**THE NARRAGANSETT ELECTRIC COMPANY**
**d/b/a NATIONAL GRID**

**INVESTIGATION AS TO THE PROPRIETY**
**OF PROPOSED TARIFF CHANGES**

**RIPUC DOCKET NO. 4065**

**BEFORE THE**
**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**SURREBUTTAL TESTIMONY AND EXHIBITS**
**OF DAVID J. EFFRON**

**ON BEHALF OF THE**

**DIVISION OF**
**PUBLIC UTILITIES AND CARRIERS**

**OCTOBER 27, 2009**

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. Have you previously submitted testimony in this docket?

A. Yes. I submitted direct testimony on September 15, 2009 on behalf of the Division. My qualifications and experience are included with my direct testimony.

Q. What is the purpose of this surrebuttal testimony?

A. The purpose of this surrebuttal testimony is to respond to the rebuttal testimony of National Grid witnesses O'Brien, Pettigrew, and Dowd. To the extent I am silent on any particular issue addressed in the Company's rebuttal testimony, such silence should not be interpreted to be agreement with the Company's position on that issue.

**Incentive Compensation**

Q. Do you find Mr. Dowd's testimony that the Company cannot meet its financial goals without employees achieving the customer oriented goals to be sufficient justification for the inclusion of incentive compensation tied to financial goals in the Company's revenue requirement?

A. No. Based on this logic, there would be no purpose to including financial goals in the Company's incentive compensation program. If the attainment of customer oriented goals leads to the achievement of the stated financial goals, then all of the incentive compensation should be based on customer goals such as controlling costs and service quality, and as those goals are met, the financial metrics would automatically improve. The fact that part of the incentive compensation is related to customer goals and part is related to financial goals indicates to me that one does not automatically follow from the other.

Q. If the Commission excludes incentive compensation tied to financial goals from the Company's revenue requirement, does it logically follow that the employees' pay will be reduced accordingly or that the Company's compensation will be restructured to replace incentive compensation with base pay, as Mr. Dowd implies in his rebuttal testimony?

A. Not at all. If the incentive compensation program is effective, then the program should pay for itself. That is, the value of the increase in financial performance related to the compensation program should be at least as great as the cost of the program. Assuming that the incentive compensation does improve financial performance, it would not be reasonable for National Grid to eliminate or replace this program, regardless of whether the cost of the program is included in the revenue requirement.

**Union Hiring Requirement**

Q. Do you agree with Mr. Dowd's characterization your testimony that the increased union staffing will likely result in a reduction to outside contractor expense as speculation?

A. No. The relevant language in the union contract ties the increase in union staffing to reductions in reliance on outside contractors. The model contemplated in the union contracts is clearly one with relatively more employees and relatively fewer contractors. It is only logical to conclude that the increase in union staffing will be at least offset by reductions to outside contractor expense.

**Rate Case Expense**

Q. In his rebuttal testimony, Mr. O'Brien, continues to recommend the two-year amortization period for rate case expense, stating that it is supported by the Company's current plans. Do you have a response?

A. Yes. Obviously, forecasting the frequency of future rate cases is a subjective exercise. I don't believe that it is possible to predict with any high degree of certainty when the next rate case will be. However, I would note that the Company has not had a distribution rate case since the mid-1990's. Given this history, I do not believe that a five-year amortization period is unreasonable.

**Transmission Related Uncollectible Accounts**

Q. Mr. O'Brien states that he agrees "in principal" with your testimony that the uncollectible accounts expense related to transmission service should not be included in the distribution cost of service. However, he has declined to eliminate the transmission related uncollectible accounts expense from the distribution revenue requirement in the present case, stating that such an adjustment should be made only "on agreement by the Commission that these amounts should be collected in the transmission charge." Do you find his position to be reasonable?

A. No. It is my understanding that the purpose of this proceeding is to determine the Company's distribution rates, not its transmission rates. Expenses that are not properly part of the distribution cost of service, such as transmission related uncollectible accounts, should be eliminated from pro forma rate year expenses. What is, or is not, includable in the determination of transmission rates should be addressed when the Company's transmission rates are set. The transmission related uncollectible accounts should be eliminated from the determination of the distribution revenue requirement in the present case.

**Storm Fund Accrual**

Q. On page 13 of his rebuttal testimony, Mr. O'Brien states that you did not provide any data related to your statement that the present credit balance in the storm fund, along with the continuing credits for interest and attachment fee revenue, is more than adequate to provide for all but the most catastrophic of storms. Can you provide any such data at this time?

