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August 5, 2020

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 5th Floor
Boston, MA 02110

Re: Inquiry into Establishing Policies and Practices for Electric and Gas Companies – D.P.U. 20-58

Dear Secretary Marini:

On behalf of members of the Ratemaking Working Group (“Working Group”), enclosed is the ratemaking report in response to the Notice of Inquiry issued by the Department of Public Utilities (the “Department”) in the above-referenced docket.¹ The Working Group reached consensus on several items discussed in the Report, but was unable to reach consensus on all issues. Members of the Working Group plan to submit supplemental comments to the Department by August 12, 2020 to provide the Department with support for the positions taken where consensus was not reached.

Thank you for your attention to this matter. Please contact me with any questions you may have regarding this filing.

Sincerely,



Cheryl M. Kimball

Enclosure

cc: Rachel Cottle, Esq. – Hearing Officer
Elizabeth Anderson, Esq. – Office of the Attorney General
Robert Hoagland, Esq. – Department of Energy Resources
Charles Harak, Esq. - National Consumer Law Center
Jerrold Oppenheim, Esq. – LEAN
Robert Rio – Associated Industries of Massachusetts

¹ Members of the Ratemaking Working Group are Fitchburg Gas and Electric Light Company d/b/a Unitil, Massachusetts Electric Company and Nantucket Electric Company, Boston Gas Company and Colonial Gas Company, each d/b/a National Grid, and NSTAR Gas Company and NSTAR Electric Company, each d/b/a Eversource Energy, Bay State Gas Company d/b/a Columbia Gas of Massachusetts, Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities, The Berkshire Gas Company, and Blackstone Gas Company; the Office of the Attorney General (“AGO”), the Department of Energy Resources, the National Consumer Law Center, the Low-Income Energy Affordability Network and the Associated Industries of Massachusetts (together, the “Working Group”). These comments were primarily prepared by the electric and gas companies and the AGO.

**Ratemaking Working Group Report on Companies' Proposals
for COVID-Related Impacts**

August 5, 2020

I. Cost Areas Covered by Companies' Proposal

The Companies' ratemaking proposals for COVID-19 related financial impacts include recovery requests for the following categories of costs:

1. Cash Working Capital Costs – or the “Cost of Carrying Customer Arrearages”
2. Arrearage Forgiveness Costs (Residential and Small C&I)
3. Bad Debt Costs
4. COVID-19 O&M Expenses
5. Waived Fees

II. Discussion of Overarching Principles

The Ratemaking Working Group has discussed certain overarching principles to apply to cost recovery, on which there is agreement on some and disagreement on others. The Companies and the AGO plan to file comments on **Wednesday, August 12, 2020**, providing explanations and support for the areas of disagreement. The Companies and the AGO respectfully request that the Department consider the parties' August 12 comments in the Department's review of the Working Group Report.

Agreed Upon Principles

1. **Allowed cost recovery should be limited to the incremental costs incurred.** There is agreement that, when a request for actual recovery of costs authorized by the Department in this proceeding for deferral is made in the future, each company must demonstrate that the costs it proposes for recovery are: (1) prudent, necessary, and attributable to the pandemic; (2) incremental to its normal cost of doing business; and (3) net of associated savings and other sources of funding.
2. **Certain costs must be extraordinary to qualify for recovery.** There is agreement that there should be a demonstration of significance for eligibility to recover certain costs. For this purpose, there is agreement that the Department's exogenous cost threshold could be used to establish the level of “significance” for each company. However, there are differences between the AGO and the Companies as to how the exogenous cost threshold would be applied (discussed below).
3. **Authorization to defer costs.** Where specified herein, there is agreement that the Companies should be allowed to defer the costs that are part of the proposal for later analysis and consideration by the Department.

4. **Potential need for securitization.** In addition to the costs outlined in the Companies' ratemaking proposal, it is also expected in some instances that customers may pay for lost revenues through the revenue decoupling mechanism. There is agreement that the Department and the parties will need to remain flexible as circumstances develop. The AGO has suggested that securitization may merit further review and discussion as a least-cost option for recovery. The Companies agree that future circumstances are unknowable and flexibility will be needed to address future circumstances.¹

