Thomas R. Teehan
Senior Counsel

August 1, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4219 - Gas Infrastructure, Safety, and Reliability ("ISR") Plan FY 2012
Annual Report and Reconciliation Filing

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed ten (10) copies of the Company's Annual Report and Reconciliation filing relative to the Fiscal Year ("FY") 2012 Gas Infrastructure, Safety, and Reliability ("ISR") Plan. Pursuant to the provisions of the approved ISR plan and implementing tariffs found at RIPUC NG-Gas No. 101, Section 3, Schedule A, Sheet 6, after the conclusion of the ISR plan year, which runs from April 1 through March 31, the Company is to annually file, by August 1 of each year, a reconciliation that consists of two components – (a) the difference between the forecasted and actual revenue requirement and (b) the reconciliation of forecasted collections and actual collections. The reconciled amounts are to be used to calculate an ISR Reconciliation factor in the Distribution Adjustment Charge for effect on November 1. At the time it files its reconciliation, the Company is also to file an Annual Report for the ISR year detailing actual work and spending under the plan.

This Annual Report and Reconciliation Filing contains the pre-filed testimony of Walter F. Fromm, who presents the Company's annual report, which provides the actual spending for the period April 1, 2011 through March 31, 2012 as well as detailed information on the major spending variances by specific ISR categories for that time period. This filing also includes the pre-filed testimony of William R. Richer, who calculates the difference between the projected revenue requirement and the actual revenue requirement associated with the actual FY 2012 Gas ISR capital investment levels provided in Mr. Fromm's testimony. Mr. Richer's testimony indicates that the difference between the projected and actual revenue requirements for the FY 2012 Gas ISR Plan is $195,193. In addition, Mr. Richer's testimony indicates that actual revenue billed through the ISR factor for the FY 2012 Gas ISR plan was an under collection of $197,835, which together with the $195,193 difference between the proposed and the actual revenue requirement results in a total under collection for FY 2012 of $393,028. Mr. Richer's reconciliation has been included in

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[1] The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "National Grid" or the "Company").

the calculation of the ISR factor contained in the Company's annual Distribution Adjustment Charge ("DAC") filing, filed today under separate cover, which also reconciles forecasted collections to actual collections.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,

Thomas R. Teehan

Enclosure

cc: Docket 4219 Service List
Steve Scialabba
James Lanni
Don Ledversis

National Grid

The Narragansett Electric Company

FY 2012 Gas Infrastructure, Safety, and
Reliability Plan Reconciliation Filing

August 1, 2012

Submitted to:
Rhode Island Public Utilities Commission
R.I.P.U.C. Docket No. 4219

Submitted by:
nationalgrid

Testimony of
Walter F. Fromm

PRE-FILED DIRECT TESTIMONY

OF

WALTER F. FROMM

August 1, 2012

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name, business address, title, and areas of responsibility.

A. My name is Walter F. Fromm. My business address is 40 Sylvan Road, Waltham, MA 02451. I am employed by National Grid Corporate Services LLC as Manager, Network Strategy-Gas. I am the Rhode Island state Jurisdictional Lead for all gas Network Strategy issues, including those related to the Company's capital investment strategy. In my role, I work closely with the Rhode Island Jurisdictional President and staff on all local issues related to the Company's Rhode Island gas system. My responsibilities also include working with Regulators on issues related to the gas system, development of strategies to support Company objectives regarding investment in the gas system, and to provide regulatory support regarding National Grid's gas system.

