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January 29, 2021

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

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

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Dear Secretary Marini:

On behalf of the Distribution Companies,<sup>1</sup> this letter serves as the Compliance Filing directed by the Department of Public Utilities (the “Department”) in the above-referenced docket, as part of its decision in D.P.U. 20-58-D, issued on December 31, 2020. In D.P.U. 20-58-D, the Department “conditionally” approved the consensus provisions of the Ratemaking Proposals submitted by the Ratemaking Working Group<sup>2</sup> on August 5, 2020, regarding the policies and practices for customer assistance and ratemaking measures in connection with the State of Emergency regarding the COVID-19 pandemic. The Department directed the Distribution Companies to make the Compliance Filing, after conferring with the Working Group, to identify the consensus provisions to “make clear the Department’s content approval” in D.P.U. 20-58. D.P.U. 20-58-D at 21.

As directed by the Department, the Distribution Companies have worked with the Office of the Attorney General (“AGO”) to prepare this “Compliance Report” to identify the areas of consensus comprising the Department’s “content approval.” Please note that this information is extracted directly from the Ratemaking Working Group Report on Companies’ Proposals for COVID-Related Impacts, submitted to the Department on August 5, 2020.

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<sup>1</sup> For purposes of this Compliance Filing, the “Distribution Companies” include Fitchburg Gas and Electric Light Company d/b/a Unifil, 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, Eversource Gas Company d/b/a Eversource Energy, Liberty Utilities (New England Natural Gas Company) Corp. d/b/a Liberty Utilities, and The Berkshire Gas Company.

<sup>2</sup> The “Ratemaking Working Group” includes the Distribution Companies as well as the Office of the Attorney General (“AGO”), the Department of Energy Resources, the National Consumer Law Center, the Low-Income Energy Affordability Network and Associated Industries of Massachusetts (together, the “Working Group”).

## Points of Consensus

### **I. Cost Categories with Potential Financial Impact**

The Distribution Companies requested recovery for the following categories of costs, due to the potential impact of the COVID-19 pandemic on such 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 Operating & Maintenance (“O&M”) Expenses
5. Waived Fees

The Distribution Companies will track these five categories of costs and the impact of the pandemic on cost incurrence. The Distribution Companies will also track O&M savings resulting from the business implications of the COVID-19 pandemic, which should be deducted from any authorized recovery of COVID-19 operating expenses.<sup>3</sup>

### **II. Deferral of Costs for Future Review by the Department**

In the Department’s Order in D.P.U. 20-58-D, the Department allowed each Distribution Company to “record, defer, and track the incremental cost areas outlined in the Ratemaking Proposal, subject to the Department’s final determination of the ratemaking treatment in D.P.U. 20-58 and D.P.U. 20-91.” D.P.U. 20-58-D at 22. From an accounting standpoint, the deferral of costs pertains only to: (1) arrearage forgiveness amounts; (2) delivery-related uncollectible expense recorded in accordance with generally accepted accounting principles (“GAAP”);<sup>4</sup> and (2) COVID-19 O&M expenses.<sup>5</sup>

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<sup>3</sup> The Department has directed the Distribution Companies, as follows:

Cost Mitigation – each Distribution Company shall evaluate opportunities for reductions in costs, including by: (1) analyzing capital and O&M costs currently recovered through reconciling mechanisms or PBR mechanisms to determine what projects can be put on hold; and (2) seeking government grants, loans, credits, payments, or other subsidies, including CARES Act or similar benefits, to offset increased costs. In any filing for recovery of COVID-19 related costs, a Distribution Company must demonstrate its cost mitigation efforts.

D.P.U. 20-58-D, at 23.

<sup>4</sup> The Distribution Companies record uncollectible expense annually in accordance with GAAP. However, under the Department’s established ratemaking procedures, the recovery of bad-debt cost is computed on the basis of net write-offs. The Department’s decision to allow deferral of bad-debt costs recorded pursuant to GAAP does not disturb Department precedent on the computation for ratemaking purposes.

<sup>5</sup> Cash working capital and waived fees are associated with financial impacts but are not susceptible to deferral. If allowed by the Department, these costs would be tabulated and structured for recovery.

Although there is consensus regarding deferral of certain costs for future review by the Department, there is not full consensus on the criteria that should be applied by the Department to determine whether and to what extent the deferred costs or other financial impacts may be recovered from customers. To the extent a consensus on eligibility for cost recovery has been reached, any agreed-upon eligibility criteria are indicated herein, and in Section III below.

There is consensus that any cost recovery ultimately allowed will be limited to the net incremental costs incurred. 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.

