STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

IN RE: NATIONAL GRID PROPOSED FY 2012 ELECTRIC INFRASTRUCTURE, SAFETY AND RELIABILITY PLAN PURSUANT TO R.I.G.L. §39-1-27.7.1	: : :	DOCKET NO. 4218

REPORT AND ORDER

I. Background & National Grid's Filing

On May 20, 2010, the Rhode Island General Assembly enacted R.I. Gen. Laws § 39-1-27.7.1[1] which states, in relevant part that The Narragansett Electric Company d/b/a NGrid shall file proposals with the Public Utilities Commission ("Commission") that contain:

> An annual infrastructure, safety and reliability spending plan for each fiscal year and an annual rate reconciliation mechanism that includes a reconcilable allowance for the anticipated capital investments and other spending pursuant to the annual pre-approved budget as developed in accordance with subsection (d) herein.
> (d) Prior to the beginning of each fiscal year, gas and electric distribution companies shall consult with the division of public utilities and carriers regarding its infrastructure, safety, and reliability spending plan for the following fiscal year, addressing the following categories:
> (1) Capital spending on utility infrastructure;
> (2) For electric distribution companies, operation and maintenance expenses on vegetation management;
> (3) For electric distribution companies, operation and maintenance expenses on system inspection, including expenses from expected resulting repairs; and
> (4) Any other costs relating to maintaining safety and reliability that are mutually agreed upon by the division and the company.
> The distribution company shall submit a plan to the division and the division shall cooperate in good faith to reach an agreement on a proposed plan for these categories of costs for the prospective fiscal year within sixty (60) days. To the extent that the company and the division mutually agree on a plan, such plan shall be filed with the commission for review and approval within ninety (90) days. If the company and the division cannot agree on a plan, the company shall file a proposed plan with the commission and the commission shall review and, if the investments and spending are found to be reasonably needed to maintain safe and reliable distribution service over the short and long-term, approve the plan within ninety (90) days.[2]

[1] P.L. 2010, ch. 15, § 1 and P.L. 2010, ch. 17, § 1 (enacted May 20, 2010).
[2] R.I. Gen. Laws § 39-1-27.7.1(c)(2)-(d).

On December 23, 2010, in response to the above-referenced law, NGrid filed with the Commission its proposed Electric Infrastructure, Safety, and Reliability Plan ("Electric ISR Plan") for FY 2012. NGrid indicated that the Electric ISR Plan was developed in consultation with the Division of Public Utilities and Carriers ("Division") and "is designed to enhance the safety and reliability of the Company's Rhode Island electric distribution system."[3] In support of the Plan, NGrid submitted the Pre-Filed Direct Testimony of Catherine McDonough, Director of Economic Analysis, Asset Strategy and Policy, Electric Distribution Asset Management, Robert D. Sheridan, Director of Distribution Planning, and Daniel Glenning, Director of Project Management for Electricity Operations ("The Plan Witnesses"). In support of the development of the Revenue Requirement and to discuss the reconciliation process, NGrid submitted the Pre-Filed Direct Testimony of David E. Tufts, Director, Electric Distribution and Generation Revenue Requirements. In support of the new tariffs and to explain the calculation of the factors and to provide customer bill impacts, NGrid submitted the Pre-Filed Direct Testimony of Jeanne A. Lloyd, Manager of Electric Pricing, New England.

A. ISR PLAN

The Plan Witnesses indicated that the proposed Electric ISR Plan covers three budget categories for the fiscal year ending March 31, 2012. According to The Plan Witnesses, the Division had agreed that the expenses in the areas of capital spending on electric infrastructure projects, operation and maintenance expenses ("O&M") for vegetation management and O&M expenses for an Inspection and Maintenance ("I&M") program were necessary for the Company to provide safe and reliable service to its Rhode Island customers.[4] They explained that the Electric ISR Plan included a spending plan and proposed annual reconciliation mechanism to "provide for

[3] Filing Letter dated 12/23/2010 at 1.
[4] NGrid Exhibit 1 (Pre-Filed Testimony of McDonough, Sheridan and Glenning) at 6-7.

recovery related to capital investments and other spending undertaken pursuant to the annual pre-approved budget for the Electric ISR Plan."[5]