A. Yes. The response to Division Data Request 27-6 shows the storm charges incurred by Narragansett in the years 1982 – 2008. The largest charge in any year was $6.5 million in 1991. Over the course of the 27 years, the total storm charges were $17.8 million. Thus, the credit balance of $21.7 million as of May 2009 was more than the total storm damage charges of $17.8 million for the 27 years 1982-2008. I would further note that the present annual interest plus attachment fee revenue is greater than the average storm damage costs charged against the fund over the years 1982-2008. I believe that the data in the response to Division Data Request 27-6 support the adequacy of the present balance in the storm fund to provide for all but the most disastrous storms and should address Mr. O'Brien's expressed concern regarding the lack of such data.

**Storm Damage Expense**

Q. Does Mr. O'Brien oppose your recommendation to normalize test year storm damage expense (other than any costs charged to the Storm Fund) based on the actual experience in the years 2004-2008?

A. Yes. He thinks that "use of a five-year average relies too heavily on historic years and distorts the current activity" (rebuttal, page 14).

Q. Do you agree with his thoughts on this matter?

A. No. By this logic, no expense actually incurred in a given recent year could ever be considered abnormal as compared to historical experience, because to do so would be to "distort the current activity." Obviously, storm damage fluctuates significantly from year to year, possibly being zero in some years and many millions in other years. In the five year period 2004 – 2008, the storm damage expense varied from $437,000 to $4,410,000 (as corrected). Given these fluctuations in the level of expense, it should be clear that the expense incurred in any given year may not be representative of the average annual expense that the Company can expect to incur prospectively. In these circumstances, it is reasonable to normalize the expense based on the historical experience over a period of more than one year.

Q. Does the three year experience in 2005 -2007 support the normality of the 2008 storm damage costs, as Mr. O'Brien implies on page 16 of his rebuttal testimony?

A. No. I do not see how the range of annual storm damage in the years 2005 -2007, $2.9 million to $4.1 million, would lead to a conclusion that $4.4 million is representative of the normal annual storm damage expenses. Further, given the fluctuations in the annual storm damage expense, I believe that a period of greater than three years should be used to normalize this expense.

Q. Have you modified your proposed adjustment to normalize storm damage expense based on Mr. O'Brien's testimony?

A. Yes. The cost of service in the Company's rebuttal testimony includes corrected test year storm damage expense of $4,410,000. I have modified my calculation of the five year average to reflect $4,410,000 in 2008, and I have calculated the necessary normalization adjustment by subtracting the five year average from the corrected test year amount of $4,410,000. I am now proposing an adjustment of $1,395,000 to normalize test year storm damage expense (Schedule DJE-4S).

**Injuries and Damages Expense**

Q. On page 17 of his rebuttal testimony, Mr. O'Brien states that you did not provide rationale for the use of a three-year average in your calculation for the injuries and damages ("I&D") test year level of expense. Did you, in fact, use a three-year average in the calculation of your proposed pro forma I&D expense?

A. .No In my direct testimony, I proposed to eliminate the $2.5 million increase to the reserve for injuries and damages recorded in 2008 as being a non-recurring adjustment to the reserve. The three-year average did not figure into this calculation. I only referred to the three-year average in noting that even after the elimination of the non-recurring accrual, the remaining I&D expense in the 2008 test year was still greater than the average for the years 2005 - 2007.

Q. Does Mr. O'Brien provide any facts or data to support his assertion that the Company will "likely incur" expenses similar to the $2.5 accrual again?

A. No, and it is important to note that the $2.5 million does not represent an expense that was actually incurred, but rather an accrual for payments that the Company believes that it will make in the future. Mr. O'Brien contends that the $2.5 million accrual is similar to many items encountered by the Company over the course of the year, only the amount is different, but that is exactly the point. Mr. O'Brien has provided no evidence of accruals similar in magnitude to the $2.5 million for any discrete events in recent years, nor has he described any circumstances which would result in similar accruals prospectively.

Q. If the Company could establish that the $2.5 million is recurring in nature, do you have an alternative recommendation?

A. Yes. For the five year period 2004-2008, the average I&D expense recorded by the Company was $4,685,000, *including* the $2.5 million accrual booked in 2008 (2004 – $3,881,000, 2005 - $2,244,000, 2006 - $6,360,000 2007 - $3,888,000, and 2008 - $7,055,000). I believe this actually corroborates the reasonableness of the $4,555,000 pro forma injuries and damages expense that I am recommending ($7,055,000 - $2,500,000). However, if the Company can establish that the $2.5 million accrual is, in fact, a recurring event, then it would not be unreasonable to increase my recommended normal pro forma I&D expense from $4,555,000 to $4,685,000.

**Outside Legal Expense**

Q. Mr. O’Brien also opposes your adjustment to eliminate the $419,000 outside legal expense related to the Constellation Energy FCM Dispute Matter as being non-recurring. Do you have a response?