Q. Please describe your educational background and professional experience.

A. I am a Professional Engineer in Massachusetts (#40443) and New Hampshire (#11271). I received a Bachelor of Science degree in Civil Engineering from the University of Massachusetts at Lowell. My experience includes working for approximately three and one-half years as a Design Engineer at the Boston Water and Sewer Commission, performing engineering, design and environmental permitting associated with the construction of new and replacement water, sewer and drainage facilities. I spent almost five years working as a Project Engineer at Fay, Spofford & Thorndike, Inc., in Burlington, Massachusetts continuing my career in the utility engineering and environmental permitting field. I have been employed here at National Grid now for approximately twelve and one-half years in a variety of roles. I joined the Company as the Supervisor of Short-Term Planning. I later became a Senior Gas Engineer, then Principal Gas Engineer, Manager of Project Engineering & Design, and Manager of Main & Service Replacement. In March 2012, I assumed my current position and responsibilities.

Q. Have you previously testified or appeared before the Rhode Island Public Utilities Commission ("Commission")?

A. Yes. I have previously testified before the Commission at hearings and technical conferences on the Company's Accelerated Replacement Program and the subsequent fiscal year 2012 ("FY12") and fiscal year 2013 ("FY13") Gas Infrastructure, Safety and Reliability ("ISR") Plans.

II. <u>PURPOSE OF TESTIMONY</u>

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to present the Company's annual report and reconciliation filing for the FY12 Gas ISR Plan, including the actual spending for the period April 1, 2011 to March 31, 2012. As part of this filing, I also provide detailed information on the major spending variances by specific ISR categories for this time period. This actual spending information is then utilized by Mr. William Richer, as discussed in his testimony, for the reconciliation of the FY 12 Gas ISR revenue requirement with the approved budgeted amounts. This is reconciled with the Company's actual ISR revenues for FY12 and the reconciliation will then be included in the Company annual Distribution Adjustment Charge ("DAC") filing for rates effective November 1, 2012.

III. FY12 ISR ACTUAL CAPITAL SPENDING

Q. Please summarize the Company's actual capital spending results for FY 12.

A. Attachment-WFF-1 to my testimony is the Company's annual report and reconciliation for the period April 1, 2011 to March 31, 2012. As set forth in Table 1 of that attachment, for FY 2012, the Company spent $57.3 million for non-growth capital investment under the Gas ISR Plan. This amount was approximately $3.9 million higher than the annual approved budget of $53.4 million.

Q. What were the primary drivers for the Gas ISR $3.9 million variance in FY 12?

A. The primary drivers for the $3.9 million variance in FY 12 were in the Mandated Programs category, where spending exceeded the budget by $5.7 million and in the Public Works and Proactive Main Replacement categories where spending exceeded the projected budget by approximately $1.8 million. The over spending in those three categories was offset by approximately $3.6 million of under spending in the Reactive Main, Reliability, and Service Replacement categories, resulting in a net over spend of $3.9 million.

Q. Please explain the major over budget variances for FY12

A. For FY12, Mandated Programs exceeded the budget by $5.7M due to the following:

- Capital Leak Repair spending exceeded the FY12 budget by $3.1 million and was the major contributor to the Mandated Programs variance. The primary driver of this variance is the fact that the initial forecast for leak repair work underestimated work volumes and the repair costs for leak repairs. As the Company noted in its quarterly ISR reports, following a review of the leak repair budget and actual spending in this category during the year, the Company determined that it was necessary to increase spending to meet the demand.

- Meter Purchases spending exceeded the FY12 budget by $800,000 due to an increase in meter retirements throughout the fiscal year. Also contributing to this variance was the fact that the Company's initial forecast of meter retirements was based upon an overall retirement rate of approximately 32 percent. However, the actual retirement rate for FY12 was 46 percent, resulting in the additional capital costs needed to replace these retired meters.

- Meter Work spending exceeded the FY12 budget by $706,000. This over budget spending is associated with the costs incurred with non-growth capital meter fitting work.

- Non-leak spending exceeded the FY12 budget by $1.1 million. This over budget spending is associated with the costs incurred with meter protection, service relocations, service abandonments, and the installation of curb valve(s).

In addition to the above, Public Works spending also exceeded the projected budget by $1.6 million for FY12. The primary driver for this variance was the addition of two phases to the Narragansett Bay Commission projects, which occurred after the Company's initial FY12 ISR filing.

