REBUTTAL TESTIMONY

OF

MICHAEL D. LAFLAMME

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I. INTRODUCTION AND QUALIFICATIONS

Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.

A. My name is Michael D. Laflamme. Since the April 1, 2008 filing of a Request for Changes of Gas Distribution Rates for National Gird Rhode Island – Gas ("National Grid" or the "Company"), Docket No. 3943, my title changed from Director of Revenue Requirements to Vice President of Regulation and Pricing and my business address changed from 55 Bearfoot Road, Northborough, MA 05132 to 201 Jones Road, Waltham MA 02451.

Q. DID YOU PREVIOUSLY PROVIDE DIRECT TESTIMONY IN THIS PROCEEDING ON THE COMPANY'S REVENUE REQUIREMENT IN DOCKET NO. 3943?

A. Yes I did.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. On July 28, 2008, the Rhode Island Division of Public Utilities and Carriers ("Division") submitted the direct testimony of Mr. David J. Effron and Mr. Bruce R. Oliver in the current case. The purpose of this rebuttal testimony is to respond to certain issues raised by Mr. Effron and Mr. Oliver. In addition, I will discuss certain corrections being made to the Company's total cost of service related to undisputed adjustments proposed by the Division, errors discovered during the Discovery process and an incremental expense adjustment related to FAS112 just recently identified by the Company. A summary of all cost of service adjustments including the disputed Division adjustments as discussed in this testimony and in the rebuttal testimony of Company Witnesses Mongan and Moul is included on Attachment – MDL Rebuttal-1.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. The issues addressed in this rebuttal testimony pertain to cost of service adjustments proposed by Mr. Effron and Mr. Oliver related to medical and dental expenses, bad-debt expense and merger synergies and costs to achieve. I will address each issue individually. In addition I will respond to the Division's position with regard to the Company's proposed reconciliation of gas cost-related uncollectible costs, the Accelerated Replacement Program and the proposed Pension and Post-Retirement Benefits other than Pension ("PBOPs") reconciliation mechanism.

Q. ARE THERE ANY ATTACHMENTS ACCOMPANYING YOUR TESTIMONY?

A. Yes. Attached to my testimony are the following attachments:

Attachment NG-MDL Rebuttal - 1	Summary revised cost of service
Attachment NG-MDL-Rebuttal - 2	FAS112 Actuarial Study for the twelve months ended March 31, 2008
Attachment NG-MDL-Rebuttal - 3	Narragansett Electric A-60 Rate Classification Uncollectible Rate Experience

Attachment NG-MDL Rebuttal - 4	Revised National Grid/Southern Union Net Synergy calculation
Attachment NG-MDL-Rebuttal - 5	Revised National Grid/KeySpan Net Synergy calculation
Attachment NG-MDL-Rebuttal - 6	Revised Accelerated Replacement Plan Illustrative Revenue Requirement Calculation

III. MEDICAL AND DENTAL EXPENSES AND FAS112 EXPENSE

Q. THE DIVISION HAS PROPOSED TO ELIMINATE THE COMPANY'S ADJUSTMENT FOR MEDICAL AND DENTAL EXPENSES. DOES THE COMPANY AGREE?

A. No. National Grid is a self-funded entity, providing healthcare to its employees, and their qualified dependents as well as to certain retirees and their qualifying dependents. In order to establish an appropriate budget amount for health care costs, as well as to determine the appropriate cost sharing splits between the Company and its employees, a rate called a "premium equivalent" is established for these self-funded benefits. To determine the future year's claims costs, a mature cycle of claims must be reviewed to account for varying incurrence of health care costs by participants. By actuarial standards, a mature claims cycle would represent a minimum of 15 months of claims history (12 months incurred and paid in 15 months) for any given population. These incurred claims are then adjusted for trend, geography and any plan design adjustments, and then annualized to determine the actuarial assumption of the future year's claims to be incurred. As indicated in the Company's response to Data Request DIV 1-14, each year, Towers Perrin, the Company's consultant regarding medical and dental related matters, develops estimated health care costs using actual claims data for our more credible populations and applies actuarial assumptions to that data using population demographics to assess costs for our smaller less credible populations such as the National Grid – Rhode Island Gas employees. This process was followed in developing the premium equivalent rate for calendar year 2008 and the basis for the Company's rate year health care cost estimates. The Division proposal of reducing rate year medical and dental expenses is based on actual expense recorded by the Company for the period October 2007 through April 2008. Based on the previous discussion, the Company does not believe that seven months of actual claims data is a representative sample for estimating the level of health care actual claims that can be expected over the long term. However, in relation to the FAS 112 expense issue discussed below, see the Company's proposal with respect to Mr. Effron's adjustment to of medical and dental expenses.

Q. EARLIER YOU MENTIONED THAT THE COMPANY HAS IDENTIFIED INCREMENTAL EXPENSES RELATED TO FAS 112. WOULD YOU PLEASE EXPLAIN?

A Just recently, the Company discovered that it had not accrued expenses related to FAS112 for the test year ended September 30, 2007. FAS112 relates to post-employment benefits, primarily short-term and long-term disability benefits and health care costs associated with those claimants and their qualified dependents and/or beneficiaries. Because no such expense was recorded for the test year period, no such expense is reflected in the rate year in this proceeding. However, the most recent actuarial study received by the Company, dated December 19, 2007 for the twelve months ended March 31, 2008 period, indicates that the FAS 112 expense for the Rhode Island gas operations for that period amounted to $912,846. A copy of that actuarial study is included herewith as Attachment NG-MDL Rebuttal-2. The Company recorded the full $912,846 amount during the fiscal year ended March 31, 2008 over the December 2007 through March 2008 period, outside the test year period. Typically, FAS112 expenses are accrued at the same level as indicated in the most recent actuary report. As such, for the fiscal year ended March 31, 2009, the Company is currently accruing at an annual rate of $900,000 at the advice of our actuary. Similar to medical and dental expenses, FAS 112 expense is affected by actual claims experience along with actuarial assumptions in developing annual expense amounts. Given the comparability of the amount of the Division’s medical and dental expense adjustment, and the inadvertently omitted FAS 112 costs, along with the uncertainties surrounding actual claims impacts, the Company suggests that these two adjustments should be treated as offsetting and therefore proposes that no adjustment to the originally filed cost of service be made for either.

IV. BAD DEBT EXPENSE

Q. WHAT IS THE DIVISION'S PROPOSED ADJUSTMENT TO BAD DEBT EXPENSE?

A. The total adjustment to rate year bad-debt expense being proposed by the Division amounts to ($688,000) and is summarized on Schedule DJE-3 of the testimony of Mr. Effron.

Q. WOULD YOU PLEASE DESCRIBE THE COMPONENTS OF THE DIVISION ADJUSTMENT TO RATE YEAR BAD DEBT EXPENSE?

A. Yes. The proposed Division adjustment consists of two components. The first component, totaling ($273,000), relates to bad debt expense associated with the total revenue requirement adjustments being proposed by Mr. Effron. This amount was calculated by applying the Company's bad debt rate to Mr. Effron's revenue requirement adjustments [($10,822,000) / (1 – 2.46%) –$10,822,000 = ($273,000)]. The second component relates to an adjustment proposed by Mr. Oliver totaling ($415,000) pertaining to the Company's low-income discount proposal.

Q. WOULD YOU PLEASE RESPOND TO THESE PROPOSED ADJUSTMENTS?

A. Yes. The Company concurs with the Division that an adjustment to rate year bad debt expense is appropriate for adjustments to the revenue requirement ultimately approved by the Commission in this proceeding. The actual amount of the adjustment should be determined based on that final revenue requirement determination. However, the Company does not agree with the second adjustment relating to perceived bad debt expense savings pertaining to the low-income discount proposal.

