

September 5, 2008

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket 3943 – National Grid Request for Change of Gas Distribution Rates  
Responses to Division Data Requests**

Dear Ms. Massaro:

Enclosed please find eight (8) copies of National Grid's<sup>1</sup> responses to the fourteenth set of data requests issued by the Division in the above-referenced proceeding. Attached is a listing of the outstanding data requests for which the Company has not yet provided a response. The Company is endeavoring to file these responses as soon as possible.

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

Very truly yours,



Thomas R. Teehan

Enclosures

cc: Docket 3943 Service List

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<sup>1</sup> The Narragansett Electric Company d/b/a National Grid ("Company").

Outstanding Responses to Information Requests as of September 5, 2008

Data Request RIH-JS-3  
Data Request COMM 2-1  
Data Request COMM 2-2  
Data Request COMM 2-3  
Data Request COMM 2-4  
Data Request COMM 2-5  
Data Request COMM 2-6  
Data Request COMM 2-7  
Data Request COMM 2-9  
Data Request DIV 13-4  
Data Request DIV 13-7  
Data Request DIV 14-5



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Division Data Request DIV 14-1

Request:

What is National Grid PLC's target capital structure for all time periods the company has set its targets?

Response:

National Grid plc does not target a specific capital structure but rather has other financial targets that it sets for itself. In particular, National Grid targets an FFO interest cover ratio of between 3.0 and 3.5 times and an overall credit rating in the single A range for its UK utility operating companies.

Division Data Request DIV 14-2

Request:

On page 40, lines 14-16 of Mr. Moul's direct testimony he states, "...the companies in his group that already have RDM-type features include..."

- 1) Please provide all documents used to determine the RDM-type features of the companies in Mr. Rothschild's group.
- 2) If no documents were used please provide a description of the features of each RDM-type program for all the companies in Mr. Rothschild's group.

Response:

- 1) The documents employed by Mr. Moul to establish whether a company had RDM-type features were determined from financial reports available to investors (i.e., Forms 10-K).
- 2) Attached is a summary of the tariff features for each company that were determined from the public information referred to in item (1) above.

**AGL Resources, Inc.**

Weather Normalization Adjustment Rider (TN)	For residential, multi-family and C&I General Service customers from November - April annually. Implemented in 1991, it uses predetermined factors as determined in a rate case of a Weighted Average Non-Gas Base Rate, a Heat Sensitive Factor, and a Base Load factor for each customer class in CCF along with the difference between Normal and Actual Degree Days to calculate an adjustment.
Interruptible Margin Credit Rider (TN)	Interruptible Margin Credit Rider applies to firm customers and recovers 90% of fiscal year annual gross margin losses resulting from negotiated rate contracts and 50% of gross margin losses resulting from off-system sales transactions.
Performance-Based Ratemaking Mechanism (PBRM) (TN)	The PBRM is a trigger for a reporting mechanism, not a cost-sharing mechanism. Commencing each July 1, an annual index is created that establishes predetermined monthly benchmark indices against which actual commodity gas costs are compared. Annual reporting required if there is a minimum 1% overrun deviation at the end of the plan year, and monthly reporting required if there is a deviation of over 2% for any month.
Rider B - Weather Normalization Clause (WNC) (NJ)	Applicable October - May annually to residential, multi-family and general service customers. Uses three factors: 1) Degree Days - Takes difference in degree days from a monthly list of degree day factors determined in each rate case with a 0.5% deadband; 2) Consumption Factor - Takes difference in number of customers and therms per degree day, using a monthly listing of baseline values for each updated annually; 3) Margin Revenue Factor - Weighted average of tail block margin of Distribution Charges, set at \$.2242/therm in most recent rate case.
Rider C - On-System Margin Sharing Credit (OSMC) (NJ)	Monthly per therm credit for all full-service and residential transportation customers to reflect system margin over-recovery. One rate for all classes and period months set annually on July 31, utilizing an annual program period of July 1 - June 30.
Rider D - Societal Benefits Charge (SBC) including NJ Clean Energy Program (NJ)	Monthly per therm charge, applicable to all service classes except special contracts, that has 4 specified components representing charges for: 1) New Jersey Clean Energy Program (CEP); 2) Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation; 3) Energy Education Charge (EEC); and 4) Universal Service Fund Lifeline (USF). Each component is a per therm charge (same per month), determined annually. Each of the CEP, the RAC and the EEC have annual recovery periods of October 1 - September 30 of expenses incurred for the previous 12 months ended June 30, with annual filing by July 31.
Rider B - Energy Conservation Cost Recovery Adjustment (ECCR) (FL)	Per therm charge applied monthly and determined annually for each of 9 rate classes to recover conservation expenditures. Each rate class has a different charge that is the same each month. Annual program period commencing each January 1.
Rider C - Competitive Rate Adjustment (CRA) (FL)	Per therm adjustment to recover the difference in annual revenues from special contracts compared to tariff rates. Annual adjustment period January 1 - December 31 to recover or refund amounts of the annual determination period of 12 months ended September 30. Adjustment rate is the same per class and therm over the adjustment period, using sales forecasts and annual true-ups.
Rider B, the Experimental Weather Normalization Adjustment Rider, was filed and effected as of October 3, 2002. (VA)	First WNA approved in the State of Virginia - filed in April, 2002 and effective October 3, 2002. For residential, multi-family and general service customers from November - May annually. Uses predetermined (@ each rate case) factors of a Weighted Average Non-Gas Base Rate and a Customer Usage Per Degree Day rate that are multiplied by the number of bills issued in that billing cycle and the difference between Normal and Actual Degree Days. This product is divided by the aggregate volume of gas billed in that cycle for each customer class in CCF to calculate an adjustment.
Straight Fixed Variable Rates (SFV) (GA)	SFV is a method of determining demand and commodity rates whereby all costs classified as fixed are assigned to the demand component. Required through SB 215, Georgia's 1997 Natural Gas Competition and Deregulation Act; Effective July, 1998.