Q. Please explain the major under budget variances for FY12?

A. The primary drivers for the Company's under budget spending in FY12 were in the Reactive Main, Reliability, and Service Replacement categories. For FY12, the $1 million under budget spending in the Reactive Main category was the result of the fact that the Company was not required to replace any leak prone pipe as no reactive main replacement situation arose during the fiscal year. With respect to the Reliability category, the $1.9 million under budget spending was primarily driven by the deferral of a number of projects for Gas Planning, LNG, Control Line Integrity, and System Automation to FY13 including the following:

- Gas Planning – A $577,000 under budget spending in this sub-category was the result of the Company's deferring two farm tap projects involving multi-unit developments until FY13.
- LNG – A $978,000 under budget spending in this sub-category was due to a revised project design for the replacement boil-off compressor project in Exeter. This revised design resulted in a delay in construction for this project in FY12.
- Control Line Integrity – A $300,000 under budget spending in this sub-category was due to the deferral of control line projects until FY13.
- System Automation – Actual spending was $470,000 less than budget. This variance was due to resource availability which was impacted by two major storms as well as the Company's decision to re-deploy resources to address leak backlog and new service workload.

For the Service Replacement Program, the Company identified the need to reallocate spending originally targeted for the Service Replacement Program to address higher priority work. In addition, the Company's efforts to respond to damage resulting from two major storms and the need to shift resources to other work resulted in an under budget spending of $655,000 for this category.

Q. What FY12 capital spending amount is the Company seeking to reconcile?

A. The Company is seeking to reconcile the full actual FY12 spending amount of $57.3 million in this filing. As was noted in the FY12 ISR Plan, "in implementing the Gas ISR Plan in any fiscal year, the circumstances encountered during the year may require reasonable deviations from the original Gas ISR Plan" approved by the Commission.[1] Throughout the year, the Company has kept the Division and Commission apprised of these deviations and variances and provided explanations for them in its quarterly report filings. The $3.9million over spend for FY12 is clearly consistent with the intent of the ISR Plan to maintain the overall safety and reliability of the Company's gas system (Capital Leak Repairs) and to meet the needs of customers (Meter Purchases and Meter Work). Moreover, the variance in the Public Works category was driven by the need to coordinate two major phases of Narragansett Bay Commission project with public authorities. The Company believes that the $3.9 million over budget spending for the FY12 ISR was reasonable and prudent and required to address changing circumstances encountered during the plan year. As such, the Company requests the full reconciliation of its actual spending of $57.3 million.

1 See FY12 Gas ISR Plan filed December 20, 2010 at Section 1, Page 3 of 6.

Q. Does this conclude your testimony?

A. Yes, it does.

Index of Attachment

Attachment WFF-1

Attachment WFF-1

Gas Infrastructure, Safety and Reliability Plan
Fiscal Year 2012 Annual Report and Reconciliation

Gas Infrastructure, Safety and Reliability Plan
Fiscal Year 2012 Annual Report and Reconciliation

Executive Summary

In accordance with tariff, R.I.P.U.C. NG-Gas, No. 101, Section 3, Schedule A, Sheets 5-6, Narragansett Electric Company d/b/a/ National Grid (Company) submits this annual report and reconciliation filing for the Fiscal Year 2012 ("FY12") Infrastructure, Safety and Reliability ("ISR") Plan approved by the Commission in Docket No. 4219. This filing provides an overview and description of the $57.3 million of actual non-growth capital investment by category as well as an explanation by category of major variances to the budget approved in Docket No. 4219.

FY12 Actual Results

As set forth in Table 1 below, for FY12, the Company spent $57.3 million for non-growth capital investment under the ISR Plan. This amount was $3.9 million higher than the annual budget of $53.4 million approved in Docket No. 4219. The key drivers and variances by category of capital are shown in Table 1 and discussed in greater detail below.