Q. WHAT WAS THE BASIS FOR THE ADJUSTMENT TO RATE YEAR BAD DEBT EXPENSE RELATED TO THE LOW INCOME DISCOUNT PROPOSAL?

A. As explained in the testimony of Mr. Oliver at Page 72, the Division is recommending:

> …that the Commission lower the Company's claimed uncollectible accounts expense by 50% of estimated costs of the offered rate discounts, or $415,169. This recognizes that a large portion of the discount amounts would likely become future uncollectible accounts expenses in the absence of the offered discounts, and it shares the risk associated with the effectiveness of those discounts between the Company and its ratepayers.

Q. DOES THE DIVISION OFFER ANY EVIDENCE TO SUPPORT ITS CONCLUSION REGARDING THIS ADJUSTMENT?

A. No. Mr. Oliver assumes that lowering the amounts billed to low income customers by the proposed 10% discount will reduce the likelihood that a customer's account will become uncollectible and therefore reduces the amount that becomes an uncollectible accounts expense if participating customers continue to have bill payment problems.

Q. DOES THE COMPANY SHARE THAT VIEW?

A. No it does not. Experience with low-income discounts for Narragansett Electric Company's ("Narragansett Electric") electricity delivery rates in Rhode Island does not support Mr. Oliver's claim. Attachment NG-MDL Rebuttal–3 provides some history of net uncollectible costs related to Narragansett Electric billings to its low income A-60 rate classification. As shown on that attachment for the twelve month periods ended July 2005 through 2008, the actual uncollectible rate for Narragansett Electric's A-60 rate classification has steadily climbed from 4.9% to 8.2%. Over this same period, A-60 customers received an incremental discount related to a settlement in Docket No. 3710 that significantly increased the annual discount commencing January 1, 2006. This attachment indicates that there is no correlation between the introduction of new or incremental low-income discounts and the rate of uncollectible costs. Consequently, while the Company is proposing a 10% discount to eligible low-income customers, there is no evidence to suggest that the Company's uncollectible accounts expense rate will decrease. Quite the contrary, given that customers are experiencing significant economic pressures in addition to the Company's required increase in gas delivery prices, the Company's uncollectible accounts expense rate related to delivery prices may very well increase over that of historical levels being requested in this proceeding, for which the Company assumes 100% of the risk.

Q. SHOULD THE COMMISSION ACCEPT THE DIVISION'S PROPOSED ADJUSTMENT TO RATE YEAR BAD DEBT EXPENSE?

A. No it should not. While the Company concurs that an adjustment to bad debt expense related to the ultimate adjustments to the Company's revenue requirement is appropriate, as previously discussed, there is no evidence supporting the ($415,000) adjustment related to the perceived Company bad debt expense benefit of its low income discount proposal.

V. <u>MERGER SYNERGY SAVINGS AND COSTS TO ACHIEVE</u>

Q. PLEASE DESCRIBE THE DIVISION'S ADJUSTMENTS TO THE PROPOSED SHARING OF MERGER SYNERGY SAVINGS AND COSTS TO ACHIEVE THOSE SAVINGS.

A. The Division has proposed to eliminate both the Company's share of calculated savings and cost to achieve amortization associated with the National Grid/Southern Union transaction. With respect to the sharing of net synergy savings associated with the National Gid/KeySpan transaction, the Division has accepted the inclusion of the customers' 50% share of estimated net synergies, or ($2,450,000), in the instant cost of service but is recommending that the inclusion of the Company's 50% share in future costs of service be subject to a savings proof and be limited to a term of ten years.

Q. CAN YOU SUMMARIZE THE DIVISION'S PROPOSED ADJUSTMENT RELATED TO THE NATIONAL GRID/SOUTHERN UNION TRANSACTION?

A. As described in the testimony of Mr. Effron, the Division disputes the Company's calculation of synergies related to National Grid/Southern Union transaction. As explained on Page 13 of Mr. Effron's testimony, the Division takes exception to the Company's synergy savings calculation claiming that the calculation takes into account only selected changes in expenses to calculate achieved synergies. As an alternative to the Company's synergy calculation, the Division proposes to use the same synergy calculation agreed to by the former New England Gas Company. This calculation, which compares an escalated benchmark total cost of service for the fiscal year ended June 30, 2003 to a normalized total cost of service for the twelve months ended September 30, 2007, is illustrated on Schedule DJE-4.1. As shown on that schedule, the resulting calculation suggests that there were no synergies produced by the National Grid/Southern Union transaction, supporting the Division proposal to exclude the Company's share of synergy savings as calculated by the Company, or $1,299,000. The Division suggests that this savings proof calculation should be used because: 1) it has already been approved for this Company, 2) it was already in existence prior to the transaction, and 3) it is a broad measure of the changes in the costs of service.

Q. DOES THE COMPANY CONCUR WITH THE DIVISION SAVINGS PROOF FOR THE NATIONAL GRID/SOUTHERN UNION TRANSACTION?

A. No it does not. First, due to the large number of adjustments required to be made to the test year expenses directly related to the effects of the merger, most notably to employee levels, the Company feels that any comparison must compare to the requested rate year cost of service levels rather than to test year levels. The Company understands that the Commission had previously approved the aforementioned methodology in the former New England Gas settlement agreement. In fact, the Company had applied this savings proof in determining that the post merger National Grid - Rhode Island Gas business was not entitled to retain the currently approved share of net synergy savings produced by the merger of the former Providence Gas Company, the former Valley Gas Company and Southern Union, or $2,049,000, as shown on Attachment NG-MDL-1, Page 1, Line 28. However, the Company does not believe that applying that savings proof calculation to the National Grid/Southern Union transaction is appropriate.

While National Grid agreed to this type of savings proof to measure synergy savings related to the merger of electric operations in Rhode Island, it does not believe that it is appropriate for the Rhode Island gas operations in its current environment. The original calculation agreed to by National Grid in the Narragansett Electric settlement agreement assumed a total cost of service escalation at 50% of inflation along with recognition of increased costs associated with electricity load growth. The calculation did not contemplate that proven savings should suffer due to an unlikely decrease in electricity load as is the case for gas sales over the period presented in the Division calculation. In addition, the Rhode Island gas business is facing a period of unprecedented infrastructure investment requirements, as evidenced by the capital forecasts contained in the instant proceeding, along with a desire to accelerate the rate of leak-prone pipe replacements. This significant ramp up of capital investment has the effect of increasing the Company's total cost of service and should not be viewed as minimizing the underlying savings being produced by the merger.

Finally, the Company does not believe that any analysis to value the amount of savings delivered by the National Grid/Southern union transaction should incorporate years for which National Grid did not own and operate the Rhode Island gas business. The calculation employed by the Division includes the fiscal years ended June 2003 through the twelve months ended September 30, 2007 even though National Grid's ownership of the Rhode Island gas business began in August 2006.

Q. SHOULD THE COMMISSION ACCEPT THE DIVISION'S PROPOSED ADJUSTMENT TO THE COMPANY'S 50% SHARE OF THE NATIONAL GRID/SOUTHERN UNION TRANSACTION SYNERGIES?

