

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE:           NARRAGANSETT ELECTRIC           :**  
                  **COMPANY d/b/a NATIONAL GRID       :**       **DOCKET NO. 4219**

On December 20, 2010, the Narragansett Electric Company, d/b/a National Grid (“NGrid” or the “Company”) filed its proposed Gas Infrastructure, Safety and Reliability Plan (“Plan”) pursuant to R.I. Gen. Laws §39-1-27.7.1.<sup>1</sup> The Plan set forth the Company’s proposals which it identified as necessary to enhance the safety and reliability of the Company’s natural gas delivery system. The Plan specifically provided for work in a number of areas including replacing leak-prone gas mains and services, upgrading the system’s pressure regulating systems, responding to emergency leak situations and addressing conflicts arising out of public works projects. The Company noted that the goal of the Plan is to provide for a safe and reliable system through coordinated and cost-effective work. In support of its Plan, the Company presented the prefiled testimony of three witnesses, Susan Fleck, William Richer and John Nestor.

Ms. Fleck is the Vice President of Engineering Standards and Policy for NGrid. The purpose of her testimony was to describe the proposed Plan which she identified was designed to proactively replace aging leak-prone pipes, upgrade the pressure regulating systems, respond to emergency leak situations and address conflicts that arise with public works projects. Ms. Fleck noted that the Plan was prepared in consultation with the Division of Public Utilities and Carriers (“Division”). She described how the ISR Plan

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<sup>1</sup> R.I. Gen. Laws §39-1-27.7.1 requires in part that a gas distribution company consult with the Division of Public Utilities and Carriers (“Division”) regarding its infrastructure safety and reliability spending plan that shall address capital spending on utility infrastructure and all other costs related to maintaining safety and reliability that are mutually agreed upon with the Division. That plan must be submitted to the Commission for review and approval.

includes the infrastructure safety and reliability work currently performed under the Accelerated Replacement Plan (“ARP”) as well as spending related to safety and reliability for public works, mandated programs and reliability programs.<sup>2</sup>

Ms. Fleck stated that for FY 2012, NGrid proposes \$53.42 million of capital investments to be included for recovery in the proposed ISR Plan. An additional \$7.129 million for growth spending was excluded from the Plan. She identified each category of the plan and its proposed cost as: \$29.66 million for programs that are currently included in the ARP; \$1.0 million for Reactive Main Replacement; \$1.75 million for Public Works programs; \$9.19 million for Mandated Programs; and \$11.82 million for Gas System Reliability.<sup>3</sup>

Ms. Fleck described each of the categories beginning first with the Main Replacement Program and Service Replacement Program. She noted that the programs in this category are designed to address safety and reliability issues identifiable to leak-prone gas mains and services and stated that the program includes replacement of approximately 45 miles of leak-prone mains and the replacement of approximately 2,125 high-risk services. She described the eight-step process that the Company uses to prioritize replacement projects. Ms. Fleck indicated that the number of miles of leak prone mains that will be replaced has increased from ten miles in 2007 to a projected forty miles for FY 2011. She pointed out that a comparison of leak rates for NGrid and other gas systems in the Northeast reveals that NGrid’s leak rates on mains were higher than other regional companies. She also noted that the Company will prepare a list of the

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<sup>2</sup> NGrid Exhibit 1a, Gas Infrastructure Safety, and Reliability Plan BY 2012 Proposal, Testimony of Susan L. Fleck, filed December 17, 2010 at 1-7.

<sup>3</sup> *Id.* at 7-8.

pipe projects it has prioritized prior to the construction season and will provide the Division and the Commission with quarterly reports on the progress of these programs.<sup>4</sup>

The second category Ms. Fleck discussed was the Reactive Main Replacement category which she stated consisted of emergency main replacements due to leaks or other unplanned work where immediate replacement is required. She described the purpose of the third category, Public Works, as to address existing gas infrastructure conflicts that arise in the course of public works projects and to provide the Company the opportunity to coordinate other system improvement work. Ms. Fleck explained that there are two kinds of projects that would provide the Company the opportunity to cost-effectively improve the system: 1) projects that require NGrid to take some action to its own system to accommodate the project and 2) projects that do not require action but provide an opportunity to act and thereby avoid duplicate costs and minimize community disruption.<sup>5</sup>

Ms. Fleck explained the fourth category, Mandated Programs, and described its three subcategories: 1) cathodic protection for existing steel-coated mains; 2) gas meter replacement and 3) capital leak repairs. She pointed out that cathodic protection extends the service life of the facility and has been mandated by the U.S. Department of Transportation since 1971 for all buried steel facilities. She asserted that the Company plans to replace 22,000 meters in FY 2012. She indicated that the capital costs associated with this program are for those meters that cannot be placed back into service and must

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<sup>4</sup> *Id.* at 8-13.

