nationalgrid

April 30, 2020

BY ELECTRONIC MAIL

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

RE: Docket 5022 - Suspension of Service Terminations and Certain Collections Activities During the COVID-19 Emergency
<u>National Grid's Comments and Responses to Request for Information</u>

Dear Ms. Massaro:

On behalf of National Grid,[1] enclosed are the Company's comments and responses to the Public Utilities Commission's Request for Information pursuant to its April 14, 2020 written order in the above-referenced matter.

Thank you for your attention to this filing. If you have any questions, please contact Raquel J. Webster at 781-907-2121 or Jennifer Brooks Hutchinson at 401-784-7288.

Sincerely,

Raquel J. Webster

Jennifer Brooks Hutchinson

cc: Docket 5022 Service List
Jon Hagopian, Esq.
John Bell, Division
Linda George, Division

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

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STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION

IN RE: SUSPENSION OF SERVICE TERMINATIONS AND CERTAIN COLLECTIONS ACTIVITIES DURING THE COVID-19 EMERGENCY	RIPUC Docket No. 5022

NATIONAL GRID'S COMMENTS AND RESPONSES TO THE PUBLIC UTILITIES COMMISSION'S REQUEST FOR INFORMATION

National Grid[1] submits these comments in response to the Rhode Island Public Utilities Commission's (PUC) request for information in the above -referenced proceeding regarding the suspension of service terminations and certain collections activities during the COVID-19 pandemic (Pandemic).

EXECUTIVE SUMMARY

The impacts of the Pandemic are severe and could have long-term effects on customers in need. Safe and reliable utility service is a critical public necessity, and it is, therefore, important for the Company to have the tools and resources necessary to assist customers with maintaining this critical service. The Company is uniquely positioned to assist customers in need and is absolutely committed to using its expertise and resources to continue serving all customers on a safe and reliable basis, including those customers who will now struggle to pay their utility bills due to the impacts of the Pandemic.

The PUC's request for information focuses, appropriately so, on collections activities, payment trends, impacts of the moratorium on collections on the Company's cash flow, and the Company's plans for termination of service absent an extension of the emergency order. However, as time and circumstances progress, it has become clear that it will take time before

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

shut-offs reasonably can be re-instated, and that the effectiveness of the shut-off for encouraging customer payment may, in fact, be diminished by some customers' inability to pay. At the same time, the Pandemic could also have a significant impact on the Company.

As noted in our comments in this docket on April 9, 2020, the Company is becoming increasingly concerned about the potential for increased bad debt. The cash resources available to the Company are limited and must be utilized as efficiently as possible so that rates are not needlessly increased for customers in the future, as we work through the challenges we are experiencing today. In addition, the Company's access to capital markets at affordable rates would be compromised if debt holders and equity investors do not have confidence in the Company's ability to recover its costs. As such, it is critical that the Company has the regulatory support and tools necessary to assist customers with paying their bills. The PUC's decisions as to how best to help customers in need will be critical to the Company's efforts in providing needed assistance to customers while, at the same time, signaling to the marketplace that providing aid to customers will not undermine the financial integrity of the Company.

Maintaining this delicate balance between sustained customer aid and regulatory support is imperative for the State of Rhode Island. The Company cannot finance ongoing operations and unpaid customer utility bills at a dimension beyond all historical experience without adequate cash flows to support utility operations at a cost that is manageable for customers. Accordingly, the Company's responses and additional comments that follow take a longer-term view of the crisis and its after-effects, and address the critical need for the PUC to adopt an over-arching strategy that will position the Company to offer sustained customer aid, while maintaining the financial integrity necessary to conduct – and finance- its utility operations. The Company thanks the PUC for the opportunity to submit these comments as the Company works with the PUC and other stakeholders to create and implement strategies necessary to assist customers on a sustained basis.

In Section I of these comments, the Company responds to the PUC's request for information in the PUC's written order in this docket dated April 14, 2020. In Section II of these comments, the Company explains why it is necessary to couple initiatives to provide customers with payment flexibility with regulatory mechanisms that help to maintain adequate cash flow. In addition, the Company shares some suggestions for proposed solutions for assisting customers with paying their bills now, as well as on a long-term basis in response to the Pandemic.

I. RESPONSES TO PUC'S REQUEST FOR INFORMATION

National Grid responds to the PUC's questions as follows:

Question 1: Have collections dropped off for residential and nonresidential customers over the past two weeks, four weeks, and six weeks compared to prior months and prior years?

