



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903

(401) 274-4400

TDD (401) 453-0410

*Patrick C. Lynch, Attorney General*

May 1, 2009

***VIA ELECTRONIC FILING AND REGULAR MAIL***

Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888

Re: **Narragansett Electric Company d/b/a National Grid**  
**Motion for Clarification of Order No. 19563- Docket 3943**

Dear Ms. Massaro:

On behalf of the Division of Public Utilities and Carriers (“Division”), I am enclosing an original and nine (9) copies of a Motion for Clarification of the Commission’s Order in the above-referenced proceeding. The Division has discussed the contents of the Motion with National Grid, and I am authorized to represent that National Grid does not object to the Commission granting the requested relief.

Thank you for your attention to this matter.

Very truly yours,

Paul Roberti  
Assistant Attorney General  
Chief, Regulatory Unit

Enclosures

cc: Service List  
Thomas F. Ahern, DPUC Administrator

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**  
**BEFORE THE PUBLIC UTILITIES COMMISSION**

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National Grid – Gas )  
Application to Change Rate Schedules )  
\_\_\_\_\_)

Docket No. 3943

**RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS**  
**MOTION FOR CLARIFICATION OF ORDER NO. 19563**

The Rhode Island Division of Public Utilities and Carriers (“Division”) moves, pursuant to Rule 1.15 of the Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure, for clarification of Commission Order No. 19563 (“Order”) issued on January 29, 2009. The Commission’s decision on the issue of “Size of Rate Base” appears on pages 24-25 of the Order. In its decision on this issue, the Commission rejected an adjustment proposed by the Division to reduce the plant in service included in the rate year rate base. Instead, the Commission approved the Company’s proposed rate year rate base and ordered that if the projected capital spending does not occur, the Company should make an appropriate adjustment. The Division now comes before the Commission and respectfully requests clarification as to how the “appropriate adjustment” should be calculated and how the effect of such adjustment should be reflected in the rates charged to customers. National Grid does not oppose this motion.

## Background

The return on rate base included in the Company's revenue requirement is calculated by multiplying the rate of return by the rate base. As the rate base included in this calculation is the rate year rate base, the elements of that rate base - including the largest component, plant in service - must necessarily rely on forecasts and projections. The Division determined that the actual additions to plant in service were running well below the Company's forecasts and proposed that the plant in service included in the forecasted rate year rate base should be adjusted accordingly. The Commission rejected the Division's proposal, but instead ordered, "in the event that the projected capital spending does not occur prior to the end of the rate year, the Company shall notify the Division and make an appropriate adjustment to reflect the actual lower amount of actual plant in service."

Based on the language in the Order and statements by Commissioners during the open meeting of November 24, 2008 (Transcript 115-118), it is clear that the intent of the Commission was to protect customers from the adverse effect on rates if the Company's forecast of plant additions were ultimately proved to be overstated by actual experience. However, the Order did not specify how the "appropriate adjustment" should be structured and implemented to achieve the intended ratepayer protections.

Additionally, the issue is further complicated by the approved accelerated replacement program ("ARP") that provides for rate adjustments to recognize the incremental cost of the accelerated replacement program, beyond pipeline replacement costs that would be incurred in the normal course of business. The first ARP reconciliation report for the twelve months ending

March 31, 2009 is to be submitted by May 15, 2009 for a rate adjustment effective July 1, 2009.<sup>1</sup> The ARP will entitle the Company to a rate adjustment only to the extent of the capital cost that is incremental to the amount included in base rates in the proceeding.

The Division and the Company have engaged in discussions about the best way to make the appropriate plant adjustment and synchronize that adjustment with the ARP process. Based on these discussions, the Division proposes that a plant adjustment and an ARP process, as described below, be approved by the Commission.

#### Proposed Calculation of Appropriate Adjustment

Pursuant to the Commission's order at Page 25, the Company shall implement a reconciliation of its full capital spending through the period ending September 30, 2009. Because this reconciliation will include spending on the Company's Accelerated Replacement Program ("ARP") through September 30, 2009, the ARP mechanism and associated rate adjustments will incorporate the period beginning October 1, 2009 and thereafter. Consequently the first ARP adjustment will be postponed until 2010 for the Fiscal Year ended March 31, 2010.

