STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
89 Jefferson Boulevard
Warwick, Rhode Island 02888
(401) 941-4500
(401) 941-9207 - Fax

MEMORANDUM

TO: **Rhode Island Public Utilities Commission**

FROM: **Alberico Mancini – Chief Regulatory Analyst, DPUC**

DATE: **February 18, 2022**

RE: **Docket No. 5210 – Revenue Requirements re: National Grid's FY 2023 Gas Infrastructure, Safety, and Reliability Plan**

On December 17, 2021, the Narragansett Electric Company d/b/a National Grid (the "Company") filed its Gas Infrastructure, Safety, and Reliability (ISR) Plan for FY 2023. Calculations supporting the revenue requirements associated with the safety and reliability expenses and qualifying capital investment components are included in the ISR Plan.

In accordance with PUC Order 24042 in Docket 5099, as of April 1, 2021, the Company aligned the calculation of its gas revenue requirement with the Electric ISR and implemented the plant-in-service methodology to calculate the FY 2022 and FY 2023 revenue requirement.

As detailed in Section 3, the filing includes a cumulative total revenue requirement of $42,436,970 for FY 2023. This includes an incremental fiscal rate year adjustment of $4,195,084 which supports a total FY 2023 Plant-in-Service Capital Investment of $162,924,000. The total proposed capital investment for FY 2023 is $175,655,000.

The total bill impact for the average residential heating customer using 845 therms annually results in an annual increase of $10.98 or 0.8%.

Deferred Federal Income Taxes (ADIT)

The Company states, at Section 3, Page 9, that it anticipates that "the sale of The Narragansett Electric Company to PPL Corporation ["Transaction"] will be completed prior to the end of its fiscal year ending March 31, 2022" and notes that "this sale will have an impact on tax NOLs utilized in FY 2022. After the sale, the Company will supplement this filing with a revised FY 2023 Gas ISR Plan revenue requirement calculation to reflect the impact of any additional NOL utilization on its deferred federal income taxes included in the calculation of ISR rate base."

If the sale to PPL Corporation closes as National Grid expects, the impact on the balance of accumulated deferred federal income taxes ("ADIT") will extend well beyond any additional NOL utilization. As indicated in Docket D-21-09 before the Division, PPL Rhode Island and National Grid USA have elected to have the Transaction treated as an asset sale for federal income tax purposes. This means that the new the tax basis immediately following the acquisition will equal the book basis, and there will be no balance of ADIT at that time. The balance of ADIT deducted from Narragansett's rate base for ratemaking purposes, including the ADIT applicable to the ISR rate base, will be eliminated.

In Docket D-21-09 before the Division, PPL stated that it would make a proposal to hold customer impacts neutral in relation to the rate impacts associated with the elimination of ADIT as of the date of the Transaction. As it will be PPL that formulates and presents the specific mechanism to hold customers neutral from the elimination of ADIT, National Grid cannot make any representation as to what the nature of the necessary mechanism might be. However, the Fiscal Year 2023 ISR revenue requirement reflects the balances of ADIT under continued National Grid ownership of Narragansett, and this is appropriate.

Based on the Division's review along with its consultant, Dave Effron, we believe the revenue requirement associated with the filed FY 2023 Gas ISR Plan is reasonably calculated, for effect April 1, 2022, subject to the future reconciliation of the FY 2023 Plan revenue requirement.