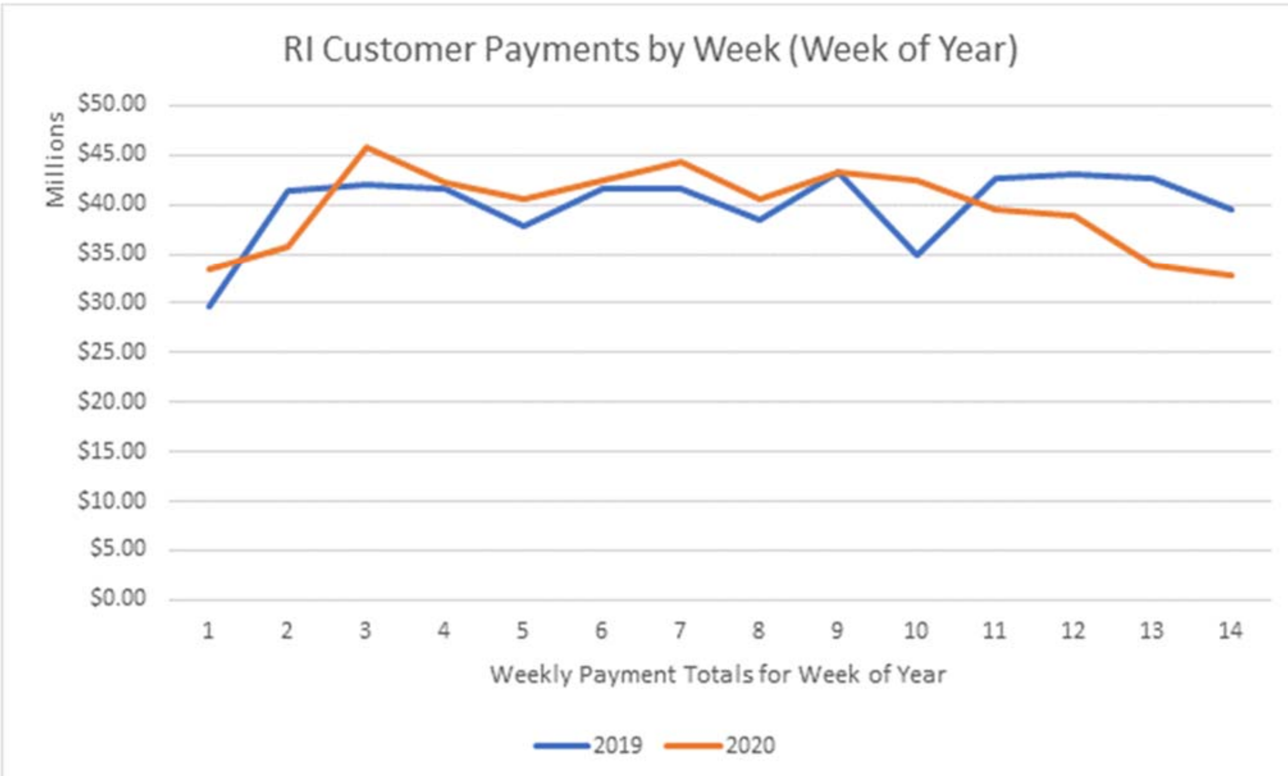
Yes. Collections have dropped off for residential and non-residential customers over the past two, four, and six weeks compared to prior months and prior years.

Question 2: If so, please quantify the extent of the reduction.

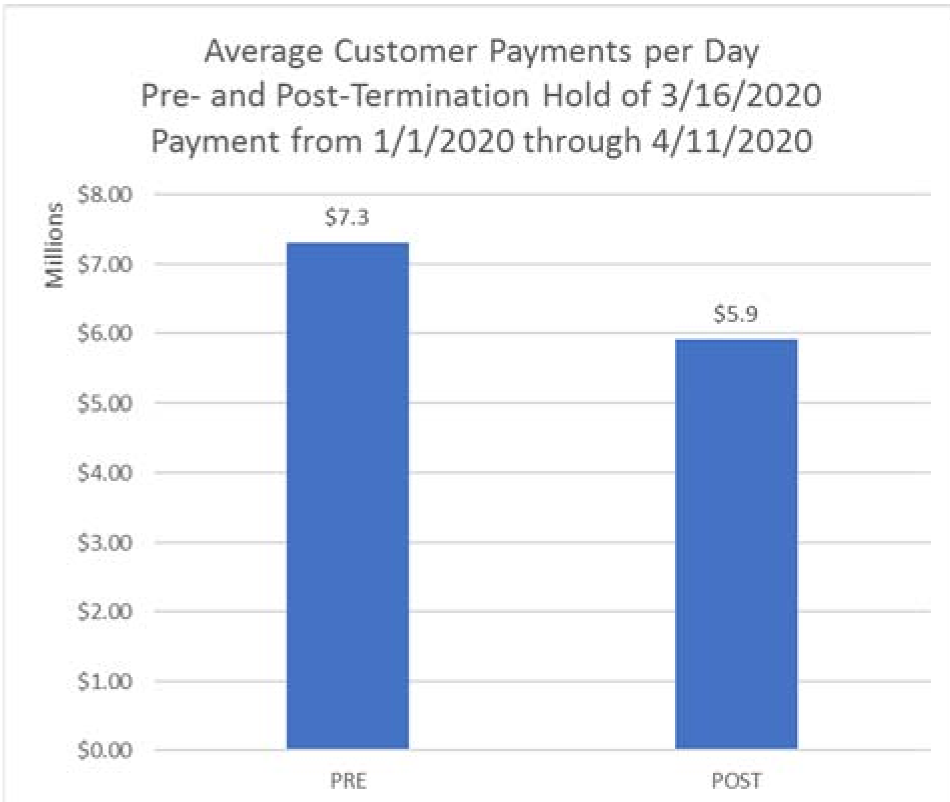
As the chart below illustrates, beginning in the eleventh week of the year 2020 ending Saturday, March 14, 2020, weekly customer payments from Rhode Island residential and nonresidential customers have begun to lag behind the corresponding weeks of 2019. During weeks one through ten, Rhode Island customers paid a total of $18.2 million more in 2020 compared to 2019, a year-over-year weekly payment increase of $1.82 million. During weeks 11 through 14, Rhode Island customers paid a total of $22.6 million less compared to 2019, a year-over-year weekly payment decrease of $5.65 million. If this trend continues for another four to eight weeks, the Company could see lower customer payments of $22.6 million - $45 million for that period for a total 12-week impact of up to $68 million. The reduction in collections described above is partially driven by the warmer weather in February and March 2020 as compared to this same period in 2019. The heating degree days were down by approximately 18% for February and March of 2020. Cash receipts is an important data point; however, the Company believes the collection effectiveness index (See question #6) is a more robust metric for collections that were actually collected in a given period.