A. Yes. As that matter has been resolved, Mr. O’Brien does not argue that outside legal fees related to that case will be incurred in the future. Rather, he implies that expenses for other legal matters will supplant the costs related to that case. However, Mr. O’Brien again fails to provide any examples of legal expenses that will be of a similar magnitude and will supplant the expenses related to that case. I did not remove the expenses related to the Constellation dispute solely because that case was concluded in 2008. There were undoubtedly other cases concluded in 2008, and I am not proposing to eliminate the expenses related to those cases. I eliminated the expenses related to the Constellation dispute because of the magnitude of the expenses *and* because it was concluded in 2008. I would note that even after my proposed elimination, the remaining outside legal expenses of $1,337,000 are greater than the outside legal expenses in 2007 exclusive of the payments to the firm engaged in the Constellation dispute and greater than the total outside legal expenses in 2006 (response to Commission Data Request 1-93).

**Merger Synergies and Costs to Achieve**

Q. Does Mr. O'Brien disagree with your testimony that the costs to achieve ("CTA") National Grid/KeySpan merger savings incurred in Year 1 and Year 2 (following the merger) have more than paid for themselves by expense reductions retained by shareholders?

A. On page 28 of his rebuttal testimony, he states that he disagrees "for the most part." This partial disagreement appears to be based on his analysis that 54% of the CTA were incurred in Years 1 and 2, while only 12% of the savings included in the synergy savings analysis are reflected in Years 1 and 2, leading to his conclusion that comparing 54% of the CTA to 12% of the savings "hardly seems like a balanced proposal." However, Mr. O'Brien neglects to mention that the 12% of the synergy savings, or $9.5 million, is greater than the $8.6 million of CTA incurred in Years 1 and 2. Mr. O'Brien does not dispute that the synergy savings in Years 1 and 2 have been more than adequate to absorb the CTA incurred in those years,

If anything, my comparison of synergy savings to the CTA prior to the time that the rates in this case go into effect is conservative. As noted by Mr. O'Brien, for the purpose of my analysis, I assumed that Year 1 and Year 2 following the merger equate to 2008 and in 2009. The merger actually closed in August 2007. Thus, Year 2 following the merger would end in August 2009. The last third of 2009 would fall into Year 3, when the annual rate of synergy savings is $7.0 million, compared to $2.4 million of CTA. Taking the actual excess of synergy savings over CTA in Years 1 and 2, $0.9 million plus one-third of the excess in the part of Year 3 prior to the time that rates in this case go into effect, $1.5 million, I could have justifiably argued that the CTA subject to prospective recovery be reduced by an additional $2.4 million.

Q. On page 29 of his rebuttal testimony, Mr. O'Brien acknowledges that there is "an element of double recovery of CTA" in the Company proposal. Does the remedy prescribed by Mr. O'Brien eliminate this double recovery?

A. No. Mr. O'Brien proposes to eliminate the double recovery by deeming the amortization of CTA to have begun two years ago and limiting the prospective inclusion of the amortization and the Company share of synergy savings in the Company's revenue requirement to eight years from the time that the rates in this case go into effect. While this is something of an improvement over the Company's original proposal, it does not adequately address the prospective recovery in Years 3 – 10 of CTA that have already been recovered by retained synergy savings in Years 1 and 2. Accordingly, I still believe my proposal to reduce the annual amortization of CTA by $1,176,000 is appropriate.

Q. Mr. O'Brien also disagrees with your proposal to subject future inclusion of shared synergy savings and CTA amortization in the Company's revenue requirement to certain conditions. What is your response?

A. Mr. O'Brien opposes requiring any proof of savings as a condition for the inclusion of the shared synergy savings and CTA amortization in its revenue requirement. As justification for not requiring any proof of savings, Mr. O'Brien notes that the Company is crediting customers for "steady state" synergy savings that will not be achieved until 2011, although the rate year in this case is 2010. He also cites the resolution of this matter in Docket No 3943, where no proof of savings was required for any rate case filed up to five years from the Commission's order in that case.

First, with regard to the acceleration of the "steady state" savings to the rate year, I would note that Year 4 after the merger closing is actually the twelve months ending August 2011, not calendar 2011. Therefore, the benefit to customers from the acceleration of the synergy savings is not quite as great as Mr. O'Brien suggests.

Second, although Mr. O'Brien cites to the resolution of this matter in Docket No. 3943, he does not make any recommendation that is consistent with the Commission's acceptance of the referenced stipulation in that case. To be consistent with Docket No. 3943, while recognizing the difference in timing between that case and the present one, I would propose that in any rate case within four years from the present case, no proof of savings from the National Grid/KeySpan transaction should be required. In any rate case more than four years from the present case, proof of continuing savings should be required in order for the Company to continue including the shared savings line item in its revenue requirement.