<sup>5</sup> *Id.* at 13-16.

be replaced with new meters. Finally, Ms. Fleck noted that the ISR Plan proposes approximately 1,800 capital leak repairs as a result of cast iron joint encapsulation.<sup>6</sup>

Ms. Fleck identified the six different programs that comprise the Gas System Reliability category. The first of those programs she described was the System Automation and Control Program, the purpose of which is to meet federal code requirements aimed at increasing system automation and control. Pressure Regulating Facilities that are designed to control system pressures and maintain continuity of supply is the second program in the Reliability category. The third program, System Reliability Enhancement, includes enhancement of the system through standardization, simplification and integration. The Water Intrusion Program is the fourth program and it proposes to replace existing leak prone pipe to address outages that result from water intrusion into the low-pressure distribution system. Ms. Fleck identified four specific Water Intrusion Program projects for FY 2012. The fifth program, LNG Facilities, is intended to upgrade existing LNG facilities in Rhode Island. Finally, the last program is the Valve Installation/Replacement program which will install or replace new valves which are used to control the flow of gas.<sup>7</sup>

William R. Richer, Director of Gas Revenue Requirements, provided testimony to describe the Company's revenue requirement calculation for FY 2012 in support of the ISR Plan. He noted that the revenue requirement is defined as capital additions plus cost of removal, minus annual depreciation expense embedded in the Company's rates net of depreciation expense attributable to general plant. Mr. Richer indicated that plant retirements were deducted from plant additions in determining depreciation expense

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<sup>6</sup> *Id.* at 16-18.

<sup>7</sup> *Id.* at 19-24.

because that expense is affected by plant retirements. In calculating the revenue requirement, Mr. Richer estimated 6.45% of the annual plant additions as plant retirements and deducted this amount from plant additions. He then deducted the cumulative retirements from the cumulative additions to plant-in-service for the cumulative net depreciable additions and used this amount at a 3.38% composite depreciation rate as approved by the Commission in Docket No. 3943 to calculate the incremental book depreciation expense.<sup>8</sup>

Mr. Richer combined the cumulative, incremental depreciable amount with the cumulative cost of removal to arrive at the cumulative incremental amount used to determine the rate base upon which the ISR revenue requirement was calculated. He noted that the cumulative incremental rate base amount was adjusted for accumulated depreciation and accumulated deferred tax reserves, which equal the difference between book depreciation and tax depreciation on post-FY 2011 capital investment multiplied by the effective tax rate. Finally, he described how the average year-end cumulative change in rate base is multiplied by the pre-tax rate of return which is added to the incremental depreciation expense and the property taxes computed on net plant investment to calculate the annual revenue requirement of the Company's ISR Plan.<sup>9</sup>

Lastly, John F. Nestor, III, Lead Analyst in Gas Regulatory and Pricing provided testimony regarding how the rate design was established and the calculation of the ISR rate factors. He also provided bill impacts of the proposed ISR factor rates. Mr. Nestor noted that the starting point for developing the rate design was with the functional rate base that was approved in Docket No. 3943 using the rate base allocation factors for the

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<sup>8</sup> NGrid Exhibit 1b, Gas Infrastructure Safety, and Reliability Plan BY 2012 Proposal, Testimony of William R. Richer, filed December 17, 2010 at 1-4.

<sup>9</sup> *Id.* at 4-6.

system total for the demand, customer and commodity distribution categories. He described how the Company then compiled forecasted throughput data by rate class and allocated the updated revenue requirement of \$2,130,467 to each rate class based on the rate percentage allocations and the forecasted throughput to develop separate rate class ISR factors on a per therm basis. Mr. Nestor identified each class' ISR rate factor which ranged from \$0.0015 to \$0.0158 per therm. He indicated that the ISR factors would become effective April 1 and would be reconciled with the annual DAC filing for effect November 1. Mr. Nestor noted that the bill impact for an average residential heating customer using 922 therms would result in an annual rate increase of \$7.47 or 0.4 percent. Until the next DAC docket, the average residential heating customer will experience an incremental increase of \$2.44 or 0.2 percent.<sup>10</sup>

On February 14, 2011, the Division of Public Utilities and Carriers ("Division"), through its attorney, filed comments subsequent to its review of NGrid's filing. The Division asserted that the Company's proposed Gas ISR Plan complied with the mandates of the statute and discussed each component of the Plan. The Division expressed concern regarding the effectiveness of the Mandated Programs-cathodic protection subcategory and requested that NGrid provide the Division with a report on the success of that program at the conclusion of the Plan year. The Division also pointed out that, contrary to NGrid's representation, the installation of system automation and controls is not a federally mandated program. Without waiving its concerns, the Division recommended that the Commission approve the Company's proposed Plan.

