February 14, 2011

Electric Infrastructure, Safety, and Reliability Plan FY 2012 Proposal
Docket No. 4218
Gas Infrastructure, Safety, and Reliability Plan FY 2012 Proposal
Docket No. 4219

The Narragansett Electric Company d/b/a National Grid ("National Grid" or "the Company") filed its Infrastructure, Safety, and Reliability (ISR) Plans in December 2010. Calculations supporting the revenue requirements associated with the vegetation management, inspection & maintenance, and qualifying capital investment components are included in the electric ISR Plan. Calculations supporting the revenue requirement associated with the qualifying capital investment are included in the gas ISR plan. The Division analyzed the revenue requirements and submitted data requests. The following exceptions were noted regarding the calculations of the capital investment revenue requirements, which are associated with qualifying additions to plant in service in fiscal year 2012, the twelve months ending March 31, 2012.

Bonus Depreciation

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, signed into law in December, include a 100% Bonus Depreciation allowance for plant additions in 2011 and a 50% Bonus Depreciation allowance for plant additions in 2012. The Company's calculations of the capital investment revenue requirements, as filed, do not reflect that bonus depreciation.

In response to Division data requests in Docket No. 4218, the Company calculated that reflecting the bonus depreciation available in 2011 and 2012 would reduce the FY 2012 electric capital investment revenue requirement from $1,063,000 to $722,000, a reduction of $341,000. However this calculation assumes that only 75% of the plant additions would qualify for bonus depreciation. The Company did not explain why it was assumed that only 75%, rather than 100%, of the plant additions would qualify for bonus depreciation. The Division asked a follow-up request to explain the 75% assumption but has not received a response as of this date. If it is assumed that 100% of the electric plant additions would qualify for bonus depreciation, then the electric capital investment revenue requirement would be reduced by an additional $114,000.

In response to Division data requests in Docket No. 4219, the Company calculated that reflecting the bonus depreciation available in 2011 and 2012 would reduce the FY 2012 gas capital investment revenue requirement from $2,130,000 to $1,818,000, a reduction of $312,000. Again this calculation assumes that only 75% of the plant additions would qualify for bonus depreciation, without explanation of why it was assumed that only 75% would qualify. The Division asked a follow-up request to explain the 75% assumption but has not received a response as of this date. If it is assumed that 100% of the gas plant additions would qualify for bonus depreciation, then the gas capital investment revenue requirement would be reduced by an additional $104,000.

Property Taxes

National Grid also provided calculations of the capital investment revenue requirements for Fiscal Year 2013, although the Company is not seeking approval for ISR rates for Fiscal Year 2013 at this time. In determining Fiscal Year 2013 revenue requirements, the Company did not offset the growth in depreciation reserve on embedded plant against the ISR plant additions in the calculation of the property tax expense for Fiscal Year 2013.

In response to Division Data requests, the Company stated that "Property taxes are affected by changes in both assessed property values and property tax rates. As such, it would be inappropriate to adjust base rate property tax allowances for embedded plant in service for only changes in assessed property value while ignoring inevitable changes in individual municipal property tax rates."

Property taxes are assessed on the value of plant net of accumulated depreciation. Therefore, the growth in depreciation reserve on embedded plant should be offset against the ISR plant additions in the calculation of the property tax expense. This is not an issue in the determination of the Fiscal Year 2012 revenue requirement. However, when the Company seeks to implement rates for the Fiscal Year 2013 ISR, the calculation of the capital investment revenue requirement should reflect growth in depreciation reserve on embedded plant in the determination of the property tax expense.