Table 1

Narragansett Gas
($000)

Category	**Budget**	**Actual**	**Variance**
Proactive Main Replacement	$25,750	$25,989	$239
Service Replacement Program	$3,906	$3,251	($655)
Public Works	$1,750	$3,312	$1,562
Reactive Main Replacements	$1,000	$0	($1,000)
Mandated Programs	$9,258	$14,917	$5,659
Reliability	$11,716	$9,795	($1,922)
Total [1]	**$53,381**	**$57,265**	**$3,884**

[1] For consistency, "Variances" in this Attachment shown in parentheses ( ) reflect an under spend.

<u>Proactive Main Replacement Program – $239,000 over budget variance for FY12</u>

The Proactive Main Replacement Program actual spending exceeded the budget by $239,000 for FY12. During FY12 the Company installed 41.7 miles of new main which resulted in the abandonment of 45.9 miles of leak prone gas main.

<u>Service Replacement $655,000 under budget variance for FY12</u>

During FY12 the Company identified the need to reallocate spending originally targeted for the Service Replacement Program to address higher priority work. In addition, the Company's effort to respond to damage resulting from two major storms, and the need to shift resources to other work resulted in an under spend of $655,000 for this category.

Specifically, the Company's original FY12 goal for this program was to replace 2,125 bare steel services with inside meter sets. However, on April 1, 2011, the Company notified the Division of farms taps that were in need of timely remediation. At the close of FY12, the Company eliminated 233 of the identified 364 farm taps, and replaced 946 bare steel services for a total of 1,179 jobs completed.

In addition, the Company's ability to complete the Service Replacement Program was impacted by Tropical Storm Irene and the October snow storm. The Company deployed its gas resources during both events to assist in National Grid's restoration efforts in Rhode Island.

Finally, in October 2011, the Company reallocated resources working on service replacements to its leak repair program to decrease its leak backlog and to new service installations to ensure that the installations were completed prior to the heating season.

<u>Public Works - $1.6 million over budget variance for FY12</u>

The Company's capital spending for City/State construction exceeded the FY12 budget by $1.6 million. The primary driver for this variance was the addition of two phases to the Narragansett Bay Commission projects (NBC), which occurred after the Company's initial FY12 ISR filing.

<u>Reactive Main Replacement - $1 million under budget variance for FY12</u>

The Company did not replace any leak prone pipe reactively during FY12 because no circumstances occurred that required the Company to take such action under this program during the fiscal year.

<u>Mandated Programs – $5.7 million over budget variance for FY12</u>

The Mandated Program spending exceeded the FY12 budget by $5.7 million. This variance was primarily due to spending in the following categories:

- Meter Purchases spending exceeded the FY12 budget by $800,000. This was due to an increase in meter retirements. Initially, the Company's forecast of meter retirements was based on an overall retirement rate of approximately 32 percent. However, the actual retirement rate was 46 percent, resulting in additional capital costs to replace the retired meters.

- Capital Leak Repair spending exceeded the FY12 budget by $3.1 million. The primary driver for this variance is that the Company initial forecast underestimated work volumes and unit costs for leak repairs. Following a review of the leak repair budget and actual spending in this category during the year, the Company determined that it was necessary to increase spending to complete the identified leak repair work.

- Meter Work spending exceeded the FY12 budget by $706,000. This variance is associated with the costs incurred with non-growth capital meter fitting work.

- Non-leak spending exceeded the FY12 budget by $1.1 million. This variance is associated with the costs incurred with meter protection, service relocations, service abandonments, and the installation of curb valves.

Reliability - $1.9 million under budget variance for FY12

Reliability spending for FY12 was under budget by $1.9 million. A summary of the primary drivers for this under spending variance is as follows:

- Gas Planning – Actual spending was $577,000 less than budget. This variance was primarily driven by the deferral to FY13 of two farm tap projects involving multi-unit developments.

- LNG – Actual spending was $978,000 less than budget. This variance was due to a revised project design for the replacement boil-off compressor project in Exeter, which delayed construction of the project.