A. No. The Company believes that its calculation of net synergies produced by the National Grid/Southern Union transaction, as included on Attachment NG-MDL-

1, Page 20, as corrected, is a fair, reasonable and identifiable methodology. As indicated in the response to Div 1 – 18, the amount listed on Attachment NG-MDL-1, Page 20 at Line 47 was incorrect. The correct amount should have been ($2,742,502). This correction changes the Total Demonstrated Savings on Line 61 to ($1,951,580) and, along with the change in the levelized 10 year amortization of cost to achieve the savings resulting from the change in the short term debt rate of the Company's weighted cost of capital being supported by Company Witness Moul, changes the requested Company Cost of Service Allowance to $896,971, as shown on Line 66, or a reduction of $243,630. A corrected Page 20 is attached to this testimony as Rebuttal Attachment NG–MDL Rebuttal-4.

The Company is sensitive to the Division's desire for a broad measure of synergy savings, and feels that its synergy calculation, which included identifiable merger-related employee level changes, all A&G expenses and specific non-A&G costs associated with the definitive sale of the Company's Providence, Rhode Island office facilities, was sufficiently broad given that the merger did not entail the merger of gas operations activities in Rhode Island and that merger savings were primarily anticipated in A&G activities. In addition, because the pre-merger benchmark period used in the Company's net synergy calculation, the twelve months ended June 30, 2006, was very current to the underlying test year data, the twelve months ended September 30, 2007, it provides sufficient transparency to reasonably assess the resulting National Grid/Southern Union transaction synergies.

Q. THE DIVISION SUGGESTS THAT THE COMPANY BE SUBJECTED TO A SAVINGS PROOF RELATED TO THE NATIONAL GRID/KEYSPAN MERGER. DOES THE COMPANY AGREE?

A Yes and no. The immediate customer credit for the National Grid/Keyspan net synergy savings ($2,450,000) represents an estimate of steady state annual savings, which are not expected to occur until year four following the transaction which closed in August 2007. Because the Company provided an up front benefit to customers in advance of the expected achievement of the underlying synergies, its proposal was to fix the total net savings at the same amount used to calculate the customers' advanced credit, or $4,900,000, for purposes of computing the Company's share of net synergies to be included in future costs of service. The Division has accepted the accelerated customer credit but requests that the Company be subjected to a savings proof in future years when and if the Company is requesting a change to base delivery rates. If the Company is to be subjected to a savings proof in future years, it believes that the immediate customer credit should be limited to expected synergy savings to be achieved during the rate year in this proceeding. Attachment NG – MDL Rebuttal-5, provides the calculation of net synergies expected for the second year following the National Grid/KeySpan transaction, essentially the same period as the rate year in this proceeding. As shown on that attachment, the customers' 50% share of expected net synergies to be achieved during the rate year is $1,300,000, which represents a decrease of $1,150,000 from the immediate customer credit of $2,450,000 currently included in the cost of service in this proceeding.

Q. IF SUBJECTED TO A SAVINGS PROOF RELATED TO THE NATIONAL GRID/KEYSPAN TRANSACTION, HOW SHOULD THAT PROOF BE CALCULATED?

A. As indicated earlier, due to the unprecedented infrastructure investment needs along with the Company's desire to accelerate leak prone pipe replacement, a total cost of service savings proof methodology would inappropriately undervalue the synergies produced by the merger and penalize the Company. Recognizing the Division's desire to have a broad measure of synergies and the increasing difficulty to discreetly identify merger related savings as time passes, the Company believes that a more appropriate savings proof would be to compare total pre-merger operations and maintenance expenses, as escalated, to the future rate year total operation and maintenance expenses. The Company believes that this method would provide an adequately broad measure and would eliminate the inappropriate impact of the significant Company infrastructure investments from the calculation. If such a savings proof is required however, the immediate customer share of the National Grid/KeySpan transaction net synergies should be limited to the net synergies expected to be achieved during the rate year in this proceeding. This would reduce the immediate customer credit by $1,150,000, increasing the Company's requested rate adjustment by that same amount.

VI. GAS COST RELATED BAD DEBT RECONCILIATION

Q. WOULD YOU CARE TO COMMENT ON THE DIVISION'S COMMENTS REGARDING THE COMPANY'S PROPOSAL TO FULLY RECONCILE COMMODITY BAD DEBT COSTS?

A. The Division is urging the Commission to deny the Company's request to fully reconcile gas cost related bad debt expense (Oliver Testimony at 74-75). The main reason for the Division's position appears to be the impact of potential timing of any adjustments to the GCR related to the reconciliation of gas cost-related bad debt expense, particularly with respect to weather. The Company does not dispute the observations of Mr. Oliver; however, at issue here is whether or not either customers or the Company should bear the risk of variances to uncollectible rates over time. While the Company agrees with this risk sharing for the bad-debt component of delivery rates, the Company also believes that for the same underlying reasons that gas costs are fully reconciled, bad-debt costs directly related to gas costs should also be reconciled. This ensures that customers pay no more or no less than the actual costs experienced by the Company. The Company believes that neither it nor customers should profit or be harmed by changes in gas cost-related bad debt.

VII. ACCELERATED REPLACEMENT PROGRAM ("ARP")

Q. THE DIVISION HAS SUGGESTED MODIFICATIONS TO THE COMPANY'S ARP RATE ADJUSTMENT MECHANISM. DOES THE COMPANY AGREE WITH THOSE MODIFICATIONS?

A. For the most part, yes. The Division has suggested several modifications to the proposed ARP rate adjustment mechanism. The first modification relates to the inclusion of plant retirements in calculating the incremental depreciation expense for the rate adjustment. The Company concurs that depreciation expense should reflect the impact of plant retirements and agrees to include a prorata share of related retirements in its ARP depreciation expense calculation.

The second modification relates to the calculation of incremental property tax expense. The Division objects to a property tax rate calculated based on gross plant in service. The Company concurs and will establish an annual property tax rate based on the prior year's annual property tax expense to net plant in service and will apply this rate to cumulative net ARP plant in service to arrive at the incremental ARP property tax expense.

The next modification relates to the depreciation rate applied to the cumulative net ARP plant inservice. The Division proposes to use the applicable depreciation rate for the applicable plant being replaced as opposed to an overall Company composite depreciation rate. The Company agrees and will apply a composite depreciation rate for mains and services only.

The next proposed modification relates to the level of replacement investment subject to the ARP mechanism. The Division proposes to include only the incremental replacement investments in the ARP mechanism as opposed to the Company's proposal to include all pipe replacement investments. The Company agrees with this modification and will include only incremental pipe replacement investments in its ARP calculation.

The Division also proposes to limit any rate adjustments in the event that the Company is earning at or above its allowed return on equity. To address this concern, the Company agrees that no rate adjustment will be requested if the Company is earning at or above its allowed return on equity for the prior calendar year and will include such a calculation in its ARP application.

Finally, The Company proposes to commence the ARP for fiscal year 2009, the twelve months ended March 31, 2009, with the first ARP reconciliation report due May 15, 2009 for a rate adjustment effective July 1, 2009. The first planning report will be due January 15, 2009 for the 2010 fiscal year, the twelve months ended March 31, 2010. In the event the Commission approves the alternative three-year plan, the proposed overall capital tracker would replace the ARP during the three years of the plan and would revert back to the ARP thereafter.

Q. HAS THE COMPANY INCLUDED A REVISED ILLUSTRATIVE CALCULATION FOR THE ARP MECHANISM?

A. Yes. Attachment NG – MDL Rebuttal-6 is an illustrative calculation of the ARP incremental revenue requirement pursuant to the ARP mechanism. As shown on that attachment, the annual revenue requirement calculation is limited to only the incremental ARP investment above the base spending amount of $10,800,000 in fiscal year 2009 and $11,700,000 annually thereafter and up to the total pipe replacement target of $21,500,000 for fiscal year 2009 and $25,100,000 annually thereafter. For the fiscal years 2009 and 2010, the base spending level includes the annual incremental spending included in rate base in the instant filing or $10,700,000 for fiscal year 2009 and half of the fiscal year 2010 (April 2009 through September 2009) incremental amount of $13,400,000, or $6,700,000. If adjustments are made to the Company proposed amount of capital investment included in rate base, these target and incremental amounts may need to be adjusted accordingly.

