nationalgrid

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Senior Counsel

October 16, 2020

BY ELECTRONIC MAIL

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

RE: Docket 5040 - 2020 Distribution Adjustment Charge (DAC)
DAC Clarification Letter

Dear Ms. Massaro:

As a follow up to the October 6, 2020 hearing in the above-referenced matter, National Grid[1] submits this letter to the Rhode Island Public Utilities Commission ("PUC") to clarify a few matters that were raised during the hearing concerning the following: Revenue Decoupling Mechanism Revenue-Per-Customer Benchmarks; Interest on the Advanced Gas Technology fund; and Earnings Sharing Mechanism.[2]

Revenue Decoupling Mechanism Revenue-Per-Customer Benchmarks

During the hearing, Company witnesses were asked questions regarding the Revenue Decoupling Mechanism ("RDM") Per-Customer Benchmarks. The Company submits this summary to clarify how the RDM revenue-per-customer ("RPC") benchmarks work. The Company believes that this clarification is necessary based on the discussion of this topic at the hearing. The purpose of Revenue Decoupling is to establish a mechanism that would break the link between the utility's distribution revenue and the volume of gas sold, thereby eliminating any disincentive for the Company to promote and support energy efficiency by its customers. Revenue Decoupling was established pursuant to Rhode Island legislation, the Decoupling Act, R.I. Gen. Laws §3 9-1-27.7.1. The PUC approved the Company's Gas RDM in Docket 4206. In that docket, the PUC approved the following:

- A revenue-per-customer RDM reconciling mechanism pursuant to the Decoupling Act,[3] with billing month target base revenue RPC benchmarks based upon billing determinants and revenue approved in the Company's most recent rate case filing.

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

[2] At the hearing, the PUC Chairman noted that the Company could file a memorandum clarifying matters that were discussed on the record if the Company determined that such clarification was necessary.

[3] Regarding the requirement for revenue decoupling proposals submitted by electric distribution companies, R.I. Gen. Laws § 39-1-27.7.1(c)(1) states: "The proposals shall contain the following features and components: A revenue decoupling reconciliation mechanism that reconciles annually the revenue requirement allowed in the company's base distribution-rate case to revenues actually received for the applicable twelve-month (12) period; provided that the mechanism for gas distribution shall be determined on a revenue-per-customer basis, in a manner typically employed for gas-distribution companies in the industry. . . ."

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- Establishment of RPC benchmarks for Residential Non-Heating, Residential Heating, Small C&I, and Medium C&I rate classes.

- Exclusion of the Large and Extra-Large C&I High and Low Load rate classes from the RDM for the following reasons:

    - There are relatively small numbers of customers in these rate classes. In addition, the customers in these rate classes are significantly diverse in the ways in which they use natural gas. Therefore, the customers in these rate classes are diverse in their total usage.

    - New customers in these rate classes often require capital additions, which, in turn, require a contribution in aid of construction ("CIAC") calculation. If these rate classes were included in RDM, then the revenue used in the CIAC calculation would need to be the RPC benchmark for that customer rate class, which may be vastly different than the specific revenue associated with the potential new customer. This, in turn, would result in an inaccurate CIAC assessed to the potential customer and could lead to customers forgoing utilizing natural gas.

RPC benchmarks are proposed and approved in the Company's rate case filings and any filing in which the PUC approves changes to the Company's distribution revenue requirement and base distribution rates. In the filings that contain the annual rate class revenue requirement upon which base distribution rates are designed, the filing also contains, for the applicable period, monthly customer counts and monthly weather-normal billing determinants. Once the base distribution rates are designed as part of the filing, the Company applies those base distribution rates to the monthly billing determinants for each rate class that are part of the RDM to arrive at base distribution revenue by month for each rate class. Base distribution revenue by month for each rate class in the RDM is then divided by the customer count by month to derive the RPC benchmarks by month that are then used in the RDM filings until they are changed by a subsequent PUC approval.