Areas of Disagreement

1. **PBR Plans.** An area of disagreement is the proposition that Companies with a Performance Based Regulatory ("PBR") mechanism should be precluded from recovering incremental bad-debt costs or COVID-19 O&M expenses through this proceeding. This applies to National Grid (Massachusetts Electric/Nantucket Electric) and Eversource (NSTAR Electric, and potentially, NSTAR Gas, pending the outcome of D.P.U. 19-120).
2. **Recovery of Incremental COVID-19 O&M Expense.** An area of disagreement is whether the Companies should be allowed to recover any level of incremental COVID-19 O&M Expense. The Companies' have proposed such recovery subject to a threshold determination using the Department's exogenous cost methodology. The AGO disagrees with cost recovery of any incremental COVID-19 O&M expenses through this proceeding.
3. **Companies should absorb some of the losses associated with the economic downturn.** An area of disagreement is the proposition that the Companies should share the cost burden of the pandemic between shareholders and customers. Specifically, the AGO opposes recovery of incremental COVID-19 O&M expense and, as noted below, proposes limited recovery of 50 percent for (1) small C&I arrearage forgiveness amounts; and (2) incremental bad debt expense, net of any cost savings. The Companies do not agree with this recommendation.

¹ There is no agreement as to what is intended by the term; how securitization would be implemented; or, whether it is an appropriate option in any specific circumstance.

III. Status of Agreement on Specific Categories of Proposed Cost Recovery

A. Cash Working Capital

Company Proposal on Delivery-Related Cash Working Capital: The Companies proposed to re-run the cash working capital study typically performed during a rate case but using the new payment lag to come up with an updated calculation for cash working capital. This new calculation would be compared to the cash working capital amount currently recovered in base distribution rates to determine an incremental cash working capital cost. The Companies proposed that the incremental amount would then be multiplied by the pre-tax weighted average cost of capital, as approved in each company's last rate case, to determine the total incremental cash working capital cost associated with the increased accounts receivables balance due to COVID-19.

Agreed Upon Implementation Details:

- a) Each company will re-run the cash working capital study using the existing formula and calculation methodology as was used in that company's last base rate case.
- b) Companies with PBR rate plans must recognize the incremental cost recovery over the initial cost of service provided by the PBR rate formula, as adjusted through any annual adjustments that have occurred.

Areas of Disagreement

- a) The Companies proposed to set the carrying cost for incremental cash working capital at the pre-tax overall weighted average cost of capital ("WACC"). The AGO opposes the use of the WACC and recommends that carrying costs for the incremental cash working capital amount should be limited to the Companies' short-term debt rate rather than the WACC. The Companies do not agree with this recommendation.
- b) The Companies have not proposed a specific cut-off date for the cash working capital adjustment, but rather viewed that a natural termination would occur through operation of the mechanism as current circumstances ease. The AGO proposes a cutoff to the recovery in May-June 2022, assuming that: (1) the moratorium ends November 15, 2020; (2) the Companies do not shut off residential customers for another six months under the annual Winter Moratorium; and (3) allowing for 12 months on the deferred payment plan.

Company Proposal on Mechanism to Recover Delivery-Related Cash Working Capital: The Companies proposed that electric companies will recover this amount through the revenue decoupling mechanism ("RDM"), excluded from the cap. The gas companies would recover this amount through the local distribution adjustment charge ("LDAC").

Agreed Upon Implementation Details:

- a) Electric company recovery of delivery-related cash working capital through the RDM will not be subject to the RDM cap. The cap should still apply to all costs

recovered through the RDMs in the normal course of business, excluding the CWC adjustment described above.

- b) The Companies will provide the AGO with data regarding their projected incremental cash working capital costs.
- c) Recovery of the incremental cash working capital costs will be based on historical calculations for the prior 12-month period (instead of projected costs).
- d) Depending on the magnitude of bill impacts, cost recovery may need to be spread out over more than one year. Flexibility needs to be maintained to address unforeseeable circumstances where costs are higher than currently anticipated. The AGO raises the possibility of securitization, should such circumstances arise; or a “cap” on the amount of incremental CWC costs that may be recovered in any given year. The Companies’ do not view securitization or a cap on CWC to be warranted or appropriate in the current circumstances.

