

January 27, 2011

**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 Plan FY 2012  
Responses to Division Data Requests (Set 1)**

Dear Ms. Massaro:

On behalf of National Grid<sup>1</sup>, I have enclosed ten (10) copies of the Company's responses to the Division's First Set of Data Requests in the above-captioned proceeding.

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

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

**Docket No. 4219 National Grid's FY 2012 Gas Infrastructure, Safety and Reliability Plan - Service List**

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<b>File an original &amp; nine (9) copies w/:</b> Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick RI 02888	<a href="mailto:Lmassaro@puc.state.ri.us">Lmassaro@puc.state.ri.us</a>	401-780-2107
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Division 1-1

Request:

Please provide the effect of the 100% Bonus Depreciation allowance in the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 on the revenue requirement calculated on Schedule WRR-1. The response should include all supporting work papers and calculations.

Response:

The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("Act") provides for the extension of bonus depreciation. The Act provides for 100% bonus depreciation for investments placed into service after September 8, 2010 and through December 31, 2011 and 50% bonus depreciation for investments placed in service after December 31, 2011 and through December 31, 2012. The Company assumes that 75 percent of plant additions qualify for bonus depreciation.

The change in the allowance for bonus depreciation results in a reduction of \$312,577 to the fiscal year ("FY") 2012 Infrastructure, Safety, and Reliability Plan revenue as shown on Page 1, Column (a), Line 7 of Attachment 1 to this response. The accompanying supporting FY 2012 revenue requirement calculation reflecting the bonus depreciation change is provided on Attachment 1, Page 2. Attachment 2, Page 1 to this response provides support for the calculation of deferred taxes related to FY 2012 capital investment as shown on Attachment 1, Page 2, Line 26.

**The Narragansett Electric Company**  
**d/b/a National Grid**  
**R.I.P.U.C. Docket No.4219**  
**FY 2012 Gas Infrastructure, Safety, and Reliability Plan**  
**Attachment 1 to DIV 1-1(Schedule WRR-1 Updated for Bonus Depreciation)**  
**Page 1 of 2**

The Narragansett Electric Company  
 d/b/a National Grid  
 Gas Infrastructure, Safety and Reliability (ISR) Plan  
 Computation of Revenue Requirement  
 Updated for Impact of Bonus Depreciation

Line No.		Fiscal Year <u>2012</u> (a)	Fiscal Year <u>2013</u> (a)
1	<b>Capital Investment:</b>		
2			
3	Total Fiscal Year Revenue Requirement	\$1,817,890	\$3,272,590
4			
5	Revenue Requirement as Filed in Docket No. 4219	<u>\$2,130,467</u>	<u>\$5,692,190</u>
6			
7	<b>Increase / (Decrease) in Incremental Fiscal Year Rate Adjustment due to Impact of Bonus Depreciation</b>	<u><u>(\$312,577)</u></u>	<u><u>(\$2,419,600)</u></u>

Line Notes:

- 3 From Page 2, Line 49  
 7 Line 3 - Line 5

**The Narragansett Electric Company  
d/b/a National Grid  
Computation of Gas Capital Investment Revenue Requirement  
FY 2012 Investment  
Updated for Impact of Bonus Depreciation**

		Fiscal Year 2012 (a)	Fiscal Year 2013 (b)
1	<b>Depreciable Net Plant Additions</b>		
2	Plant Additions	\$47,660,716	\$0
3	Retirements (Line 1 * Retirements Rate)	\$3,074,116	\$0
4	Net Depreciable Additions (Line 1 - Line 2)	\$44,586,600	\$0
5	Cumulative Net Depreciable Additions (Prior Year Line 4 + Current Year Line 3)	\$44,586,600	\$44,586,600
6			
7	<b>Change in Net Plant</b>		
8	Plant Additions (From Line 1)	\$47,660,716	\$0
9	Depreciation Expense (As approved per Docket No. 3943, excluding general plant and 2009 CXT)	\$18,443,542	\$0
10	Incremental Depreciable Amount (Line 7 - Line 8)	\$29,217,174	\$0
11	Cumulative Depreciable Amount (Prior Year Line 10 + Current Year Line 9)	\$29,217,174	\$29,217,174
12			
13	Cost of Removal	\$5,755,088	\$0
14	Cumulative Cost of Removal (Prior Year Line 14 + Current Year Line 13)	\$5,755,088	\$5,755,088
15			
16	<b>Cumulative Incremental Spend (Line 11 + Line 14)</b>	<b>\$34,972,262</b>	<b>\$34,972,262</b>
17			
18	<b>Deferred Tax Calculation:</b>		
19	Composite Book Depreciation Rate (As approved in Docket No. 3943)	3.38%	3.38%
20	20 YR MACRS Tax Depreciation Rates	3.75%	7.22%
21	Capital Repairs Deduction	48.00%	
22	100% Bonus Depreciation On Plant Additions net of Capital Repairs Deduction(Apr-Dec 2011)	39.00%	
23	50% Bonus Depreciation On Plant Additions net of Capital Repairs Deduction(Jan-March 2012)	6.50%	
24	50% Bonus Depreciation On Plant Additions net of Capital Repairs Deduction(Jan-March 2012)	N/A	
25			
26	Annual Tax Depreciation	\$45,215,927	\$615,012
27	Cumulative Tax Depreciation (Prior Year Line 27 + Current Year Line 26)	\$45,215,927	\$45,830,939
28			
29	Book Depreciation (Prior Year Line 5 * Line 19 * 50%)	\$753,514	\$1,507,027
30	Cumulative Book Depreciation (Prior Year Line 30 + Current Year Line 29)	\$753,514	\$2,260,541
31			
32	Cumulative Book / Tax Timer (Line 27 - Line 30)	\$44,462,413	\$43,570,398
33	Effective Tax Rate	35.000%	35.000%
34	Deferred Tax Reserve (Line 32 * Line 33)	\$15,561,845	\$15,249,639
35			
36	<b>Rate Base Calculation:</b>		
37	Cumulative Incremental Spend (Line 16)	\$34,972,262	\$34,972,262
38	Accum Depreciation (Line 30 * -1)	(\$753,514)	(\$2,260,541)
39	Deferred Tax Reserve (Line 34 * -1)	(\$15,561,845)	(\$15,249,639)
40	Year End Rate Base (Sum of Lines 37 through 39)	\$18,656,904	\$17,462,082
41			
42	<b>Revenue Requirement Calculation:</b>		
43	Average Rate Base (Line 40/2 for 2012 then, (Prior Year Line 40 + Current Year Line 40)/2)	\$9,328,452	\$18,059,493
44	Pre-Tax ROR	11.41%	11.41%
45	Return and Taxes (Line 43 * Line 44)	\$1,064,376	\$2,060,588
46	Book Depreciation (Line 29)	\$753,514	\$1,507,027
47	Property Taxes (Prior Year Lines 5 plus 14 minus Prior Year Line 29) * Property Tax	\$0	\$1,522,864
48	<b>Annual Revenue Requirement (Sum of Lines 45 through 47)</b>	<b>\$1,817,890</b>	<b>\$5,090,480</b>
49	<b>Incremental Revenue Requirement (Line 48 Current Year - Line 49 Prior Year)</b>	<b>\$1,817,890</b>	<b>\$3,272,590</b>

1/ Assumes 6.45% based on 2009 retirements as a percent of capital spend; to be replaced with actual retirements

2/ Refer to Attachment 2 to Division Data Request 1-1

3/ Weighted Average Cost of Capital as approved in Docket No. 3943

	Ratio	Rate	Weighted Rate	Taxes	Pre-tax Return
Long Term Debt	40.63%	7.990%	3.25%		3.25%
Short Term Debt	11.66%	3.910%	0.46%		0.46%
Common Equity	47.71%	10.500%	5.01%	2.70%	7.71%
	100.00%		8.71%	2.70%	11.41%

4/ Property Tax Rate Calculation based on 2009 actual net plant in service and property tax expense applicable to distribution

Plant in Service	571,320,698	
Completed Construction Not Classified	41,766,356	
Total Plant in Service	613,087,054	
Less: Intangible Plant	28,679,000	
Distribution-Plant in Service	584,408,054	584,408,054
Accumulated Depreciation	295,189,100	
Accumulated Depreciation -Intangible Plant	(17,323,010)	
Accumulated Depreciation Distribution-Plant in Service		277,866,091
Distribution-Related Net Plant in Service	306,541,964	306,541,963
Distribution-Related Rate Year Property Tax Expense		9,413,974
Distribution-Related Property Tax Rate		3.07%

**The Narragansett Electric d/b/a National Grid**  
**Draft Infrastructure, Safety and Reliability Plan (ISR Plan)**  
**Calculation of FY 2012 Tax Depreciation Including the Impact of Bonus Depreciation**

Line No.	Description	Reference	Fiscal Year 2012 (a)	Fiscal Year 2013 (b)	
1	Plant Additions	Schedule WRR-1, Page 1, Line 2	\$47,660,716	\$0	
2	Cost of Removal	Schedule WRR-1, Page 1, Line 13	\$5,755,088	\$0	
3					
4	20 YR MACRS Tax Depreciation Rates	Schedule WRR-1, Page 1, Line 20	3.75%	7.22%	
5	Capital Repairs Deduction	Schedule WRR-1, Page 1, Line 21	48.00%	48.00%	1\
6	100% Bonus Depreciation on Plant Additions net of Capital Repairs Deduction (Apr - Dec 2011)	(1 - Line 5) * 75% * 100%	39.00%	0.00%	2\
7	50% Bonus Depreciation on Plant Additions net of Capital Repairs Deduction (Jan - Mar 2012)	(1 - Line 5) * 25% * 50%	6.50%	0.00%	2\
8					
9	<u>Calculation of Tax Depreciation:</u>				
10					
11	Tax Depreciation Associated with Repairs	Line 1 x Line 5	\$ 22,877,144	\$ -	1\
12	Tax Depreciation Associated with Bonus Depreciation for April - December 2011	Line 1 x 75% * Line 6	13,940,759	-	2\
13	Tax Depreciation Associated with Bonus Depreciation for January - March 2012	Line 1 x 75% * Line 7	2,323,460	-	2\
14	Tax Depreciation Associated with All Other Plant Additions	(Line 1 - (Line 1 * Line 5) - (Line 1 * 75% * Line 6) - (Line 1 * 75% * Line 7)) * Line 4	319,476	615,012	3\
15	Tax Depreciation Associated with Cost of Removal	Line 2	5,755,088	-	1\
16					
17	Total Tax Depreciation	Sum of Lines 11 through 15	<u>\$ 45,215,927</u>	<u>\$ 615,012</u>	4\

1\ Currently deductible for tax purposes

2\ Per the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010, assumes 100% Bonus Depreciation on April - December 2011 additions; 50% Bonus Depreciation on January - March 2012 additions; the Company assumes that 75 percent

3\ Deductible according to MACRS rates

4\ Agrees to Attachment 1, Page 1, Line 26

Division 1-2

Request:

Referring to Schedule WRR-1, please explain why the depreciation expense on Line 9 is not offset against the plant additions in the calculation of the property tax expense for Fiscal Year 2013 on Line 44.

Response:

The Gas Infrastructure, Safety, and Reliability Plan reflects capital investment and other spending relating to maintaining the safety and reliability of the gas distribution system on a prospective basis beginning April 1, 2011. The capital tracker portion of the plan is intended to be incremental in nature, isolated just to the impact of capital investments beginning with the twelve months ended April 1, 2012. As such, it is not intended to adjust rate base and associated rate base-related costs currently embedded within the Company's base distribution rates as set in the Company's last rate case in Docket No. 3943.

The base rate allowance for property taxes on embedded plant in service as approved in Docket No. 3943 are subjected to normal ebb and flow, as are all other base rate cost components. 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.