Pipeline Replacement Program (PRP) Cost Recovery Rider (GA) Recovers costs of replacing bare steel and cast iron pipe. Approved in September, 1998 and applicable to 6 Firm distribution rate class schedules, until June, 2005 was equal to a forecast amount of associated costs for a year divided by the estimated number of customers in those rate classes. A Stipulation Agreement was reached on June 10, 2005 in a general rate case 18638-U whereby each class pays a fixed monthly charge depending on their classification. A specific scheduled monthly per customer charge was set for residential and small service classes, with the General G-11 service class paying 3x and the General - Conditional G-12 service class paying 12x the residential and small service amount of \$1.29 through 9/30/07, and \$1.95 after.

Social Responsibility Cost Rider (SRC) (GA) Senior citizens at least 65 with a maximum annual income of \$12,000 receive a maximum \$14 monthly credit. The SRC rider recovers \$10.50 of that amount, and is charged to remaining residential customers during the following month as a per customer charge.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weather Normalization Adjustment Rider (TN)	X	X	X	X	X	X
Interruptible Margin Credit Rider (TN)	X	X	X			
Performance-Based Ratemaking Mechanism Rider B - Weather Normalization Clause (WNC)	X	X	X	X	X	X
Rider C - On-System Margin Sharing Credit (OSMC) (NJ)	X	X	X	X	X	X
Rider D - Societal Benefits Charge (SBC) including NJ Clean Energy Program (NJ)	X	X	X	X	X	X
Rider B - Energy Conservation Cost Recovery Adjustment	X	X	X			
Rider C - Competitive Rate Adjustment (CRA) (FL)	X	X	X			
Rider B, the Experimental Weather Normalization Adjustment Rider, was filed and effected as of October 3, 2002.	X	X	X	X	X	
Straight Fixed Variable Rates (SFV) (GA)	X	X	X	X	X	X
Pipeline Replacement Program (PRP) Cost Recovery Rider (GA)	X	X	X	X	X	X
Social Responsibility Cost Rider (SRC) (GA)	X	X	X	X	X	

**Atmos Energy Corp.**

Weather Normalization Adjustment Rider (TX) (LA) (KN) (TN) (GA) (KY) (MS) WNA in the Mississippi Valley subsidiary is applicable to the non-gas charge billing components for November - May. Total usage is adjusted by a Normalized Consumption formula in which estimated daily Baseload (Non-Heating) Consumption, equal to either the most recent actual non-heating period use or a set factor depending on customer class, is multiplied by the number of billing days in the period and added to the product of Actual less Baseload Consumption multiplied by the ratio of Normal Heating Degree Days to Actual. Variations of the WNA are also in effect in Texas, Kansas, Tennessee, Georgia, Louisiana and Kentucky.