- Control Line Integrity – Actual spending was $300,000 less than budget due to the deferral until FY 2013 of control line projects.

- System Automation – Actual spending was $470,000 less than budget. This variance was due to resource availability which was impacted by two major storms as well as the Company's decision to re-deploy resources to address leak backlog and new service workload.

Testimony of
William R. Richer

PRE-FILED DIRECT TESTIMONY

OF

WILLIAM R. RICHER

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I. INTRODUCTION

Q. Please state your full name and business address.

A. My name is William R. Richer and my business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

Q. By whom are you employed and in what capacity?

A. I am the Director of Revenue Requirements - Rhode Island for National Grid USA Service Company, Inc. ("Service Company"). Service Company provides engineering, financial, administrative, and other technical support to subsidiary companies of National Grid USA. My current duties include revenue requirements oversight for National Grid's electric and gas distribution activities in the US, including the gas division of The Narragansett Electric Company, d/b/a National Grid ("Narragansett" or "Company").

Q. Please describe your education and professional experience.

A. In 1985, I earned a Bachelor of Science degree in Accounting from Northeastern University. During my schooling, I interned at the public accounting firm Pannell Kerr Forster in Boston, Massachusetts as a staff auditor and continued with this firm after my graduation. In February 1986, I joined Price Waterhouse in Providence, Rhode Island where I worked as a staff auditor and senior auditor. During this time, I earned my certified public accountants license in the State of Rhode Island. In June 1990, I joined National Grid in the Service Company (then known as New England Power Service Company) as a supervisor of Plant Accounting. Since that time I have held various positions within the Service Company including Manager of Financial Reporting, Principal Rate Department Analyst, Manager of General Accounting, Director of Accounting Services, and Assistant Controller.

Q. Have you previously testified before the Rhode Island Public Utilities Commission ("Commission")?

A. Yes. I have testified before the Commission on numerous occasions. This testimony is intended to supplement my previous testimony provided in this docket on revenue requirements matters in this proceeding.

Q. What is the purpose of your testimony?

A. The Commission approved in this docket a new Gas Infrastructure, Safety and Reliability ("ISR") factor which went into effect April 1, 2011. That was based on a projected revenue requirement of $1,817,790 associated with estimated ISR capital investment during the Company's Fiscal Year ("FY") ended March 31, 2012. The purpose of my testimony is to describe the reconciliation of this projected revenue requirement to the actual revenue requirement associated with actual FY 2012 capital investment levels. This actual revenue requirement for FY 2012 is $2,012,983 resulting in a net difference from the originally proposed revenue requirement of $195,193. In addition, my testimony describes the reconciliation of the Gas ISR factor. The Gas ISR factor was designed to recover the FY 2012 ISR revenue requirement of $1,817,790, however actual revenue billed during that period was $1,619,955, for an under collection of $197,835. The net difference from the originally proposed revenue requirement of $195,193 plus the Gas ISR factor under collection of $197,835 results in a total under collection for FY 2012 of $393,028.

Q. Are there any schedules attached to your testimony?

A. Yes, I am sponsoring the following Attachment:

- Attachment WRR-1: Gas ISR Plan Revenue Requirement Reconciliation

II. <u>ISR PLAN REVENUE REQUIREMENT</u>

Q. How does the actual FY 2012 ISR revenue requirement differ from the projected FY 2012 ISR revenue requirement?

A. The actual FY 2012 ISR revenue requirement calculation is nearly identical to the projected ISR revenue requirement used for purposes of developing the approved ISR factors that were in place from April 1, 2011 to March 31, 2012, and as described previously in my testimony in this proceeding. As a result, I will rely on that testimony for the detailed description of the revenue requirement calculation and will limit this testimony to: (1) summarize the revenue requirement reconciliation shown on Page 1 of Attachment WRR-1, and (2) discuss the change in the calculation of tax depreciation to coincide with tax depreciation to be taken on the Company's FY 2012 federal income tax return.

