

September 24, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket No. 4196 – Distribution Adjustment Charge Filing – 2010
Supplemental Response to Division 1-5 and 1-6
Responses to Division Data Requests – Set 3**

Dear Ms Massaro:

Enclosed please find ten (10) copies of National Grid's¹ supplemental responses to Division Data Request 1-5 and 1-6. In addition, the Company is submitting ten (10) copies of its responses to the Division's Third Set of Data Requests.

Thank you for your attention to this filing. If you have any questions, please do not hesitate to contact me at (401) 784-7667.

Sincerely,



Thomas R. Teehan

Enclosures

cc: Leo Wold, Esq.
Steve Scialabba

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

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

September 24, 2010

Date

**Docket No. 4196 – National Grid – Annual Distribution Adjustment Clause
Filing (“DAC”) - Service List as of 9/3/10**

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File an original & nine (9) copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02888	Lmassaro@puc.state.ri.us	401-780-2107 401-941-1691
	Plucarelli@puc.state.ri.us	
	Sccamara@puc.state.ri.us	

Division Data Request 1-5

Request:

Re: Attachment JFN-5 page 2, please:

- a. Provide full documentation for the determination of the dollar amount for the rate allowances in lines 2 and 3, and the Company's rationale in the determination of said dollar amount.
- b. Provide a digital copy or access to the attachments referenced in line 7: Current year actual Pension Expense Including Service Company-Allocated Expense

Response:

- a. The Company is in the process updating these files to account for certain changes in the calculation of the Pension and PBOP expenses and will file an updated response to this request by no later than September 22, 2010.
- b. See subpart (a)

Supplemental Response

- a. Please see Attachment DIV 1-5 for the underlying information for the calculation of the Pension and PBOP dollar amounts reflected in Updated Attachment NG-JFN-5S. This attachment provides a reconciliation of the Pension and PBOP calculation to current year total expense.
- b. See sub-part (a).

Prepared by or under the supervision of: William R. Richer

Calculation of Pension Expense

30-Jun-2010

1 Narragansett Gas Actuary Report	2,935,695
2 Narragansett Gas Amortization	4,065,264
3 Narragansett Gas Pension Charged to Capital	(1,759,010)
4 Narragansett Gas Pension Charged to Expense	<u>5,241,949</u>
5	
6 N Grid Service Company Allocation to Narragansett Gas	610,025
7 Keyspan Service Company Allocation to Narragansett Gas	1,091,472
8 Keyspan Utility Service Company Allocation to Narragansett Gas	22,966
9	
10 Other Company Charges to Narragansett Gas	3,666
11	
12 Total Expense	<u><u>\$ 6,970,079</u></u>

Calculation of PBOP Expense

30-Jun-2010

1	Narragansett Gas Actuary Report	3,093,695
2	Narragansett Gas Amortization	1,789,728
3	Narragansett Gas PBOP Charged to Capital	(827,086)
4	Narragansett Gas PBOP Charged to Expense	4,056,337
5		
6		
7	N Grid Service Company Allocation to Narragansett Gas	529,140
8	Keyspan Service Company Allocation to Narragansett Gas	548,843
9	Keyspan Utility Service Company Allocation to Narragansett Gas	14,584
10		
11	Other Company Charges to Narragansett Gas	(8,476)
12		
13	Total Expense	<u>\$ 5,140,428</u>

Division Data Request 1-6

Request:

Re: Attachment JFN-5 page 3, please:

- a. Provide full documentation for the determination of the dollar amount for the rate allowances in lines 2 and 3, and the Company's rationale in the determination of said dollar amount.
- b. Provide a digital copy or access to the attachments referenced in line 7: Current year actual PBOP Expense Including Service Company-Allocated Expense.

Response:

Please see the Company's Response to DIV 1-5.

Supplemental Response

- c. Please see Attachment DIV 1-5 for the underlying information for the calculation of the Pension and PBOP dollar amounts reflected in Updated Attachment NG-JFN-5S. This attachment provides a reconciliation of the Pension and PBOP calculation to current year total expense.
- d. See sub-part (a).

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-1

Request:

Referring to NG-JFN-5S, Page 2, please provide documentation supporting the pension expense for the 12 months ended June 30, 2010 on Line 7.

Response:

Please see the Company's Response to DIV 1-5 (Supplemental).

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-2

Request:

Referring to NG-JFN-5S, Page 2, please provide the actual pension contribution for the 12 months ended June 30, 2010 on Line 7.