The two charts below reflect additional customer payment trends.

Chart


RI Customer Payments by Week (Week of Year)
Millions
$50.00
$45.00
$40.00
$35.00
$30.00
$25.00
$20.00
$15.00
$10.00
$5.00
$0.00
1 2 3 4 5 6 7 8 9 10 11 12 13 14
Weekly Payment Totals for Week of Year
2019
2020

Chart



Question 3: What effect has any such reduction had on the utility's cash flow?

As noted in the response to Question 2 above, in weeks 11-14, collections were down an average of $5.65 million per week, resulting in an equivalent reduction in the utility's cash flow. Notably, because of the Pandemic, the Company is also incurring incremental costs such as cleaning costs and personal protective equipment costs to ensure the safety of its employees. The slower cash collections is requiring higher cash working capital to operate the business.

Question 4: Has the utility been unable to meet any obligations, or does it expect to be unable to meet any financial obligations in the next two weeks if it cannot commence termination of service as a collections option.

The Company has been able to meet its obligations and expects to be able to meet all its obligations in the next two weeks if it cannot commence termination of service as a collections option.

Question 5: Provide any information on plans for termination of service for nonpayment absent an extension of this order.

The Company's current focus is "bill health" - helping customers find solutions that help them pay their bill. The Company started reintroducing bill health messaging for commercial and industrial customers on April 28, 2020 and will be expanding this messaging to residential customers in the next several weeks. Initial indications from our discussions with our small and medium business customers is that while awareness of programs such as the CARES Act, unemployment benefits, and National Grid deferred payment options is high, many customers are still in the process of navigating and seeking out aid. The Company may return to field collection activities once the suspension of service terminations has been lifted, all required noticing has occurred, and the Company can ensure the safety of its field personnel. The Company recognizes that many customers will likely still need support for some time after the PUC order has been discontinued and has proposed some possible approaches in section II of our comments.

Question 6: National Grid shall provide the percentage of collections by rate class for the period commencing March 16, 2020.

The Collection Effectiveness Index is a standard financial metric that assess how much of a company's collectible receivable were actually collected in a given period. The formula consists of the sum of beginning receivables and monthly credit sales, less ending total receivables. This total is then divided by the sum of beginning receivables and monthly credit sales, less ending current receivables.

The collection effectiveness index by rate class for April 2019, March 2020, and April 2020 (Month-to-Date as of 4/25/2020) is included in the table below:

	Apr 2019	*Mar 2020*	*4/25/2020*
Collection Effectiveness			
Residential	62.1%	58.0%	42.9%
Low Income Residential	28.0%	16.9%	10.9%
Small C&I	78.7%	73.7%	51.2%
Medium C&I	80.0%	78.0%	55.7%
Large C&I	82.4%	78.3%	58.1%
Total	**61.8%**	**58.8%**	**42.0%**

The deterioration in collectability of the low-income residential portfolio and the dramatic decline in the collectability of commercial accounts from March 2020 to April 2020 is of particular concern to the Company.

