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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 24, 2021

Subject: Review of National Grid's 2021 DAC Filing, Docket No. 5165

Introduction

The purpose of this memorandum is to discuss our review of the 2021 Annual Gas Distribution Adjustment Clause (DAC) and Revenue Decoupling Mechanism Reconciliation 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, 2021 were presented in several filings. The first filing, which was made on July 1, 2021, presented the 2021 Revenue Decoupling Mechanism (RDM) reconciliation balance to be recovered for the period April 1, 2020 to March 31, 2021. The filing was supported by the testimony of National Grid witness Ryan M. Scheib. The RDM reconciliation filing presents the Company's March 31, 2021 RDM reconciliation balance that is used in the computation of the Revenue Decoupling Adjustment (RDA) factor that is incorporated in the Company's 2021 annual DAC filing. The RDM reconciliation filing shows that the Company over-recovered its target revenue per customer by $28,178 for the period ended March 31, 2021.

On July 30, 2021, National Grid submitted its annual Environmental Report for Gas Service Report for the period April 1, 2020 through March 31, 2021, related to natural gas service in Rhode Island. The report provides a description of the various environmental remediation sites and the expenses incurred during the reporting period. These costs are included in the Environmental Response Cost factor that is included in the DAC.

On August 2, 2021, National Grid made its third filing in which it presented the initial calculation of the 2021 DAC. This filing included the direct testimony of Ryan M. Scheib, who presented the reconciliation of the various components of the DAC and proposed the new factors to become effective November 1, 2021; the joint direct testimony of Jeffrey D. Oliveira and James H. Allen, who presents the Pension and Postretirement Benefits Other than Pensions (PBOP) expense reconciliation and provides the calculation of the Pension and PBOP costs reconciliation for recovery in base distribution rates; and the direct testimony of Melissa A. Little, whose testimony describes the Company's gas earnings for the 12-month period ended December 31, 2020 that are subject to the earnings sharing mechanism (ESM).

On September 1, 2021, National Grid filed the supplemental testimony of Ryan M. Scheib. The supplemental testimony updates the initial DAC filing to incorporate data that were not available when the initial DAC filing was made in August. Specifically, the System Pressure (SP) factor and the Low-Income Discount Recovery Factor (LIDRF), which were not previously provided, were presented in the supplemental filing. The system pressure factor was not previously presented because, as explained by Mr. Scheib, liquefied natural gas (LNG) is used to maintain system pressure and the system pressure cost are determined after the hourly peaking asset costs are determined as part of the Gas Cost Recovery (GCR) filing. The LIDRF was also not presented because it is dependent upon the GCR factors from the GCR filing that were not available until September 1, 2021.

The supplemental filing also updated the proposed base DAC factors; the projected COVID Deferral balance ending October 31, 2021 with actual data for July 2021; and the impact on customer bills resulting from the revised proposed DAC Factors.

On September 10, 2021, National Grid filed the second supplemental testimony of Ryan M. Scheib. Mr. Scheib's second supplemental testimony updates the LIDRF to reflect changes caused by changes made in the Revised GCR Filing; revises the Storm Net Revenue Factor to correct an error, as explained in Mr. Scheib's testimony; and recalculates the impact on customer bills resulting from the revisions to the proposed DAC Factors.

In this memorandum, we will primarily address the DAC factors as presented in the testimony of witness Scheib. We will also address certain issues related to the Earnings Sharing Mechanism that were presented in the August 2nd testimony of witness Little. It should be noted that the Pension Adjustment Factor and the ISR Reconciliation Factor contained in National Grid's filings have been addressed by Mr. 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 filing, the following supporting schedules have been presented:

1. Schedule RMS-1 Summary of DAC Factors
2. Schedule RMS-2 System Pressure Factor
3. Schedule RMS-3 Advanced Gas Technology Factor
4. Schedule RMS-4 Environmental Response Cost Factor
5. Schedule RMS-5 Pensions and Postretirement Benefits Other than Pension Adjustment Factor
6. Schedule RMS-6 Arrearage Management Adjustment Factor
7. Schedule RMS-7 Revenue Decoupling Adjustment Factor
8. Schedule RMS-8 Infrastructure, Safety, and Reliability Reconciliation Factors
9. Schedule RMS-9 Service Quality Performance Factor
10. Schedule RMS-10 Reconciliation Factors
11. Schedule RMS-11 Reconciliations for FY 2021
12. Schedule RMS-12 Earnings Sharing Mechanism Factor
13. Schedule RMS-13 Low Income Discount Recovery Factor
14. Schedule RMS-14 Storm Net Revenue Factor
15. Schedule RMS-15 COVID Deferral
16. Schedule RMS-16 Supplemental Bill Impact Analysis

<u>System Pressure Factor</u>

In National Grid's September 1, 2021, supplemental DAC filing, the Company proposed to recover approximately $6.7 million in hourly peaking fixed costs through the System Pressure Factor for the period November 1, 2021 through October 31, 2022. This amount represents the reallocation of costs from the GCR Factor Filing in Docket No. 5180 to the DAC. The proposed System Pressure Factor is calculated by dividing the total hourly peaking supply costs by the forecasted throughput of 40,273,298 dth for the 12-month period. This result is then divided by 10 to derive a System Pressure Factor of $0.0165 per therm, as shown on Schedule RMS-2S.

In Docket No. 5040, the Division's position with respect to the recovery of incremental fixed costs associated with maintaining design peak hour resources was laid out in its September 23, 2020 memorandum to the Commission addressing National Grid's Annual Gas DAC filing. The Company's proposal to recover the incremental fixed costs associated with maintaining design peak hour resources as a component of the DAC was generally found to be reasonable. However, the Division's review of National Grid's GCR filing in Docket No. 5066 and subsequent discussions with the Company indicated that there were additional fixed costs that would be incurred to address the projected peak hour deficiency that should be included in the DAC. More specifically, it appeared 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 Division recommended that the calculation of the DAC be revised to reflect the fixed reservation charges associated with the recently executed Everett gas supply arrangement for 5,000 Dth per day. The Division found 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 Division also recommended that the recovery of the fixed demand charges associated with the Everett gas supply arrangement for 20,000 Dth per day should be revisited when the contract expires if the Company executes a replacement arrangement. Another recommendation made by the Division was that in addition to including the incremental fixed costs associated with the peak hour resources in the DAC, if significant, the incremental variable costs should also be included. Since the incremental variable costs were not known at that time, the Division recommended that the Company report in its 2021 DAC filing the incremental variable costs incurred during the winter of 2020/2021 and a determination would be made whether the costs are significant and whether the actual incremental variable costs should be included in the DAC reconciliation process. .

In the current GCR filing, Docket No. 5180, the Company removed hourly peaking costs of $6.7 million consistent with the approach approved in Docket No. 5066. As indicated above, those costs have been included in the System Pressure Factor component of the DAC in this current proceeding. We find this approach to be reasonable. While the order in Docket No. 5066 directed the Company to revisit whether the Everett gas supply contract for 20,000 Dth per day should be included in the System Pressure Factor as hourly peaking costs when the contract expire, the Company has not yet revisited this issue because the Everett gas supply contract for 20,000 Dth per day does not expire until the end of the 2021-2022 winter season.

The order in Docket No. 5066 also directed the Company to report whether it incurred any incremental variable costs to meet hourly peak demands during the 2020-2021 winter season. The Company reported that it incurred no incremental variable costs in meeting hourly peak demands during the 2020-2021 winter season. We recommend that the Company report whether it incurred any incremental hourly peaking costs to meet hourly demands during the winter of 2021-2022. If significant, those costs should be removed from the GCR reconciliation process and 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. In the DAC filing, the Company is not proposing to collect any additional AGT Program funding. As shown on Schedule RMS-3, page 1, the proposed AGT factor is $0.0000 per therm.

In the Commission's order in Docket No. 5040, it was ordered that the entire balance of $713,000 in the AGT fund be returned to ratepayers. As can be seen from the chart below, the funds are being returned to ratepayers during the current reconciliation period. Any over/under amounts remaining at the end of the current period will be reconciled in next year's DAC filing.