**Rate Year Plant in Service**

Q. In his rebuttal testimony, Mr. Pettigrew states that it is his expectation that the Company's capital forecast will be fulfilled. Do you see any reason to modify your propose adjustment to the rate year plant in service based on that testimony?

A. No. Mr. Pettigrew has provided no evidence that the Company is actually spending at a rate that would eliminate the shortfall be between forecasted and actual capital spending. As I noted in my direct testimony, the gross additions to plant in service averaged approximately $4 million per month from January through July 2009, with the additions being relatively steady from month to month. This compares to budgeted plant additions of $4.5 million per month in the months January – March (the Company's fiscal year 2009) and $5.4 million per month in the months April – July (the Company's fiscal year 2010).. The response to Division Data Request 23-5 shows the average monthly shortfall in capital spending being greater in Fiscal Year 2010 than it was in Fiscal Year 2009. Based on the response to Division Data Request 27-2, which updates the actual plant additions through September 30, 2009, the shortfall in actual spending is continuing, and there is no reason to modify my proposed adjustment to rate year plant in service.

Q. On page 34 of his rebuttal testimony, Mr. O'Brien claims that you did not review the impact of your proposed adjustment to rate year plant on each component of rate base. On what is that claim based?

A. Based on the response to Division Data Request 27-7, this claim appears to be based on Mr. O'Brien's observations that 1) I did not determine if the plant retirements and cost of removal in the first six months of 2009, which I relied on in my projections for the second six months, were in line with the ratios for the prior year, and 2) I did not explain why the projected balance of accumulated deferred income taxes ("ADIT) increases when a deduction to plant additions is being projected.

Q. Is there any validity to his claim?

A. None whatsoever. In fact, in the response to Division Data Request 27-7, Mr. O'Brien acknowledged that I did address the relationship between plant additions and other components of rate base. There would be no plausible reason to determine whether the plant retirements relative to plant additions in the first half of 2009 were in line with prior periods. The credit to plant in service for retirements is offset by an equal charge to the depreciation reserve, and the level of retirements has no effect on the net plant in service included in rate base. With regard to projecting the cost of removal, I stated my assumptions in my direct testimony. Mr. O'Brien has not provided any reason to believe that the cost of removal will be different in the last six months of 2009 from what it was in the first six months.

Mr. O'Brien's point with regard to the balance of ADIT is especially puzzling. I stated in my direct testimony that I relied on the actual balance of ADIT as of June 30, 2009 to determine the appropriate rate base deduction. The basic explanation of the reason for the increase in ADIT even with decreased plant additions, is this is what actually happened. What makes this criticism especially difficult to understand is that Mr. O'Brien in substance accepted my increase to the balance of ADIT in his rebuttal testimony.

Q. Do you have a response to Mr. O'Brien's characterization of your proposed adjustment to plant additions as being "artificial" (rebuttal testimony, page 34)?

A. Yes. In response to Division Data Request 27-8, Mr. O'Brien first states that he considers the adjustment to be "artificial" because it does not take into account the Company's planned "ramp up" in capital investment. As noted previously, I recognize that the Company has indicated that it intends to increase its rate of capital spending. However, it has not presented any evidence that it is actually doing so. As my adjustment relies on the Company's actual experience, I don't see how it is "artificial."

The other "artificial" element of my proposed adjustment according to Mr. O'Brien is my method used to calculate plant retirements. As the level of plant retirements has no effect on rate base (see above), even if this criticism were valid, it would be immaterial and irrelevant.

**Cash Working Capital**

Q. Why does Mr. O'Brien disagree with your proposed adjustment to the cash working capital requirement related to the payment of municipal taxes?

A. The first and foremost reason offered by Mr. O'Brien for his disagreement is that I did not present any support for the data from Docket No. 3943 on which I relied. He emphasizes this point by stating it twice (page 35 and page 36). To address this concern, I have appended the calculation of the net lag in the payment of municipal taxes from Docket No. 3943 to this surrebuttal testimony (See DJE Attachment 1). Comparing the lag in Docket No. 3943 to the lag in this case, it can be seen that the main reason for the discrepancy is that the lag in Docket No. 3943 is based on the lag in payment of the municipal tax expense accrued in the test year, whereas the lag in the present case is based on the municipal tax payments in relation to the fiscal year of the taxing authorities.

Q. Which is the appropriate method to determine the lead or lag in the payment of municipal taxes?

A. The lead or lag in payment should reflect the time between the payment of municipal taxes and the recovery of the tax expense from ratepayers. The Company's expenses are based on accrual accounting both for book and ratemaking purposes. Therefore, the lead or lag in payment should be based on the accrual of the expense over the course of the year, not on the fiscal year of the taxing authorities. The Commission accepted this method of calculating the lead or lag in the payment of municipal taxes in Docket No. 3943, and it should accept it in this case.

