Robinson+Cole

LETICIA C. PIMENTEL

One Financial Plaza, 14th Floor
Providence, RI 02903-2485
Main (401) 709-3300
Fax (401) 709-3378
lpimentel@rc.com
Direct (401) 709-3337

September 25, 2020

VIA FIRST CLASS MAIL & ELECTRONIC MAIL

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

RE: Dockets 5040 and 5054 – National Grid's Pension Adjustment Factor Filing For the 12-Month Period Ending March 31, 2020
<u>Responses to Record Requests</u>

Dear Ms. Massaro:

On behalf of National Grid,[1] enclosed is an electronic version of the Company's responses to the record requests that were issued at the Public Utilities Commission's Evidentiary Hearing on September 22, 20202 in the above-referenced matter.

Thank you for your attention to this filing. If you have any questions, please contact me at 401-709-3337.

Sincerely,

Leticia Pimentel

Leticia C. Pimentel

cc: Docket 5040 and 5045 Service Lists
Leo Wold, Esq.
John Bell, Division

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

Docket No. 5040 – National Grid –2020 Annual Distribution Adjustment Charge Filing (DAC) - Service List as of 7/8/2020

Name/Address	E-mail	Phone
Raquel J. Webster, Esq. Jennifer Hutchinson, Esq. National Grid 40 Sylvan Road Waltham, MA 02451	raquel.webster@nationalgrid.com; Celia.obrien@nationalgrid.com; Joanne.scanlon@nationalgrid.com; Jennifer.Hutchinson@nationalgrid.com;	781-907-2121
Leticia Pimentel, Esq. Steven Boyajian, Esq. Robinson & Cole LLP One Financial Plaza, 14th Floor Providence, RI 02903	LPimentel@rc.com; SBoyajian@rc.com;	401-709-3337
Ann Leary William R. Richer Melissa Little Ryan Scheib Theresa Burns National Grid	Ann.Leary@nationalgrid.com; William.richer@nationalgrid.com; Melissa.Little@nationalgrid.com; Ryan.Scheib@nationalgrid.com; Theresa.Burns@nationalgrid.com;	
Leo Wold, Esq. Division of Public Utilities & Carriers 89 Jefferson Boulevard Warwick, RI 02888	Leo.Wold@dpuc.ri.gov; dmacrae@riag.ri.gov; MFolcarelli@riag.ri.gov;	401-780-2130
John Bell Division of Public Utilities & Carriers	John.bell@dpuc.ri.gov; Al.mancini@dpuc.ri.gov;	
Jerome D. Mierzwa Exeter Associates 10480 Little Patuxent Parkway, Suite 300 Columbia, Maryland 21044	jmierzwa@exeterassociates.com; lmorgan@exeterassociates.com;	410-992-7500
David Effron Berkshire Consulting 12 Pond Path North Hampton, NH 03862-2243	Djeffron@aol.com;	603-964-6526
File an original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Margaret Hogan, Commission Counsel Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov; Patricia.lucarelli@puc.ri.gov; Todd.bianco@puc.ri.gov; Alan.nault@puc.ri.gov;	401-780-2107

Docket No. 5054 - National Grid's Electric 2020 Pension Adjustment Factor Service List as of 8/20/2020

Name/Address	E-mail Distribution	Phone
Raquel J. Webster, Esq. National Grid 40 Sylvan Road Waltham, MA 02451	raquel.webster@nationalgrid.com;	781-907-2121
	celia.obrien@nationalgrid.com;	
	Joanne.scanlon@nationalgrid.com;	
	Ann.leary@nationalgrid.com;	
	Jeffrey.Oliveira@nationalgrid.com;	
	William.richer@nationalgrid.com;	
	Melissa.little@nationalgrid.com;	
	Robin.pieri@nationalgrid.com;	
	James.H.Allen@nationalgrid.com;	
	Theresa.burns@nationalgrid.com;	
Leticia Pimentel, Esq. Robinson & Cole LLP One Financial Plaza, 14th Floor Providence, RI 02903	LPimentel@rc.com;	401-709-3337
	SBoyajian@rc.com;	
Christy Hetherington, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Chetherington@riag.ri.gov;	401-274-4400 Ext. 2218
	Tparenteau@riag.ri.gov;	
	John.bell@dpuc.ri.gov;	
	dmacrae@riag.ri.gov;	
	Mfolcarelli@@riag.ri.gov;	
David Effron Berkshire Consulting 12 Pond Path North Hampton, NH 03862-2243	Djeffron@aol.com;	603-964-6526
File original & nine copies w/: Luly E. Massaro, Commission Clerk John Harrington, Commission Counsel Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov;	401-780-2107
	Alan.nault@puc.ri.gov;	
	John.harrington@puc.ri.gov;	
	Todd.bianco@puc.ri.gov;	
	Cynthia.WilsonFrias@puc.ri.gov;	
Christopher Kearns, OER	Christopher.Kearns@energy.ri.gov;	
	Nicholas.Ucci@energy.ri.gov;	

Record Request No. 1

Request:

Please review Madeline Gothie's response to the questions about whether the Company expects any material changes in the Pension and/or PBOP expenses in the coming year due to the current economic and pandemic conditions. Please confirm the response and/or elaborate as appropriate.