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<sup>10</sup> NGrid Exhibit 1c, Gas Infrastructure Safety, and Reliability Plan BY 2012 Proposal, Testimony of John F. Nestor, III, filed December 17, 2010 at 1-6.

David Effron provided comments on behalf of the Division regarding the revenue requirements of the Company's Plan. He noted two exceptions to the Company's calculations of the capital investment revenue requirements, specifically, bonus depreciation and property taxes. Mr. Effron pointed out that NGrid's filing does not reflect a bonus depreciation allowance for plant additions allowed by the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010. He noted that the Company's calculation assumed only 75% of plant additions for 2011 and 2012 would qualify for the bonus allowed by law. He indicated that the Division had asked the Company in a data request to explain why its calculation only assumes 75% of plant depreciations would qualify for the bonus, but a response had not yet been received. Mr. Effron also noted that in determining its FY 2013 revenue requirements, the Company had not offset the growth in depreciation reserve on embedded plant against the ISR plant additions in the calculation of its 2013 property tax expense.

In response to the Division's comments, NGrid submitted the supplemental testimonies of Mr. Richer and Mr. Nestor. Mr. Richer addressed the Division's inquiry regarding the Company's utilization of 75% of plant additions, which he described as aggressive, that NGrid believed would qualify for bonus depreciation. He noted that this factor was representative of NGrid's experience in the past. He pointed out that the 75% factor represented a \$312,577 change in the revenue requirement and noted that it was the Company's intention to reconcile any over/under recovery of the ISR Plan revenue requirement in the DAC filing. He identified the updated revenue requirement accounting for bonus depreciation as \$1,817,890.<sup>11</sup>

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<sup>11</sup> NGrid Exhibit 2a, Supplemental Testimony of William Richer filed February 16, 2011 at 1-4.

Mr. Richer also addressed the Division's comments about property taxes in the FY 2013 ISR Plan revenue requirement and noted that calculations of this tax were provided to demonstrate the amount of FY 2013 revenue requirement that would be associated with the Rate Year 2012 capital investment. He explained that the Company did not agree with the Division's proposal to reduce the plant investment by the growth in the depreciation reserve on embedded plant before applying the composite property tax rate, because the ISR Plan is not intended to adjust rate base and related costs that are embedded in base distribution rates, but to reflect the capital investment that is incremental to these amounts.<sup>12</sup>

Mr. Nestor's Supplemental Testimony reiterated the updated revenue requirement of \$1,817,890 discussed by Mr. Richer. He presented updated ISR rate factors ranging from \$0.0013 to \$0.0135 per therm that would become effective April 1 each year and be reconciled in the Company's DAC filing. He provided updated rate impacts noting that the average residential heating customer using 922 therms will experience an annual bill increase of approximately \$6.36 or 0.3 percent. He provided a schedule of DAC rates for effect on April 1, 2011 which includes the already existing \$0.0098 per therm in addition to the proposed ISR rate.<sup>13</sup>

On February 17, 2011, the Commission conducted a Technical Session at which time the Company presented its proposed Plan and answered questions regarding the same. The Company presented several witnesses to describe the various components of the Plan and to answer questions. David Iseler presented the fiscal year 2012 Plan and introduced three individuals to answer questions posed. He testified that NGrid is

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<sup>12</sup> *Id.* at 4-5.

<sup>13</sup> NGrid Exhibit 2b, Supplemental Testimony of John Nestor, filed February 16, 2011 at 1-4.

proposing to spend \$29.7 million on its Proactive Main and Service Program and that the Company intends to replace an additional five miles more of pipe than in the previous year. He described the Service Replacement Program and how that program would remain intact. He noted that \$1 million is allocated to the second component of the Plan, the Reactive Main Replacement Program, which allows the Company to replace mains that are in poor condition or subject to undue stress. Mr. Iseler identified the Public Works Program as the third component of the Plan and the Mandated Programs component which includes the repair of capital leaks, meter replacements and cathodic protection of pre-DOT pipe. He identified the last component as the Gas System Reliability Program which includes regulator state upgrades and replacements and system automation enhancements.<sup>14</sup>

After identifying each of the programs, Mr. Iseler described each in detail. He stated that the purpose of the Mains Program is to eliminate leak prone pipe which he specified as small, below eight inches, and brittle and thus subject to breaks. He noted that leak prone pipe includes bare steel mains as they are subject to corrosion. He pointed out that for FY 2012, the Company proposes replacing 45 miles of pipe as opposed to the 40 miles it replaced during the previous year. Mr. Iseler also discussed the Company's Service Replacement Program noting that approximately half of the 8,500 bare steel high pressure services that contain inside meter sets have been replaced and that the remainder would be replaced over the next two years. He pointed out that in addition to replacing mains, the Company is also rehabilitating bare steel services along those mains.<sup>15</sup>

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<sup>14</sup> Transcript of Hearing ("Tr."), February 17, 2011 at 8-12.