Q. Have you modified your proposed adjustment to the cash working capital related to municipal taxes since your review of Mr. O'Brien's rebuttal testimony?

A. Yes. I have made two modifications. First, although the payment in municipal taxes is similar for the electric and gas operations, the weighting of the payments by date is somewhat different, as can be seen by comparing NG-RLO-4, page 7 to my

Surrebuttal Attachment 1. The calculation should be modified to reflect the actual pattern of the municipal tax payment applicable to electric operations, again based on the calendar year.

Second, in calculating the net lead or lag in payment, the actual "Customer Payment Lag" for electric operations should be used. I show my revised calculation on my Schedule DJE-8.2S. I am now proposing a reduction of $9,893,000 to the cash working capital related to municipal taxes.

**Summary**

Q. Have you prepared a revised revenue requirement calculation based on this surrebuttal testimony?

A. Yes. My Schedules DJE-1S through DJE-9S show the Division's revenue deficiency based on the surrebuttal positions. I have also prepared Schedule DJE-10S, which shows the revenue requirement effect of each of the discrete adjustments proposed by the Division. This schedule also shows the Division witness sponsoring each of the Division's revenue requirement adjustments.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

DJE - ATTACHMENT 1



**National Grid - RI Gas**
**Cash Working Capital Requirements**
**Municipal Taxes**
**Assessments for Statement Year 2007**

| Line No. | Payment Date (a) | Days From Svc Per End (b) | Amount Paid (c) | Percent Payment (d) | Weighted Average Days From Year End (e) |
|---|---|---|---|---|---|
| 1 | 01/31/2007 | 334 | $0 | 0.00% | 0 |
| 2 | 02/28/2007 | 306 | 0 | 0.00% | 0 |
| 3 | 03/31/2007 | 275 | 0 | 0.00% | 0 |
| 4 | 04/30/2007 | 245 | 0 | 0.00% | 0 |
| 5 | 05/31/2007 | 214 | 467,744 | 6.67% | 14 |
| 6 | 06/30/2007 | 184 | 10,291 | 0.15% | 0 |
| 7 | 07/31/2007 | 153 | 1,098,461 | 15.66% | 24 |
| 8 | 08/31/2007 | 122 | 1,175,061 | 16.75% | 20 |
| 9 | 09/30/2007 | 92 | 504,355 | 7.19% | 7 |
| 10 | 10/31/2007 | 61 | 922,173 | 13.15% | 8 |
| 11 | 11/30/2007 | 31 | 2,835,430 | 40.43% | 13 |
| 12 | 12/31/2007 | 0 | 0 | 0.00% | 0 |
| 13 | | | | | |
| 14 | | | $7,013,515 | 100.00% | 86 |

| Line No. | Service Period | Days From Year End | | Average Days From Year End |
|---|---|---|---|---|
| 23 | 01/31/2007 | 334 | | |
| 24 | 02/28/2007 | 306 | | |
| 25 | 03/31/2007 | 275 | | |
| 26 | 04/30/2007 | 245 | | |
| 27 | 05/31/2007 | 214 | | |
| 28 | 06/30/2007 | 184 | | |
| 29 | 07/31/2007 | 153 | | |
| 30 | 08/31/2007 | 122 | | |
| 31 | 09/30/2007 | 92 | | |
| 32 | 10/31/2007 | 61 | | |
| 33 | 11/30/2007 | 31 | | |
| 34 | 12/31/2007 | 0 | | |
| 36–37 | Average End of Service Period Date | 2,017 | /12 = | 168.08 |

| Line No. | | |
|---|---|---|
| 41 | Weighted Payment Date From Year End | 86.11 |
| 42 | Average End of Service Period Date | (168.08) |
| 43–44 | Average days from End of Service Period Date for payment of Municipal Taxes | (81.97) |

| Line No. | Days of Cost | Annual Percent | Customer Payment Lag % | CWC % |
|---|---|---|---|---|
| 52 | (81.97) | -22.46% | 13.64% | -8.82% |

NATIONAL GRID - RI ELECTRIC
RATE YEAR REVENUE REQUIREMENT
($000)

| | (A) Company Position | Adjustments | | Division Position |
|---|---|---|---|---|
| Base Rate Cost of Service | $ 286,808 | $ (37,872) | (B) | $ 248,936 |
| Commodity Cost Tracker | 9,752 | - | | 9,752 |
| Total Cost of Service | 296,560 | (37,872) | | 258,688 |
| Commodity Cost Tracker | 9,752 | - | | 9,752 |
| Other Miscellaneous Revenues | 7,679 | - | | 7,679 |
| Base Rate Revenue Requirement | $ 279,129 | $ (37,872) | | $ 241,257 |
| Base Rate Revenues, Present Rates | 215,543 | - | | 215,543 |
| Revenue Deficiency | $ 63,586 | $ (37,872) | | $ 25,714 |
| Percentage Rate Increase | 29.50% | | | 11.93% |

Notes:
(A) NG-RLO-1, Page 1
(B) Schedule DJE-2

NATIONAL GRID - RI ELECTRIC
COST OF SERVICE
($000)

| | (A) Company Position | Adjustments | | Division Position |
|---|---|---|---|---|
| Uncollectible Accounts Expense | $ 5,020 | $ (2,933) | (B) | $ 2,088 |
| Other Op & Maint Expense | 142,269 | (18,653) | (C) | 123,616 |
| Depreciation and Amortization | 41,457 | (678) | (D) | 40,779 |
| Taxes Other Than Income Taxes | 23,181 | (79) | (E) | 23,102 |
| Loss on Reacquired Debt | 686 | | | 686 |
| Interest in Customer Deposits | 75 | | | 75 |
| Income Taxes | 18,764 | (4,175) | (F) | 14,589 |
| Return on Rate Base | 55,355 | (11,354) | (G) | 44,001 |
| Total Base Rate Cost of Service | $ 286,808 | $ (37,872) | | $ 248,936 |
| Commodity Cost Tracker | 9,752 | - | | 9,752 |
| Total Cost of Service | $ 296,560 | $ (37,872) | | $ 258,688 |

Sources:
- (A) NG-RLO-2, Page 1
- (B) Schedule DJE-3
- (C) Schedule DJE-4
- (D) Schedule DJE-5
- (E) Schedule DJE-6
- (F) Schedule DJE-7
- (G) Schedule DJE-8

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO UNCOLLECTIBLE ACCOUNTS EXPENSE
($000)

| | | |
|---|---|---|
| Base Rate Cost of Service Excl. Uncollectible Accounts | (A) | $ 246,848 |
| Transition and Conservation Revenues | (B) | 45,130 |
| Total Revenues Subject to Write-offs | | 291,978 |
| Grossed-up Write-off Rate | | 0.715% |
| Pro Forma Uncollectible Accounts Expense | | $ 2,088 |

Sources:

| | | |
|---|---|---|
| (A) | Schedule DJE-2 | |
| (B) | NG-RLO-2, Page 25 | |
| (C) | Testimony of Mr. Gay | 0.0071/(1-0.0071) |

NATIONAL GRID - RI ELECTRIC
OPERATION AND MAINTENANCE EXPENSE
($000)

| | | |
|---|---|---|
| Incentive Compensation | (A) | $ (1,204) |
| Contracted Hiring Requirement | (B) | (1,363) |
| Customer Assistance Advocacy | (C) | (182) |
| Rate Case Expense | (D) | (519) |
| Customer Contact Activities | (E) | (376) |
| Economic Development Program | (F) | (1,000) |
| Vegetation Management | (G) | (1,985) |
| Inspection and Maintenance | (G) | (2,094) |
| Affiliate Expenses | (H) | (3,100) |
| Storm Fund Accrual | (I) | (1,041) |
| Storm Damage Expense | (J) | (1,395) |
| Injuries and Damages | (K) | (2,500) |
| Legal Fees | (L) | (419) |
| ISO Load Response Credit | (M) | (300) |
| Net Merger Synergy Savings (CTA) | (N) | (1,176) |
| Total Adjustment to Operation and Maintenance Expense | | $ (18,653) |

Sources

| | | | |
|---|---|---|---|
| (A) | Total Incentive Comp Expense | 2,408 | NG-RLO-2, pp. 5-7 |
| | Financial Goals | 1/2 | Dowd direct, pp. 8-9 |
| | Comp. Based on Financial Goals | 1,204 | |
| (B) | NG-RLO-2, Page 15 | | |
| (C) | NG-RLO-2, Page 16 | | |
| (D) | NG-RLO-2, Page 18 | 1730/5-865 | |
| (E) | NG-RLO-2, Page 21 | | |
| (F) | NG-RLO-2, Page 22 | | |
| (G) | Testimony of Mr. Hahn | | |
| (H) | Testimony of Ms. Smith | | |
| (I) | COMM 1-107 | | |
| (J) | DIV 23-1B, NG-RLO-R-1, page 3 | (4410+2860+4114+3256+437)/5-4410 | |
| (K) | DIV 1-29, DIV 23-3 | | |
| (L) | DIV 10-27 | | |
| (M) | DIV 1-29 | | |
| (N) | NG-RLO-3, Pages 1 and 5 | (16005-6161-2449)/8-2100 | |

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO DEPRECIATION EXPENSE
($000)

| | | | |
|---|---|---|---|
| Adjustment to Plant in Service | (A) | $ | (19,953) |
| Composite Book Depreciation Rate | (B) | | 3.40% |
| Adjustment to Pro Forma Depreciation Expense | | $ | (678) |

Sources:
(A) Schedule DJE-8
(B) NG-RLO-2, Page 28

NATIONAL GRID - RI ELECTRIC
ADJUSTMENTS TO TAXES OTHER THAN INCOME TAXES
($000)

| | | | |
|---|---|---|---|
| Payroll Taxes | | | |
| Contracted Hiring Requirement | (A) | $ | (70) |
| Customer Assistance Advocacy | (B) | | (9) |
| Municipal Taxes | (C) | | - |
| Total Adjustment to Taxes Other Than Income Taxes | | $ | (79) |

(A) NG-RLO-2, Page 15
(B) NG-RLO-2, Page 16
(C) Agreed to by Company in Rebuttal

Schedule DJE-7S

NATIONAL GRID - RI ELECTRIC
INCOME TAX EXPENSE
($000)

| | | |
|---|---|---|
| Rate Base | DJE-8 | $ 583,873 |
| Weighted Return on Equity | DJE-9 | 4.81% |
| Preliminary Taxable Income Base | | 28,061 |
| Tax Reconciling Items | NG-RLO-2, Page 29 | (1,269) |
| Taxable Income Base | | 26,792 |
| Taxable Income | Taxable Income Base/.65 | 41,219 |
| Income Tax Rate | | 35% |
| Current and Deferred Income Tax Expense | | 14,427 |
| Unfunded Deferred Tax Catch-up | NG-RLO-2, Page 29 | 650 |
| Amortization of ITC | NG-RLO-2, Page 29 | (488) |
| Total Rate Year Income Tax Expense | | $ 14,589 |

NATIONAL GRID - RI ELECTRIC
RETURN ON RATE BASE
($000)

| | (A) Company Position | Adjustments | | Division Position |
|---|---|---|---|---|
| Electric Plant in Service | $ 1,232,478 | (19,953) | (B) | $ 1,212,525 |
| Plant Held for Future Use | 204 | | | 204 |
| Contributions in Aid of Construction | (103) | | | (103) |
| Accumulated Depreciation | (516,591) | (2,331) | (B) | (518,922) |
| Net Plant | 715,988 | (22,284) | | 693,704 |
| | | | | |
| Materials and Supplies | 6,376 | | | 6,376 |
| Prepaid Expenses | 2 | | | 2 |
| Loss on Reacquired Debt | 4,592 | | | 4,592 |
| Cash Working Capital | 17,451 | (10,264) | (C) | 7,187 |
| Sub-total | 28,421 | (10,264) | | 18,157 |
| | | | | - |
| Accumulated Deferred FIT | 119,943 | | | 119,943 |
| Customer Deposits | 3,283 | | | 3,283 |
| Injuries and Damages Reserve | 4,762 | - | | 4,762 |
| Sub-total | 127,988 | - | | 127,988 |
| | | | | |
| Net Rate Base | 616,421 | (32,548) | | 583,873 |
| | | | | |
| Rate of Return | 8.98% | -1.44% | (E) | 7.54% |
| | | | | |
| Return on Rate Base | $ 55,355 | $ (11,354) | | $ 44,001 |

Sources
- (A) NG-RLO-2, Page 30
- (B) Schedule DJE-8.1
- (C) Schedule DJE-8.2
- (D) No adjustment to Company Rebuttal Position
- (E) Schedule DJE-9

NATIONAL GRID - RI ELECTRIC
ADJUSTMENT TO RATE YEAR PLANT IN SERVICE AND ACCUM DEPRECIATION
($000)

| | | |
|---|---|---|
| Plant in Service 12/31/08 | (A) | $ 1,147,926 |
| Plant in Service 06/31/09 | (B) | 1,169,765 |
| Increase | | 21,839 |
| Projected Plant Balance 12/31/09 | | 1,191,604 |
| Projected Additions - 2010 | (C) | 48,300 |
| Projected Retirements - 2010 | (D) | 6,458 |
| Projected Plant Balance 12/31/10 | | $ 1,233,446 |
| | | |
| Average Rate Year Plant Balance | | $ 1,212,525 |
| | | |
| Accumulated Depreciation 12/31/08 | (E) | $ 477,960 |
| Accumulated Depreciation 6/30/09 | (B) | 491,147 |
| Increase | | 13,187 |
| Projected Balance 12/31/09 | | 504,334 |
| Rate Year Depreciation Expense | (F) | 40,779 |
| Retirements | | 6,458 |
| Cost of Removal | (G) | 5,145 |
| Projected Balance 12/31/10 | | $ 533,510 |
| | | |
| Average Rate Year Balance | | $ 518,922 |

Sources
(A) NG-RLO-2, Page 34
(B) Division 1-3
(C) Division 23-5, 12*Avg. Monthly Plant Additions
(D) Workpaper NG-RLO-28, Page 2 13.37% * Additions
(E) NG-RLO-2, Page 35
(F) Schedule DJE-2
(G) Workpaper NG-RLO-28, Page 2, Division 1-1
(2940+5327+7169)/3

NATIONAL GRID - RI ELECTRIC
CASH WORKING CAPITAL
($000)

| | | | | | |
|---|---|---|---|---|---|
| Municipal Taxes | | | | | |
| Adjusted Rate Year Municipal Taxes | | | | (A) | 19,206 |
| Proposed Net Lag | | | | (B) | -16.19% |
| CWC Dollars | | | | | (3,110) |
| CWC Dollars per Company | | | | (A) | 6,783 |
| Adjustment to Company Position | | | | | (9,893) |
| Eliminate CTC Working Capital | | | | (A) | (371) |
| Total Adjustment to Cash Working Capital | | | | | (10,264) |

Sources:

(A) NG-RLO-2, Page 38, NG-RLO-R-1, Page 3 20085-879

(B) Schedule NG-RLO-4, Page 7

| | | | | |
|---|---|---|---|---|
| | 7/31/2008 | 153 | 16.88% | 25.83 |
| | 8/31/2008 | 122 | 2.31% | 2.82 |
| | 9/30/2008 | 92 | 30.99% | 28.51 |
| | 10/31/2008 | 61 | 0.78% | 0.48 |
| | 11/30/2008 | 31 | 49.00% | 15.19 |
| | 12/31/2008 | - | 0.04% | - |
| Weighted Average Days from Year End | | | | 72.82 |
| Average End of Service Period Date - CY 2008 (NG-RLO-4, p.9) | | | | 168.17 |
| Average Days from End of Service Period Date for Payment of Municipal Taxes | | | | (95.35) |
| Annual Percent | | | | -26.12% |
| Customer Payment Lag (NG-RLO-4), Page 7) | | | | 9.93% |
| Net Lag Percent | | | | -16.19% |

Schedule DJE-9S

NATIONAL GRID - RI ELECTRIC
RATE OF RETURN
($000)

**Company Position**

| | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long Term Debt | 44.80% | 6.79% | 3.04% |
| Short Term Debt | 5.00% | 2.50% | 0.13% |
| Preferred Stock | 0.20% | 4.50% | 0.01% |
| Common Equity | 50.00% | 11.60% | 5.80% |
| Total Capital | 100.00% | | 8.98% |

**Division Position**

| | Percent of Total | Cost Rate | Weighted Cost |
|---|---|---|---|
| Long Term Debt | 47.33% | 5.60% | 2.65% |
| Short Term Debt | 4.98% | 1.60% | 0.08% |
| Preferred Stock | 0.19% | 4.50% | 0.01% |
| Common Equity | 47.50% | 10.10% | 4.80% |
| Total Capital | 100.00% | | 7.54% |

Sources:
Attachment NG-RLO-2, Page 32
Testimony of Mr. Kahal

NATIONAL GRID - RI ELECTRIC
REVENUE REQUIREMENT ISSUES
($000)

| | | |
|---|---|---|
| Revenue Deficiency - National Grid | 63,586 | |
| Incentive Compensation | (1,217) | Effron |
| Contracted Hiring Requirement | (1,449) | Effron |
| Customer Assistance Advocacy | (193) | Effron |
| Rate Case Expense | (525) | Effron |
| Customer Contact Activities | (380) | Effron |
| Economic Development Program | (1,011) | Effron |
| Uncollectible Accounts Expense -Transmission | (1,387) | Effron |
| Uncollectible Accounts Rate | (1,160) | Gay |
| Vegetation Management | (2,007) | Hahn |
| Inspection and Maintenance | (2,117) | Hahn |
| Affiliate Expenses | (3,134) | Smith |
| Storm Fund Accrual | (1,053) | Effron |
| Storm Damage Expense | (1,410) | Effron |
| Injuries and Damages | (2,528) | Effron |
| Legal Fees | (424) | Effron |
| ISO Load Response Credit | (303) | Effron |
| Net Merger Synergy Savings (CTA) | (1,189) | Effron |
| Electric Plant in Service | (3,414) | Effron |
| Cash Working Capital-Property Tax | (1,211) | Effron |
| Cash Working Capital - CTC | (45) | Effron |
| Return on Equity | (6,812) | Kahal |
| Capital Structure | (4,902) | Kahal |
| Total of Adjustments | (37,872) | |
| Revenue Deficiency - Division | 25,714 | |