Q. **Please summarize the revenue requirement reconciliation associated with the Company's FY 2012 Gas ISR Program.**

A. As shown on Page 1, Column (b) of WRR-1 the revenue requirement associated with the Company's actual FY 2012 capital investment in gas utility infrastructure amounts to $2,012,983 and is detailed on Page 2 of Attachment WRR-1. Column (a) reflects the forecasted FY 2012 revenue requirement, or $1,817,790, resulting in a difference of $ 195,193 as shown in column (c).

Q. Please describe the revenue requirement calculation related to the Company's investment in gas utility infrastructure in more detail.

A. As noted above, Page 2 of Attachment WRR-1 calculates the revenue requirement of incremental non-growth capital investment of $54.7 million associated with the Company's FY 2012 ISR Plan (non-growth infrastructure investment net of general plant). The description of the FY 2012 Gas ISR program and the amount of the incremental non-growth capital investment are supported by the direct testimony and supporting attachment of Company Witness Mr. Walter F. Fromm. The ultimate revenue requirement on the incremental non-growth capital investment equals the return on the investment (i.e. average rate base at the weighted average cost of capital), plus depreciation expense and property taxes associated with the investment. Incremental non-growth capital investment for this purpose is intended to represent the net change in rate base for non growth infrastructure investments since the establishment of the Company's ISR mechanism effective April 1, 2011 and is defined as capital additions plus cost of removal, less annual depreciation expense embedded in the Company's rates (excluding annual depreciation expense in the 2009 Capital Tracker), net of depreciation expense attributable to general plant.

Q. Please describe how tax depreciation was determined in the revenue requirement calculation and how it differs from the tax depreciation calculation in the FY 2012 projected revenue requirement.

A. The tax depreciation calculation for FY 2012 is provided on Page 3 of Attachment WRR-1. Based on the Company's FY 2011 tax return and anticipated treatment in the Company's FY 2012 tax return that is expected to be filed by December 2012, changes were made to the calculation of tax depreciation specifically as it relates to the percent of plant additions eligible for the 100 percent capital repairs deduction, and the percent of all remaining plant additions that are expected to be eligible for bonus depreciation. In the projected FY 2012 ISR revenue requirement, the percent of plant additions eligible for the 100 percent capital repairs deduction and the percent eligible for bonus depreciation were based on the best information available when the FY 2012 ISR proposal was filed in December 2010 and subsequently revised in February 2011

(The purpose for the February 2011 revision was due to tax law changes that affected bonus depreciation implemented by Congress in December 2010). Tax depreciable plant additions eligible for the capital repairs deduction has been revised to 48.33 percent from 48 percent used in the projected FY 2012 ISR revenue requirement. For purposes of calculating bonus depreciation, the Company assumed that 85 percent of the plant additions under the ISR Plan not eligible for the capital repairs deduction would qualify for the bonus depreciation deduction, whereas the projected revenue requirement assumed 75 percent would be eligible. The Company used a bonus depreciation rate of 100 percent for the April 2011 through December 2011 period and 50 percent for the January 2012 through March 2012 period, consistent with Internal Revenue Service ("IRS") rules for bonus depreciation for those periods.

The remaining plant additions not eligible for bonus depreciation are then subject to the IRS Modified Accelerated Cost-Recovery System, or MACRS, tax depreciation rate. There was no change to the MACRS component of the tax depreciation calculation from FY 2012 projected revenue requirement except for the resulting amounts. The amount of depreciation deducted for MACRS is added to the amount of capital repairs deduction plus the bonus depreciation deduction and cost of removal to arrive at total tax depreciation. The total tax depreciation amount is carried forward to Line 10 of Attachment WRR-1, Page 2, and incorporated in the deferred tax calculation.