The proposed capital spending plan for FY 2012 is $58.4 million, including $1.2 million of flood mitigation expenses. According to The Plan Witnesses, the Electric ISR Plan addresses the capital investment needed for five purposes: (1) to meet state and federal regulatory requirements applicable to the electric system (Statutory/Regulatory); (2) to repair failed or damaged equipment (Damage Failure); (3) to address load growth/migration (System Capacity and Performance); (4) to maintain reliable service (Asset Condition); and (5) to sustain asset viability through targeted investments driven primarily by condition (Non-Infrastructure).[6] Of these, the Company considers Statutory/Regulatory and Damage Failure to be non-discretionary "in terms of scope and timing" and "are subject to necessary and unavoidable deviations."[7] These items, totaling $31,341,500, account for fifty-five percent (55%) of the proposed capital outlays in FY 2012.[8] The remaining, System Capacity, Asset Condition, and Non-Infrastructure projects are meant to reduce the degradation of the service life of equipment, to allow for more flexibility in the system for purposes of meeting various contingencies such as load growth and migration, and to address poor condition of aged assets.[9] These items comprise the other forty-five percent (45%) of the CY 2012 budget and of this, the System Capacity costs of $15,821,100 make up twenty-eight percent (28%) with Asset Condition of $9,737,050, making up seventeen percent (17%) of the FY 2012 budget. An additional $1,200,000 was allocated to engineering studies for construction projects related to the nine substations vulnerable to flood conditions.[10]

[5] *Id.* at 7.
[6] *Id.* at 8, 9.
[7] *Id.* at 11-12.
[8] *Id.* at 11.
[9] *Id.* at 12-13.
[10] *Id.* at 13-14.

The Plan Witnesses explained that the FY 2012 revenue requirement for the above-referenced spending is based on NGrid's projected capital amounts to be placed into service in FY 2012 plus an estimated cost of removal. They explained that the FY 2012 "Capital Placed in Service" may include capital spending from prior years due to the multi-year nature of certain projects. Likewise, FY 2012 capital spending would not be included in the "Capital Placed in Service" until such time as the project is placed in service. Therefore, whereas the Proposed Capital Outlays for FY 2012 totals $58,377,650, the total Capital Placed into Service plus Estimated Cost of Removal for FY 2012 is $55,381,000.[11] The Company agreed to provide the Commission with quarterly reports on the progress of executing the ISR Plan and an annual report at the time the Company files its annual reconciliation. Additionally, the Company and Division had agreed that if circumstances require, NGrid will be allowed reasonable deviations from the plan with explanation in its quarterly and year-end reports.[12]

B. REVENUE REQUIREMENT

Mr. Tufts explained that the revenue requirement of the FY 2012 Electric ISR Plan includes (1) an O&M expense related to vegetation management, system inspection, feeder hardening, and potted porcelain cutouts, as included in the Company's I&M Program and (2) the Company's capital investment in electric utility infrastructure.[13] The forecasted FY 2012 revenue requirement related to O&M expenses was $9,207,845. However, the Company was allowed $6,549,468 in Docket No. 4065 for vegetation management and inspection and maintenance O&M costs. In order to avoid double-recovery, the Company, through the testimony of Ms. Lloyd, is proposing a credit

[11] *Id.* at 14-15.
[12] *Id.* at 16.
[13] NGrid Exhibit 1 (Pre-Filed Testimony of David E. Tufts), p. 3.

against the forecasted spending. The forecasted capital investment for FY 2012 is $1,063,326. Therefore, the additional revenue needed under the Electric ISR Plan for FY 2012 is $3,721,803.[14]

C. ANNUAL RECONCILIATION

Each year, the Company will "reconcile the revenue requirement to the revenue billed from the rate adjustments implemented at the beginning of each fiscal year."[15] The reconciliation process would compare the Electric ISR Plan budget to the actual expenditures where the expenses are considered "non-discretionary" and will adjust the rate upward or downward depending on the actual expense level.[16] The Company considered non-discretionary expenses as "the investment required to comply with statutory and regulatory requirements and to fix damaged or failed equipment" and those items account for $31,341,500 million, or 55% of the capital projects in FY 2012.[17] The remaining 45% of the capital spending, or $25,836,150, is associated with system capacity, asset condition, and non-infrastructure projects "designed to reduce the degradation of equipments' service lives due to thermal stress and to provide appropriate degrees of system configuration flexibility to limit adverse reliability impact of large contingencies."[18]

During the reconciliation process, the Electric ISR Plan budget will be compared to actual expenses, but the Company will not be able to adjust rates to collect for expenses in excess of the

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[14] *Id.* at 3-5, DET-1.