A study of arrears aging by rate class is as follows:

	Mar 2019	*Apr 2019*	*Mar 2020*	*4/25/2020*
# of Customers				
Residential	222,692	222,614	226,356	226,961
Low Income Residential	20,348	20,333	20,575	20,581
Small C&I	18,657	18,643	19,170	19,219
Medium C&I	5,102	5,104	5,179	5,189
Large C&I	774	773	784	784
Total	**267,573**	**267,467**	**272,064**	**272,734**
# of Customers w/ Arrears				
Residential	39,582	43,164	52,486	54,860
Low Income Residential	9,251	9,517	6,890	7,050
Small C&I	2,620	3,513	3,990	4,922
Medium C&I	603	881	895	1,225
Large C&I	84	128	131	171
Total	**52,140**	**57,203**	**64,392**	**68,228**

# Arrears 30-60				
Residential	20,231	21,202	22,971	19,538
Low Income Residential	1,938	1,857	1,235	1,161
Small C&I	1,625	2,468	2,444	2,311
Medium C&I	358	641	575	682
Large C&I	53	101	86	100
Total	**24,205**	**26,269**	**27,311**	**23,792**
# Arrears 60-90				
Residential	7,789	9,173	11,346	12,508
Low Income Residential	1,682	1,490	1,149	988
Small C&I	658	608	994	1,555
Medium C&I	152	118	208	341
Large C&I	17	13	31	49
Total	**10,298**	**11,402**	**13,728**	**15,441**
# Arrears 90>				
Residential	11,562	12,789	18,169	22,814
Low Income Residential	5,631	6,170	4,506	4,901
Small C&I	337	437	552	1,056
Medium C&I	93	122	112	202
Large C&I	14	14	14	22
Total	**17,637**	**19,532**	**23,353**	**28,995**
$ Arrears 30-60				
Residential	$7,200,859	$7,610,014	$8,003,626	$7,558,729
Low Income Residential	$1,735,646	$1,708,637	$999,450	$880,753
Small C&I	$748,063	$838,851	$945,157	$1,109,718
Medium C&I	$876,450	$930,671	$819,108	$1,175,746
Large C&I	$418,102	$700,403	$961,457	$1,040,094
Total	**$10,979,120**	**$11,788,576**	**$11,728,799**	**$11,765,040**

$ Arrears 60-90				
Residential	$2,996,408	$3,711,976	$4,422,873	$5,282,406
Low Income Residential	$1,266,857	$1,451,773	$883,399	$858,778
Small C&I	$159,921	$231,169	$283,598	$583,521
Medium C&I	$171,472	$260,754	$260,105	$492,772
Large C&I	$102,822	$160,122	$214,437	$481,786
Total	**$4,697,481**	**$5,815,794**	**$6,064,412**	**$7,699,263**
$ Arrears 90>				
Residential	$6,813,963	$7,830,917	$12,570,628	$15,268,224
Low Income Residential	$4,307,125	$4,916,370	$4,472,983	$4,946,396
Small C&I	$145,300	$181,652	$454,513	$643,728
Medium C&I	$480,032	$517,823	$684,269	$871,532
Large C&I	$71,090	$89,237	$149,340	$249,777
Total	**$11,817,510**	**$13,536,000**	**$18,331,732**	**$21,979,657**
$ Total Arrears				
Residential	$17,011,230	$19,152,907	$24,997,127	$28,109,360
Low Income Residential	$7,309,628	$8,076,780	$6,355,832	$6,685,927
Small C&I	$1,053,284	$1,251,672	$1,683,268	$2,336,967
Medium C&I	$1,527,954	$1,709,249	$1,763,482	$2,540,049
Large C&I	$592,014	$949,762	$1,325,233	$1,771,656
Total	**$27,494,111**	**$31,140,370**	**$36,124,942**	**$41,443,959**

Note that there is a $10 million growth in arrears from April 2019 to April 2020. This is $2 million more than the growth in arrears from March 2019 to March 2020. This demonstrates that the Pandemic had a larger impact on arrears in April than in March. If the growth in arrears in May exceeds the growth in April, this would indicate a growing severity of the Pandemic's impact on arrears. It will take several months to determine whether the growth in linear or exponential.

II. MODEL FOR PROVIDING SUSTAINED CUSTOMER AID

A. Overview

The COVID-19 pandemic is causing profound, immeasurable damage to the U.S. economy, and the ultimate impact of the pandemic for the Rhode Island economy and socio-economic outlook is unknown. Utility customers are both businesses and employees. Therefore, as the shutdown of the economy causes financial hardship for businesses and households across Rhode Island and the region, the number of customers who are unable to pay for utility services will increase. Yet, at the same time, the need to provide safe and highly reliable energy resources is heightened given that many are sheltering at home due to the Pandemic. Extraordinary actions to help customers are necessary. Therefore, it is incumbent upon the PUC, Division of Public Utilities and Carriers, Office of Energy Resources, and other stakeholders to do everything possible to facilitate utility efforts to help customers in need. The Company is wholly committed to customers and to the effort to assist customers through this challenging period.

In turn, it critical that the Company have the appropriate regulatory support that will enable it to provide appropriate assistance to customers. The cash resources available to the Company are limited, and continued access to capital markets at affordable rates is predicated on the regulatory climate and the certainty that debt holders and equity investors have for recovery of utility costs. To the extent that large amounts large amounts of customers cannot or do not pay for the utility service they continue to need and consume, the Company will encounter costs and challenges in securing capital resources to finance operations and to support large amounts of working capital unless there are regulatory mechanisms in place to maintain adequate cash flow from utility operations. Market analysts are watching the situation closely, and the availability and cost of cash resources for the Company will be substantially and directly affected by the market's assessment of the risk associated with financing utility service in each jurisdiction.

As more and more customers become unable to pay for their utility service, the Company will encounter costs and challenges with securing capital resources necessary to finance operations and support large amounts of working capital, unless there are regulatory mechanisms in place to maintain adequate cash flow from utility operations. Indeed, the availability and cost of cash resources for the Company will be substantially and directly affected by the market's assessment of the risk associated with financing utility service in each jurisdiction. On April 2, 2020, Standard and Poors (S&P) Global Ratings issued guidance entitled, "COVID-19: The Outlook for North American Regulated Utilities Turns Negative." *See* Attachment 1. S&P assessment is that the utility industry will remain a high-credit quality investment-grade industry. S&P concludes, however, that COVID-19 will weaken the industry's 2020 funds from operations (FFO) to debt ratio and anticipates that many utilities that are currently rated with a "stable" outlook have "minimal financial cushion" at the current rating level and may experience downward ratings pressure. *See* Attachment 1 at p. 6. S&P anticipates that the COVID-19 pandemic will reduce commercial and industrial (C&I) customer usage and result in increased bad-debt expense as it becomes increasingly more difficult for customers to pay their bills. *See* Attachment 1 at p.7. As a result, S&P currently anticipates that the industry's median rating, which is A-, could weaken to BBB+. *See* Attachment 1 at p.1. Therefore, the Company may become susceptible to challenges regarding its credit rating, which would have an impact on the Company's access to reasonable cost of capital during a period when the Company is expected to extend maximum flexibility to customers during the Pandemic. Accordingly, as the PUC considers how best to address the impacts of the COVID-19 pandemic on customers, it is important to consider possible regulatory mechanisms that will assist the Company with its efforts to continue delivering critical service and aid to customers. Established regulatory mechanisms will also send a signal to the financial marketplace that the Company's financial integrity is solid notwithstanding the Company's efforts to assist customers with paying their bills.

In addition, the Company is incurring incremental expenses to modify operations to take into account the social distancing and personal protection protocols necessary to keep employees and customers safe. Although these protocols must be addressed, the challenges associated with cash flow are the more immediate and greater concern for the Company at this juncture, which are discussed in more detail below.

Thus, this challenge presents a balancing exercise whereby the PUC must assure that customer aid is balanced by thoughtful consideration of the financial integrity of the Company. Without this balance, the Company cannot serve customers and provide aid for the duration of the crisis. The Company expects that working capital requirements and bad debt could grow to a dimension not experienced in the past, nor envisioned in previous worst-case scenarios. The impact on cash working capital will emerge immediately, as the period between the issuance of a customer bill and the utility's receipt of payment becomes extended. Cash working capital can also be impacted as a result of delayed payments from customers who can continue to pay their bills, which, in turn, will impair cash flows that are necessary to support operations and maintain access to critically needed capital resources. If customers do not pay, the Company will need to borrow funds at a level exceeding normal operations. Cash working capital requirements will, therefore, increase not only as a result of the Company's need to rely on all sources of capital, but also because of the cost of those resources. The availability and cost of cash resources is a function of the Company's credit rating and the perspective of equity market analysts. Without regulatory support for cash working capital requirements, the Company's flexibility to assist customers is substantially restricted. Therefore, it is critical that the PUC provide adequate regulatory support so that the Company can remain poised to extend useful and sustained aid to customers.

In Section II.B of these comments, the Company describes the initiatives that are currently in place (and in place since the onset of COVID-19) to protect customers who have difficulty paying their bills and discusses a number of initiatives that the PUC could consider on a going forward basis to provide customer aid as full utility collection processes are resumed. As noted above, providing this aid will, in turn, create increased working capital costs as the

Company has to carry increasing levels of customer account receivables, and, eventually, bad-debt write-offs. Thus, as the PUC considers how best to address the impacts of the COVID-19 pandemic on Rhode Island utility customers, it is important to consider that there is a need to correlate efforts to provide customers with sustained aid with workable regulatory-support mechanisms. To that end, Section II.C of these comments makes suggestions for and discusses the mechanisms by which it will be necessary to manage working capital requirements and bad-debt balances over time. This will signal the financial marketplace that the financial integrity of the Company will not be undermined by efforts to provide customer aid. Finally, in Section II.D of these comments, the Company proposes an approach for the PUC's consideration to institute regulatory support for the severe lag in customer payments that is expected as a result of the economic duress emerging in Rhode Island as a result of the impacts from COVID-19.

