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Memorandum

To: Luly Massaro, Clerk
Rhode Island Public Utilities Commission

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

Date: September 23, 2020

Subject: Review of National Grid's 2020 DAC Filings, Docket No. 5040

Introduction

The purpose of this memorandum is to discuss our review of the 2020 Annual Gas Distribution Adjustment Clause (DAC) and Revenue Decoupling Mechanism filings (RDM) by National Grid (the Company) in this proceeding.

The changes that support the Annual DAC components that National Grid proposes to become effective on November 1, 2020 were presented in three filings. The first filing, which was made on July 1, 2020, presented the 2020 Revenue Decoupling Mechanism (RDM) reconciliation balance to be recovered for the period April 1, 2019 to March 31, 2020. The filing was supported by the joint testimony of witnesses Ryan M. Scheib and Michael J. Pini and the testimony of Melissa A. Little. The RDM reconciliation filing presents the Company's March 31, 2020 RDM reconciliation balance that is used in the computation of the Revenue Decoupling Adjustment (RDA) factor that is incorporated in the Company's 2020 annual DAC filing. The RDM reconciliation filing shows that the Company under-recovered its target revenue per customer by $2,009,962 for the period ended March 31, 2020.

On August 3, 2020, National Grid made its second filing in which it presented the initial calculation of the Annual DAC. This filing was supported by the joint direct testimony of Ryan M. Scheib and Michael J. Pini, the joint direct testimony of Jeffrey D. Oliveira and James H. Allen and the direct testimony of Melissa A. Little.

On September 1, 2020, National Grid's third filing was submitted in which it presented the joint supplemental testimony of Ryan M. Scheib and Michael J. Pini. The supplemental testimony incorporates updates to the initial DAC components and revised the proposed DAC factors that are to become effective on November 1, 2020. The witnesses also provide a bill impact analysis of the proposed DAC factors.

In this memorandum, we will primarily address the DAC factors presented in the joint testimonies of witnesses Scheib and Pini. We will also address certain issues related to the Earnings Sharing Mechanism that were presented in the August 3rd testimony of witness Little. It should be noted that the Pension Adjustment Factor and the ISR Reconciliation Factor contained in the filings presented by the Company have been addressed by John Bell, Chief Accountant for the Division and Alberico Mancini, Chief Regulatory Analyst for the Division. A discussion of those issues is not repeated here. However, when taken in aggregate, the issues addressed by other Division experts and our discussion here provide the Division's position on National Grid's DAC filing.

The DAC was established in Docket No. 3401 to provide for the annual reconciliation and recovery of the costs of specific programs that have been identified for annual reconciliation and recovery. In this year's DAC, the following factors have been presented:

1. The System Pressure factor
2. The Advanced Gas Technology Factor
3. The Environmental Response Cost Factor
4. The Pensions and Postretirement Benefits Other than Pension Adjustment Factor
5. The Arrearage Management Adjustment Factor
6. The Revenue Decoupling Adjustment Factor
7. The Infrastructure, Safety, and Reliability Reconciliation Factors
8. The Service Quality Performance Factor
9. The Reconciliation Factors
10. The Reconciliations for FY 2020
11. The Earnings Sharing Mechanism Factor
12. The Low-Income Discount Recovery Factor
13. The Storm Net Revenue Factor

System Pressure Factor

It has been established that maintaining proper operating pressure in the Company's distribution system is required to provide adequate service to customers. In the past, the Company and the Division determined that gas from the Company's liquefied natural gas ("LNG") facility was needed to maintain system pressure. However, the Company states that it has conducted an engineering study and has determined that it is not necessary to recover any LNG costs through the System Pressure factor for the upcoming DAC year.

In the Company's Gas Cost Recovery ("GCR") proceeding, in Docket No. 5066, the Company has proposed to recover the estimated costs of peaking assets, subject to reconciliation to actual costs, needed for design hour reliability from all customers through the DAC, and has estimated approximately $5.2 million in hourly peaking fixed costs for the period November 1, 2020 through October 31, 2021. Therefore, the Company has proposed a System Pressure factor of $0.0132 per therm, based on a forecasted throughput of 39,648,231 dth for the 12-month period.