When the Company's actual plant in service for the rate year, the twelve months ending September 30, 2009, is available, the actual average balance of net plant in service for that period should be compared to the Company's forecasted rate year net plant in service of \$314,249,000. If the actual average balance of net plant in service for the twelve months ending September 30, 2009 is less than \$314,249,000, then the annual revenue requirement effect should be calculated as the sum of: 1) the reduced return requirement calculated by applying the authorized rate of

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<sup>1</sup> Order page 49.

return, grossed up for income taxes, to the difference between the forecasted average balance of net plant in service and the actual balance of net plant in service, plus 2) the reduced depreciation expense calculated by applying the composite depreciation rate to the difference between the Company's forecasted average balance of gross plant in service of \$589,769,000 and the actual average balance of gross plant in service plus 3) reduced property tax expense calculated by applying the prior fiscal year's ratio of municipal tax expense to the average net plant to the difference in the Company's forecasted average net plant and actual average net plant for the year ended September 2009.

#### Implementation of Appropriate Adjustment

Any adjustment to the Company's revenue requirement resulting from less than forecasted additions to plant in service should be implemented through the Distribution Adjustment Clause ("DAC"). The adjustment should be implemented as of November 1, 2009, which is the implementation date of the first DAC modification subsequent to September 30, 2009. The rate adjustment, if any, should consist of two parts. The first part will represent a one-time refund to customers for the excess revenues recovered by the Company from the effective date of rates in this case through November 1, 2009. The second part will represent an ongoing credit to customers equal to the revenue requirement, including pre-tax return, municipal taxes and depreciation, on the difference in the Company's actual average net plant in service for the twelve months ended September 30, 2009 and the average net plant in service that was included in the Company's cost of service in Docket 3943, or \$314,249,000.

### Required Modification to ARP Mechanism

Because ARP spending through the period ending September 30, 2009 will be reflected as a component of this full Capital Spending reconciliation, the ARP mechanism will commence October 1, 2009. Consequently, the ARP rate adjustment scheduled for July 1, 2009 will be postponed until November 1, 2010, for the fiscal year ended March 31, 2010 ARP spending. For Fiscal Year 2010, the incremental ARP spending not included in base rates will equal the ARP spending during the October 1, 2009 through March 31, 2010 period only. The base spending level for the October 1, 2009 through March 31, 2010 period to be included in the first ARP rate adjustment, if any, will be \$6,650,000 or half the annual base spending level of \$13,300,000. Incremental ARP spending will equal actual ARP spending for the October 1, 2009 through March 31, 2010 period minus \$6,650,000, but shall not be less than zero.

Finally, the Company is not allowed to implement an incremental ARP rate adjustment if it is earning at or above its allowed return on equity. The Company's earnings sharing mechanism is calculated for the twelve months ended June 30<sup>th</sup>. In order to accommodate the current schedule for return calculations and avoid a mid year rate adjustment, the annual ARP rate adjustment should be included with the annual DAC rate adjustment effective November 1<sup>st</sup> and should consist of two parts. The first part will represent a one time charge to customers for ARP annual adjustments that would have been billed for the July through October period. The second part will represent the ongoing charge for the revenue requirement of the cumulative incremental ARP spending amount. The first part will include carrying charges and depreciation on foregone ARP rate adjustment revenues from July 1 through October 31.

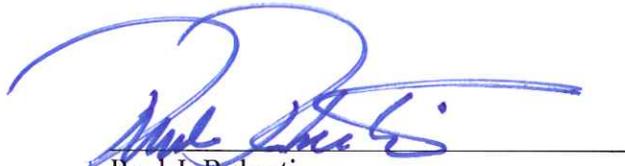
Summary

The Division respectfully requests that the Commission clarify its decision on the “Size of Rate Base” issue as described in this Motion and approve the proposed rate base adjustment mechanism and proposed ARP process as described herein.

Respectfully submitted,

**DIVISION OF PUBLIC UTILITIES  
AND CARRIERS**

By its Attorney,



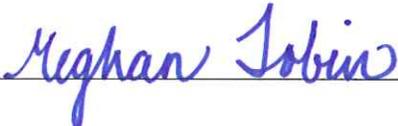
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Paul J. Roberti  
Assistant Attorney General  
150 South Main Street  
Providence, RI 02903  
Tel: (401) 274-4400  
Fax: (401) 274-4400  
Email: [proberti@riag.ri.gov](mailto:proberti@riag.ri.gov)

Dated: May 1, 2009

**CERTIFICATION**

I hereby certify that on this 1st day of May, 2009, I electronically served and mailed a copy of the within pleading to all parties on the Service List compiled by the Clerk in Docket 3943.

  
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