Gas Reliability Infrastructure Program (GRIP) (TX) Gas Reliability Infrastructure Program (GRIP) allows natural gas utilities the opportunity to include in their rate base annually approved capital costs incurred in the prior calendar year. Natural gas utilities that enter the program will be required to file a complete rate case at least once every five years.

Rate Stabilization Clause (RSC) Return stabilization mechanisms approved in LA & MS.

Performance Based Rate Program In February 2006, the KPSC approved the company's request to continue the performance-based ratemaking mechanism for an additional fiveyear period. Under the performance-based mechanism, the company and customers jointly share in any actual gas cost savings achieved when compared to pre-determined benchmarks. Rates are also subject to WNA.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weather Normalization Adjustment Rider	X	X	X	X	X	X
Gas Reliability Infrastructure Program (GRIP) (TX)	X	X				
Rate Stabilization Clause (RSC)	X	X	X	X	X	X
Performance Based Rate Program	X	X	X	X	X	X

**New Jersey Resources Corp.**

Weather Normalization Clause	Effective during the Winter Period (8 months: October 1-May 31) and updated annually using as a basis normal Degree Days from the 20 yr. weighted average of the NOAA First Order Weather Observation Stations at 3 locations (Newark, Philadelphia, Atlantic City airports). Stabilizes revenues and minimizes customer bill volatility, but diminishes upside earnings potential.
Clean Energy Program Clause	Recovery of funds expended under a state-sponsored Clean Energy Program. Per therm charge, determined annually and recovered over 12 month period commencing October 1, to recover estimated forward year expenses and any over/under recovery of previous year's expenses. Same charge applicable to 16 different rate classes. Uses a forward estimate of both costs and therm sales for an annual period, with true-up over the next year. Interim filings to adjust the charge is allowed if actual collections indicate a large divergence of forecast vs. actual.
Societal Benefits Charge (SBC) that is inclusive of the NJ Clean Energy Program (NJ)	Monthly per therm charge, applicable to all service classes except special contracts, and includes components for: 1) New Jersey Clean Energy Program (CEP); 2) Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation; 3) Energy Education Charge (EEC); and 4) Universal Service Fund Lifeline (USF).
Conservation Incentive Program (CIP)	The CIP is a three-year pilot program, designed to decouple the link between customer usage and NJNG's utility gross margin to allow NJNG to encourage its customers to conserve energy. For the term of the pilot the existing WNC would be suspended and replaced with the CIP tracking mechanism, which addresses utility gross margin variations related to both weather and customer usage in comparison to established benchmarks. Recovery of such utility gross margin variations is subject to additional conditions including an earnings test and an evaluation of Basic Gas Supply Service (BGSS)-related savings achieved.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weather Normalization Clause	X	X	X	X	X	X
Clean Energy Program Clause	X	X	X	X	X	X
Societal Benefits Charge (SBC) that is inclusive of the NJ Clean Energy Program (NJ)	X	X	X	X	X	X
Conservation Incentive Program (CIP)	X					

**Northwest Natural Gas**

Distribution Margin Normalization A "conservation tariff," which is a rate mechanism designed to adjust margins for changes in average consumption patterns due to residential and commercial customers' conservation efforts. The tariff is a partial decoupling mechanism that is intended to break the link between earnings and the quantity of gas consumed by customers, removing any incentive for the utility to discourage customers' conservation efforts.