[15] NGrid Exhibit 1 (Exhibit 1 attached to the Pre-Filed Testimony – Electric Infrastructure, Safety and Reliability Plan, Introduction and Summary, p. 3).

[16] NGrid Exhibit 1 (Pre-Filed Testimony of McDonough, Sheridan and Glenning) at 7, 11-12.

[17] *Id.* at 11. R.I.P.U.C. No. 2044 states that "'Non-Discretionary Capital Investment' shall mean capital investment related to the Company's commitment to meet statutory and/or regulatory obligations which amount shall be approved by the Commission as part of the Company's annual electric ISR Plan and shall be defined as the lesser of 1) "non-discretionary" electric plant in service or b) actual "non-discretionary" capital spending for "Non-Discretionary" Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.'"

[18] NGrid Exhibit 1 (Pre-Filed Testimony of McDonough, Sheridan and Glenning) at 10, 12. R.I.P.U.C. No. 2044 states that "'Discretionary Capital Investment' shall mean capital investment, other than "Non-Discretionary" Capital Investment defined [within], approved by the Commission as part of the Company's annual electric ISR Plan and shall be defined as the lesser of a) actual "discretionary' electric plant in service or b) approved "discretionary" capital spending for Discretionary Capital Investment plus related cost of removal recorded by the Company for a given fiscal year associated with electric distribution infrastructure.'"

budgeted amount unless the Company can prove the expenses were the result of factors outside of the control of the Company.[19] More specifically, as explained by Mr. Tufts, non-discretionary capital investments "will be reconciled to the lesser of the actual 'nondiscretionary'-related capital investments placed into service and actual 'non-discretionary' spending levels on a cumulative fiscal year-to-date basis" whereas discretionary capital investments "will be reconciled to the lesser of the actual 'discretionary'-related capital investments placed into service and the level of approved 'discretionary' spending...on a cumulative fiscal year-to-date basis."[20]

D. DEVELOPMENT OF ISR FACTOR

Ms. Lloyd explained that the ISR Factor contains two mechanisms: (1) an Infrastructure Investment Mechanism to recover costs associated with incremental capital investment ("CapEx") and (2) an Operation and Maintenance Mechanism to recover O&M expenses related to I&M and vegetation management activities. To design the CapEx factors, following Commission review of a cumulative revenue requirement, a rate base allocator will be applied based on the most recently approved cost of service study. Similarly, the design of the Operation and Maintenance Mechanism is to allocate the I&M and vegetation management expenses to the rate classes based on the percentage of total distribution O&M expense allocated to each rate class per the most recent cost of service study. Within each rate class, a per unit charge is calculated based on kWh usage for non-demand classes and on a kW basis for demand classes.[21] Each year in August, the Company will propose CapEx Reconciling Factors and an O&M Reconciling Factor to become effective on October 1 for the following twelve-month period. The reconciliation will compare the actual

[19] *Id.* at

[20] NGrid Exhibit 1 (Pre-Filed Testimony of David E. Tufts), pp. 6-7.