The peak hour deficiency that would exist without the incremental resources cannot be attributed to a single type of customer. Therefore, the Company believes that all firm customers should be responsible for a share of the costs associated with the incremental resources. The Company's DAC is applicable to all firm customers and the Company is proposing to include the fixed costs associated with the incremental peak hour resources in the DAC.

The Division finds the Company's proposal to recover the costs associated with peak hour resources through the DAC to be reasonable. However, the Division's review of National Grid's GCR filing and subsequent discussions with the Company indicates that there are additional fixed costs that will be incurred to address the projected peak hour deficiency that should be included in the DAC. More specifically, it appears that a portion of the Company's Tennessee Gas Pipeline ("Tennessee") FT contracts that provide for the delivery of gas from Everett, MA ("Everett FT contracts") to National Grid and the fixed demand charges associated with the gas supplies to be delivered under the Everett FT contracts have been incurred and are necessary to meet the peak hour deficiency. National Grid maintains two Everett FT contracts with a total MDQ of 25,000 dth per day and the Company has entered into two gas supply arrangements to fill the 25,000 dth per day of Everett FT contract capacity. One of the gas supply contracts is for 20,000 dth per day, was entered into several years ago prior to the need for National Grid to address peak hour demands, and expires at the end of the winter of 2021/2022. The other gas supply contract was recently executed. The fixed demand costs associated with the gas supply contracts are significantly greater than the fixed costs associated with the Everett FT contracts. Under the Company's proposal, the fixed costs associated with the Everett FT contracts and gas supply arrangements will be recovered from FT-2 Marketers and sales customers. Absent the need to address the potential peak hour deficiency, the Everett FT contracts and gas supply arrangements would not be required to meet customer requirements under the design day conditions which the Company uses for capacity planning purposes. The Division recommends the calculation of the System Pressure Factor component of the DAC be revised to reflect the fixed demand costs associated with the recently executed Everett gas supply arrangement for 5,000 dth per day. The Division finds this appropriate since this arrangement was executed to meet peak hour requirements, and the arrangement would be unnecessary if FT-1 Marketers were not assigned capacity by National Grid. The recovery of the fixed demand charges associated with the gas supply arrangement for 20,000 dth per day should be revisited when the contract expires if the Company executes a replacement arrangement.

The Division also recommends that in addition to including incremental fixed costs associated with the peak hour resources in the DAC, if significant, the incremental variable costs should also be included. For example, if the Company purchases gas supplies under one of the incremental resources acquired to meet the peak hour deficiency with a variable cost of $40.00 per dth but the average cost of all other gas supplies purchased on that day were $4.00 per dth, the incremental $36.00 per dth should also be recovered from all firm customers. Under the Company's current gas cost recovery procedures, the entire $40.00 purchase would be recovered solely from sales customers and this would be unreasonable because the $40.00 purchases would have been made to serve all firm customers. Since the incremental variable costs are not known at this time, the Division recommends that the Company report in its 2021 DAC filing the incremental variable costs incurred during the winter of 2020/2021. A determination can then be made whether the costs are significant and whether the actual incremental variable costs should be included in the DAC reconciliation process next year.

Advanced Gas Technology ("AGT") Factor

The AGT Program was established in Docket No. 2025 to promote the development of energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. The rationale for the program is to increase off-peak usage of natural gas with the goal of generating additional revenues, and thereby reduce the unit cost of the gas delivered on the system for all customers.

The Company did not pay rebates to customers during Fiscal Year 2020 and has maintained the same balance of $713,040 as it did when it filed last year's DAC (Docket No. 4955). However, the interest earned on the balance maintained of $21,498 calculated for the 12-month period April 2019 through March 2020 is to be credited to customers through the DAC's reconciliation factor.

The Company is not proposing additional funding through the DAC and is not proposing an AGT factor in this year's DAC. In fact, no AGT funds have been paid or committed in the previous two years, and currently, there are no additional AGT projects under consideration[1]. As mentioned in the Company's testimony in Docket No. 4955, it was agreed that funding of the AGT program will no longer be provided from base distribution rates.[2] Instead, future funding for the program will be made through the AGT factor of the DAC.