'Weather Normalization In November 2003, the OPUC authorized, and the company implemented, a weather normalization mechanism in Oregon that helps stabilize utility margins by adjusting residential and commercial customer billings based on temperature variances from average weather. The current normalization mechanism is applied to residential and commercial customers' bills between December 1 and May 15 for each heating season. The mechanism adjusts the margin component of customers' rates to reflect "average" weather using the 25-year average temperature for each day of the billing period.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Distribution Margin Normalization	X	X	X	X	X	
'Weather Normalization	X	X	X	X		

**Piedmont Natural Gas Co.**

Weather Normalization Adjustment (WNA)	Implemented in South Carolina and Tennessee in 1993. Implemented in North Carolina in 1991 but discontinued in favor of a Customer Utilization Tracker in 2005. WNA mechanisms partially offset weather impacts. Affects bills rendered November - March. In NC and TN, adjustments made directly to customers' bills. In SC, adjustments calculated per individual customer, recorded in a deferred account and applied to base rates for all customers in the class. Utilizes 30-year historical normal data.
Customer Utilization Tracker (CTU)	Replaced the WNA mechanism in NC in 2005 as part of a general rate case. CTU is a 3 year experimental rider revenue decoupling mechanism effective to November 1, 2008. To gain the CUT, Piedmont agreed to a \$500K annual contribution for conservation programs, to be chosen jointly with NC Attorney General and Public Staff. Rates are adjusted twice yearly to reflect margin true-up - April 1 (for under/overrecovery to most recent Jan. 31) and November 1 (for under/overrecovery to most recent August 31).
Revenue decoupling mechanism (NC)	Effective in North Carolina as of November 1, 2005.
Uncollectible Expense - Gas Component Recovery	Effective in North Carolina as of November 1, 2005.
Pipeline Integrity Management Regulations (USDOT)	In both of their NC entities - Piedmont Natural Gas and North Carolina Natural Gas, effective December 2004, received approval from the North Carolina Utilities Commission to segregate O&M and payroll compliance costs of PIM compliance (estimated at \$3MM annually over several years) into a deferred account and postpone and lengthen recovery, after a prudence review, until the next general rate case for each entity. Continued per the 2005 rate case.
Rate Stabilization Mechanism	On February 16, 2005, the Natural Gas Rate Stabilization Act of 2005 became effective in South Carolina. The law provides electing natural gas utilities, including Piedmont, with a mechanism for the regular, periodic and more frequent (annual) adjustment of rates which is intended to: (1) encourage investment by natural gas utilities, (2) enhance economic development efforts, (3) reduce the cost of rate adjustment proceedings and (4) result in smaller but more frequent rate changes for customers. If the utility elects to operate under the Act, the annual filing will provide that the utility's rate of return on equity will remain within a 50-basis points band above or below the current allowed rate of return on equity.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Weather Normalization Adjustment (WNA)		X	X	X	X	X
Customer Utilization Tracker (CTU)	X	X				
Revenue decoupling mechanism (NC)	X	X				
Uncollectible Expense - Gas Component Recovery	X	X				
Pipeline Integrity Management Regulations (USDOT)	X	X	X			
Rate Stabilization Mechanism	X					

**South Jersey Industries, Inc.**

Temperature Adjustment Clause (TAC)	Through September 30, 2006, SJG's tariff included a TAC to mitigate the effect of variations in heating season temperatures from historical norms. Each TAC year ran from November 1 through May 31 of the following year. Once the TAC year ended, the net earnings impact was filed with the BPU for future recovery. As a result, the cash inflows or outflows generally would not begin until the next TAC year. Because of the timing delay between the earnings impact and the recovery, the net result can be either a regulatory asset or liability.
New Jersey Clean Energy Program (NJCEP)	This mechanism recovers costs associated with SJG's energy efficiency and renewable energy programs. NJCEP adjustments affect revenue and cash flows but do not directly affect earnings as related costs are deferred and recovered through rates on an on-going basis.
Remediation Adjustment Clause (RAC)	Remediation Adjustment Charge (RAC) for costs incurred in manufactured gas plant remediation
Universal Service Fund Lifeline (USF)	The USF is a statewide program through which funds for the USF and Lifeline Credit and Tenants Assistance Programs are collected from customers of all New Jersey electric and gas utilities.
Conservation Incentive Program (CIP)	The primary purpose of the CUA is to promote conservation efforts, without negatively impacting financial stability and to base SJG's profit margin on the number of customers rather than the amount of natural gas distributed to customers. In October 2006, the BPU approved the CUA as a 3-year pilot program and renamed it the Conservation Incentive Program. Each CIP year begins October 1 and ends September 30 of the subsequent year. On a monthly basis during the CIP year, SJG records adjustments to earnings based on weather and customer usage factors, as incurred. Subsequent to each year, SJG will make filings with the BPU to review and approve amounts recorded under the CIP. BPU approved cash inflows or outflows generally will not begin until the next CIP year.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Temperature Adjustment Clause (TAC)	X	X	X	X	X	X
New Jersey Clean Energy Program (NJCEP)	X	X	X	X	X	X
Remediation Adjustment Clause (RAC)	X	X	X	X	X	X
Universal Service Fund Lifeline (USF)	X	X	X	X		
Conservation Incentive Program (CIP)	X					