[21] NGrid Exhibit 1 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 3-7. G-02 and G-32/B-32 customers whose charges include both demand and usage, the CapEx Factors will be charged as demand charges and the O&M Factors will be charged as usage so as "to not significantly change the relationship between the existing charges and will ensure that customers within the class that have differing usage characteristics will not experience significantly different bill impacts." NGrid Exhibit 1 (Pre-Filed Testimony of Jeanne A. Lloyd), pp. 6-7.

cumulative revenue requirement to actual billed revenue generated from the CapEx Factors and any over- or under-recovery will be refunded or collected from customers through the CapEx Reconciling Factors. The O&M reconciling factor will compare the actual I&M and vegetation management O&M expense to actual billed revenue generated from the O&M factors and any over- or under-collection of actual expense will be refunded to or collected from customers through a uniform per kWh charge applicable to all rate classes.[22]

II. Division's Filing

On February 18, 2011, the Division submitted comments of David J. Effron and Pre-Filed Direct Testimony of Gregory L. Booth, P.E., its consultants. Commenting on the impact of bonus depreciation on the electric capital investment revenue requirement, Mr. Effron stated that the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, signed into law in December 2010, includes a 100% Bonus Depreciation allowance for plant additions in 2011 and a 50% Bonus Depreciation allowance for plant additions in 2012, and if applied by NGrid in its filing, would have reduced the electric capital investment revenue requirement by an additional \$114,000.[23] While noting that NGrid was not seeking approval of rates for its FY 2013 ISR in this docket, the Division stated that "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."[24] Such growth would act as an offset in the calculation of the property tax expense.[25]

Mr. Booth discussed the Division's review of NGrid's proposal over a three-month period during which a consensus was reached regarding reduced spending in the Asset Condition and

[22] *Id.* at 4-5, 7.
[23] Division Exhibit 5 (Comments of David Effron), p.1.
[24] *Id.* at 2.
[25] *Id.*

System Capacity and Performance areas. Explaining that the Division's review began in August 2010 and concluded in December 2010, when NGrid filed its Electric ISR Plan with the Commission, Mr. Booth stated that the resulting Electric ISR Plan balances the need for safety and reliability with the efficient benefit/cost considerations.[26] Specifically, Mr. Booth indicated that his analysis, based on historical costs, supports NGrid's budgeted levels of projected capital spending related to statutory/regulatory and damage/failure categories, which comprises fifty-five percent (55%) of the total ISR Plan Capital Requirements. He also supported an annual reconciliation of these costs.[27] He noted that as a result of the Division's review, the Company made reductions in the discretionary capital spending budget of the ISR Plan by twelve percent (12%) and reduced the overall capital spending by more than six percent (6%), or $3,522,350.[28]

Turning to costs categorized as "discretionary in the sense they are based on engineering, safety, reliability and economic analyses rather than being mandatory" like the statutory/regulatory or damage/failure categories, Mr. Booth explained where he had found errors or had concerns. In the area of Asset Condition, Mr. Booth explained that the programs within this area include a continuation of the Feeder Hardening and Reliability O&M programs plus a new I&M program. He stated that he had originally identified various duplications in capital costs, but indicated that NGrid had adequately addressed his concerns with an adjustment, bringing the Asset Condition level from $11,118,050 to $9,737,050.[29] He recommended this amount as sufficient to "meet the needs for adequate asset management and infrastructure condition enhancement necessary to avoid safety and reliability deterioration due to infrastructure failure from condition degradation."[30] In the Non-Infrastructure category, which is telecommunications and other capital expenditures which are

[26] Division Exhibit 4 (Pre-Filed Testimony of Gregory L. Booth, P.E.), pp. 7-8, 10, 22.
[27] *Id.* at 11-12.
[28] *Id.* at 15.
[29] *Id.* at 20-22.
[30] *Id.* at 13-14.

neither related to condition nor system capacity, he considered $278,000 of capital expenditures adequate.[31] In the area of System Capacity and Performance representing ninety (90) projects whose primary drivers were equipment and power line thermal stress, outage contingency switching and maintenance of adequate voltage delivery for existing and future load conditions, Mr. Booth found that the projects and associated $15,821,100 cost to be "justified and based on sound and prudent engineering and economics.[32]

Turning to Flood Damage Avoidance and noting that nine substations were affected by the March 2010 flooding, Mr. Booth "strongly support[ed] the expenditure of up to $1,200,000 for engineering [plans]." However, he stated that "the Division and Commission should carefully evaluate the mitigation plans resulting from this study and determine the risk mitigation value before any commitment is made to expend significant capital in future years beginning with FY 2013."[33]

