Raquel J. Webster
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)
Informal Requests at October 6, 2020 Hearing Regarding the Revenue Decoupling Mechanism

Dear Ms. Massaro:

At the hearing in the above-referenced docket on October 6, 2020, Company witness Michael Pini was asked a question regarding the operation of the Revenue Decoupling Mechanism ("RDM"). Mr. Pini agreed to provide background and examples regarding how a gas RDM would operate under an Annual Target Revenue ("ATR") framework rather than a Revenue Per Customer ("RPC") framework and to further explain why the RDM is calculated on a monthly basis instead of on an annual basis. Although the PUC did not issue a record request for these questions, Mr. Pini agreed on the record to provide the requested illustrations. In efforts to answer these questions and provide clarification for the PUC, the Company has prepared the summary attached to this letter as Attachment 1.

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
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Gas utilities typically employ RDMs having an RPC structure because, unlike electric utilities, gas utilities generally have the opportunity for significant growth in customers. An RPC structure provides gas utilities with the additional revenue needed to fund incremental costs incurred to connect and provide service to the new customers, whereas an annual target revenue ("ATR") RDM does not. The simplified example below illustrates how an RDM would work under the RPC and ATR structure for a $1 million base distribution revenue requirement under scenarios assuming no customer growth and with customer growth. The example assumes that the benchmark RPC and the actual RPC are the same. If there is no customer growth (scenario 1), there is no difference in the final Revenue Decoupling Adjustment ("RDA") for scenario 1 and scenario 2. However, under scenario 2, which assumes three percent customer and revenue growth, the ATR method caps the revenue at $1 million and results in a $30,000 RDA credit balance, meaning the Company must credit customers the incremental revenue realized from those customers that it would need to fund the cost of connecting and serving those new customers.

Annual RPC vs. Annual Target Revenue ("ATR") Under Growth and No-Growth Scenarios

	Benchmark	Annual	Annual
RPC Method	Annual Target Rev	No. Cust	Target RPC
Scenario 1: No change in customer count	$1,000,000	500	$2,000
Scenario 2: 3% customer / revenue growth	$1,000,000	500	$2,000
	Actual	Actual	Annual
	Revenue	No. Cust	Actual RPC
Scenario 1: No change in customer count	$1,000,000	500	$2,000
Scenario 2: 3% customer / revenue growth	$1,030,000	515	$2,000
		Difference in	
	No. Cust	RPC	RDA
Scenario 1: No change in customer count	500	$0.00	$0
Scenario 2: 3% customer / revenue growth	515	$0.00	$0
ATR Method	ATR Benchmark	Actual Rev	RDA
Scenario 1: No change in customer count	$1,000,000	$1,000,000	$0
Scenario 2: 3% customer / revenue growth	$1,000,000	$1,030,000	($30,000)

In a second example in which 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. This is illustrated in Scenario 3 below. 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 the 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.

In Scenario 3, there is an addition of 15 customers, but no increase in revenue. Through operation of the RPC RDM, the Company is able to recover the under-recovery in RDM revenue calculated as total customers multiplied by the difference in the RPC benchmark and the actual RPC (515 x ($2,000 - $1,942)), thereby retaining the revenue to fund the cost to connect and serve the 15 new customers.

	Benchmark	Annual	Annual
RPC Method	Annual Target Rev	No. Cust	Target RPC
Scenario 3: No revenue growth, 3% customer growth	$1,000,000	500	$2,000
	Actual	Actual	Annual
	Revenue	No. Cust	Actual RPC
Scenario 3: No revenue growth, 3% customer growth	$1,000,000	515	$1,942
		Difference in	
	No. Cust	RPC	RDA
Scenario 3: No revenue growth, 3% customer growth	515	$58	$30,000

Finally, as explained in further detail in the DAC clarification memo filed today under separate cover, the Company's RPC RDM is calculated on a monthly basis instead of an annual basis. This approach allows the Company to 1) reflect changes in number of customers on a monthly basis instead of an average annual basis in order to more accurately calculate the RDM; 2) calculate monthly carrying charges on monthly RDA balances which is more precise than annual carrying charge calculations; and 3) enable monthly accounting entries to accrue over- or under-recoveries.

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.

Joanne M. Scanlon

October 16, 2020
Date

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

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