Response:

Please see Attachment DIV 3-2.

Prepared by or under the supervision of: William R. Richer

National Grid - RI Gas
Pension and PBOP Funding July 1, 2009 through June 20, 2010

Date	Major Plan Category	Trust Short Name	Paying Company	Amount by Company	Plan Type	Contribution Type	Contribution Fiscal Year
07/15/2009	National Grid	NG FAPP	New England Gas	573,750	Pension	Regular	FY2010
08/28/2009	National Grid	NG FAPP	New England Gas	637,500	Pension	Regular	FY2010
10/15/2009	National Grid	NG FAPP	New England Gas	573,750	Pension	Regular	FY2010
01/14/2010	National Grid	NG FAPP	New England Gas	573,750	Pension	Regular	FY2010
04/15/2010	National Grid	NG FAPP	New England Gas	2,204,000	Pension	Regular	FY2011
			Direct Funded	4,562,750			
			Service Company 2009	183,017			
			Service Company 2010	274,525			
			Total Funding Pension	5,020,291.27			
04/29/2010	National Grid	NE NonUnion VEBA	New England Gas	251,250	OPEB	Regular	FY2010
04/29/2010	National Grid	NE Union VEBA	New England Gas	251,250	OPEB	Regular	FY2010
04/29/2010	National Grid	NG 401(h)	New England Gas	42,000	OPEB	Regular	FY2010
07/29/2010	National Grid	NE NonUnion VEBA	New England Gas	251,250	OPEB	Regular	FY2010
07/29/2010	National Grid	NE Union VEBA	New England Gas	251,250	OPEB	Regular	FY2010
07/29/2010	National Grid	NG 401(h)	New England Gas	42,000	OPEB	Regular	FY2010
			Direct Funded	1,089,000			
			Service Company 2009	320,994			
			Service Company 2010	481,491			
			Total Funding PBOP	1,891,485.00			

Division Data Request 3-3

Request:

Please provide an/the annual reconciliation report detailing how the Company funded the pension plan to achieve the maximum economic benefit for customers (Docket No. 3943, Laflamme direct testimony, page 51).

Response:

Attachment DIV 3-2 provides a report of the actual contributions made to the pension and PBOP plans during the 12 month period ended June 30, 2010. These plan contributions are invested in accordance with the Company's investment policies to achieve the economic benefits discussed in Docket No. 3943.

The Company manages benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic asset/liability study which analyzes plan liabilities and plan funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across the various fixed income market segments. Small investments are also held in private equity and infrastructure, with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the asset allocation study. Investment risk and return are reviewed by the investment committee on a quarterly basis. Asset allocation information for the legacy National New England Grid Pension Plan, as of March 31, 2010 is provided below:

Division Data Request 3-3 (cont.)

Legacy National Grid (New England) PENSION		
US Equity	303,992,009	23%
Non-US Equity	135,222,630	10%
Global Equity	100,123,606	8%
Private Equity	67,348,159	5%
Real Estate	-	0%
Infrastructure	1,254,412	0%
Global TAA	170,117,976	13%
US Fixed Income	521,590,199	39%
Cash	27,167,640	2%
Total Pension:	1,326,816,630	100%

Legacy National Grid (New England) PENSION		
US Equity	303,992,009	23%
Non-US Equity	135,222,630	10%
Global Equity	100,123,606	8%
Private Equity	67,348,159	5%
Real Estate	-	0%
Infrastructure	1,254,412	0%
Global TAA	170,117,976	13%
US Fixed Income	521,590,199	39%
Cash	27,167,640	2%
Total Pension:	1,326,816,630	100%

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-4

Request:

Referring to NG-JFN-5S, Page 3, please provide documentation supporting the PBOP expense for the 12 months ended June 30, 2010 on Line 7.

Response:

Please see the Company's Response to Division Data Request 1-5 (Supplemental)

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-5

Request:

Referring to NG-JFN-5S, Page 3, please provide the actual PBOP contribution for the 12 months ended June 30, 2010 on Line 7.

Response:

Please see Attachment DIV 3-2.

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-6

Request:

Please provide an/the annual reconciliation report detailing how the Company funded the PBOP plans to achieve the maximum economic benefit for customers (Docket No. 3943, Laflamme direct testimony, page 51).

Response:

Please see the Company's response to Division Data Request 3-3.

Asset allocation information as of March 31, 2010 is as follows for the legacy National Grid New England PBOP plans:

Legacy National Grid (New England) UNION OPEB			
US Equity	77,310,571		34%
Non-US Equity	38,818,784		17%
Global Equity	31,484,146		14%
Global TAA	36,003,340		16%
Fixed Income	40,552,761		18%
Cash	468,667		0%
Private Equity	-		0%
Total Union	224,638,267		100%

Legacy National Grid (New England) NONUNION OPEB			
US Equity	69,288,689		37%
Non-US Equity	29,064,067		15%
Fixed Income	88,954,174		47%
Cash	2,130,876		1%
Private Equity	-		0%
TOTAL Non - Union	189,437,806		100%

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-7

Request:

Referring to NG-JFN-6S, Page 4, why does the revenue requirement include a full year of return, book depreciation, and property taxes, although the period covered by the ARP expenditures is only six months?

Response:

The ARP rate adjustment reflected on NG-JFN-6S, Page 4, consists of 2 components. The first is the calculation of rate base as of March 31, 2010 based on the incremental ARP spending during the October 1, 2009 through March 31, 2010 period. The second component is the revenue requirement associated with the cumulative incremental ARP expenditures as of March 31, 2010 which is to be collected over the 12 month period from November 1, 2010 through October 31, 2011.

The first component, the rate base calculation, was initially calculated assuming a full year of depreciation, but should have been calculated for only the 6 months from April 1, 2010 through October 31, 2010 adjusted for the half year convention.

The second component, the revenue requirement, properly reflects a full year of return, depreciation and property taxes because the revenue requirement to be collected is intended to recover a full year of the Company's costs. As a result of the revision to the rate base described above, the full year of return in the revenue requirement calculation was also revised accordingly.

Please see Attachment DIV 3-7 for the revised calculation of ARP Revenue Requirement and Attachment NG-JFN-6US which adjusts the ARP factor for the revised revenue requirement. Also see the Updated Supplemental Testimony of John F. Nestor, III at page 3.

Prepared by or under the supervision of: William R. Richer and John F. Nestor, III

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

Line No.		October 1,2009 Through March 31, 2010
1	<u>Deferred Tax Calculation:</u>	
2	ARP Progam Targeted Spend	\$9,197,025
3	Base Spending Level	6,650,000
4	Incremental Amount	2,547,025
5	Cumulative ARP Incremental Spend	\$2,547,025
6		
7	Annual Retirements	\$755,706
8	Cumulative Retirements	\$755,706
9		
10	Book Depreciation Rate	1/ 1.88%
11	Capital Repairs Tax Deduction	2/ 100.00%
12		
13	Vintage Year Tax Depreciation:	2,547,025
14		
15	Annual Tax Depreciation	2,547,025
16	Cumulative Tax Depreciation	2,547,025
17		
18	Book Depreciation	8,398
19	Cumulative Book Depreciation	8,398
20		
21	Cumulative Book / Tax Timer	2,538,627
22	Effective Tax Rate	35.00%
23	Deferred Tax Reserve	\$888,519
24		
25	<u>Rate Base Calculation:</u>	
26	Cumulative ARP Incremental Spend	\$2,547,025
27	Accum Depreciation	(8,398)
28	Deferred Tax Reserve	(888,519)
29	Year End Rate Base	\$1,650,108
30		
31	<u>Revenue Requirement Calculation:</u>	
32	Year End Rate Base	\$1,650,108
33	Pre-Tax ROR	3/ 11.41%
34	Return and Taxes	188,277
35	Book Depreciation	33,592
36	Property Taxes	4/ 3.25% 82,823
37	Annual Revenue Requirement	\$304,692
38		
39	<u>Annual Rate Adjustment:</u>	<u>Year 1</u>
40	Incremental Annual Rate Adjustment	\$304,692

1/ 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%

2/ Assumes 100% of capital spending qualifies for 100% capital repairs depreciaton deduction

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/ Property Tax Calculation:

	CY2008	CY2009	Average
Plant in Service	565,561,284	591,484,436	578,522,860
Accumulated Depreciation	(282,846,425)	(295,189,100)	(289,017,763)
Net Plant in service	282,714,860	296,295,336	289,505,098
Property Tax Expense CY 2009			9,413,974
Property Tax Rate			3.25%

Imputed Capital Structure: 3/

	Ratio	Rate	Weighted Rate	Taxes	Pre-tax Return
Long Term Debt	40.63%	7.99%	3.25%		3.25%
Short Term Debt	11.66%	3.91%	0.45%		0.45%
Common Equity	47.71%	10.50%	5.01%	2.70%	7.71%
	100.00%		8.71%	2.70%	11.41%

Division Data Request 3-8

Request:

Referring to NG-JFN-6S, Page 5, why are the carrying charges calculated on the full annual amount from page 4, rather than on the revenues foregone for the four-month period July 1, 2010 through October 31, 2010?