Addressing the Vegetation Management Program, Mr. Booth stated that "the Company has developed an industry leading program" and has "continued to remain better than the Commission's benchmarks."[34] It was with these considerations that Mr. Booth reviewed NGrid's justifications for its more aggressive Vegetation Management Program and associated budget.[35] Noting that the Division can "support a vegetation management program that yields benefits commensurate with the program costs," Mr. Booth testified that the Division could recommend a budget that was twenty percent (20%) lower than that which was initially proposed to the Division by the Company, or the $8,069,000 which was filed with the Commission.[36] Additionally, Mr. Booth recommended

[31] *Id.* at 14.
[32] *Id.*
[33] *Id.* at 14-15.
[34] *Id.* at 17.
[35] *Id.*
[36] *Id.*

a slower transition from the historical Vegetation Management Program to the Company's more aggressive proposal level of spending given the "difficult economic environment combined with an acceptable reliability history."[37]

Discussing the Division's evaluation of the Vegetation Management Program, Mr. Booth stated that NGrid's reliability performance is still "very acceptable" despite the fact that trees are responsible for almost thirty percent (30%) of the Customer Minutes Interrupted. Additionally, this number has varied over the years, a fact which does not support a new Vegetation Management Program "having an indisputable positive trend."[38] He indicated that the Company provided a benefit/cost ratio of 4:1 or $3,200/$820, which should lead to a decline in the O&M and capital expense budgets for damage/failure in the future.[39] Therefore, while supporting a four year vegetation clearing cycle, standard in the industry, he concluded:

> Considering the Company's current projections for FY 2013 through FY 2016 show an increasing Damage/Failure Capital Cost trend of 13 percent, it will be critical to carefully track the actual benefits to assure there is a real and not imaginary benefit to cost ratio associated with the [Vegetation Management] Program and [Enhanced Hazard Tree Mitigation] Program."[40]

III. National Grid's Revised Filing

On March 2, 2011, NGrid filed with the Commission a Revised proposed Electric ISR Plan for FY 2012 to reflect reductions in the revenue requirement and ISR Factors which resulted from the extension of bonus depreciation provisions found in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 which was passed by the U.S. Congress in December 2010.[41] Along with its revised filing, NGrid submitted the Supplemental Testimony of David E. Tufts and Jeanne A. Lloyd.

[37] *Id.* at 18.
[38] *Id.*
[39] *Id.*
[40] *Id.* at 18.
[41] NGrid Exhibit 2 (Supplemental Testimony of David E. Tufts), p.2.

Mr. Tufts explained that the Company proposed a $341,145 reduction in the proposed FY 2012 revenue requirement resulting from the Company's ability to apply a 100 percent bonus depreciation for investment constructed and placed into service after September 8, 2010 through December 31, 2011 and then 50 percent bonus depreciation for similar capital investment placed into service after December 31, 2011 through December 31, 2102. According to Mr. Tufts, the Company assumed that 75 percent of the plant additions under the ISR Plan would qualify for this bonus depreciation. Therefore, the updated revenue requirement is $3,380,657.[42]

In response to the Division's proposal that NGrid reduce plant investment by the growth in the depreciation reserve on embedded plant before applying a composite property tax rate for the FY 2013 revenue requirement, Mr. Tufts stated that this would be using the ISR Plan to make adjustments to rate base and rate base-related costs that are embedded in base distribution rates. According to Mr. Tufts, this would be "akin to adjusting the base rate recovery of property taxes through the ISR Plan revenue requirement" which is "beyond the incremental framework of the ISR Plan and is inappropriate." However, Mr. Tufts noted that "since the Company is not currently seeking approval of the FY 2013 ISR Plan revenue requirement, this issue does not need to be considered at this time."[43]

In his Pre-Filed Testimony, Mr. Tufts had explained that the revenue requirement of the FY 2012 Electric ISR Plan includes an (1) O&M expense related to vegetation management, system inspection, feeder hardening, and potted porcelain cutouts, as included in the Company's I&M Program and (2) the Company's capital investment in electric utility infrastructure.[44] The forecasted FY 2012 revenue requirement related to O&M expenses was $9,207,845. However, the Company was allowed $6,549,468 in Docket No. 4065 for vegetation management and inspection