B. Customer Solutions to Assist Customers

Pursuant to the PUC's Emergency Order, the Company is prohibited from: (1) shutting off utility service to any customer for failure to pay a bill or any portion of a bill; and (2) certain collection activities, which include sending communications to customers that threaten to shut off gas or electric service for failure to pay a bill or any portion of a bill, and sending past due accounts to collections agencies. The Company may continue to send bills, reminder notices, and enter into payment plans.

The PUC's Emergency Order is in place through May 8, 2020, which correlates to Governor Raimondo's most recent Executive Order regarding the state of emergency. In some respects, however, whether or not the PUC's Emergency Order is extended beyond May 8, 2020, the overarching issue is the scale and magnitude of uncollectible accounts and the need to provide customers with flexibility to pay over extended time periods, if they can pay. As evidenced by the PUC's request for information in this docket, the state of emergency will not apply indefinitely. Even after the state of emergency is lifted, the economic emergency will continue unabated for some customers. For that reason, it may not be feasible to resume shut-offs for an extended period of time following the termination of the state of the emergency, as customers will continue to be burdened and may not have the wherewithal to pay. For this reason, creativity will be needed to develop options for sustained customer aid balanced with the mechanisms necessary for adequate regulatory support.

Given the severe impacts of the Pandemic, it is critical that the Company have an approved long-term strategy that will position the Company to extend sustained customer aid, in recognition that customers may need support long after the PUC's Emergency Order is lifted, while maintaining the financial integrity necessary to continue to conduct and finance its operations. To this end, the Company already has a significant number of customer solutions in place, which represent actions required by the PUC Emergency Order in this docket, as well programs the Company had in place prior to the Pandemic. These are discussed in more detail below.

1. *Customer Solutions Currently in Place*

The customer assistance initiatives that the Company has in place, prior to and since the onset of the COVID-19 pandemic, include the following:

(a) Enhanced Flexible Payment Plans (since onset of COVID-19)

If the customer's service is still active, the Company will offer all customers (protected and non-protected) the following Payment Agreement:

- Residential: $0 down and 12 months to pay the balance regardless of past Payment Agreement history
- Commercial & Industrial (C&I) gas and electric customers (who receive their electric supply from the Company): $0 down and 3 to 6 installments. The Company is currently reviewing payment terms for electric customers who receive their electric supply from non-regulated power producer.

(b) Budget Billing

The Company offers Budget Billing, which equalizes monthly payments to avoid seasonal peaks. Budget billing programs run for 12-month cycles with the customer payment amount determined based on estimated annual energy costs over those 12 months. At the end of that 12-month period, the final budget payment amount will be the customer's account balance at that time or it may be rolled into the next budget season. The Company performs reviews periodically so that if there is a significant difference, the budget amount will decrease or increase. Customers must be current on the account to be eligible and cannot also be on a flexible payment plan.

(c) Forgiveness Program (Arrearage Management Plan)

The Company offers a residential Arrearage Management Program (AMP) available to eligible customers, along with an arrearage forgiveness component. The AMP program is available to customers on income eligible discount rates who have a balance of at least $300 that is more than 60 days past due. Customers must pay their bill on time each month to remain active in the program. Customer are removed from enrollment after missing two payments in a 12-month period. Since the onset of the Pandemic, however, and pursuant to the PUC's Emergency Order, any customer who is currently enrolled in the AMP who misses their third payment in their applicable 12-month period through April 15, 2020 will not be disenrolled unless they miss another payment subsequently in the same 12-month period.

(d) Income Eligible Discount Rate

The Company provides a discount rates to customers who meet income eligibility requirements or receive government assistance. Customers who receive food stamps or SNAP benefits quality for LIHEAP or receive supplemental security income from the social security administration receive a 25% discount rate. Customers on Medicaid, the Rhode Island Works Program, or General Public Assistance receive a 30% discount rate.

(e) Low Income Home Energy Assistance Program (LIHEAP)

LIHEAP is a federally funded program that helps low-income households pay their energy bills. These funds are administered by the Department of Human Services (DHS) and delivered through the local Community Action Programs (CAP) agencies. To be eligible for LIHEAP, a customer's household income must be at or below 60% of the state median income. The Company makes referrals to LIHEAP and enables the direct payment of a LIHEAP award to a customer's bill.

(f) Good Neighbor Energy Fund

The Good Neighbor Energy Fund is available to customers who are in a temporary financial crisis and are having trouble paying their heating bills, but may not be necessarily income-eligible for Fuel Assistance. This statewide fund is managed by the United Way of Rhode Island.

(g) Service Restoration (since onset of COVID-19)

In addition to the above-described initiatives, since the onset of the Pandemic, and pursuant to the terms of the PUC's Emergency Order, the Company will offer the following terms to restore service to customers whose service has been terminated for nonpayment or who has a termination date scheduled: (i) for balances less than $1,000, the customer will be required to pay 10% of the total balance due as a down payment and be given 18 months to pay the balance; (ii) for balances between $1,000 and $2,499.99, the customer will be required to pay 10% of the total balance due as a down payment and be given 24 months to pay balance; and (iii) for balances of $2,500 or more, the customer will be required to pay 10% of the total balance due as a down payment and be given 36 months to pay balance.