**WGL Holdings, Inc.**

Revenue Normalization Adjustment (RNA) Clause (MD) RNA in effect within state of Maryland since 1999 (BG&E), implemented at WGL October 1, 2005. Columbia Gas of Maryland and Chesapeake Utilities has a WNA in lieu of the RNA. Compares target or recent base rate determination of revenue against actual revenues, adjusted for growth. Adjustments to the monthly Distribution Charge for each of 6 applicable rate classes. Monthly computation comprised of a current factor and a reconciliation factor that has a 2 month lag.

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Revenue Normalization Adjustment (RNA) Clause (MD)	X	X				

Division Data Request DIV 14-3

Request:

On page 15, lines 17-19 of Mr. Moul's rebuttal testimony he states, "... they do not accurately state National Grid PLC's ratios in accordance with U.S. Generally Accepted Accounting Principles ("US GAAP").

- 1) Please provide a copy of the description of the Generally Accepted Accounting Principle(s) Mr. Moul is referring to.

Response:

For regulatory purposes in the UK, National Grid plc reports its leverage and calculates its earned returns based on net debt, i.e., total debt outstanding less cash, cash equivalents and marketable securities. Also, the credit rating agencies evaluate National Grid plc's credit profile based on net debt as well. It is the understanding of Mr. Moul that under US GAAP the regulatory treatment of an item generally governs how it is accounted for.

Division Data Request DIV 14-4

Request:

On page 17, lines 7-9 of Mr. Moul's rebuttal testimony he states, "Differences in the methodology used to set rates for National Grid's regulated businesses in the UK and in Rhode Island make it inappropriate to use National Grid plc's capital structure..."

- 1) Please provide a copy used by Mr. Moul to determine the methodology used to set rates in the UK.
- 2) If Mr. Moul did not rely on any documents please provide a description of the methodology as offered by the regulatory body in the UK.

Response:

Attachment DIV-14-4 is the document provided by the Company to Mr. Moul to determine the methodology used to set rates in the UK.

## UK Regulation and RAV

### Introduction

This paper explains the adjustments that are required to the National Grid plc consolidated capital structure to reflect the different approaches to regulatory asset valuations in the UK and US.

### UK regulation

In UK utility regulation, the regulator, the Office of Gas and Electricity Markets (OFGEM), sets revenues for a five year period. These revenues are designed to deliver an appropriate return to shareholders, and debt holders, while covering operating costs and income taxes.

To compensate investors of capital for historic investment and for future capital investment, UK regulators allow an amount of revenue equal to a calculated level of depreciation, and a calculated return, both calculated using the "Regulated asset value" or RAV.

This RAV is a number that was fixed, by the regulator, as an appropriate value for the business when the businesses were created as listed companies in the mid 1980s, early 1990s. At that time, the RAV was established at a level that was significantly higher than the depreciated original (historic) cost of the regulated assets. As a result of this initial increase in asset values for regulatory purposes, the cash flows from depreciation and return have exceeded the levels that would have been allowed from the business had the net book value approach used in the United States been applied to these assets.

This initial difference has continued and grown since privatization. Since the RAV was initially set, it has been indexed by inflation each year so that it maintains its value in real terms. In addition, qualifying investments made in the year ("capex") are added and depreciation based on the economic value of the RAV is deducted. Because this depreciation amount has been calculated by assuming a depreciation profile on the existing RAV (which exceeded net book value initially and has been adjusted for inflation since privatization), the depreciation allowance produces significantly higher cash flow than straight line depreciation based on depreciated original costs. Similarly, the asset base on which the regulated operations are valued is increased over time, while the return applied to the higher asset base is determined using an allowed real return on capital **excluding** inflation. This approach also produces a different pattern of cash flows from the regulated business. Rather, than the front-loaded return that is associated with original cost rate-making in the US, the cash flows in the UK are higher in the later years associated with higher asset values, and lower in the initial years, because the lower return is applied to plant when it first enters service. When applied to a going concern with an asset base that includes an array of plant which has been installed at different times, the cash flows from UK regulation differ significantly from those in the US.