VIII. PENSION AND PBOP RECONCILIATION MECHANISM

Q. DO YOU AGREE WITH MR. EFFRON'S RECOMMENDATION TO NOT ALLOW FOR A PENSION/PBOP RECONCILIATION MECHANISM?

A. No. Mr. Effron states that the Company should not be allowed to have this mechanism because (1) a reconciliation mechanism reduces incentives to control costs; (2) the Company has not demonstrated that the magnitude of pension expense as compared to the overall revenue requirement is great enough to warrant reconciliation, (3) the Company has not demonstrated that the level of volatility for pension and PBOP is greater than other O&M expenses and (4) the amount of expense included in rates is calculated to provide adequate funding without the need for a reconciliation mechanism (Effron Testimony at 25-26). However, the Company has another perspective.

Q. IS THE COMPANY SUGGESTING THAT THE MAGNITUDE OF THE FLUCTUATIONS IN PENSION/PBOP COSTS IS SIGNIFICANT IN TERMS OF THE OVERALL REVENUE REQUIREMENT?

A. No. The basis for the Company's proposal differs from the characterization set forth in Mr. Effron's testimony. As an initial matter, the Company agrees with the implication of Mr. Effron's testimony, which is that pension/PBOP expense is no different from other O&M expenses recovered through the revenue requirement in terms of (1) susceptibility to inflationary increases over time, and (2) order of magnitude in relation to the overall revenue requirement (although for the rate year pension/PBOP expense will account for approximately 6.4% of the Company's overall revenue requirement of $150 million, which is not insignificant).

Rather, the Company's issue is three-fold: First, pension and PBOP expense is determined through the application of FAS 87 and FAS 106, respectively, and therefore is not subject to the Company's control like other O&M expenses where the Company may be able to offset inflationary increases with efficiency gains or cost-cutting measures. Second, pension/PBOP expense is subject not only to variation from year-to-year, but also is susceptible to periods of extraordinary fluctuation as a result of circumstances in the financial markets, which were experienced in the recent years. These two factors make it extremely difficult to establish a representative amount of expense in rates. In addition, there can be a significant amount of variation between the annual expense recorded on the books of the Company and the contribution level required from the Company in that year.

The added complication, which does not occur in relation to other O&M expenses, is that required contribution levels for these plans vary from year-to-year and also vary from annual FAS 87 or FAS 106 expense in the same year. For example, contributions to the pension fund increased from $599,990 for the fiscal year ended June 30, 2004 to $5,327,750 for the fiscal year ended June 30, 2005 (Data Request DIV-1-8). For PBOP, information regarding funding, if any, is unavailable for the years under Southern Union ownership from 2003 through 2007, but National Grid did make a contribution of $4,307,000 for the fiscal year ended March 31, 2008 (Data Request DIV 1-9). The variation in annual expense levels, in combination with the mismatch between expense and contribution levels, warrants the implementation of a reconciling mechanism for pension/PBOP costs and funding. Because the time for establishing a mechanism to deal with these issues is in a base-rate proceeding, the Company is proposing to establish this mechanism here.

It is important to note that the Commission has established a reconciling mechanism for Environmental Remediation Costs ("ERC"), with the annual costs currently in the range of $1 million. Despite the relatively small dollar amount (as compared to the revenue requirement pursuant to Mr. Effron's suggestion), the Commission deemed recovery of these costs through a reconciling mechanism appropriate (with the agreement of the Division) because these costs (1) arise beyond the control of the Company and are not susceptible to cost control measures by the Company, and (2) are subject to significant variation from year-to-year over time, even if not occurring at any given point in time. In relation to the ERC factor, the Division has stated that

> The present ERC factor provides a means of smoothing the impacts of environmental expenditures and related insurance proceeds over time. This factor should be continued in the absence of strong evidence that the potential for the Company's incurrence of significant environmental response cost in the future has been essentially eliminated. *Although the present balance of costs subject to recovery through the ERC is comparatively small, that fact, in and of itself, is not a reason to discard this valuable mechanism for mitigating the impacts of environmental expenditures that are often unpredictable in their timing and magnitude.* Even if the balance of environmental response cost should fall to zero, the Commission should consider maintaining the current ERC factor as part of the DAC until it is confident that the potential for significant environmental response expenditures has been eliminated.

(Oliver Testimony at 79-80)(emphasis added). The establishment of a pension/PBOP reconciliation mechanism is warranted and necessary for the same reasons.

Q. OTHER THAN VOLATILTY, ARE THERE OTHER REASONS TO PLACE PENSION/PBOP IN A RECONCILIATION MECHANISM?

A. Yes. An important reason to place these expenses into a separate reconciling mechanism is to ensure full funding of the pension and PBOP obligations. The present approach to funding pensions and PBOP creates a potential mismatch of what is embedded in rates for the FAS 87 and FAS 106 expense and what is actually contributed to the pension and PBOP funds. As shown in response to Data Request DIV 1-8, there has routinely been a mismatch of what was expensed through FAS 87 for pension and what was actually contributed into the pension fund. For example, for fiscal year ended June 30, 2004, $6,263,958 was expensed but only $599,990 was required for contribution by Southern Union for the same fiscal year (Data Request DIV 1-8). Likewise, from fiscal years ended June 30, 2003 through 2007, the FAS 106 expense amounts for PBOB varied significantly, though information relative to funding, if any, is unavailable for those years under Southern Union ownership (Data Request DIV 1-9).

However, to ensure adequate funding of the pension fund and PBOP in the future, a fully reconciling mechanism is the best approach because it would assure that whatever is expensed under FAS 87 or FAS 106 and under the operation of the proposed mechanism is actually contributed to the pension and PBOP funds. Without a reconciliation mechanism, there will inevitably arise a situation when the Company is recovering pensions and PBOP costs in base rates and contributing to the funds at a different level, thus, the Company is proposing to establish the reconciliation mechanism to ensure that the Company funds the pension and PBOP funds at the same level as amounts collected from customers. This approach is consistent with the Commission's recent directive in New England Gas Company, Docket No. 3690, and Order No. 18780, which stated that "it is the long-term interest of ratepayers to have a properly funded pension fund." Also, the Commission noted the mismatch between contributions to the pension fund and what is expensed for pensions over a number years under New England Gas, and stated that this "difference …could be harmful to pension fund in the long term." A reconciliation mechanism for pension and PBOP will best address this problem.

IX. <u>REVISED COST OF SERVICE</u>

Q. YOU HAVE INCLUDED A SUMMARY REVISED COST OF SERVICE IN THIS PROCEEDING. WOULD YOU PLEASE DESCRIBE THAT ATTACHMENT?

A. Yes. Attachment NG-MDL Rebuttal-1 contains three pages. Page 3 summarizes operating expenses, page 2 summarizes rate base, return and taxes and page 1 reflects a summary of the revised total cost of service.