(h) Bill Health Outreach Program

The Company has launched an outreach program to speak with customers who may be in need of support to ensure they have awareness of support that might be available to them such as:

- The Federal Coronavirus Aid, Relief, and Economic Security Act, also known as the CARES Act
- Economic injury disaster loans for businesses in Rhode Island and
- Enhanced unemployment benefits for businesses and residents in Rhode Island
- National Grid customers solutions such as the enhanced flexible payment options

This outreach program started with small and medium businesses but will be extended to residential customers in the coming weeks.

2. *Future Potential Customer Solutions*

In addition to the existing solutions described above, there are several initiatives that have the potential to assist customers who cannot pay their bills or need extended time to pay above and beyond the mechanisms that are currently in place. These will require further evaluation by the PUC and collaboration with the Division, OER, and other stakeholders in Rhode Island. To that end, the Company proposes a customer assistance and intervention working group be established. This working group could convene to develop strategies to create, expand, or modify necessary customer assistance programs for residential and C&I customers in paying their bills over time or in obtaining relief from payment. Some of these efforts could include the following:

- Continuation of Existing Flexible Payment Plans to Residential and C&I Customers (as described above) after collection prohibition ends for a set period of time;
- Leniency on Income Eligible Discount Rate Annual Recertification Requirements;
- Temporary changes to the Arrearage Management Plan (AMP) eligibility and terms;
- When to start sending notifications of lateness and reintroducing late payment charges; and
- Potential other solutions that may be appropriate to quickly and immediately respond to the needs of customers during this difficult time.

While the Company is not proposing to implement these solutions at this time, they are possible further enhanced solutions to help customers that could be evaluated.

C. Regulatory Mechanisms Needed to Maintain Adequate Cash Flow in Light of Customer Support

There are three categories of cost impacts that the PUC will need to consider in addressing the exigencies of the Pandemic. These categories are: (1) increased working capital costs associated with customer accounts receivables that are not collected over an extended time period, particularly through any period where shut-offs are prohibited; (2) increased cost of customer accounts receivables that cannot be collected, such as the cost of bad-debt write-offs and amounts forgiven to customers through AMPs, other customer assistance programs; and (3) expenses incurred to conduct operations consistent with Center for Disease Control guidelines for safe operations, such as personal protective equipment, enhanced facilities cleaning, and workforce expenses including sequestering control room personnel. In this section, the Company discusses possible regulatory approaches to provide support to the Company while many of its customers likely enter a period of extended economic challenge.

1. Cash Working Capital

The immediate problem facing the Company is the increase in cash working capital requirements due to the increased lag in customers paying their bills. To mitigate the potentially significant increase in cash working capital cost compared to the amount currently recovered in base distribution rates, the Company could update the cash working capital lead lag studies approved in Docket No. 4770 by adjusting the average lag in days from the date on which the Company sends bills to customers to the date on which customers pay their bills. The Company could also update the lead lag studies to include any other known COVID-19 impacts to cash working capital components. For delivery-related cash working capital, the Company would subtract updated cash working capital amounts from cash working capital allowances in base distribution rates to derive the incremental cost of carrying customer accounts receivables longer as a result of customers taking a longer time to pay their bills. The return on the delivery-related net cash working capital differential amounts identified above should be recorded as a regulatory asset and accrue carrying charges at the most recently approved weighted average cost of capital.

For gas commodity-related cash working capital, which is recovered through the Gas Cost Recovery (GCR) charge, the Company would replace, in the cash working capital calculation in the GCR, the average customer payment lag established in Docket No. 4770 with the updated average customer payment lag based on a current Fiscal Year(s) impacted by the COVID-19 crisis. For electric commodity-related cash working capital, the Company already calculates the actual annual cash working capital through the annual electric commodity cash working capital studies, and any difference in estimated and actual cash working capital costs are recovered through the Standard Offer Service Administrative Cost Factors that are filed annually with the PUC as part of the Company's Annual Retail Rate Filing. There would be no change to this mechanism to capture any incremental cost of cash working capital to electric supply costs. Recovery of the cash working capital regulatory asset is described in subsection (d), below.

2. COVID-19 Emergency Costs

The Company is incurring operation and maintenance costs associated with facilities cleaning, personal protection equipment, maintaining its workforce, and other costs to work safely in providing an emergency response to the Governor Raimondo's state of emergency, all of which are incremental to the costs recovered through distribution rates. Because these costs are outside the normal course of business and may continue for a significant time period, the

PUC could authorize the Company to establish a regulatory asset for the incremental costs associated with facilities cleaning, personal protection equipment, and maintaining its workforce as a result of COVID-19 impacts, as well as any new customer programs costs and lost fee revenue. The regulatory asset would accrue carrying charges at the customer deposit rate. Recovery of these incremental costs as a regulatory asset is further discussed in subsection (d), below.