Response:

The carrying charges were calculated based on the entire annual revenue requirement times the weighted average cost of capital adjusted for the four month delay because the four month delay occurs for each of the twelve months to be recovered. In other words, a “permanent” four month delay exists for the entire recovery period of the annual revenue requirement until all dollars are fully recovered. Please refer to Attachment DIV 3-8 for a revised calculation of the carrying charges using the after-tax weighted average cost of capital (see the Company’s response to Division Data Request 3-9) and an analysis that shows a monthly calculation of the carrying charges. Please also refer to the Attachment NG-JFN-6US which adjusts the ARP carrying charges, and the Updated Supplemental Testimony of John F. Nestor, III at page 3

Prepared by or under the supervision of: William R. Richer and John F. Nestor, III

**National Grid - RI Gas
Accelerated Infrastructure Replacement Program
Computation of Carrying Cost Calculations**

<u>Line</u> <u>No.</u>		<u>November 1, 2010</u>
		<u>Through</u> <u>October 31, 2011</u>
1	Incremental Revenue Requirement	\$304,692
2	Weighted Average Cost of Capital	2.90%
3	Net Carrying Charges	<hr/> \$8,846

Notes

- 2/ After-tax weighted average cost of capital adjusted for the 4 months delay ($8.71\% \times 4/12$)

Division Data Request 3-9

Request:

Referring to NG-JFN-6S, Page 5, why are the carrying charges calculated on the gross revenues rather than on the revenues net of income taxes?

Response:

The Company should not have calculated the carrying charges on the gross revenues and should have considered the effect of income taxes in its calculation. The Company has revised its calculation of the carrying charges by applying the after-tax weighted average cost of capital adjusted for the 4 month delay, instead of the pre-tax weighted average cost of capital.

Please see the revised calculation on Attachment DIV 3-8 and Attachment NG-JFN-6US which adjusts the ARP carrying charges. Also see the Updated Supplemental Testimony of John F. Nestor, III at page 3.

Prepared by or under the supervision of: William R. Richer and John F. Nestor, III

Division Data Request 3-10

Request:

Referring to Richer testimony, page 14, please explain why the funding reconciliation for pension and PBOP is reflected as an adjustment to rate base in the ESM rather than an adjustment to the pension and PBOP reconciliation factor. The response should cite the specific authority for this treatment.

Response:

Please see Commission Order (19563) in Docket No. 3943 at pages 55-57 where the Commission adopted the reconciliation mechanism set forth in the Testimony of Michael Laflamme at pages 81-86 and Attachment NG-MDL-3.

Prepared by or under the supervision of: William R. Richer

Division Data Request 3-11

Request:

Referring to Attachment WRR-1, page 2, please describe the “Out of Period Write-off Adjustment” on line 30.

Response:

The “Out of Period Write-off Adjustment” on line 30 of Attachment WRR-1 page 2 is for uncollectible write-offs booked in this reporting period but actually written off the customers’ accounts in the prior period reporting period. The Company’s policy is to write-off outstanding balances 90 days after a final bill has been issued to former customers, at which point the accounts are transferred to a third party collection agency to pursue recovery of the outstanding amounts. Write-offs of this nature fall into two categories: (1) accounts in which the balance outstanding on the final bill is unchanged as of the date of write-off, and (2) accounts in which the outstanding balance at the date of write-off differs from the amount reflected on the final bill. The first category of write-offs that is described above have been reflected in the general ledger in the period in which the write-offs have occurred. The second write-off category required special handling and such write-offs were mistakenly not being adjusted in the general ledger in the period they occurred. This situation was identified and remedied in September 2009 and accounting entries were recorded during this June 30, 2009 ESM reporting period to adjust the general ledger accordingly.

The Company’s ESM filing reflected an adjustment of \$3.2 million to reduce the amount of expense that was adjusted during the twelve months ended June 30, 2010 that related to write-offs that were reflected on customers’ accounts prior to that time. This had the effect of increasing the reported earnings in the ESM filing.

Prepared by or under the supervision of: William R. Richer