Q. WOULD YOU WALK US THROUGH EACH PAGE OF THE ATTACHMENT?

A. It is best to discuss the individual pages in reverse order beginning with page 3. As shown on that page, Column (A) represents amounts included in the Company's original filing. Column (B) represents the Division's proposed adjustments to operating expenses and Column (C) represents the net Division position equal to the sum of Column (A) and (B). Column (D) represents the reversal of proposed Division adjustments for which the Company does not agree, including Division adjustments to the Company's forecasted capital plan and rebuttal discussions contained in this testimony or the rebuttal testimony of Company Witness Mongan. Column (E) represents the cost of service corrections identified during the Discovery process. Column (F) represents the impact of the adjusted Company weighted average cost of capital on the National Grid/Southern Union CTA amortization and synergy savings as well as the recalculated uncollectible expense adjustment related to the aggregate of all other cost of service adjustments as calculated on that page. Column (G) reflects the revised total operating expenses and is equal to the sum of Columns (C) through (F). As shown in Column (G) at Line 31, the revised operating expenses total $113,966,215, or a reduction of $1,448,585 from total operating expenses included in the Company's original submission.

Q. WOULD YOU PLEASE CONTINUE WITH PAGE 2 OF THE ATTACHMENT?

A Yes. Page 2 consists of rate base, return and taxes. Similar to page 2, Columns (A) through (C) summarize the difference in the Company's original submission and the Division's position with respect to rate base, return and taxes. Once again, Column (D) represents the reversal of proposed Division adjustments for which the Company does not agree including Division adjustments to the Company's forecasted capital plan and the Division cost of capital adjustments rebutted in the testimony of Company Witness Moul. Column (E) represents the cost of service corrections identified during the Discovery process along with the impact of the revised short-term debt rate discussed in the testimony of Company witness Moul on the Company's weighted average cost of capital. Column (F) represents the revised rate base, return and income taxes, equal to the sum of Columns (C) though (E).

Q. WHAT DOES PAGE 1 OF THE ATTACHMENT REPRESENT?

A. Page 1 provides a summary of the revised cost of service components as reflected on pages 2 and 3. The information is presented in the same format as page 2, with Column (F) representing the revised summary cost of service.

Q. WOULD YOU PLEASE SUMMARIZE THE RESULTS OF THE REVISED COST OF SERVICE CALCULATION?

A. As shown on Attachment NG – MDL Rebuttal-1 in Column (F) at Line 22, the revised total cost of service total $148,304,502 resulting in a Company revenue deficiency of $18,455,310, or $1,580,793 less than the originally requested increase of $20,036,103. However, if the Company is subjected to a future National Grid/KeySpan savings proof, the immediate customer credit for the customers' share of net synergies related to the National Grid/KeySpan transaction would be reduced by $1,150,000 and the revenue deficiency would be increased by a like amount to $19,605,310.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

Attachments

Attachment NG-MDL Rebuttal - 1	Summary revised cost of service
Attachment NG-MDL-Rebuttal - 2	FAS112 Actuarial Study for the twelve months ended March 31, 2008
Attachment NG-MDL-Rebuttal - 3	Narragansett Electric A-60 Rate Classification Uncollectible Rate Experience
Attachment NG-MDL Rebuttal - 4	Revised National Grid/Southern Union Net Synergy calculation
Attachment NG-MDL-Rebuttal - 5	Revised National Grid/KeySpan Net Synergy Calculation
Attachment NG-MDL-Rebuttal - 6	Revised Accelerated Replacement Plan Illustrative Revenue Requirement Calculation

National Grid - RI Gas
Revenue Requirement For The Twelve Months Ended September 30, 2009
Total Revenue Requirement

Line			(A) Filed COS	(B) Division Adjustments	(C) Division COS	(D) Co. Rebuttal Position	(E)	(F) Rebuttal Cost of Service
1	Rate Base	(a)	$285,241,458	($9,980,000)	$275,261,458	$9,980,000	$790,244	$286,031,702
2								
3	Weighted Cost of Capital	(a)	9.27%	-0.71%	8.56%	0.71%	-0.08%	9.19%
4								
5	Return on Rate Base		26,441,883	(2,882,844)	23,559,039	2,882,844	(155,570)	26,286,313
6								
7	Income taxes	(a)	8,028,612	(2,861,792)	5,166,821	2,861,792	23,361	$8,051,973
8								
9	Total return and Income taxes		34,470,496	(5,744,636)	28,725,860	5,744,636	(132,209)	34,338,287
10								
11	Operating Expenses							
12	Operation and Maintenance Expenses	(b)	82,125,814	(5,260,057)	76,865,757	3,965,057	(287,048)	$80,543,766
13								
14	Depreciation	(b)	20,069,816	(347,000)	19,722,816	347,000		$20,069,816
15								
16	Amortization	(b)	3,198,152	(158,152)	3,040,000	158,152	133,464	$3,331,617
17								
18	Taxes Other Than Income Taxes	(b)	10,021,017	0	10,021,017	0		$10,021,017
19								
20	Total Operating Expenses		115,414,799	(5,765,209)	109,649,590	4,470,209	(153,584)	113,966,215
21								
22	Total Cost of Service		149,885,295	(11,509,845)	138,375,450	10,214,845	(285,793)	148,304,502
23								
24	Revenues From Current Rates		129,849,192		129,849,192			129,849,192
25								
26	Revenue Deficiency		20,036,103	(11,509,845)	8,526,258	10,214,845	(285,793)	18,455,310

Notes:
(a) See Page 2 of 3
(b) See Page 3 of 3

National Grid - RI Gas
Revenue Requirement For The Twelve Months Ended September 30, 2009
Return on Rate Base and Income Taxes

Line		(A) Filed COS	(B) Division Adjustments		(C) Division COS		(D) Co. Rebuttal Position	(E)		(F) Rebuttal Cost of Service
	Rate Base									
1	Gas Plant In Service	$589,768,959	($10,259,000)	(a)	$579,509,959		$10,259,000			$589,768,959
2	CWIP	8,981,531			8,981,531					$8,981,531
3	Less: Contribution in Aid of Construction	99,473			99,473					$99,473
4	Less: Accumulated Depreciation	284,401,645	(279,000)	(a)	284,122,645		279,000			$284,401,645
5										
6	Net Plant	314,249,372	(9,980,000)		304,269,372		9,980,000	0		314,249,372
7										
8	Materials and Supplies	2,226,550			2,226,550					$2,226,550
9	Prepayments	46,402			46,402					$46,402
10	Deferred Debits - Y2K	1,440,000			1,440,000					$1,440,000
11	Cash Working Capital	11,144,585			11,144,585			790,244	(d)	$11,934,829
12										
13	Subtotal	329,106,909	(9,980,000)		319,126,909		9,980,000	790,244		329,897,153
14										
15	Accumulated Deferred FIT	8,952,354			8,952,354					$8,952,354
16	Merger Hold Harmless Adjustment	30,337,343			30,337,343					$30,337,343
17	Customer Deposits	3,735,753			3,735,753					$3,735,753
18	Injuries and Damages Reserve	840,000			840,000					$840,000
19										
20	Subtotal	43,865,451	0		43,865,451		0	0		43,865,451
21										
22	Rate Base	$285,241,458	($9,980,000)		$275,261,458		$9,980,000	$790,244		$286,031,702
23										
24	Weighted cost of capital	9.27%	-0.71%	(b)	8.56%	(b)	0.71%	-0.08%		9.19%
25										
26	After-tax Return Requirement	$26,441,883	($2,882,844)		$23,559,039		$2,882,844	($155,570)		$26,286,313
27										
28	Weighted Return on Equity	5.49%	-1.73%	(b)	3.76%	(b)	1.73%			5.49%
29										
30	Equity Return	15,659,756	(5,314,756)	(c)	10,345,000	(c)	5,314,756	43,384		15,703,140
31										
32	Flow Thru Items	(749,476)	0		(749,476)					(749,476)
33										
34	Taxable Income Base (Line 30 plus Line 32)	14,910,280	(5,314,756)		9,595,524		5,314,756	43,384		14,953,665
35										
36	Taxable Income (Line 34 / .65)	22,938,893	(8,176,548)		14,762,345		8,176,548	66,745		23,005,638
37										
38	Tax (Line 36 * .35)	8,028,612	(2,861,792)		5,166,821		2,861,792	23,361		8,051,973
39										
40	Total Return and Taxes (Line 26 plus Line 38)	$34,470,496	($5,744,636)		$28,725,860		$5,744,636	($132,209)		$34,338,287

Notes:
(a) Schedule DJE-7
(b) Column (C) minus Column (A). See Schedule DJE-8
(c) Column (C) minus Column (A). See Schedule DJE-6
(d) Gross receipts tax working capital requirement error. See response to Div 1-6 and PUC 1-29

National Grid - RI Gas
Revenue Requirement For The Twelve Months Ended September 30, 2009
Operating Expenses

Line		(A) Filed COS	(B) Division Adjustments	(C) Division COS	(D)	(E) Co. Rebuttal Position	(F)	(G) Rebuttal Cost of Service
1	Labor	$32,300,871		$32,300,871				$32,300,871
2	Health Care	5,316,827	(907,456) (a)	4,409,371	907,456			$5,316,827
3	Empl Thrift - Co. match	1,370,810		1,370,810				$1,370,810
4	Group Insurance	184,803		184,803				$184,803
5	Pensions	5,052,002		5,052,002				$5,052,002
6	OPEB's	4,567,872		4,567,872				$4,567,872
7	Postage	1,171,087		1,171,087				$1,171,087
8	Marketing Program Expenses	1,377,000	(1,229,000) (a)	148,000	1,229,000			$1,377,000
9	New Programs	1,034,000	(756,000) (a)	278,000				$278,000
10	LIAP Expense	1,585,000		1,585,000				$1,585,000
11	Energy Eff. - Weather.Program	200,000		200,000				$200,000
12	AGT Expenses	300,000		300,000				$300,000
13	Rate Case Cost Amortization	265,750		265,750				$265,750
14	AMR Labor Savings	(433,257)		(433,257)				($433,257)
15	AMR Non-labor Savings	(21,420)		(21,420)				($21,420)
16	All Other	26,832,917	(539,000) (a)	26,293,917		(4,531) (e)		$26,289,386
17	Donations	236,428		236,428				$236,428
18	NGRID/Keyspan Total Synergies	(6,400,000)		(6,400,000)				($6,400,000)
19	Company Share of Synergies - NEGas	1,140,601	(1,140,601) (a)	0	1,140,601	(243,887) (f)	257 (h)	$896,971
20	Company Share of Synergies - KeySpan	2,450,000		2,450,000				$2,450,000
21								
22	Uncollectibles	3,594,522	(273,000) (b)	3,321,522	273,000		(38,888) 1/	$3,555,635
23			(415,000) (b)	(415,000)	415,000			$0
24								
25	Total Operating Expenses	82,125,814	(5,260,057)	76,865,757	3,965,057	(248,418)	(38,630)	80,543,766
26								
27	Depreciation	20,069,816	(347,000) (c)	19,722,816	347,000			20,069,816
28	Amortization	3,198,152	(158,152) (a)	3,040,000	158,152	133,979 (g)	(515) (i)	3,331,617
29	Taxes Other Than Income Taxes	10,021,017		10,021,017				10,021,017
30								
31	Total Operating Expenses	115,414,799	(5,765,209)	109,649,590	4,470,209	(114,439)	(39,145)	113,966,215
32								
33								
34	Total Cost of Service 2/	$149,885,295	($11,509,845) (d)	$138,375,450	$10,214,845	($246,648)	($39,145)	$148,304,502

1/	Total Cost of Service Adjustments	($11,509,845)	$10,214,845	
	Less: Company Adjustments per Column E		($246,648)	
	Less: Company Adjustments per Column F (excl. Uncollectibles)		($257)	
	Less: Uncollectible Expense Adjustments per Columns B and D	(273,000)	273,000	
		(415,000)	415,000	
	Net Cost Of Service Adjustments	($10,821,845)	$9,279,939	($1,541,905)
	Uncollectible Expense Adjustment			($38,888)

2/ Page 2 of 3 Line 40 plus Page 3 of 3 Line 31

Notes:
(a) Schedule DJE-4
(b) Schedule DJE-3
(c) Schedule DJE-5
(d) See Schedule DJE-2
(e) Misclassified expense. See response to Div 5-33a
(f) See response to Div 1 - 18 and Attachment NG-MDL Rebuttal-2
(g) Legacy IT system amortization. See response to PUC 1-15
(h) 50% of Column (F), Line 28 times -1
(i) 10 year levelized SU trarnsaction CTA amortization adjustment due to adjusted Company WACC. See Attachment NG-MDL Rebuttal-4, Page 2

Hewitt

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December 19, 2007

Private and Confidential

Mr. Andrew Sloey
National Grid USA
One MetroTech Center
Brooklyn, NY 11201-3850

Dear Andrew:

Subject: April 1, 2007 to March 31, 2008 FAS 112 Expense Results—New England

Enclosed are the Fiscal Year 2008 FAS 112 expense valuation results for New England using the January 1, 2007 data provided by National Grid. Based on a 6.00 percent discount rate assumption, the incremental operating **expense** for the period April 1, 2007 through March 31, 2008 is $1.9 million.

The incremental operating expense includes a $739,725 gain. This gain is primarily attributed to an increase in health care costs less than expected. The gain is offset by a small change in the trend rate assumption and the addition of the New England Gas group to the population.

Enclosed is a summary of expense/(income) by company and a summary of the assumptions used in the valuation.

Hewitt

Andrew, if you have any questions, please call.

Sincerely,

Hewitt Associates LLC

Stephen F. Doucette

SFD:chz
Enclosures
4844L490

cc: Mr. Paul Bailey, National Grid USA
Mr. William F. Dowd, National Grid USA
Ms. Maureen Heaphy, National Grid USA
Ms. Nancy B. Kellogg, National Grid USA
Mr. Brian McNeill, National Grid USA
Ms. Suzette E. Moreau, National Grid USA
Mr. William R. Richer, National Grid USA
Ms. Susan Toronto, National Grid USA
Ms. Tamara Bogojevic-Catanzano, Hewitt Associates
Ms. Kerry-Ann Forrester. Hewitt Associates
Ms. Carol MacDonald, Hewitt Associates
Ms. Ditah Rimer, Hewitt Associates

