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nationalgrid

By Electronic Filing

August 15, 2024

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

Re: D.P.U. 20-58-D/D.P.U. 20-91: Massachusetts Electric Company, Nantucket Electric Company, and Boston Gas Company, each d/b/a National Grid, Report on Delivery-Related Bad Debt Write-offs

Dear Secretary Marini:

On behalf of Massachusetts Electric Company, Nantucket Electric Company, and Boston Gas Company, each d/b/a National Grid (together, "National Grid" or "Company"), enclosed please find the Company's report on delivery-related bad debt write-offs for the period July 1, 2020 through June 30, 2024 ("2024 Bad Debt Report"). Also included below are the other outstanding, unrecovered costs related to the financial impacts of the declared state of emergency regarding the COVID-19 pandemic: (1) cash working capital; and (2) arrearage forgiveness.[1] With this filing, the Company respectfully requests that the Department of Public Utilities (the "Department") approve recovery.

I. Background

In the December 31, 2020 Order in this proceeding, the Department conditionally approved the consensus provisions of the Ratemaking Proposals submitted by the Ratemaking Working Group regarding the policies and practices for customer assistance and ratemaking measures in connection with the State of Emergency regarding the COVID-19 pandemic. D.P.U. 20-58-D, at 21. The Department directed the Distribution Companies to submit a compliance filing on the consensus ratemaking proposals ("Compliance Report"), which was filed on January 29, 2021, and stamp-approved on June 3, 2021. Id.

Section III.C of the Compliance Report addresses recovery by the Distribution Companies of incremental commodity-related bad debt and delivery-related bad debt. Compliance Report, at 5-6. The Distribution Companies were required to track delivery-related

[1] The Company is not seeking recovery of incremental COVID-19 related operations and management ("O&M") costs or waived fee revenues.

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bad-debt write-offs for two years, from July 1, 2020 through June 30, 2022, with reports to be submitted on August 1, 2022 ("2022 Bad Debt Report").[2] D.P.U. 20-58-D, at 14.

The Compliance Report states that the delivery-related bad-debt report for the period July 1, 2020 through June 30, 2022 should:

> 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. Compliance Report, at 5-6.

The Distribution Companies also proposed to track bad-debt write-offs for the two-year period of July 1, 2022 through June 30, 2024, depending on each utility's timing of base distribution rate case filings, and to submit filings to the Department after that point to commence recovery of the demonstrated incremental amount. D.P.U. 20-91, Distribution Companies' In. Br. at 14; Exh. JDT-1. at 18-19. To this end, the Company files its 2024 Bad Debt Report to provide the total amount of incremental commodity-related bad debt and delivery-related bad debt, as well as other COVID-related incremental costs, to commence recovery.

II. National Grid's Bad Debt Report

National Grid's 2024 Bad Debt Report details actual net charge-offs for the period between July 1, 2020 and June 30, 2024 that are incremental to the amount of bad-debt cost recovery included in base distribution rates. Pursuant to the Compliance Report, the Company determined the incremental delivery-related charge-offs by calculating the normal level of delivery-related bad debt as the higher of the amount included in base distribution rates or the three-year average of the delivery-related net charge-offs for the years 2017, 2018, and 2019. The Company pro-rated the delivery-related bad debt recovery in base distribution rates to more closely align recovery over the 12-month period July 2021 through June 2022 (see Pages 3 and 6). For subsequent years, the Company also increased its delivery-related bad debt recovery in base rates by applying the percentage increase approved in its Performance-Based Ratemaking ("PBR") filings. The derivation of incremental delivery-related net charge-offs for Massachusetts Electric Company and Nantucket Electric Company (the "Electric Companies")

[2] The due date for the 2022 Bad Debt Report was extended until August 8, 2022 (Motion for Extension of Time, Stamp-approved, August 2, 2022).

are provided on Pages 2 – 4 of the 2024 Bad Debt Report, and Pages 5 – 7 provide the incremental net charge-off details for Boston Gas Company (the "Gas Company"),[3] and the Summary on Page 1 provides the incremental delivery-related net charge-offs for the electric and gas companies. These calculations are cumulative in nature and therefore reflect the amounts included in the 2022 Bad Debt Report as well as the amounts pertaining to the latest two year period ending June 30, 2024.

As shown on Page 1, the amount of incremental delivery-related net charge-offs for the Electric Companies is $26,221,345 (actual delivery-related net charge-offs of $130,065,415, less delivery-related bad debt cost recovery in base distribution rates of $103,844,070) and the incremental delivery-related net charge-offs are $0 for the Gas Company (actual delivery-related net charge-offs of $70,509,490 did not exceed the delivery-related bad debt cost recovery in base distribution rates of $70,814,618). These costs are now known and measurable and have not been recovered in a Company rate case. Accordingly, the Company now seeks recovery of these costs.[4] See Co. In. Br. at 13-15; Co. Reply Br. at 4-5; see also AGO In. Br. at 3-4 (acknowledging "some relief from those unpaid customer bills may be reasonable" to be determined once "any incremental bad debt expense costs are 'known and measurable'").