Given that $713,409 of ratepayer funds is being held and no payments or commitments have been made from the fund in two years, it is reasonable to question whether the AGT fund is effectively achieving the goal of developing energy-efficient natural gas technologies that increase utilization of natural gas during periods of low demand. While the Company believes that the AGT Program is an effective tool for promoting the development of energy efficient natural gas technologies, the Company also disclosed that there are barriers that prevent this tool from providing effective results that can be measured by increased sales during periods of low demand. The Company states that "based on feedback from project developers and customers, the Company discovered that the current methodology of calculating the potential customer's AGT incentive is complex and a major barrier to participation in the AGT Program".[3] National Grid also stated "The Company believes that certain revisions to the calculation of the AGT Program rebate may enable a customer to progress its project to installation".[4]

The Company states, in the response to Division 2-2, that National Grid and the Division have been in discussions to broaden the scope of the AGT Program to include funding for studies regarding the decarbonization of natural gas with the goal of reducing greenhouse gas emissions. Our understanding is that those discussions are ongoing. It is our recommendation that those discussions also include proposals that will allow the AGT Program to be modified to reduce barriers and increase participation so that the goal of the AGT program can be realized.

Environmental Response Costs

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

[1] National Grid's response to Division 2-1.
[2] Docket No. 4955, Direct Testimony of National Grid witnesses Ryan M. Schein & Ann E. Leary, August 1, 2019, Page 9, lines 3 – 6.

[3] National Grid's response to Division 2-2. The full response to the data request provides a more detail explanation of the barriers to participation in the AGT program.
[4] Ibid.

environmental costs for removing and replacing mercury regulators and addressing meter disposal issues.

We have reviewed the calculations supporting National Grid's computed ERCF in this proceeding and conclude that the Company's claimed ERCF costs are presented in a manner consistent with previous DAC filings. From our examination of the information the Company has provided, no costs were identified for which recovery through the ERCF appear to be inappropriate. Based on these observations, the Company's ERCF appears to be appropriate for acceptance by the Commission as proposed.

Arrearage Management Program Costs

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

According to the Company, the calendar year (CY) 2018 Net Write-offs provided in Docket No. 4955 were incorrect and should have been $7,350,264 instead of $4,984,020. The Company explained that correcting the amount for CY 2018 to reflect the higher amount would not change the Recoverable Arrearage Forgiveness Amount included in the DAC effective November 1, 2019 because the Company must demonstrate that actual net write-offs exceed the adjusted allowable bad debt amount determined in the Company's most recent base distribution rate case. In Docket No. 4955, the Company calculated the CY 2018 allowable bad debt amount as $11,979,260 and the actual bad debt amount as $4,984,020. Therefore, the Company was not allowed to recover arrearage forgiveness credits for successful participants. However, since the corrected CY 2018 bad debt amount of $7,350,264 is less than the allowable bad debt amount of $11,979,260, the Company would still not be entitled to recover any arrearage forgiveness credits associated with successful participants in the AMP.

Based on our overall review of the arrearage forgiveness amount for calendar year 2019, we did not find any issues which would lead us to disagree with the amount claimed by the Company. Therefore, we recommend the Company's AMAF be accepted.

Revenue Decoupling Adjustment

The Revenue Decoupling Adjustment is an annual reconciliation component of the RDM which is determined through a comparison by rate class between a target level of base distribution revenue and actual base distribution revenue billed during the reconciliation period. The comparison of the Actual Revenue-Per-Customer and the Target Revenue-Per-Customer produces an over- or under-recovery of the target revenue which is established by the Commission. For National Grid, the Target revenue per customer was established in Docket No. 4770.

Under the RDM, customers subject to the RDM are credited any net over-recovery of target revenue and are surcharged for any net under-recovery of target revenue through the RDA factor, which is one of several components of the DAC. The current Revenue Decoupling reconciliation period is the twelve months ended March 31, 2020. For this period, the Company's calculated a net under-recovery of $2,009,962. This net amount was based upon an under-recovery of Target Revenue of $2,703,501, partially offset by the FY 2019 RDM True-up of $693,539. National Grid's computed under-recovery by rate class is as follows:

National Grid's Under-Recovery of RDM Target Revenues by Rate Class

Residential Non-Heat (incl Low Income)	$ (89,275)
Residential Heat (incl Low Income)	3,088,003
Small C&I	514,083
Medium C&I	(809,310)
Net Under-Recovery before True-Up	2,703,501
FY 2019 RDM True-Up	(693,539)
Net Under-Recovery of Target Revenue	$ 2,009,962

The overall net under-recovery was caused by the warmer than normal weather for the 12-month period ended March 31, 2020 as illustrated below.

National Grid's Actual vs. Normal Heating Degree Days for the 12 Months ended Mar. 2020

	Actual Heating Degree Days	Normal Heating Degree Days
April-19	630	646
May-19	352	345
June-19	122	110
July-19	7	12
August-19	0	1
September-19	18	22
October-19	141	153
November-19	455	422
December-19	861	766
January-20	926	1,033
February-20	857	1,028
March-20	748	907
	5,117	5,446
Degree Day Difference		329
Degree Day Difference (%)		-6.0%

Based upon the forecasted throughput, the total under-collection would result in a surcharge to customers of $0.0069 per therm for the period November 1, 2020 through October 31, 2021. We have verified the amount of the under-collection and the Company's calculated factor per therm and recommend its adoption by the Commission.

Service Quality Plan

The Company's Service Quality Plan from Docket No. 3476 requires National Grid to report the results of its service quality metrics on a quarterly basis. According to the information supplied by the Company, it incurred a penalty of $91,008, in the first quarter, related to Leak-Call-Responsiveness-During Normal Business Hours. In the second quarter, it incurred a penalty of $75,000 related to its performance for Meter Testing during calendar year 2019; a penalty of $92,383 related to Leak-Call-Responsiveness-During Normal Business Hours; and a penalty of $273,337 related to its performance for Leak-Call Responsiveness-After Business Hours. These penalties are summarized below.

National Grid
Service Quality Performance Penalties

SQP Penalty Amount - Leak Call Response (Normal Business Hours)	$ (91,008)
SQP Penalty Amount - Meter Testing	(75,000)
SQP Penalty Amount - Leak Call Response (Normal Business Hours)	(92,383)
SQP Penalty Amount - Leak Call Response (After Business Hours)	(273,337)
Total SQP Penalty Amount	$ (531,728)

The Company states that it has sought relief from the Commission for the first quarter penalty and has requested partial relief from the second quarter penalties. As of the time the Company's supplemental DAC filing was made, the Commission had not ruled on the Company's request for relief from these penalties. The Company indicates it has not included these penalties in its calculation of the proposed Service Quality Performance factor because the Commission has not ruled on its request. Hence, for the Service Quality Performance factor, the Company has proposed a factor of $0.0004 per therm (as shown below) to be credited to customers effective November 1, 2020.

National Grid
Service Quality Performance Factor
Effective November 1, 2020 per Company

SQP Penalty Amount - Meter Testing	$ (75,000)
SQP Penalty Amount - Leak Call Response (Normal Business Hours)	(92,383)
Total SQP Penalty Amount	$ (167,383)
Firm Throughput	39,648,231
SQP Factor per dth	($0.0040)
SQP Factor per therm	($0.0004)

The Division and the Company have discussed and resolved in principle the penalties for which the Company has sought relief. Based on the settlement in principle, we are recommending that the additional penalties for which relief has been sought should be reflected in the Service Quality Performance factor in this proceeding. Subject to any further adjustment by the Commission, reflecting the penalties, to which the Division and the Company have agreed, in the Service Quality Performance factor will result in a factor of $0.0007 per therm being credited to customers effective November 1, 2020 instead of the $0.0004 per therm proposed by the Company. This factor is calculated below.

National Grid
Service Quality Performance Factor
Effective November 1, 2020

SQP Penalty Amount - Leak Call Response (Normal Business Hours)	$ -
SQP Penalty Amount - Meter Testing	(75,000)
SQP Penalty Amount - Leak Call Response (Normal Business Hours)	(92,383)
SQP Penalty Amount - Leak Call Response (After Business Hours)	(120,472)
Total SQP Penalty Amount	$ (287,855)
Firm Throughput	39,648,231
SQP Factor per dth	($0.0073)
SQP Factor per therm	($0.0007)

Reconciliation Factors

The reconciliation factor of the DAC is designed to reconcile the actual amounts approved to be reflected in the DAC factors from the prior year and actual revenue billed through the DAC. It also allows for a true-up of those costs whose balances are forecasted at October 31 in order to calculate the DAC factors for November 1. The Company has calculated a proposed Reconciliation factor applicable to all rate classes that is a surcharge of $0.0005 per therm. The proposed Reconciliation factor for Large and Extra-Large rate classes is a credit of $0.0018 per therm. We reviewed the supporting calculation and recommend the Commission authorize recovery.