Recovery for Supply-Related Cash Working Capital:

Agreed Upon Implementation Details:

- a) Electric companies will recover incremental cash working capital amounts through the Basic Service Administrative Cost Factor filing in Basic Service.
- b) For default gas service, National Grid and CMA have a fully reconciling cash working capital mechanism as part of the Cost of Gas Adjustment Clause. These companies will use their previously approved mechanisms.
- c) NSTAR Gas, Berkshire, Unitil and Liberty shall be allowed to recover these amounts through the Cost of Gas Adjustment Clause, temporarily. However, the AGO recommends that any revised CGAC use the short-term debt rate to calculate incremental CWC eligible for recovery. The Companies disagree with the use of the short-term debt rate.
- d) For electric and gas, recovery of the incremental cash working capital costs will be based on historical calculations for the prior 12-month period (instead of projected costs).
- e) For electric and gas, depending on the magnitude of bill impacts, cost recovery may need to be spread out over more than one year. Flexibility needs to be maintained to address unforeseeable circumstances where costs are higher than currently anticipated. The AGO suggests securitization is appropriate in such circumstances.

Companies Proposal on Purchase of Receivables: Currently, the Companies pay suppliers the amounts owed for electric supply on due dates that reflect normal economic conditions. In order to address the Companies’ net cash deficit created by the payment lags of competitive supply customers, the Companies propose to revise the timing of when payments are made to competitive suppliers for the purchase of the accounts receivable. This revision would recalculate the timing

of payment to reflect the payment lag of each supplier's customers. The Terms and Conditions for Competitive Suppliers and Terms and Conditions for Municipal Aggregators allow for this change to be made, if approved by the Department.

There is agreement on this proposal.

B. Recovery of Arrearage Forgiveness Costs

Residential AMP Cost Recovery: The Companies proposed to continue to recover costs through the RAAF with the potential to spread out recovery over more than one year depending on the magnitude of the bill impacts because many additional customers may qualify for, and participate in, the residential AMP program than in prior years.

There is agreement on this approach. The Companies have agreed that increased costs from additional low-income subsidies (including the low-income discount rate) recovered through the RAAF beginning in April 2020 will be separately tracked and accounted for, to the extent possible, when reviewing the entirety of COVID-19-related cost increases paid for by customers.

Small C&I Customer AMP Cost Recovery: The Companies proposed that costs associated with the one-time small C&I customer arrearage forgiveness program will be deferred for future recovery. There is agreement on deferral for these costs.

Except that, the AGO proposes that the Companies should be limited to recovery of 50 percent of these costs to share the burden of the pandemic between shareholders and customers. There is no agreement on the AGO's proposal.

C. Bad-Debt Cost

Commodity-Related Bad Debt Cost Recovery: Currently, the electric companies recover bad debt cost for commodity through Basic Service rates and the Purchase of Receivables discount rate. Gas companies recover these costs through their Gas Adjustment Factors. The Companies propose to continue recovery through these reconciling mechanisms, but they also acknowledge that recovery may need to be extended over a reasonable time dependent on the amount of bad debt.

There is consensus on this proposal. However, the AGO suggests securitization may be appropriate. The Companies do not agree.

Companies' Proposal on Recovery of Delivery-Related Bad Debt Cost: The Companies' delivery rates include a fixed amount of bad debt expense. The Companies propose to calculate a normal level of bad debt as the higher of the amount included in base rates or the three-year average of the delivery-related net charge offs for the years 2017, 2018, and 2019. For PBR Companies, the Companies propose that the level of bad debt cost included in base rates be adjusted by any annual PBR adjustment that has occurred.

Each month or quarter, the Companies will compare the computed normal level of bad debt cost to the bad debt expense that their accountants determine, according to General Accepted

Accounting Principles (“GAAP”). Amounts recorded for expense in excess of the baseline amount will be deferred as the proxy for future recovery. However, at the time that each Company makes a request from the Department to authorize recovery of the deferred bad debt cost, the recovery for each Company will be based exclusively and entirely on the level of actual bad-debt write-offs experienced over the established baseline amount.

The Companies are tracking bad-debt write-offs as of July 1, 2020 and will continue for two years with a report submitted August 1, 2022. This report will detail actual net charge-offs for the 24-month period in excess of the computed baseline, which is the amount that would be eligible for recovery.

Agreed Upon Implementation Details

- a) The Companies will provide data on a monthly basis to the Working Group and the Department regarding reported revenues, accounts receivable, write-offs, and recoveries to track basic information surrounding bad debt costs.
- b) The actual cost used to determine the incremental cost eligible for recovery will be the actual net charge off rather than the bad-debt expense determined by the Companies’ accountants, according to GAAP.
- c) Each company will provide the accounting rules used to determine gross write-offs and to account for collections. Each company will apply these rules consistently over the two-year period (2020 to 2022) to determine the incremental bad debt cost over the normal level provided for under delivery rates.
- d) There is disagreement over the application of the threshold methodology to bad debt costs over the established baseline. The AGO suggests the threshold should be applied; the Companies do not agree.
- e) As part of any cost-recovery proceeding for incremental bad debt expense, the Companies agree to evaluate cost mitigation opportunities for potential offsets to the increase in costs, as discussed further in Section IV below.

