



STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS

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Memo To: Luly Massaro, Commission Clerk

From : John Bell, Chief Accountant

Date : September 16, 2020

Subject : Dockets 5040 & 5054, National Grid's Gas and Electric Pension Adjustment Factors

The purpose of this memo is to provide the Public Utilities Commission (PUC) with the Division of Public Utilities' ("Division") position concerning National Grid's Pension Adjustment Factor (PAF) filings for both its gas and electric operations.

On August 3, 2020, National Grid ("NGrid" or "Company") submitted its electric Pension Adjustment Factor (PAF) filing to the Public Utilities Commission for effect October 1, 2020, in accordance with RIPUC Tariff No. 2119. Also, on August 3, 2020, the Company made its annual gas Distribution Adjustment Charge (DAC) filing. As detailed in Section 3, Schedule A of the Company's tariff, the DAC provides for the recovery and reconciliation of several adjustment factors including the gas PAF. The DAC factors other than the PAF will be addressed by the Division in a subsequent filing.

The electric and gas PAF mechanisms are similar and both allow for the recovery or refund the difference between actual pension and Post-retirement Benefits Other Than Pension (PBOP) expenses from the Company's prior fiscal year with the allowed expense included in distribution rates.

On August 20, 2020, the Division submitted data requests to NGrid seeking additional information, documentation, and clarification relative to the PAF filing. On August 28, 2020, NGrid provided responses to the Division's requests. Based on its review of the Company's filings and the responses to associated data requests, the Division has no recommended adjustments to the Company's electric and gas PAF and recommends its approval.

On September 10, 2020, NGrid responded to a PUC request in Docket 5054 for supplemental information related to a recent history of over-collections. The Company provided a

comprehensive response to the PUC's request. The Division reviewed the response and found it to cover the salient points. There are a few points that the Company made in their response that the Division would like to emphasize to the Commission. These are as follows:

The first point is that pension and PBOP expenses may vary substantially from year to year based on financial market conditions and this variability is outside the Company's control. The PAF ensures that customers pay no more or no less than the actual expenses. For the most recent three fiscal years, customers will receive credits totaling over \$7.5 million dollars through the electric PAF mechanism. This credit may not have been available to customers without an adjustment mechanism. The over-recoveries that generated these credits are not an indication of a problem with the mechanism. As stated earlier, the mechanism is a true up of the prior fiscal year's actual expenses with the allowance provided in base rates. The mechanism does not rely on cost estimates so any over or under-recoveries are not due to inaccurate estimates but rather market and other conditions outside the control of the Company.

The second point relates to implementing a base rate reduction to eliminate over-collections prior to the next base rate change. As explained in the Company's response, lower interest rates resulting from the COVID-19 pandemic will likely result in higher pension and PBOP liabilities, which may in turn reduce future over-recoveries. In addition, the Division expects that the next base rate change will file in a little over a year with new rates in place no later than September 1, 2022, so even if there were continued over-recoveries, the issue could be addressed in the next base proceeding.

All told, based on the considerations highlighted above, and in general agreement with the principles and rationale provided in NGrid's September 10th supplemental filing, the Division is comfortable accepting as reasonable the Company's continued reliance on the adjustment mechanism in place for the gas and electric pensions and PBOP expenses. As NGrid noted, this topic is indeed very specialized and complex. As such, the Division is always amenable to further dialog and discussion by way of NGrid's suggested technical session if it would yield an even greater level of collective understanding and process transparency.