Response:

The Company has reviewed Ms. Gothie's responses to questions regarding whether the Company expects any material changes in the Pension and/or PBOP expenses in the coming year due to the economic and pandemic conditions and affirms her testimony. Since Ms. Gothie's responses at the hearing were detailed and covered a broad array of topics, the Company is providing a synopsis of her testimony in this response. During her testimony regarding whether the Company expects to see any material changes in the Pension and/or PBOP expenses in the coming year due to the current economic and pandemic conditions, Ms. Gothie noted several drivers of change that the Company is monitoring and/or contemplating.

As discussed in Ms. Gothie's testimony, the primary economic and pandemic conditions the Company expects could have a material change in pension and/or PBOP expenses are summarized as follows:

- The Company monitors changes in the corporate bond yields that are used to derive the discount rate. Since March 31, 2020, corporate bond yields have declined significantly. For example, if the Company were to remeasure the liabilities as of August 31, 2020, the discount rate would have been 2.80%, down 85 basis points since March 31, 2020 when the discount rate was set at 3.65% and down 150 basis points compared to the March 31, 2017 discount rate of 4.30% used in Docket No. 4770 and referenced in PUC 1-3. Decreases in the discount rate increase the pension/PBOP liability, which should result in a corresponding increase in the annual expense if all other variables were held constant.
- The Company monitors financial market conditions, as this will impact the return generated by assets held in the pension and PBOP plans. Immediately preceding the Company's March 31, 2020 measurement date, financial markets dropped considerably, which resulted in significant asset losses. Shortly after the measurement date, markets recovered but are expected to remain volatile as the pandemic impacts crystalize, and potentially due to political factors driven by upcoming election results. Although the Company cannot predict the market, an increase in market returns has the effect of decreasing the pension and PBOP plan liability, and, correspondingly, a decrease in market returns will increase the pension and PBOP liability. Pension and PBOP expense

will be impacted directionally the same as the liability; however, the order of magnitude of the expense increase or decrease is difficult to predict as the annual expense is required to include various components as outlined under accounting rules.

- The Company has been contemplating what demographic trends may emerge as the pandemic persists, including impact on medical claims experience and mortality. Currently, it is too soon to tell how trends will ultimately evolve. Initial impacts of the pandemic will start to emerge when the external actuary updates the liability and expense calculations using January 1, 2021 census and claims data. This update is expected to be delivered to the Company in September 2021.
- Ms. Gothie also noted some non-economic and non-pandemic related changes that were made and reflected in the March 31, 2020 measurement that offset some of the economic losses noted in the Company's response to PUC 1-3. In December 2019, the Cadillac Tax was repealed. The Cadillac Tax was an excise tax on high-cost employer plans which was set to begin in 2022 prior to the repeal. This statutory change resulted in a liability gain of approximately $50 million across all of the Company's PBOP plans. Additionally, the Company engaged the external actuary to perform two demographic assumption studies; a Post65 participation rate study (similar to the Pre65 participation rate study discussed in the Company's response to PUC 1-1) and a mortality study. Both studies resulted in a change to the prior assumption and the pension and PBOP plans experienced actuarial liability gains of approximately $150 million and approximately $230 million respectively.

As discussed during Ms. Gothie's testimony, the accounting rules (Accounting Standards Codification Topic 715) require setting pension and PBOP expense based on assumptions set prior to the year, and only in rare circumstances (such as settlements, curtailments or plan amendments), would the assumptions change during the year.

The accounting rules require the discount rate assumption to be assessed each year and reflect economic conditions specifically as of the measurement date, where other assumptions are long term in nature and are revisited as needed. The mechanism to account for differences between assumptions and actual results is an adjustment made to expense in the following year of the actual results – a portion of the gain or loss on actual experience is included in the next year's pension or PBOP expense and amortized over time.

Across the various legacy plans, the Company utilizes smoothing methodologies such that actuarial gains and/or losses outside of a corridor (corridor is 10% of the liability depending on the plan's legacy methodologies), are recognized over time, generally ten years or the average future working life.

In its response to Record Request 2, the Company will provide more discrete impacts of various discount rate changes (10 basis points, 50 basis points and 100 basis points), as requested during the hearing. Notably, these rates can vary significantly from month to month, especially during times of financial uncertainty or volatility. Ms. Gothie noted during her testimony that a 50 basis point drop in discount rate will result in an increase in the liability of approximately $1 billion and an increase in the Service Cost component of expense of approximately $30 million to $50 million. After reviewing further information, the Company would like to revise the estimated increase in the Service Cost component of expense to be approximately $20 million to $25 million for this change across all National Grid US plans.

As noted in Ms. Gothie's testimony, the accounting rules prescribe several required components of pension and PBOP expense, mainly service cost, interest cost, expected return on assets, amortization of prior service cost and amortization of actuarial gain or losses. These components may be impacted by different factors and assumptions independently, and not necessarily in the same direction. For example, if discount rates decrease, the expense would be expected to increase. However, if there is also an increase market returns on assets (based on a vaccine announcement as an example, which is independent of the discount rate), there could be an offsetting decrease in the expense and the overall expense may not change materially. Therefore, as noted, estimating the impact on expense of one assumption change is directionally informative but of limited value, as other assumptions as well as actual experience will also impact actual expense.

Finally, as noted in Ms. Gothie's testimony, conditions and market assumptions continuously change, estimates of liability and expense based on today's prevailing market conditions could change significantly by March 31, 2021, which is the next measurement date for FY22 expense calculations.

The Company realizes pension and PBOP accounting is very complex and technical in nature and, as previously noted, would welcome reviewing the process in greater detail in a technical session, if that is of interest to the PUC.

Prepared by or under the supervision of: Madeline Gothie