Areas of Disagreement

- a) There is disagreement over the application of the threshold methodology to bad debt costs over the established baseline. The AGO suggests the threshold should be applied to bad-debt recovery; the Companies do not agree.
- b) The AGO opposes recovery of incremental bad debt cost through this proceeding for the Companies with PBR Plans: National Grid (electric) and Eversource (electric and gas). Eversource and National Grid do not agree with this proposition.
- c) The AGO recommends that the Department limit allowed extraordinary bad debt cost recovery to 50 percent of the determined extraordinary bad-debt costs to share

the cost burden of the pandemic between shareholders and customers. The Companies do not agree to this recommendation.

- d) The Companies have not proposed a specific cut-off date for bad-debt cost recovery, but rather propose that the Department allow two filings covering two measurement periods (i.e., August 2022 for 2020 and 2021; August 2024 for 2022 and 2023 – unless a base-rate case was made in the intervening period), allowing for a natural termination through operation of the mechanism as current circumstances ease. The AGO proposes a cutoff to the recovery in May-June 2022, assuming that: (1) the moratorium ends November 15, 2020; (2) the Companies do not shut off residential customers for another six months under the annual Winter Moratorium; and (3) allowing for 12 months on the deferred payment plan.

D. Incremental COVID-19 O&M Expenses

Companies' Proposal: The Companies propose to defer incremental COVID-19 O&M Expenses for later consideration by the DPU. At the time of the DPU's review of COVID-19 related incremental costs, each company will need to address whether and to what extent operating cost savings might have occurred as a result of suspended work activities, which would offset the incremental cost incurred for COVID-19 safety protocols and related costs. The incremental O&M expenses identified to date by the Companies include but may not be limited to the following:

- Staff sequestering;
- Facilities cleaning;
- Personal protection equipment; and
- Other costs incremental to costs recovered through base rates that were necessary to work safely in providing an emergency response to the Governor's state of emergency.

Areas of Disagreement

- a) The AGO opposes recovery of any incremental COVID-19 O&M expenses through this proceeding. The AGO will provide further detail in its comments submitted on August 12th.
- b) Through the course of discussions with the AGO, each Company was willing to apply the Department's exogenous cost threshold to the amount of incremental COVID-19 related expenses incurred by the respective company, net of savings that have also occurred. If the threshold methodology were applied, the respective company thresholds would be:

Company	Illustrative Threshold¹
The Berkshire Gas Company	\$101,000
Boston Gas Company	\$1,600,00
Colonial Gas Company	\$400,000
Columbia Gas Company	\$670,000
Massachusetts Electric Co. ²	\$3,000,000
NSTAR Electric Company ³	\$5,000,000
NSTAR Gas Company ⁴	\$700,000
Liberty	\$90,000
Fitchburg Gas & Electric Light Co. (Electric) ⁵	\$80,000
Fitchburg Gas & Electric Light Co. (Gas) ⁶	\$40,000

Note 1: The thresholds computed for The Berkshire Gas Company, Boston Gas Company, Colonial Gas Company, Columbia Gas Company and Liberty are computed in accordance with the Department's formula, which is 0.001253 multiplied by total operating revenues as of December 31, 2019.

Note 2: Approved by the Department in D.P.U. 18-150 (2019).

Note 3: Approved by the Department in D.P.U. 17-05 (2018).

Note 4: Pending before the Department in D.P.U. 19-120.

Note 5: Approved by the Department in D.P.U. 19-130.

Note 6: Approved by the Department in D.P.U. 19-131.

E. Waived Fee Revenue

Companies' Proposal: The Companies are waiving certain fees for services in light of exigent circumstances, including payment transaction, credit card fees, reconnection fees, late fees, and other fees. Revenues for fees are not included in revenue decoupling. The Companies propose that waived fees should be deferred for later consideration by the DPU.

Agreed Upon Implementation Details

- a) There is agreement that the Department should allow deferral of waived fees, subject to later proceeding for Department review and approval.
- b) There is agreement that the Companies should track and report on the amounts of waived fees for each category. If discrete tracking is not possible, the respective Company shall develop a valid alternate methodology to calculate the amounts. The AGO's position is that any future recovery of waived fees must be supported by discrete, direct accounting of fees.

