orders with in service dates during the current month, AFUDC charges are pro-rated based on the number of days in the month before the in-service date.
  - Accrual of AFUDC is suspended on work orders that have been idle for more than 120 days.

- Estimates are created in January using prior year December financials for long term debt, preferred stock and common stock.

- As National Grid does not provide projections for short term debt and CWIP, the estimate is prepared with values as of prior calendar year-end and eligible CWIP is used rather than total CWIP.
- The interest rate for long-term debt and the cost rate for preferred stock are based on the prior year's costs.
- Long term debt (includes LTD< 1 year) is based upon GAAP Financial Reports for prior December 31st. Treasury provides both the balance and rates (by company) as supported by Treasury "CYE Cost of Debt" file. (D = Long Term Debt, d = Long Term Debt Interest Rate)
- The cost rate for common stock is the rate of return granted common equity in the last approved rate proceeding. These numbers do not change in the monthly calculation of actuals.
- Common Equity as calculated from Total Equity in GAAP Financial Reports for prior December 31st, after removal of Preferred Stock and adjusted for Goodwill, and Other Comprehensive Income (OCI) supported by FERC Account 219 Accumulated other comprehensive income are used.

Component	**Symbol**	**Provided by**	**Update & Review Frequency**
Average short-term debt	S	Treasury	Monthly
Short term debt interest rate	s	Treasury	Monthly
Long term debt	D	Treasury	Annual (December)
Long term debt interest rate	d	Treasury	Annual (December)
Preferred stock	P	Treasury	Annual (December)
Preferred stock cost	p	Treasury	Annual (December)
Common equity	C	Financial Reporting	Annual
Common equity cost	c	Regulatory Accounting	Annual (December)
CWIP	W	Plant Accounting	Monthly

- Separate monthly rates for each company are calculated using the FERC formula and elements for the computation of AFUDC as contained in Title 18 CFR Part 101 Electric (Gas) Plant Instruction no. 3(A)(17). Rates are changed only if they meet or exceed the threshold of 25 basis points.
  - Calculations are prepared after the month-end close as required elements of the calculation (Eligible CWIP and Short-Term Debt) are not readily available.
  - The balance of construction work in progress (CWIP) is the two-month average of eligible base CWIP for the current and prior month.
    - Negative CWIP balance driven by CIAC will not result in negative AFUDC amounts.
    - Accruals for Consultants and Contractors are not included in Eligible Base.
  - The balance for short-term debt is the average daily balance in the Money Pool for the current month and the related interest rate is the average rate for the current month.
    - Companies with a negative value in the Money Pool are considered in a borrowing position and the amounts are used for short debt calculation. Negative value in Money Pool as December 31 is used in the yearly estimate calculation.
    - OAA (Open Account Arrangement) balance is also included if considered short term. When third party short-term debt is incurred, it is taken into consideration.

- True-up entries are calculated and prepared at Calendar and Fiscal Year end if the dollar variance exceeds an individual company's materiality threshold.

- AFUDC is capitalized on the company's books by charging FERC Account 107, Construction Work in Progress, as a component of construction cost and crediting Other Income, Account 419.1 – Allowance for Other Funds Used During Construction and/or crediting Interest Charges, Account 432 – Allowance for Borrowed Funds Used During Construction – Credit, as appropriate.

C. Exceptions

National Grid Generation LLC ("GENCO") is classified as non-regulated for GAAP reporting but is treated as a regulated entity for FERC reporting. Because GENCO does not qualify for ASC 980 accounting treatment, it is necessary to make certain adjustments to the recorded amounts. A manual adjustment is made to record incremental debt differences. This rate is calculated by removing the equity component from the equation. Manual adjustments are recorded to reverse the equity component of AFUDC for GAAP and IFRS purposes.

In accordance with GENCO's Power Supply Agreement (PSA) with LIPA, the dense pack assets have a designated AFUDC rate of 4.85% and therefore the debt financing related to these assets is excluded from the rest of the outstanding LTD of GENCO.

Section III: Key Accounting Literature

The treatment of AFUDC under US GAAP depends on whether the company is regulated or unregulated. A Regulated Company must meet the following criteria as stated in ASC Topic 980 *Regulated Operations*:

1. Rates are established by an independent third-party regulator or the entity's own governing board;
2. Rates are intended to recover cost of service; and
3. Rates designed to recover costs can be charged to and collected from customers.

1. Regulated Subsidiary Accounting (ASC 980)

AFUDC is capitalized only during periods of construction and only if it is probable that the regulated company will receive subsequent recovery through the ratemaking process. AFUDC as provided in the Uniform System of Accounts is a two-part allowance. Regulated companies are permitted to capitalize an allowance for funds used during construction which includes borrowing costs incurred for both debt and equity.

1. The debt component includes the cost of short-term debt and long-term debt when so used;
2. The equity component includes the cost of common equity and preferred stock when so used.

2. Unregulated US GAAP (ASC 835)

Unregulated companies, or those companies that do not meet the criteria stated under ASC 980, are not allowed to capitalize AFUDC during periods of construction, but fall under ASC Topic 835 I*nterest* which allows the capitalization of interest. Thus, in this latter case, the capitalized costs only include the debt component of AFUDC.

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Accounting for Allowance for Funds Used During Construction (AFUDC)

Section VIII: Exhibits and References

Exhibit 1

A_i = s(S/W) + d(D/D + P + C)(1 − S/W)

A_e = [1 − S/W][p(P/D + P + C) + c(C/D + P + C)]

A_i = Gross allowance for borrowed funds used during construction rate.

A_e = Allowance for other funds used during construction rate.

S = Average short-term debt.

s = Short-term debt interest rate.

D = Long-term debt.

d = Long-term debt interest rate.

P = Preferred stock.

p = Preferred stock cost rate.

C = Common equity

c = Common equity cost rate.

W = Average balance in construction work in progress plus nuclear fuel in process of refinement, conversion, enrichment and fabrication.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

________________________________ September 8, 2021

Joanne M. Scanlon Date

Docket No. 4996 - National Grid's FY 2021 Gas Infrastructure, Safety and Reliability (ISR) Plan - Service List 8/19/2020

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Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.

Joanne M. Scanlon

September 8, 2021
Date

Docket No. 5165 – National Grid –2021 Annual Distribution Adjustment Charge Filing (DAC) - Service List as of 9/1/2021

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