Q. What is the updated revenue requirement associated with actual capital investment?

A. The revenue requirement associated with the actual capital investment of the Company's Gas ISR Plan is $2,012,983 as shown on Page 2, Line 26 which is carried forward to the revenue requirement summary on Line 1, Column (b) of Page 1.

III. RATE DESIGN AND RECONCILIATION OF THE GAS ISR FACTOR

Q. Has the Company completed a reconciliation of the Gas ISR factor for the April 1, 2011 through March 31, 2012 period?

A. Yes. The Gas ISR reconciliation mechanism associated with the Gas ISR factor reconciled the actual cumulative revenue requirements[1] and any associated costs approved for recovery through this mechanism to the actual billed revenue for the 2012 fiscal year. This reconciliation is presented in the testimony and supporting attachments of Company Witness Mariella C. Smith as part of the preliminary DAC filing on August 1. As shown in Attachment MCS-11, Page 2 to Ms. Smith's testimony, the Company's actual ISR revenues collected in FY 2012 was $1,619,995, however the approved forecasted ISR revenue requirement was $1,817,790, resulting in an under collection of $197,835. This amount is combined with the $195,193 under collection for the difference between the actual revenue requirement and the forecasted revenue requirement previously described in Section II above, to generate a total under collection for FY 2012 of $393,028.

Q. Did the Company develop a new ISR factor?

A. Yes. Based on the billed revenue for the 2012 fiscal year, the Company developed a proposed ISR reconciliation factor per rate class, which will be part of the proposed DAC factors to become effective November 1, 2012. The proposed ISR reconciliation factors are shown in the table below and their calculation is described in the DAC filing of August 1, 2012.

Rate Class	ISR Reconciliation Factor per rate class (therms)
Res-NH	$0.0047
Res-H	$0.0017
Small C& I	$0.0009
Medium C& I	$0.0005
Large LL	$0.0006
Large HL	$0.0008
XL-LL	($0.0001)
XL-HL	($0.0002)

Note: Factors do not include uncollectible allowance.

Q. Has the Company determined the impact of this reconciliation on customer bills?

A. Not at this time. The ISR bill impacts will be part of the overall proposed DAC rate bill impact analysis scheduled to be filed on September 1, 2012.

IV. CONCLUSION

Q. Does this conclude your testimony?

[1] Inclusive of the updated annual revenue requirement of $2,012,983.

A. Yes, it does.

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Attachment WRR-1

Attachment WRR-1

Gas Infrastructure, Safety, and Reliability Plan Revenue Requirement Calculation

The Narragansett Electric Company
d/b/a National Grid
FY 2012 Gas ISR Revenue Requirement Reconciliation
Summary

Line No.		As Approved in Docket No.4219 (a)	Actuals FY 2012 (b)	Under Recovery (c)=(b)-(a)	
1	Revenue Requirement Reconciliation	$ 1,817,790	$ 2,012,983	$ 195,193	
2					
3	ISR Factor Reconciliation			$ 197,835	1/
	Total			$ 393,028	

1/ ISR forecasted revenues of $1,817,790 less ISR billed revenues of $1,619,955

The Narragansett Electric Company
d/b/a National Grid
FY 2012 Gas ISR Revenue Requirement Reconciliation
Computation of Gas FY 2012 Capital Investment Revenue Requirement