Also, in Docket 4206, the PUC approved the methodology used to calculate the annual Revenue Decoupling Adjustment ("RDA") factor to credit or surcharge customers for the amount the Company over-recovered or under-recovered through the operation of its RDM. The Company continues to follow that methodology in each RDM filing. Specifically, the Company calculates the RDA factor as follows:

1. Use the monthly RPC benchmarks approved by the PUC from the last filing in which base distribution rates were approved. The Company included the allocation of the rate class revenue requirement to the months in its July 1, 2020 RDM Filing in Schedule RMS/MJP-4, pages 1-4.

2. The Company calculates the actual RPC. The actual RPC is the month's total billed base distribution revenue divided by the month's number of customers.

3. The Company determines the monthly over/under-recovery of RDM revenue. This is determined by first taking the difference between actual RPC and RPC benchmark and multiplying the difference by the month's actual number of customers. If the actual RPC is greater than the RPC benchmark, the Company has over-recovered. If the actual RPC is less than the RPC benchmark, the Company has under-recovered. The Company applies interest to the balance based on the Bank of America prime rate minus 200 basis points. These calculations are provided in Schedule RMS/MJP-2, pages 1-3 of the Company's August 3, 2020 DAC filing.

4. Annually, the Company calculates a single RDA factor to credit or charge customers the cumulative RDM over- or under-recovery as shown in Schedule RMS/MJP-1 of the Company's August 3, 2020 DAC filing.

Gas utilities typically employ RDMs having an RPC structure because, unlike electric utilities, gas utilities have the opportunity for significant growth in customers. An RPC structure provides gas utilities the additional revenue needed to fund incremental costs incurred to connect and provide service to new customers.

To draw upon an example raised at the hearing, in a hypothetical year when the actual annual base distribution revenue equals the base distribution revenue requirement approved in the Company's last rate case, but the number of customers has increased, there will be an RDM under-recovery because the actual RPC will be less than the benchmark RPC. In this situation, the RPC structure used by gas utilities allows the Company to recover this under-recovery in revenue (actual number of customers multiplied by the difference in the benchmark RPC and actual RPC) via RDM because the utility has added customers to its distribution system and incurred costs to serve those customers. Otherwise, there is no incentive for gas utilities to add new customers, which reduces the cost of the distribution system for all gas customers.

<u>Interest on AGT Fund</u>

During the hearing, Company witnesses were asked questions regarding the AGT Fund, including whether there is interest on the AGT Fund. The Company submits this summary to clarify how interest is earned on the AGT Fund. The Company believes that this clarification is necessary based on the discussion of this topic at the hearing. Past amounts billed to the Company's customers via base distribution rates but not used to fund grants to eligible projects are tracked in an AGT Fund, and interest is earned on the fund at the Bank of America rate less 200 basis points. Annually, the Company credits the interest earned for the 12 months ending March prior to the DAC Filing to all customers via the DAC.

<u>Earnings Report Filings</u>

The Company believes that a clarification regarding its Earnings Report filings in this docket is necessary in light of the discussion surrounding the earnings report at the October 6, 2020 hearing.

The Company always strives to be transparent and did not intentionally omit the Revised Gas Earning Report from Docket 4770 in August when it filed the revisions in the DAC docket. Procedurally, the Company acknowledges that it should have simultaneously filed the Revised Earning Report in Docket 4770 at that time and will do so going forward. The Company will continue to work diligently in efforts to avoid errors and, just as importantly, to bring them to the PUC's attention in an expedited manner when they are discovered.

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

Very truly yours,

Raquel J. Webster

Enclosures

cc: Docket 5040 Service List
Leo Wold, Esq.
John Bell, Division
Al Mancini, Division
Jerome D. Mierzwa, Division Consultant

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.

_________________________________ October 14, 2020

Joanne M. Scanlon Date

Docket No. 5040 – National Grid –2020 Annual Distribution Adjustment Charge Filing (DAC) - Service List as of 9/9/2020

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