A. Electric Companies Calculation of Delivery-Related Net Charge-offs

The calculation of the higher of the amount included in electric base distribution rates or the three-year average of the delivery-related net charge-offs for the years 2017, 2018, and 2019 is shown on Page 2 of the Bad Debt Report. For each year, the total amount of net charge-offs on a total bill basis is on Line (4). The amount of net charge-offs for each of 2017, 2018, and 2019 reflects adjustments to remove hardship charge-offs, purchase of receivables charge offs, and charge-offs allocated to commodity (Lines (5), (7), and (8)), resulting in delivery-related net charge offs on Line (9)). As shown on Lines (11) and (12), the amount of Delivery-Related Bad Debt in Base Distribution Rates of $25,162,074 is higher than the three-year average of the Adjustment Net Charge Offs Allocated to Delivery of $22,827,873, shown on Line (10). The details of the calculation of the Total Base Distribution Rate Allowance of $25,162,074 are provided on Page 3 of the 2024 Bad Debt Report, and reflect the allowance from D.P.U. 18-150 and percentage increases related to the electric PBR plan. Page 4 provides the details of the delivery-related net charge-offs provided on Page 2 by month for the period July 2020 through

[3] The amounts for the Gas Company include the former Colonial Gas Company.
[4] Additionally, because the incremental bad debt costs are now known and measurable, the Company suggests that the monthly and quarterly reporting could be reduced in frequency or eliminated altogether. The Company, however, will continue to report as directed until a ruling by the Department..

June 2024, along with the monthly Delivery-Related Baseline derived from the baseline calculations from Page 3.[5]

B. Gas Company Calculation of Delivery-Related Net Charge-offs

Pages 5 – 7 of the 2024 Bad Debt Report provide the calculation of the incremental delivery-related net charge offs for the Gas Company based on the same methodology shown on Pages 2 – 4 for the Electric Companies, described above. Page 5 provides the calculation of the higher of the amount of delivery-related bad debt cost recovery in base distribution rates or the three-year average of the delivery-related net charge-offs for the years 2017, 2018, and 2019. For each year, the amount of net charge-offs is shown on Line (4). The amounts of net charge-offs for each of 2017, 2018, and 2019 reflects adjustments to remove hardship charge-offs and charge-offs allocated to commodity (Lines (5) and (7)). As shown on Lines (10) and (11), the amount of Delivery-Related Bad Debt in Base Distribution Rates of $17,013,144 is higher than the three-year average of the Adjustment Net Charge Offs Allocated to Delivery of $14,564,273, shown on Line (9). The details of the calculation of the Total Base Distribution Rate Allowance of $17,013,144 are provided on Page 6 of the 2024 Bad Debt Report, and reflect the allowances from D.P.U. 17-170 and D.P.U. 20-120 effective October 1, 2021 and percentage increases related to the gas PBR plan. Page 7 provides the details of the delivery-related net charge-offs provided on Page 5 by month for the period July 2020 through June 2024, along with the monthly Delivery-Related Baseline derived from the baseline calculations on Page 6.

III. Other COVID-Related Incremental Costs

A. Cash Working Capital

To compute the Company's incremental and recoverable Cash Working Capital ("CWC"), the Company applied the pre-tax weighted average cost of capital ("WACC"), which is consistent with the Department's ratemaking procedures. The Department applies the WACC in calculating CWC associated with the recovery of distribution costs through the distribution cost of service. Exh. JDT-1, at 12. To address the increased need for CWC arising from the lag in base distribution revenue recovery caused by the COVID-19 pandemic, the Company relied on a mixture of resources, including internal cash resources (i.e., equity) and short-term and long-term debt. Exh. JDT-1, at 17. Significantly, the Company did not exclusively use short-term debt to cover its increased needs for CWC. Accordingly, the Company used the pre-tax WACC to calculate its incremental CWC. The Company will update the Department with its

[5] While the Department has yet to issue its Order in the Electric Companies' current rate case dockets as D.P.U. 23-150, the Company did not include these incremental Delivery-Related Bad Debt costs in its request and, therefore, do not expect them to be recovered in its rate case.

total incremental CWC in a later filing once the manner of cost recovery is ruled upon; however, as of March 31, 2021, the Electric Companies' incremental CWC for the first year of the COVID-19 Pandemic is $1,063,287 and the Gas Company's incremental CWC is $2,080,676.

B. Small C&I Arrearage Forgiveness Program

On September 3, 2020, the Department approved the pro forma Arrearage Forgiveness Program ("AFP"), which was intended to encourage small commercial customers to enroll in and successfully complete a payment plan with a duration of up to twelve months. D.P.U. 20-58-C at 8, 10 (2020). The encouragement would be the reduction of the amount of accrued arrearages of eligible small commercial customers and a prohibition on late payment charges and disconnection for the duration of the customer's payment plan. National Grid was approved to make the AFP available through September 30, 2021. D.P.U. 20-58, Stamp-Granted Motion of National Grid to Extend the AFP (June 30, 2021). By January 2023, National Grid did not have any active customers in the AFP. Distribution Companies' Fourth Quarter 2022 Report on the AFP, Cover Letter at 1, D.P.U. 20-58 (Jan. 13, 2023). AFP expenses for the Electric Companies total $837,375 and for the Gas Company total $155,291. The Company should be allowed to recover this full amount. See Co. In. Br. at 11-13.

IV. Conclusion

The Company appreciates this opportunity to submit an updated 2024 Bad Debt Report, along with the additional incremental costs associated with the unprecedented COVID-19 pandemic. The Company now respectfully requests that the Department initiate recovery of these costs.

Please contact me at (351) 666-7799 if you have any questions with respect to today's filing. Thank you for your attention to this matter.[6]

Very truly yours,

Christopher R. Tuomala

cc: Susan Geiser, Hearing Officer
Service list, D.P.U. 20-91

Enclosures

[6] In accordance with the June 15, 2021 Letter on Continuation of Modified Filing Requirements issued by the Department, this filing is being submitted in electronic form only and National Grid will file a paper version when directed by the Department.