Line No.				Fiscal Year 2012 (a)
	Depreciable Net Capital Included in Rate Base			
1	Total Allowed Capital Included in Rate Base in Current Year			$54,681,347
2	Retirements		1/	5,366,562
3	Net Depreciable Capital Included in Rate Base	Column (a) = Line 1 - Line 2		$49,314,785
	Change in Net Capital Included in Rate Base			
4	Capital Included in Rate Base	Line 1		$54,681,347
5	Depreciation Expense	As approved per Docket No. 3943, excluding general plant and 2009 CXT		$18,443,542
6	Incremental Depreciable Amount	Column (a) = Line 4 - Line 5		$36,237,805
7	Cost of Removal		2/	$2,583,612
8	**Net Plant Amount**	**Line 6 + Line 7**		**$38,821,417**
	Deferred Tax Calculation:			
9	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943		3.38%
10	Tax Depreciation	Page 3, Line 20		$50,296,411
11	Cumulative Tax Depreciation	Current Year Line 10		$50,296,411
12	Book Depreciation	Column (a) = Line 3 * Line 9 * 50%		$833,420
13	Cumulative Book Depreciation	Current Year Line 12		$833,420
14	Cumulative Book / Tax Timer	Line 11 - Line 13		$49,462,991
15	Effective Tax Rate			35.00%
16	Deferred Tax Reserve	Line 14 * Line 15		$17,312,047
	Rate Base Calculation:			
17	Cumulative Incremental Capital Included in Rate Base	Line 8		$38,821,417
18	Accumulated Depreciation	- Line 13		($833,420)
19	Deferred Tax Reserve	- Line 16		($17,312,047)
20	Year End Rate Base	Sum of Lines 17 through 19		$20,675,950
	Revenue Requirement Calculation:			
21	Average Rate Base	Current Year Line 20 ÷ 2		$10,337,975
22	Pre-Tax ROR		3/	11.41%
23	Return and Taxes	Line 21 * Line 22		$1,179,563
24	Book Depreciation	Line 12		$833,420
25	Property Taxes	$0 in Year 1, then Prior Year (Line 3 + Line 7 - Line 13) * Property Tax Rate		$0
26	**Annual Revenue Requirement**	**Sum of Lines 23 through 25**		**$2,012,983**

1/ Actual Retirements
2/ Actual Cost of Removal
3/ Weighted Average Cost of Capital as approved in R.I.P.U.C. Docket No. 3943

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	40.63%	7.99%	3.25%		3.25%
Short Term Debt	11.66%	3.91%	0.46%		0.46%
Common Equity	47.71%	10.50%	5.01%	2.70%	7.71%
	100.00%		8.71%	2.70%	11.41%

The Narragansett Electric Company
d/b/a National Grid
FY 2012 Gas ISR Revenue Requirement Reconciliation
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year 2012 (a)	
	Capital Repairs Deduction			
1	Plant Additions	Page 2, Line 1	$54,681,347	
2	Capital Repairs Deduction Rate	Per Tax Department	48.33%	1/
3	Capital Repairs Deduction	Line 1 x Line 2	$26,427,495	
	Bonus Depreciation			
4	Plant Additions	Line 1	$54,681,347	
5	Less Capital Repairs Deduction	Line 3	$26,427,495	
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	$28,253,852	
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Department	85.00%	2/
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	$24,015,774	
9	Bonus Depreciation Rate (April 2011 - December 2011)	1 * 75% * 100%	75.00%	
10	Bonus Depreciation Rate (January 2012 - March 2012)	1 * 25% * 50%	12.50%	
11	Total Bonus Depreciation Rate	Line 9 + Line 10	87.50%	
12	Bonus Depreciation	Line 8 x Line 11	$21,013,802	
	Remaining Tax Depreciation			
13	Plant Additions	Line 1	$54,681,347	
14	Less Capital Repairs Deduction	Line 3	$26,427,495	
15	Less Bonus Depreciation	Line 12	$21,013,802	
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	$7,240,050	
17	20 YR MACRS Tax Depreciation Rates		3.750%	
18	Remaining Tax Depreciation	Line 16 x Line 17	$271,502	
19	Cost of Removal		$2,583,612	
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	$50,296,411	

1/ Capital Repairs percentage is based on the actual results of the FY 2011 tax return. Since growth is not included in the ISR, the percentage was derived by taking property qualifying for the repairs deduction as a percentage of the total annual plant addtions in those categories that are considered as potentially qualifying for Capital Repairs deduction.

2/ Since not all property additions qualify for bonus depreciation and because a project must be started after the beginning of the bonus period, January 1, 2008, an estimate of 85% is used rather than 100%.