National Grid USA
4/1/2007 to 3/31/2008 FAS 112 Expense

	Granite State Electric	Mass Electric	Narragansett Electric	New England Power	NG USA Service *	New England Gas	Total
Incremental Operating Expense							
(Gain)/Loss	(122,760)	(1,004,878)	107,786	22,231	88,364	169,532	(739,725)
Interest Cost (6.00%)	2,553	570,680	215,727	11,693	545,977	10,172	1,356,802
Benefit Payments	(15,252)	(1,834,289)	(707,202)	(29,488)	(1,642,020)	0	(4,228,251)
New Claimants							
WC Dep Med & Life	2,804	99,655	35,920	380	127,239	40,773	306,771
LTD	47,613	1,692,244	609,958	6,460	2,160,665	692,369	5,209,309
Total 2007-2008 Expense/(Income)	(85,042)	(476,588)	262,189	11,276	1,280,225	912,846	1,904,906
Accrued FAS 112 Expense							
Accrued FAS 112 Expense, 4/1/2007	172,939	11,433,352	3,841,265	187,399	9,832,265	0	25,467,220
Incremental Operating Expense/(Income)	(85,042)	(476,588)	262,189	11,276	1,280,225	912,846	1,904,906
Accrued FAS 112 Expense, 3/31/2008	87,897	10,956,764	4,103,454	198,675	11,112,490	912,846	27,372,126
Experience							
Expected FAS 112 Liability on 4/1/2007	172,939	11,433,352	3,841,265	187,399	9,832,265	0	25,467,220
Actual FAS 112 Liability on 4/1/2007	50,179	10,428,474	3,949,051	209,630	9,920,629	169,532	24,727,495
2007 Gain/(Loss)	122,760	1,004,878	(107,786)	(22,231)	(88,364)	(169,532)	739,725
# of Claimants							
LTD							
Under 60 points	1	14	5	0	10	0	30
Over 60 points	0	22	9	0	19	0	50
Workers Compensation	0	3	1	0	1	0	5
Income Replacement (self insured)	0	43	14	1	37	0	95
Beneficiaries	0	28	3	0	14	0	45

* Includes Nuntucket

National Grid USA

Benefit Area	FAS 106	Currently Reserved	FAS 112	Insured	Immaterial
LTD—Non Workers' Compensation					
Employee Medical					
Post-65	X				
Pre-65			X [1]		
Dependent Medical					
Post-65	X				
Pre-65			X [1]		
Employee Life					
Post-65	X				
Pre-65			X		
Income Replacement					
Union (pre 6/1/02)				X	
Union (post 5/31/02)			X		
Nonunion			X		
Workers' Compensation					
Employee Medical		X			
Dependent Medical			X [1]		
Life			X		
Income		X			
Beneficiaries					
Medical, for 10 years			X		
Medical, for life	X				
COBRA					X
STD					X

[1] Coverage for 2 years only if employee has less than 60 points at disability.

FAS 112 Assumptions

Discount Rate	6.00%.
Mortality	1987 Group LTD (GLTD) table for disabled lives. RP-2000 Combined Healthy Mortality Table for healthy lives.
Medical Inflation	
2007	9.5%.
2008	8.5%.
2009	7.5%.
2010	6.5%.
2011	5.5%.
2012+	5.0%.
Recovery Rates	Reflected in 1987 GLTD table.
Cost of Medical Coverage	Disabled participants are assumed to generate medical costs which vary with duration from disability:

Year	Annual Cost
1	$ 25,417
2	$ 22,875
3	$ 20,332
4	$ 17,791
5	$ 15,248
6 and later	$ 12,708

Percent of Disabilities Eligible for Medicare	65% of disabilities will be eligible for Medicare after 29 months of disability.
Effect of Primary Medicare Coverage	
Income	Medicare provides 66–2/3% of all plan Medicare Coverage eligible costs. We have assumed that National Grid will enroll disabilities in Medicare.
Medical	None. National Grid USA is assumed to be responsible for primary coverage.
Long-Term Disability Obligation Under FAS 112	Employee and dependent medical and life insurance coverage are included in the FAS 112 obligations.

FAS 112 Assumptions

Married Percentage	75% of newly disabled employees are assumed to be married. This assumption is only used to determine the incurred but not reported claims liability.
Medical Benefits for Long–Term Disabilities	Active medical benefits are provided to the disabled individual and his or her family. If the individual has less than 60 points at disability, coverage continues for 2 years only.
Life Insurance Benefits for Long-Term Disabilities	Active life insurance coverage is provided to the disabled individual.
Waiting Period for LTD Benefits	
Nonunion	52 weeks.
Union	13 weeks.
LTD Income Replacement Benefit	
Nonunion	70% of base earnings.
Union	60% of base earnings.

Attachment NG-MDL Rebuttal-3
Docket No. 3943
August 15, 2008

National Grid - RI Gas
Low Income Uncollectible Rate Analyisis - Narragansett Electric Company
For the 12 Months Ended July 31, 2005 through 2008

12 Months Ended :	Net Uncollectible	A-60 Billed Revenue	Net Uncollectible Rate
2005	$1,121,298	$22,742,496	4.9%
2006	$1,392,462	$28,329,774	4.9%
2007	$1,817,534	$27,455,886	6.6%
2008	$2,002,371	$24,454,497	8.2%

National Grid - RI Gas
Pro-Forma Income Statement
Adjustment for Sharing of NEGas/National Grid Transaction net Synergies

Line No.			Union	Non-Union			
1	**Merger Related O&M Payroll Savings**						
2	Total Pre-merger O&M Payroll				$35,016,934		
3	Less: Executive Incentive Payments				($255,098) 1/		
4	Net Pre-merger O&M Payroll				$34,761,836		
5	Assumed Wage Increase				3.37%		
6	Annual Payroll Increase				1,171,474		
7	12 Months Ended 6/30/06 - 12 Months Ended 9/30/07				1.25		
8	Total Payroll increase for 15 month period				1,464,342		
9	Adjusted pre-merger payroll for the 12 Months Ended 9/30/07					$36,226,178	
10			Union	Non-Union			
11	Adjusted Test Year National Grid - RI Gas Steady State Wages at 9/30/07		19,244,588	7,953,291			
12	Incremental Payroll Adjustment for Delayed Separations		(1,601,646)	(55,000)			
13	Net Steady State Employee Wages		17,642,942	7,898,291			
14	Expense percentage		82.12%	84.01%			
15	Net Steady State Employee Salaries and Wages charged to O&M		14,487,926	6,635,104			
16	Test Year O&M Overtime Wages		219,252	418,819			
17	Test Year non-executive incentive compensation		3,774,761	89,667			
18			18,481,939	7,143,590	25,625,528		
19							
20	Test Year Total Allocated Service Company Payroll including OT & Non-executive Incentive Compensation		383,182	5,155,038	5,538,220		
21						31,163,748	
22							
23	Merger Related Decrease in O&M payroll costs						(5,062,430)
24							
25	**Merger Related Change in Customer Account and A&G Expenses**						
26	Pre-merger, non-labor Customer Accounts Expenses (accts 901 - 916)				17,754,275		
27	Less Pre-merger Uncollectable Expense				(11,501,703)		
28	Net Pre-merger, non-labor Customer Accounts Expenses				6,252,572		
29							
30	Pre-merger, non-labor A&G Expenses (accts 920 - 935)				23,617,515		
31	Add Facilities Maintenance costs Charged to Accout 886 by Southern						
32	Union, charged to Account 921 by National Grid				1,205,366		
33	Adjusted Pre-merger, non-labor A&G Expenses (accts 920 - 935)				24,822,881		
34							
35	Total Pre-merger, non-labor Customer Account and A&G Expenses				31,075,453		
36	Inflation from 12/31/05 - 3/31/07 (mid-year to mid-year)				3.36% 2/		
37	Inflationary increase				1,044,135		
38	Depreciation of Capitalized IT Systems Retained by Southern Union				419,732		
39	Return On Net Investment in IT Systems (2,203,592 * 11.82%)				260,503		
40	**Adjusted Pre-merger, non-labor Customer Account and A&G Expenses**					32,799,823	
41							
42	Test Year, non-labor Customer Accounts Expenses (accts 901 - 916)				13,676,993		
43	Less Test Year Uncollectable Expense				(9,004,641)		
44	Test Year, non-labor A&G Expenses (accts 920 - 935)				35,451,642		
45	Correcting Adjustment to Account 926 recorded in October 2007				600,000		
46	Elimination of Test Year IBM hardware lease expense				(809,076)		
47	**Elimination of Test Year National Grid/Southern Union Transaction CTA (corrected)**				**(2,742,502)**		
48	**Adjusted Test Year, non-labor Customer Account and A&G Expenses**					37,172,416	
49	**Change in Customer Account and A&G Expenses**						4,372,593
50							
51	**Sale of Providence, Rhode Island Facilities**						
52	Net Book Value of facilities at 9/30/07 - Land				246,879		
53	Net Book Value of facilities at 9/30/07 - Buildings				5,295,477		
54	Total Net Book value				5,542,356		
55	Pre-Tax WACC per 2006 ESM Filing				11.82%		
56	Return Savings					655,203	
57	Test Year Book Depreciation Expense	10,414,951	2.33%			242,668	
58	2007 Municipal Tax Assessment					139,859	
59	Test Year Facilities Operating costs					224,013	
60	Merger Related Facilities Savings						(1,261,743)
61	Total Demonstrated Savings						(1,951,580)
62	**Ten Year Levelized CTA with Return @ Pre-tax WACC (includes discount rate change due to STD rate adjustment to 3.91%)**				885,246		**157,638**
63							
64	Net Annual Synergy Savings						(1,793,942)
65							
66	Company Cost of Service Allowance - 50%						(896,971)