Because of these differences in initial valuation and the escalation of asset values with inflation, when considering debt to capital ratios for UK utility businesses, credit rating agencies ignore accounting balance sheets and use RAV instead in their gearing calculations. Moody's have made it clear that debt/RAV is one of their key metrics for most UK regulated utility businesses.

A comparison of the US and UK regulatory approaches is set forth in the following table. The US regulatory framework provides allowances for operating costs, taxes and return on / of capital. The UK system provides similar allowances, the key difference being that the return on capital is profiled differently over time than under the US system.

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Item	US regulation	UK regulation
Operating costs	Allowance based on test year or forward projections	Allowance based on 5 year projections with some true up of non-controllable costs
Property taxes	Allowance based on test year or forward projections, with some degree of true-up.	Allowance based on 5 year projections, with some degree of true-up
Income taxes	Allowance in rates based on calculated tax rate, taking account of capital allowance, etc	Allowance in rates.
Return of capital	Annual depreciation allowance (based on book value)	Annual depreciation allowance (based on Regulatory Asset Value). Note that depreciation is based on RAV rather than book value – providing a higher depreciation allowance than reflected on the Company's books.
Return on capital	Actual debt costs and allowed <b>nominal</b> ROE applied to capital structure (based on book value)	Calculation of efficient debt financing costs and allowed return on equity used to calculate allowed <b>real</b> return which is applied to RAV and reflected in revenues. Inflation part of return allowance provided through annual application of inflation to RAV

Any suggestion that RAV does not represent the underlying value of the business is untrue. It is used by most independent equity analysts and by the credit-rating agencies when valuing the businesses.

The UK system carries out revenue requirement calculation in real terms (including projections of O&M, etc) to generate a profile of annual required revenues. The allowed return on capital is set at a 'real' rate and this is applied to RAV. This return excludes a direct allowance for inflation. The inflation-related part of the allowed return is provided by inflating the RAV by inflation each year. The net effect is that in the absence of any out- or under-performance, the business is worth exactly RAV today. The effect of UK regulation is to spread the return over a longer time period (as the initial lower return is offset by the return provided on the inflated asset base over time), but to still provide investors with an equity return which exactly matches the allowed cost of equity. As such, the timing and mechanisms of recovery are different between the US and UK, and in the UK the inflation of RAV is part of the return which is required to ensure that the asset is worth exactly RAV in today's money.

For this reason, the UK calculations by ratings agencies are all based on RAV, and book financials have no direct input to the calculation.

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To adjust the US GAAP book value of the consolidated National Grid Group to a more appropriate measure for credit rating purposes, an adjustment to reflect the RAVs of the UK regulated businesses is necessary. The first step is to strip out the US GAAP enterprise value of the UK utility businesses from the National Grid Group consolidated accounts. This requires the external balances only to be stripped out (because inter-company balances would be eliminated in consolidation anyway). It also requires net debt on the books of the regulated companies to be removed from liabilities so that the enterprise value rather than the equity only value is removed and ensure consistency. The next step is to add back the RAV of each business. The RAVs come from National Grid calculations based on numbers published by the regulator, rolled forward as described by the addition of capex, reduction for depreciation and increases due to inflation.

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Division Data Request DIV 14-6

Request:

Please provide the cost of short-term debt that was projected by the company in 2005, 2006 and 2007.

- 1) Provide a comparison of the company's projected cost of short-term debt with what their actual cost of short-term debt was in those years.
- 2) If the company did not make short-term debt cost projections please provide what those short-term debt projections would have been if the same methodology had been used as was done to calculate the current projected cost of short-term debt.

Response:

The Company's actual cost of short-term debt for calendar years 2005, 2006 and 2007 was 3.46%, 5.08% and 5.31%, respectively. The Company's projected cost of short-term debt assumed in its business plans for 2005, 2006 and 2007 is 3.25%, 4.44% and 5.31%, respectively.