### **III. Ratemaking Provisions Specific to Each Cost Category**

#### **A. Cash Working Capital**

##### **1. Delivery-Related Cash Working Capital**

The Distribution Companies will recover delivery-related incremental cash working capital through either their respective revenue decoupling mechanisms or local distribution adjustment charges. Electric distribution company recovery of incremental delivery-related cash working capital through revenue decoupling mechanisms will not be subject to the revenue decoupling mechanism cap. The cap will apply, however, to all costs recovered through the revenue decoupling mechanism in the normal course of business, excluding the cash-working capital adjustment described above. Delivery-related cash working capital costs will be based on historical calculations for the prior 12-month period, instead of projected costs. The Distribution Companies will provide the AGO with data regarding their projected delivery-related cash working capital costs. Depending on the magnitude of bill impacts, recovery of incremental delivery-related cash working capital costs may need to be spread out over more than one year.

To determine delivery-related incremental cash working capital, the Distribution Companies will re-run the cash working capital studies typically performed during a rate case but using the new payment lag to come up with an updated calculation for cash working capital. In re-running their cash working capital studies, each company will use the existing formula and calculation methodology used in its last base rate case. This new cash working capital calculation will be compared to the cash working capital amount currently recovered in base distribution rates to determine an incremental cash working capital cost. Distribution Companies with Performance Based Regulatory (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.

## 2. Supply-Related Cash Working Capital

The electric distribution companies will recover incremental supply-related cash working capital through the Basic Service Administrative Cost Factor filing in Basic Service. Boston Gas Company, including former Colonial Gas Company, and Eversource Gas Company of Massachusetts, formerly Bay State Gas Company, will recover incremental supply-related cash working capital costs incurred as part of default gas service through their previously-approved Cost of Gas Adjustment Clauses. NSTAR Gas Company, The Berkshire Gas Company, Fitchburg Gas and Electric Light Company, and Liberty Utilities (New England Natural Gas Company) Corp. shall be allowed to recover incremental supply-related cash working capital through their Cost of Gas Adjustment Clauses, temporarily. Supply-related cash working capital costs will be based on historical calculations for the prior 12-month period, instead of projected costs. Depending on the magnitude of bill impacts, recovery of incremental delivery-related cash working capital costs may need to be spread out over more than one year.

## 3. Purchase of Receivables

In D.P.U. 20-58-D, the Department directed that the compliance filing *not* include the consensus agreement concerning the Distribution Companies' proposal regarding the treatment of purchase of receivables ("POR"). D.P.U. 20-58-D; D.P.U. 20-91, at 21. The Distribution Companies had proposed to revise the timing of payments to competitive suppliers for POR to address the net cash deficit created by the payment lags of competitive supply customers (Ratemaking Proposal at 4). D.P.U. 20-58-D; D.P.U. 20-91, at 12. The Working Group agreed with this proposal and asserted that 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 (Ratemaking Proposal at 4-5). D.P.U. 20-58-D; D.P.U. 20-91, at 12

Notwithstanding the consensus achieved regarding the Distribution Companies' proposal, the Department found that competitive suppliers are not Working Group members and have not had an opportunity to review and comment on the Distribution Companies' proposal. D.P.U. 20-58-D; D.P.U. 20-91, at 21. The Department stated that it considered it to be appropriate to provide competitive suppliers with the opportunity to comment before approving any proposal that would result in revision to the timing of payments. D.P.U. 20-58-D; D.P.U. 20-91, at 21-22. The Department directed the assigned hearing officer within seven days of the date of the Order to take necessary steps to provide competitive suppliers the opportunity to comment on the POR provision of the Ratemaking Proposal. D.P.U. 20-58-D; D.P.U. 20-91, at 22. Lastly, the Department stated that, based on the comments received, it would rule on the Distribution Companies' proposed payment proposal. D.P.U. 20-58-D; D.P.U. 20-91, at 22.

On January 19, 2021, by Hearing Officer Memorandum, the Department clarified its notice requirement relating to the Purchase of Receivables Ratemaking Proposal. According to the Hearing Officer Memorandum, the notification requirement regarding the POR provision is premature. At this time, the key information, i.e., the revised timing of payments, is not specified. That information will be provided when the Distribution Companies file the proposed revision with the Department for approval. The Hearing Officer Memorandum notes that, without that

relevant information, there is a low likelihood that the Department would receive useful comments from competitive suppliers. Therefore, at this time, the Department stated it will not notify competitive suppliers to seek comments on the POR provision of the Ratemaking Proposal as set out in D.P.U. 20-58-D/D.P.U. 20-91. At the time of the Distribution Companies' filing for approval of a revision to the time of POR payments, the Department will determine the appropriate notification process to invite comments from competitive suppliers.