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[42] *Id.* at 2.
[43] *Id.* at 4-5.
[44] NGrid Exhibit 1 (Pre-Filed Testimony of David E. Tufts), p. 3.

and maintenance O&M costs. In order to avoid double-recovery, the Company, through the testimony of Ms. Lloyd, is proposing a credit against the forecasted spending.[45] With his Supplemental Testimony, Mr. Tufts provided that the updated forecasted capital investment for FY 2012, resulting from the application of the bonus depreciation is $722,180. Therefore, the additional revenue needed under the revised Electric ISR Plan for FY 2012 is $3,380,657.[46] Using these revised figures, Ms. Lloyd stated that "for the average residential customer using 500 kWh per month, implementation of the updated proposed ISR factors will result in a monthly rate increase of $0.27 or 0.3 percent as compared to rates currently in effect."[47]

IV. Technical Record Session

On March 18, 2011, the Commission conducted a Technical Record Session at its Offices at 89 Jefferson Boulevard, Warwick, Rhode Island for the purpose of discussing and considering the Revised Electric ISR Plan for FY 2012. NGrid presented the Commission with a Power Point Presentation summarizing the key points of the Revised Electric ISR Plan. Ms. McDonough provided an overview of the ISR Plan and explained that from 2006 through 2009, NGrid had met all of the benchmarks for Reliability Performance. She explained that the Company missed the 2010 benchmarks as a result of the effects from the March 2010 flooding in Rhode Island.[48] Turning to the cause of service interruptions, including major storms, Ms. McDonough noted that while substation outages only occur approximately one percent of the time, because each substation serves approximately 7500 customers, that one percent of occurrences causes eleven percent of the customer interruptions and customer minutes interrupted. Trees, which account for twenty-one percent of the outages also account for twenty-two percent of the customer interruptions and

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[45] *Id.* at 3-5.
[46] DET-1- Revised; NGrid Exhibit 2 (Supplemental Testimony of Jeanne A. Lloyd), p. 2.
[47] NGrid Exhibit 2 (Supplemental Testimony of Jeanne A. Lloyd), p. 2.
[48] Tr. 3/18/11 at 18-20. Major storms were not included in the reliability performance measures. *Id.*

twenty-seven percent of the customer minutes interrupted. Finally, she explained that deteriorated equipment accounts for twenty-five percent of the outages, sixteen percent of the customer interruptions and fourteen percent of the customer minutes interrupted.[49] Therefore, she stated that this is why the Electric ISR Plan focuses on substation performance, tree trimming, and asset replacement such as feeder hardening projects and replacement of potted porcelain cutouts.[50] Discussing the overall spending within the capital plan, Ms. McDonough explained that the projected spending in FY 2012 is similar to the spending in FY 2008 through FY 2010, with a reduction in FY 2011 in response to the Commission's Order in Docket No. 4065.[51] She summarized the various cost categories in line with her pre-filed testimony.[52]

Turning to the I&M program, Ms. McDonough noted that prior to 2009, the Company took a reactive and repair-oriented approach to I&M, including with respect to feeder hardening. However, in late 2009, the Company began a more proactive program to inspect sixteen percent of the overhead distribution assets annually and twenty percent of the underground distribution assets annually. The assets are categorized at three levels based on the timeline to likely failure, with the highest risk being addressed first. According to Ms. McDonough, this should contribute to better reliability than simply working on equipment in order of age. Level One work (failure is imminent) has been in process and will be completed by 2012. Level Two work (likely failure within 12 to 18 months) will be included in the FY 2013 program while Level Three work (likely failure within 3 to 5 years) will not be included until the FY 2015 program.[53]

Addressing the vegetation management program, Ms. McDonough explained that since FY 2006, the Company has instituted changes to improve its vegetation management program,

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[49] *Id.* at 22-25.
[50] *Id.* at 26.
[51] *Id.* at 39.
[52] *Id.* at 40-45.
[53] *Id.* at 51-54.

