nationalgrid

Laura S. Olton
General Counsel
Rhode Island

October 11, 2006

VIA HAND DELIVERY AND ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 3760 - Annual Distribution Adjustment Charge and Earnings Sharing Mechanism
Responses to Division Data Requests – Set 3

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's responses to the third set of the Division Data Requests issued on September 29, 2006, in the above-captioned proceeding. This set includes responses to Division Data Requests 3-1, 3-2, 3-4 through 3-8, and 3-11.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,

Laura S. Olton

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Enclosures

cc: Docket 3760 Service List

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Division Data Request 3-1

Request:

Referring to DIV 1-01, Page 8, please provide details of the non-operating earnings/expense of $79,296,054.

Response:

Please refer to attachment SP-1 page 9.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-2

Request:

Referring to DIV 1-08, please provide a narrative explanation of how the unbilled revenues and gas costs were derived from the amounts on the attachment.

Response:

Attached is a revised response to DIV 1-08. The revised response details the calculations and includes a reference column for ease of calculation. The original attachment was a summation of 12 monthly calculations in lieu of a period over period calculation.

Prepared by or under the supervision of:
Sharon Partridge

New England Gas-Rhode Island Division
Unbilled Revenue & Gas Costs

		Reference	12 Mos Ended 30-Jun-06	Reference
	Total Sendout - Sales (dth)		28,551,594	
	Total Sendout - FT-2 (dth)			
	Total Sendout	GasCost	28,551,594	
	- Non-firm		1,261,314	
	- Navy		0	
	- NGV	CSVolumes+5% LL	18,416	
	- Transportation overtakes		38,645	
	- Transportation undertakes		(94,013)	
	- Transportation storage injections		42,276	
	- Transportation storage w/drawals		1,482	
	- Transportation MIA/DIA		3,721	
	Firm Sendout		27,279,753	
	- Line loss at 2.48%		(700,802)	
(a)	Adjusted Sendout		26,578,952	
	Firm (Res & C&I) Sales	CSVolumes	26,408,025	
	Firm FT-2 Transportation	CSVolumes	0	
	TSS Customers	CSVolumes	68,410	
	+ Company use	CSVolumes	92,125	
	+ Manchester Street Use	CSVolumes	10,049	
	+ Gas lites	CSVolumes	3,452	
	Sales		26,582,061	
	- Prior month Unbilled		(456,022)	
(b)	Adjusted Firm Sales		26,126,039	
(c)	Unbilled Balance		452,913	(a) - (b)
(d)	Weighted avg. Distribution margin per dth		$2.79	
(e)	Weighted avg. GCR/DAC Collections per dth		$11.91	
(f)	Weighted avg. Variable Collections per dth		$14.70	
(g)	Unbilled revenue balance, June 30, 2006		$ 6,659,632	(c) X (d)
(h)	Previous unbilled revenue balance, June 30, 2005		$ 5,460,981	
(I)	Unbilled Revenue		$ 1,198,652	(g) - (h)
(j)	Unbilled gas cost balance, June 30, 2006		$ 5,394,194	(c) x (e)
(k)	Previous unbilled gas balance, June 30, 2005		$ 4,324,741	
(l)	Unbilled Gas Costs		$ 1,069,452	(j) - (k)
(m)	Unbilled Margin		$ 129,200	(i) - (l)

Division Data Request 3-4

Request:

Referring to DIV 1-11, please explain the increase in the CIS amortization.

Response:

The amortization of the CIS system relates to a legacy customer information system that was included in prior rate filings. The system was under amortized and an adjustment was made in fiscal year 2006 for the under amortized portion of the CIS costs. The adjustment for prior fiscal years amounted to $282,000, which predominantly pertained to years 2004 and 2005. The CIS system is not included in rate base.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-5

Request:

Referring to DIV 1-12, please explain the purpose of the $2.6 million Oracle Software System.

Response:

The Oracle and Power Plant system were the financial and plant accounting systems used by New England Gas Company. These systems were implemented in January 2005.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-6

Request:

Referring to DIV 1-12, please explain the $816,000 retirement of the Lawson software, which was installed in 2003.

Response:

The Company implemented the Lawson general ledger accounting system as an intermediate step in the integration of the New England Gas companies onto a common platform. The expectation was that the system would be in place until the companies could be migrated to the Oracle and Power Plant financial systems. The Lawson system is fully amortized and therefore, since the use of the system is limited, the company retired the system.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-7

Request:

Referring to DIV 1-12, please explain the $3.4 million retirement of the Mapper system.

Response:

The Mapper system was the financial accounting system used by the Valley legacy operations. They system has been fully amortized for several years and company retired the system.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-8

Request:

Referring to DIV 1-13, given the increased spending on labor and outside service related to collection efforts (Account 903), please explain the increase in uncollectible accounts expense in Fiscal Year 2006.

Response:

The hurricanes in the summer of 2005 caused gas commodity prices to increase significantly. To prepare for higher customer heating bills, the Company began a more aggressive attempt to contact customers whose accounts were in arrears. The Company wanted to get more customers onto a payment arrangement or to pay the outstanding past due amounts to enable them to manage anticipated higher winter balances and to avoid shut offs. The Company believed it was in the best interest of all rate payers to assist customers in managing their overdue balances or stop service in order to avoid ever increasing amounts due which increases Company aged receivables.

Growing aged receivables results in the requirement for higher reserve balances that ultimately leads to increased uncollectible expense. Unpaid final bills also result in an increase to in uncollectible expense. The proactive actions by the Company were aimed at limiting the growth in aged receivables via payment, acceptable payment arrangement or shut off. The Company's actions were also intended to stop the consumption of gas on those accounts that would ultimately lead to higher aged receivables.
The average annual residential heating customer's bill for fiscal year 2006 was 10% more than in 2005 ($1,516 vs. $1,381). This in a year when the winter was 10% warmer than the winter of 2005. Had the Company not taken these steps to manage the aged receivable balance, we believe bad debt expense would have been significantly higher. The Company believes its prudent actions to manage its aged accounts receivable, resulted in lower bad debt expense.

Prepared by or under the supervision of:
Sharon Partridge

Division Data Request 3-11

Request:

Referring to DIV 1-17, Attachment, Page 3 of 5, please explain the incentive accrual of $1,120,570. The response should explain what this amount represents, how it was determined and why it is charged to pensions and benefits expense.

Response:

The incentive accrual is an estimate of the incentives to be paid to employees if they are able to achieve their performance targets. The incentive targets are based on a percentage of an employee's salary. The accrual for the twelve months ended June 30, 2006 includes the true-up of the calendar 2005 incentive accrual and the estimate for the calendar 2006 payout.

The company charged the incentives to account 926 to track the accrual. The appropriate NARUC account to be charged for incentive compensation is account 920.

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