The Reconciliations for FY 2020

The Reconciliation Factor also contains a Revenue Decoupling Mechanism Reconciliation for FY 2020. The reconciliation allows for the true-up of any Revenue Decoupling credit or surcharges that are passed on to customers during the prior year. The Company has calculated a total reconciliation of the prior year DAC of $994,958 which it proposes to recover based on $.0034 per therm. We have reviewed the calculations and recommend the Commission authorize the factor.

Earnings Sharing Mechanism

The Company is proposing an ESM credit factor of $0.0011 per therm. As described in direct testimony and schedules of Company witness Little's August 3rd testimony, the ESM credit stems from revisions to the Company's Earnings Report for the 12 months ending December 31, 2018. The Company states that the revised earnings report replaces the earnings sharing calculation originally submitted in Docket No. 4955, which showed a return on equity above the earnings sharing threshold was not achieved. Although the Company also revised its Gas Earnings Report for the 12 months ending December 31, 2019 which was previously submitted to the Commission, the revisions did not result in earnings sharing.

While preparing its response to Division 2-7, the Company discovered that a $173,692 manual entry concerning a new lease agreement between NG LNG and the Company was also recorded to the Miscellaneous Service Revenues account, when it should have been included in the Rent from Gas Property account and shown in Other Revenues. The Company states that while the net income used to calculate the Company's achieved return on equity ("ROE") was incorrect, there is no impact to the Gas ESM because the Company remains below the earnings sharing threshold.

The Company also indicated that it had removed Miscellaneous Service Revenues from the cost of service in its calculation to determine whether the earnings sharing threshold was met. The Company states that this account consist mostly of miscellaneous credits to customer bills, such as goodwill gestures arising from a customer dispute. According to the Company, it took a conservative approach and removed the Miscellaneous Service Revenues account from the earnings sharing calculation to the benefit of customers. While the FY 2018 amount for this account was a negative $376, the FY 2019 amount was $149,219. Nevertheless, Miscellaneous Service Revenues is a legitimate component of the cost of service for ratemaking. Therefore, it should not be removed when determining the earnings sharing threshold.

In this instance, revising the gas earnings report to restate the Miscellaneous Service Revenues is not likely to trigger earnings sharing. However, the Company indicates it plans to re-class the accounting in its fiscal year ending March 31, 2021 and will make a manual adjustment to January through March 2020 in next year's ESM related to the $173,692 that should have been recorded as Miscellaneous Service Revenue. We are therefore requesting that the Company also reflect the $149,219 in the revision. Combined, these two revisions would result in $322,911 of additional revenues in FY 2019.

Aside from the changes discussed above, we recommend the Commission accept the proposed ESM credit to customers of $0.0011 per therm.

The Low-Income Discount Recovery Factor

The Low Income Discount Recovery Factor ("LIDRF") is determined annually based upon the estimated annual amount of low income discounts applied to the bills of eligible customers receiving service on Rates 11 and 13. The estimated discount is based on applying a 25 percent discount to Rates 11 and 13 customer bills. The Company is proposing a LIDRF of $0.0162 per therm charge to cover the cost of this program. we recommend the Commission approve this charge to recover the cost of this program.

Storm Net Revenue Credit

In the Amended Settlement Agreement in Docket No. 4770, the Storm Net Revenue Factor was derived to provide a credit to customers for the value of services performed by the Company's employees in other jurisdictions. In accordance with the Amended Settlement Agreement, the amount included by the Company in last year's DAC that was credited to customers was 75 percent of the Net Revenue of $754,809. The Company explained that the amount included in last year's DAC was incorrect. The correct amount should have been $611,480, not $754,809, which is a reduction of $143,329. The Company indicates that after reflecting revisions, the Net Revenue the Company received for performing storm response services in other jurisdictions is $17,735 of which 75%, or $13,302, is proposed to be credited to customers. National Grid proposes to include the credit amount in next year's DAC filing since the amount is too small to derive a factor. The $13,302 will be included with any additional Storm Net Revenue that the Company may realize during the upcoming year. We concur with the Company's proposal and recommend its approval.