- c) There is agreement that a waiver of credit card fees should be determined through the D.P.U. 19-71 proceeding.

IV. ADDITIONAL PROPOSALS BY THE AGO

A. **Lost Revenues.** The AGO recommends that the Companies should track usage patterns and sales numbers for residential and C&I customers to determine whether additional action regarding the revenue decoupling mechanisms may be appropriate. There is agreement on this recommendation. The AGO recommends that the Department require the Companies to update the Working Group on a quarterly basis regarding this information to allow the Working Group to proactively address any issues.

B. **Cost Mitigation.** Companies must evaluate opportunities for reductions in cost, including:

- Analyze capital and O&M costs currently recovered through various reconciling mechanisms or PBR mechanisms to determine what projects can be put on hold, or otherwise identify opportunities for cost reductions.
- Offset increased costs with any government loans, credits, grants, payments, or other subsidies, received by the Companies to cover business costs as a result of COVID-19. Specifically, Companies should seek out any potential CARES Act benefits and other government subsidies/loans/financial benefits that can offset the overall increase in costs.

The Companies agree that the Companies should evaluate all potential alternatives for cost savings and provide clear, reviewable information to the Department on the efforts undertaken in relation to each of these categories.

C. **Data Collection.** The AGO requests that each of the Companies commit to providing the following data on a monthly basis to help inform policy, to the extent possible. If readily available, the customer-specific data should also be provided by zip code to evaluate how the pandemic is impacting customers at the community level.

The Companies agree to provide this data to the extent feasible with the existing information systems. Please note, each Company will be able to provide items on this list with differing degrees of detail. In particular, providing data by zip code may not be feasible for one or more Companies.

Data Requests

- a. Continue providing the monthly data contained in the arrearage spreadsheets, as well as any additional data that may provide insight into lost revenues.

- b. For bad debt expense cost tracking, provide, on a monthly basis:
 - 1. reported revenues,
 - 2. accounts receivable,
 - 3. gross accounts receivable write-offs, and
 - 4. accounts receivable recoveries to track basic information surrounding bad debt costs.

- c. Financial health information, including:²
 - 1. any increase, or requested increase, to bank lines of credit;
 - 2. any issuance of dividends, plans to issue dividends, increase in dividend amounts, and plans to increase dividend amounts;
 - 3. capital markets access; and
 - 4. credit rating agency actions.

- d. Customer-specific data, including:
 - 1. Number of customers, by customer class;
 - 2. Number of customers, by customer class, disconnected during the period;
 - 3. Number of customers, by customer class, receiving disconnection notices during the period;
 - 4. Number of customers, by customer class, reconnected during the period;
 - 5. Number of customers, by customer class, assessed reconnection fees or charges during the period;
 - 6. Number of customers, by customer class, assessed credit card fees or charges during the period;
 - 7. Number of customers, by customer class, assessed late payment fees or charges during the period;

² The AGO has requested that “financial health information” be provided for Massachusetts operating companies, but also for “parent/holding/affiliate companies of the Companies.” The Companies generally do not object to providing financial information pertinent to the issues under consideration for recovery, even if relating to an affiliated parent/holding company. However, each Company is separately situated and may have concerns about providing information that is not publicly available. Therefore, this will need to be addressed on a case-by-case basis.

8. Number of customers, by customer class, taking service at the beginning of the period under existing deferred payment arrangements;
9. Number of customers by customer class, completing deferred payment arrangements during the period;
10. Number of customers, by customer class, enrolling in new deferred payment arrangements during the period;
11. Number of customers, by customer class, renegotiating deferred payment arrangements during the period;
12. Number of customers taking service at the beginning of the period under existing hardship protections;
13. Number of customers completing hardship protections during the period;
14. Number of customers enrolling in new hardship protections during the period;
15. Number of customers, by customer class, completing an AMP program during the period;
16. Number of customers, by customer class, enrolling in an AMP program during the period;
17. Number of customers, by customer class, re-enrolling in an AMP program during the period;
18. Number of customers, by customer class, dropping off an AMP program during the period;
19. Number of customers enrolling in the low-income discount rate program during the period;
20. Number of customers dropping off the low-income discount rate program during the period;
21. Number of by customers, by customer class, with required deposits with the company at the beginning of the period;
22. Number of customers, by customer class, required to submit new deposits or increased deposits during the period;
23. Number of customers, by customer class, whose required deposits were reduced in part or foregone during the period; and
24. Number of customers, by customer class, whose deposits were returned in full during the period.