changing from a town-based to circuit-based cycle program, moving from an effective six year cycle to a four year cycle, commencing a reliability ranking model for each year's trees, and enhancing pruning specifications. She stated that these changes have allowed the Company to balance the cost of vegetation management with the benefits and to implement pruning at a rate which better matches the growth cycles in Rhode Island. She indicated that the revised program which is standard practice in many utilities, has improved the reliability performance by more than sixty percent on targeted circuits at a benefit/cost ratio of four to one.[54] Finally, Mr. Tufts and Ms. Lloyd summarized their pre-filed testimony regarding the revenue requirement and rate development.[55]

On behalf of the Division, Mr. Wold, Assistant Attorney General, noted that the Division's position in the current docket "does not mean Division assent to the ISR plans for FY 13 and beyond."[56] Mr. Booth described the scope of his and the Division's review, noting that over sixty hours were spent in discussions with the Company and another 300 hours spent in analysis. He explained that the Division's review was not an overview, but an analysis into the detail of every project whereby the Division questioned many of the dollars being spent. Mr. Booth opined that the Commission should expect to see savings over the long term as a result of the spending in the FY 2012 Electric ISR Plan, especially in the area of lower capital investment resulting from things like vegetation management and the I&M program.[57] Finally, while Mr. Booth indicated that while the Division supported the flood damage engineering analysis, he "would be very cautious about the ultimate mitigation costs associated with the flood program and really scrutinize it." He noted that after investigations into flooding that occurred in North Carolina after Hurricane Floyd, "a lot of

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[54] *Id.* at 66-69, 72-73.
[55] *Id.* at 78-81.
[56] *Id.* at 83.
[57] *Id.* at 83-86.

effort had to go into making sure you just didn't go spending massive quantities of money trying to mitigate something that happens every 100 or 200 years. So there has to be, I think, caution moving forward, particularly with some of the other capital substation plans..." planned for the future.[58] Mr. Booth concluded that the Division supports the ultimate Electric ISR Plan expense numbers that came out of the collaborative process and he believed that it is a prudent plan.[59]

V. Commission Findings

At the conclusion of the Technical Record Session, the Commission voted unanimously to approve the Revised Electric ISR Plan, finding it to be in conformance with the statutory requirements. The Commission notes that the Revised Electric ISR Plan is the result of a negotiated process between NGrid and the Division that required significant analysis into the details of the plan. The statute has required a departure from traditional ratemaking principles in that NGrid will be allowed to put capital expenses into rate base as soon as they are put into service rather than waiting until the conclusion of its next base distribution rate case. This encourages capital expenditures by NGrid because they are able to timely recover the cost of capital related to incremental expenditures which has a direct relationship to the shareholders' opportunity earn a return on those investments earlier than under traditional ratemaking principles. However, there is a balance for ratepayers because investments that are no longer used and useful are removed from rate base sooner than they otherwise would have been under traditional cost of service ratemaking principles. Additionally, like the Division, the Commission expects that the new ratemaking methodologies required by R.I. Gen. Laws § 39-1-27.7.1 will, as Mr. Booth stated, result in

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[58] *Id.* at 87.
[59] *Id.*

"savings over the long term … especially in the area of lower capital investment resulting from things like vegetation management and the I&M program."

Also, like the Division, the Commission emphasizes that approval of funding for flood mitigation studies as part of the FY 2012 Electric ISR Plan does not constitute automatic approval for future flood related projects. All proposed funding related to future years' Electric ISR plans will be fully reviewed and vetted in a manner similar to that of the FY 2012 Electric ISR Plan prior to the approval of said plans and related rates. Furthermore, the Company shall carefully track the actual benefits of the O&M expenses and capital budget to assure there is a real, rather than theoretical benefit to the cost ratio associated with the vegetation management program and the enhanced hazard tree mitigation program.

Accordingly, it is hereby

(20582) ORDERED:

1. Narragansett Electric Company d/b/a National Grid's Revised Electric ISR Plan filed on March 2, 2011 is hereby approved.

2. Narragansett Electric Company d/b/a National Grid's Compliance Tariffs filed on April 4, 2011 are hereby approved for usage on and after April 1, 2011.

3. Narragansett Electric Company d/b/a National Grid shall comply with all other instructions contained in this Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 1, 2011 PURSUANT TO A BENCH DECISION ON MARCH 23, 2011. WRITTEN ORDER ISSUED DECEMBER 12, 2011.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner