



State of Rhode Island and Providence Plantations

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October 22, 2009

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

Re: Docket No. 4077

The Division of Public Utilities and Carriers (“Division”) has reviewed the Rebuttal Testimony of William Richer in Docket No. 4077, the Distribution Adjustment Clause (“DAC”) filing for the 2009/2010 DAC period. Mr. Richer’s testimony addresses an issue raised by Division Witness Effron associated with the Capital Expenditure Tracker (“CXT”). As noted in Mr. Richer’s Rebuttal Testimony, the purpose of the CXT is to reflect the revenue requirement effect of truing up the plant in service balances forecasted by the Company in Docket No. 3943 to the actual plant balances for the twelve months ended September 30, 2009.

In Docket No. 3943, there was a significant difference between the Division and National Grid as to the appropriate balance of plant in service to be included in rate base. The Commission’s decision adopted the Company’s projection of rate base, but went on to state “*In the event that the projected capital spending does not occur prior to the end of the rate year, the Company shall notify the Division and make an appropriate adjustment to reflect the actual lower amount of actual plant in service.*”¹

The Commission’s Order was not specific as to how any necessary adjustment should be calculated. On May 1, 2009 the Division filed a Motion for Clarification, seeking direction as to the manner in which the adjustment would be made. The Company assented to the Motion, which, in fact, was the product of several weeks of discussion between the Division and National Grid. The Division’s Motion prescribed a specific method for calculating any necessary plant adjustment. The intent of the Division’s proposal was to capture the revenue requirement effects of lower rate year capital spending, while limiting the amount of items subject to updating and potential disputes among the parties. The Commission’s Order on the Motion, issued on July 16,

¹ Commission Order No. 19563, p. 25.

2009 (Order No. 19710) approved the Division's proposed method of calculating the rate base adjustment in its entirety.

The actual average balance of net plant in service for the twelve months ended September 30, 2009 was, in fact, below the average balance forecasted by the Company in Docket No. 3943. Accordingly, in its DAC testimony in this case, the Company presented its calculation of the CXT adjustment and the associated credit to customers to reconcile the actual balance of plant in service.

Mr. Effron filed testimony on behalf of the Division on October 1, 2009. In this testimony he addressed one issue with respect to the CXT – the appropriate quantification of the balance of accumulated deferred income taxes (“ADIT”), “*if* it is appropriate to deduct ADIT from rate base in calculating the revenue requirement effect of the capital expenditure reconciliation” (Effron Direct Testimony, Page 5, emphasis added).

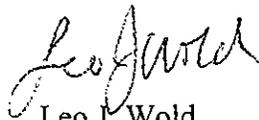
In its Rebuttal Testimony, the Company explained that the calculation of the CXT adjustment in its Direct Testimony was based on the mechanism for reconciling capital investment for the Accelerated Replacement Plan (“ARP”), which included ADIT in its rate base calculation (Richer Rebuttal Testimony, Page 3). Mr. Richer then went on to explain why the CXT calculation in the Company's Direct Testimony was in error:

The calculation for the CXT should be performed based upon the formula set forth in the Motion for Clarification and approved in the Commission's Order, and not the ARP reconciliation mechanism. This approach incorporates and complies with the specific language of the Motion for Clarification and the Commission's Order. Accordingly, the Company will remove the ADIT reconciliation from its calculation of the CXT.

(Richer Rebuttal Testimony, Page 3).

After careful review of the Motion for Clarification and the Commission's Order adopting the Division's proposed method of calculating the rate base adjustment, the Division believes that the calculation of the CXT filed in the Company's Rebuttal Testimony is correct and that it is not, in fact, appropriate to deduct ADIT from rate base in calculating the revenue requirement effect of the capital expenditure reconciliation. Accordingly, the Division withdraws that portion of Mr. Effron's testimony that relates to this issue.

Very truly yours,



Leo J. Wold

Assistant Attorney General

cc: Service List