3. Bad Debt

The Company recovers allowances for bad debt in several of its rates and factors. For example, in base distribution rates, which are established in a general rate case, recovery of bad debt is generally based on a multi-year historical average of net write-offs. This rate is applied to both distribution and commodity charges between rate cases. There is an annual commodity true-up based on actual commodity revenue; however, the uncollectible rate remains static until it is reset in the next rate case. The approved uncollectible rate is applied to several reconciling factors. These include the Energy Efficiency Program Charges, the majority of the components of the Distribution Adjustment Charge, Transmission Service Charges, Long Term Contracting for Renewable Energy Recovery Factors, Infrastructure, Safety, and Reliability Plan Factors, Renewable Energy Growth Factors, the Gas Cost Recovery Factors (for gas commodity) and Standard Offer Service Administrative Cost Factors (for electric commodity).

The Company could measure incremental bad debt cost over a two-year period, likely fiscal year 2021 and fiscal year 2022, as the Company expects there to be a lag in charge-offs of customer accounts receivable because customers will be provided payment plans to pay off any accumulated charges during the COVID-19 crisis. The incremental bad debt cost would be comprised of the actual net charge-offs over the two-year period as compared to the allowance for bad debt recovery in the Company's rates and factors. This is similar to the evaluation that is performed as part of the Company's annual electric and gas Arrearage Management Adjustment Factor filing. The PUC could authorize the Company to record the amount of actual incremental bad debt costs (i.e., net charge-offs) in excess of the amount recovered in the Company's rates and factors as a regulatory asset, which would accrue a carrying charge at the customer deposit rate. Recovery of incremental bad debt costs as a regulatory asset is discussed below.

4. Recovery of Regulatory Assets

Rhode Island and other jurisdictions have recognized the creation of a regulatory asset as an appropriate mechanism to recover unexpected extraordinary expenses. Certainly, the increase in cash working capital costs, the incremental costs associated with COVID-19 impacts, and the increased bad debt costs are anticipated to continue and grow to unprecedented levels as a result of the Pandemic; therefore, these extraordinary costs would be appropriate for recovery through the creation of a regulatory asset to be recovered through rates over a reasonable period. Allowing for the timely recovery of cash working capital costs and establishing a regulatory asset for incremental costs associated with COVID-19 impacts and bad debt costs will send a critical signal to the marketplace that the financial integrity of the Company will not be jeopardized as it works to extend significant and sustained assistance to customers. Also, this will enable the PUC to defer consideration of the details of cost-recovery issues off to the future and to focus first on the development of needed customer assistance programs. Depending on the period of time over which the regulatory assets have been determined, they could be combined for recovery purposes at the appropriate time. For example, if the regulatory assets for cash working capital and incremental costs can be measured for a portion of fiscal year 2021, then those assets can be combined for recovery purposes, which would enable recovery to begin before recovery of the regulatory asset for bad debt. Once the balance of the bad debt regulatory asset is known, it can be combined with the other regulatory assets being recovered and the PUC can authorize an adjustment to the amount to be recovered to reflect an appropriate level of recovery of the bad debt regulatory asset. The recovery period of the regulatory assets would depend on the remaining balances of the costs to be recovered and the associated bill impacts of recovering the balance over varying terms. The factor, which would function in a manner comparable to the Storm Fund Replenishment Factor, would be applicable to all customers. Any balance remaining after the end of the recovery period could be transferred to the applicable revenue decoupling mechanism reconciliation as an adjustment.

D. Next Steps and Conclusion

For next steps, the Company suggests that the PUC consider taking the following actions:

1. Open a new docket to evaluate the ongoing support of customers through the development of needed customer assistance programs and cost recovery of increased cash working capital requirements and other incremental costs associated with COVID-19 impacts.

2. Direct the Company to submit a proposal to update the cash working capital lead lag studies approved in Docket No. 4770.

3. Authorize the Company to create regulatory assets for the future consideration and recovery of costs associated with increases to cash working capital requirements, incremental costs related to COVID-19 impacts, any new customer programs, lost fee revenues, and bad debt write-offs.

The Pandemic is an unprecedented, generation-defining event. The Company has taken measures to ensure the safety and wellness of its customers and employees while continuing to deliver critical electric and gas service so that other critical functions, such as front-line health worker and first responders can continue to perform their public service roles.

At the same time, the Company appreciates the PUC's consideration of the financial integrity issues and the need to support the Company in fulfilling its obligations to customers. The Company appreciates the opportunity to submit comments in this docket and looks forward to reviewing the comments of other interested stakeholders.

Respectfully submitted,

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d/b/a National Grid

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Attachment 1

COVID-19: The Outlook For North American Regulated Utilities Turns Negative
April 2, 2020

Due to the copyright of the article referenced above, Attachment 1 is being sent as a separate Adobe file.