		Q4 '05	Q1 '07	Change		
1/	Per 2007 ESM Filing					
2/	GDP Index	114.40	118.75	3.80%	50.00%	1.90%
	CPI Index	198.30	204.07	2.91%	50.00%	1.46%

National Grid - RI Gas
Pro Forma Income Statement
Imputed Capitalization and Cost Rates Revised for STD Rate Change

Line No.		Capital Structure (a)	Cost Rate (a)	Weighted Return	Taxes	Pre-tax Return
1	Long Term Debt	40.63%	7.99%	3.25%		3.25%
2						
3	**Short Term Debt**	11.66%	**3.91%**	0.45%		0.45%
4						
5	Total Common Equity	47.71%	11.50%	5.49%	2.96%	8.45%
6						
7	Total Capitalization	100.00%		9.19%	2.96%	12.15%

National Grid - RI Gas
Revised Calculation of National Grid/KeySpan Transaction Net Synergy Value
For the Rate Year Ended September 30, 2009

Line No.		
1	Steady State Annual Synergies (rounded)	$4,100,000
2		
3	10 year Levelized Costs to Achieve amortization (rounded)	1,500,000
4		
5	Steady State Annual Net Synergies	2,600,000
6		
7	50% Customer Share - Cost of Service Credit	$1,300,000

Line Notes:
1 From Attachmnet NG-MDL-4, Page 2 of 6, Column (b), Line 17 rounded.
3 From Attachmnet NG-MDL-4, Page 6 of 6, Line 3 rounded.
5 Line 1 - Line 3.
7 Line 5 x 50%.

Attachment NG-MDL Rebuttal-6
Docket No. 3943
August 15, 2008

National Grid - RI Gas
Accelerated Infrastructure Replacement Program
Computation of Revenue Requirement

Line No.			Fiscal Year 2009 (a)	Fiscal Year 2010 (b)	Fiscal Year 2011 (c)	Fiscal Year 2012 (d)	Fiscal Year 2013 (e)	Fiscal Year 2014 (f)
1	Deferred Tax Calculation:							
2	PRP Progam Targeted Spend		$21,500,000	$25,100,000	$25,100,000	$25,100,000	$25,100,000	
3	Base Spending Level		21,500,000	18,400,000	11,700,000	11,700,000	11,700,000	
4	Incremental Amount		0	6,700,000	13,400,000	13,400,000	13,400,000	
5	Cumulative ARP Incremental Spend		$0	$6,700,000	$20,100,000	$33,500,000	$46,900,000	
6								
7	**Annual Retirements**	**1/**	**$0**	**$670,000**	**$1,340,000**	**$1,340,000**	**$1,340,000**	
8	**Cumulative Retirements**		**$0**	**$670,000**	**$2,010,000**	**$3,350,000**	**$4,690,000**	
9								
10	Book Depreciation Rate	2/	**1.88%**	**1.88%**	**1.88%**	**1.88%**	**1.88%**	
11	20 YR MACRS Tax Depreciation Rates		5.00%	9.50%	8.55%	7.70%	6.93%	
12	Vintage Year Tax Depreciation:							
13	Year 1 Spend		0	0	0	0	0	
14	Year 2 Spend			**301,500**	**572,850**	**515,565**	**464,310**	
15	Year 3 Spend				603,000	1,145,700	1,031,130	
16	Year 4 Spend					603,000	1,145,700	
17	Year 5 Spend						603,000	
18	Annual Tax Depreciation		0	301,500	1,175,850	2,264,265	3,244,140	
19	Cumulative Tax Depreciation		0	301,500	1,477,350	3,741,615	6,985,755	
20								
21	Book Depreciation		**0**	**113,078**	**339,233**	**565,389**	**791,545**	
22	Cumulative Book Depreciation		0	113,078	452,311	1,017,700	1,809,245	
23								
24	Cumulative Book / Tax Timer		0	188,422	1,025,039	2,723,915	5,176,510	
25	Effective Tax Rate		35.00%	35.00%	35.00%	35.00%	35.00%	
26	Deferred Tax Reserve		$0	$65,948	$358,764	$953,370	$1,811,779	
27								
28	Rate Base Calculation:							
29	Cumulative ARP Incremental Spend		$0	$6,700,000	$20,100,000	$33,500,000	$46,900,000	
30	Accum Depreciation		0	(113,078)	(452,311)	(1,017,700)	(1,809,245)	
31	Deferred Tax Reserve		0	(65,948)	(358,764)	(953,370)	(1,811,779)	
32	Year End Rate Base		$0	$6,520,974	$19,288,925	$31,528,930	$43,278,977	
33								
34	Revenue Requirement Calculation:							
35	Year End Rate Base		$0	$6,520,974	$19,288,925	$31,528,930	$43,278,977	
36	Pre-Tax ROR	3/	12.15%	12.15%	12.15%	12.15%	12.15%	
37	Return and Taxes		0	792,298	2,343,604	3,830,765	5,258,396	
38	Book Depreciation		0	113,078	339,233	565,389	791,545	
39	Property Taxes	4/ 2.52%	0	168,840	506,520	844,200	1,181,880	
40	Annual Revenue Requirement		$0	$1,074,216	$3,189,358	$5,240,354	$7,231,820	
41								
42	Annual Rate Adjustment:			Year 2	Year 3	Year 4	Year 5	Year 6
43	Incremental Annual Rate Adjustment			$0	$1,074,216	$2,115,142	$2,050,996	$1,991,466

1/ Assumes 10% of Line 4 for illustrative purposes. To be replaced with prorata share of actual plant retirements.

2/ Composite mains and services depr.rate per Attachment NG-KAK-1, Page 18 (Original submission Volume 3 - Page 42)

	Plant	Depr. Accrual	Rate
Mains - Steel and other	103,509,822	1,697,561	
Mains - Plastic	99,167,915	1,973,442	
Mains - Cast Iron	8,280,995	131,668	
Services - All sizes	146,392,432	2,898,570	
	357,351,164	6,701,241	1.88%

3/ See NG-MDL-1, page 32 as amended for revised short term debt rate of 3.91%, Attachment NG-MDL Rebuttal-4 Page 2

4/ Test Year ratio of municipal tax expense to average net plant in service. To be replaced with actual prior calendar year data.