The Department directed that, as a result of this notice clarification, the Distribution Companies should treat the POR provision of their Ratemaking Proposal the same as the other agreed-upon provisions. Accordingly, subject to consultation with the Working Group, the Distribution Companies should include in their compliance filing in D.P.U. 20-58, as provided by D.P.U. 20-58-D/D.P.U. 20-91, the POR provision from the Ratemaking Proposal and provide details regarding how the Distribution Companies intend to modify the timing of payments.

Note: The Distribution Companies have consulted with the AGO as directed in the Hearing Officer Memorandum and have elected to include a description of the POR proposal in the testimony to be submitted to the Department on March 1, 2021

## **B. Recovery of Arrearage Forgiveness Costs**

The Distribution Companies will recover incremental arrearage forgiveness costs associated with the residential arrearage management program ("AMP") through the residential assistance adjustment factor ("RAAF"). Depending on the magnitude of bill impacts, recovery of such costs may need to be spread out over more than one year.

The Distribution Companies are allowed to defer costs associated with the COVID-19 related, small commercial and industrial arrearage management and forgiveness program approved by the Department in D.P.U. 20-58-C (extended by stamp-approval on December 22, 2020), pending future review by the Department.

## **C. Bad-Debt Cost**

### **1. Commodity-Related Bad Debt Cost**

The electric distribution companies will recover incremental commodity-related bad debt costs through the Basic Service Administrative Cost Factor and the Purchase of Receivable discount rate. The gas distribution companies will recover incremental commodity-related bad debt costs through the Cost of Gas Adjustment Clause. Depending on the magnitude of bill impacts, recovery of such costs may need to be spread out over more than one year.

### **2. Delivery-Related Bad Debt Cost**

All Distribution Companies will track delivery-related bad-debt write-offs as of July 1, 2020 for two years, with a report submitted August 1, 2022. This report will detail actual net

charge-offs for the 24-month period that are incremental to the Distribution Companies' fixed amount of bad-debt cost included for recovery as part of base distribution rates.

The Distribution Companies will determine incremental delivery-related charge-offs by calculating the normal level of bad debt as the higher of: (a) the amount included in base distribution rates; or (b) the three-year average of the delivery-related net charge-offs for the years 2017, 2018, and 2019. Each month or quarter, the Distribution Companies will compare the computed normal level of bad-debt cost to the uncollectible expense recorded pursuant to GAAP for financial reporting purposes. Incremental bad-debt costs calculated for potential recovery outside of base distribution rates or PBR rate plan adjustments, however, will be based entirely and exclusively on actual net charge-off expenses experienced over the established baseline amount, rather than the uncollectible expense determined using GAAP accounting. Each company will provide the accounting rules used to determine gross write-offs and to account for collections and 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 base distribution rates.

#### **D. Incremental COVID-19 Expenses**

The Distribution Companies will track incremental COVID-19 pandemic-related O&M expenses, which may include but not be limited to staff sequestering, facilities cleaning, personal protective equipment (PPE), and other costs incremental to costs recovered through base distribution rates that were necessary to work safely in providing an emergency response to the Governor's state of emergency. As explained in Sections I and II above, the Distribution Companies will also track any COVID-19 pandemic-related O&M savings.

#### **E. Waived Fee Revenue**

The Distribution Companies are waiving certain fees for services during the Governor's state of emergency, including payment transaction, credit card, reconnection, late and other fees. The Distribution Companies will track and report on the amount of waived fees by category. To the extent tracking by category is not possible for any given Distribution Company, such Distribution Company shall develop a proxy calculation for determining waived fees by category.

### **IV. Data Tracking and Reporting**

The Distribution Companies are tracking usage patterns and sales numbers for residential and C&I customers to determine whether additional action regarding revenue decoupling mechanisms may be appropriate.<sup>6</sup> To the extent feasible,<sup>7</sup> the Distribution Companies will report the following data on a monthly basis:

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<sup>6</sup> The Department has directed the Distribution Companies to update the Working Group with the usage pattern and sales numbers on a quarterly basis. D.P.U. 20-58-D at 23.

<sup>7</sup> The Department has directed the Distribution Companies to provide the listed monthly data "[w]here feasible, consistent with each Distribution Company's information system capabilities, current resources, and corporate policies." D.P.U. 20-58-D at 24. To the extent any company "determines that specific data is not

- a. Monthly arrearage spreadsheets, as required by D.P.U. 20-58-A, 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:
  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;
  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;

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feasible to produce or is appropriately subject to privacy concerns, the Distribution Company shall confer with the Attorney General and take reasonable efforts to identify alternative or substitute data.” *Id.*

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.

Please note that the Distribution Companies have consulted with the AGO and are authorized to report that the AGO has no objection to this filing.



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

Sincerely,



Cheryl M. Kimball

cc: Rachel Cottle, Esq. – Hearing Officer  
Rebecca Tepper, 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