National GridSummary of AGT Fund Balance for November 2020 through August 2021 R.I.P.U.C.

	Nov-20	Dec-20	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21
Beginning Balance	$713,040	$700,986	$628,098	$521,167	$406,273	$311,737	$244,294	$199,484	$174,418	$155,160
AGT Balance Refund	(12,780)	(73,593)	(107,541)	(115,339)	(94,916)	(67,729)	(45,045)	(25,258)	(19,433)	(21,481)
Preliminary Ending Balance	700,260	627,393	520,557	405,828	311,357	244,008	199,249	174,226	154,985	133,679
Interest Applied	726	705	610	444	381	285	235	192	175	153
Ending Balance	$700,986	$628,098	$521,167	$406,272	$311,738	$244,293	$199,484	$174,418	$155,160	$133,832

Source: Attachment DIV 3-1

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.

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 approval 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 value of arrearages of customers who have successfully satisfied the conditions of R.I. Gen. Laws § 39-2-1(d)(2).

Based on our overall review of the arrearage forgiveness amount for calendar year 2020, 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 of $0.0005 per therm be approved.

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, 2021. For this period, the Company's calculated a net over-recovery of $28,178. The Company proposes to carry the over-recovery forward into next year's RDM reconciliation because this amount too small to calculate an RDA factor. National Grid's computed over/under-recovery by rate class is as follows:

National Grid's Under (Over) Recovery of RDM Target Revenues by Rate Class

Residential Non-Heat (incl Low Income)	$	(242,799)
Residential Heat (incl Low Income)		(740,535)
Small C&I		717,528
Medium C&I		237,629
Net Over-Recovery of Target Revenue	$	(28,178)

According to the Company, the net over-recovery was caused by the effects of the COVID-19 pandemic which led to increased residential usage due to more customers working from home. We have reviewed the amount of the over-collection and recommend the Commission adopt the Company's proposal to carry the over-recovery forward into next year's RDM reconciliation.

Service Quality Plan

The Company's Service Quality Plan requires National Grid to report the results of its service quality metrics on a quarterly basis. According to the information supplied by the Company, the Company incurred a penalty of $75,000 for its performance for Meter Testing during CY 2020. Therefore, the Company has proposed a Service Quality Performance credit factor of $0.0001 per therm to be credited to customers effective November 1, 2021. We have reviewed the calculation of the Service Quality Performance credit factor, and recommend the Commission approve the Company's proposed $0.0001 per therm credit.

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 as of 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 $0.0015 per therm. The proposed Reconciliation factor for Large and Extra-Large rate classes is a surcharge of $0.0011 per therm. We reviewed the supporting calculation, and recommend the Commission approve 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 $533,563 which it proposes to recover based on $.0018 per therm. We have reviewed the calculations and recommend the Commission approve the factor.

Earnings Sharing Mechanism

The Company's Gas Earnings Report for the 12 months ending December 31, 2020 reflects a return on equity below the earnings sharing threshold. Consequently, the Company is not proposing an ESM factor in this year's DAC. We have reviewed the Company's earnings report and found no issues with the Company's claim. Therefore, we recommend the Commission approve the Company's ESM proposal.

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 $0.0180 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 conceived to provide a credit to customers for the value of services performed by the Company's employees in other jurisdictions. The Company has calculated the customer share of $173,714 that it proposes to credit customers. This amounts to a $0.0004 per therm credit. We recommend the Commission approve the credit as proposed.

COVID Deferral Recovery

In Docket No. 5040, the PUC ordered the Company to defer fifty percent of its proposed revenue increase associated with the DAC to help alleviate the bill impact for customers impacted by the economic hardships brought on by the global pandemic. The COVID Deferral Recovery factors proposed in this filing are designed to recover the remaining fifty percent of the 2020-21 DAC increase. The Company tracked the COVID Deferral credit revenue for each rate class based on eight months of actual credit revenue (November 2020 through June 2021) and four months of forecasted credit revenue (July 2021 through October 2021), plus interest incurred, to calculate the ending deferred balance for the period ending October 31, 2021. We have reviewed the supporting calculations and recommend the Commission adopt the Company's proposal.