<sup>15</sup> *Id.* at 12-15.

Mr. Iseler described the selection process for the Main Replacement Program and the Service Replacement Program. He noted that the Company considers the highest priority risk and whether other work is occurring that can be included in the Replacement Program in determining what to replace. Once this determination is made, the Company again reviews the projects to prioritize them based on highest risk and efficiency. With regard to the high pressure bare steel inside meter sets, the Company has determined those to be of the highest risk. Mr. Iseler also identified other factors taken into consideration to determine whether the service is serving an area of public assembly, multi-dwelling units, and whether there are mercury regulators present.<sup>16</sup>

He then discussed the Reactive Main Replacement Program to which the Company allocated approximately \$1 million and noted that the Company anticipates replacing approximately a mile to a mile and a half of pipe under this program. He stated that this program is focused on addressing areas of the system that the Company did not anticipate needed work. Mr. Iseler identified the next program of the Plan as the Public Works category. He noted that the Company has agreements with the Rhode Island Department of Transportation, the Narragansett Bay Commission, the Warwick Sewer Department and the Rhode Island Economic Development Corporation regarding reimbursement in certain instances. If reimbursement is not available through one of these entities, the public works category provides recovery of those costs. This category also allows for the coordination by the Company of its work with other governmental projects through outreach efforts and for the cost saving opportunities that come with such coordination.<sup>17</sup>

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<sup>16</sup> *Id.* at 15-17.

<sup>17</sup> *Id.* at 17-22.

The fourth program Mr. Iseler described is Mandated Programs. He identified the three subcategories of this program as cathodic protection of the existing coated steel mains, meter replacement and capital leak repair. In response to a question, he explained what cathodic protection entails noting that its purpose is to create a condition to prevent the corrosion of the steel pipe. The meter replacement subcategory funds the replacement of meters that must be replaced and cannot be rehabilitated and put back into service. The program anticipates the need to purchase approximately 4,400 meters. The leak repair program is the last subcategory and will vary year to year depending on a number of factors including aging and the condition of the existing main.<sup>18</sup>

Finally, Mr. Iseler described the last category of the Plan, the Reliability Program. He identified the purposes of this program as expanding automation control, which would allow the Company to enhance its existing review of data and install coverage equipment to check the data over a five year period, addressing areas of flooding and relocating facilities in those areas to outside of flood prone areas, improving current standards and addressing regulator stations in need of repair and/or upgrade and improving LNG and production facilities.<sup>19</sup>

When questioned regarding the Division's concern about the cathodic protection subcategory of the Mandated Programs, its witness, Don Ledversis, expressed that the Division wanted to ensure payback on the investment made before agreeing that the program continue for five years. He indicated that the Division's recommendation was to approve the program for one year and then to allow the Division to review and provide comment on the program after that one year period. Stephen Scialabba, the Division's

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<sup>18</sup> *Id.* at 22-27.

<sup>19</sup> *Id.* at 27-33.

Chief Accountant, affirmed that it was the Division's position and that even in light of the Division's concerns, it was in the best interest of the Company's ratepayers to allow the program to continue for a one year period subject to the Division's review after one year. Mr. Scialabba also testified that the Division was satisfied with all of the information provided by the Company in response to the Division's other concerns as specified above.<sup>20</sup>

Amy Smith of NGrid testified about how the Accelerated Replacement Program ("ARP") relates to the ISR Plan and is being subsumed by the Plan. She described how the Company did not propose a new ARP for FY 2012, because the ARP work will now be included in the Plan. William Richer noted that the revenue requirement for the Plan is \$1.8 million. John Nestor testified that ratepayers will pay \$6.36 per year for this Plan which will go into effect on April 1 and become part of the DAC.<sup>21</sup>

On March 17, 2011, the Commission reviewed the record regarding NGrid's December 20, 2010 proposed Gas Infrastructure, Safety and Reliability Plan for FY 2012 which was submitted to comply with the provisions of R.I.G.L. §39-1-27.7.1. The Commission appreciates the Division's concern regarding the effectiveness of the cathodic protection subcategory of the Mandated Programs. After review and discussion, Commissioner Bray moved to approve the proposed ISR Plan allowing for the cathodic protection subcategory of the Mandated Programs to be funded with up to \$450,000 for the coming year and requiring further review by the Division. NGrid shall submit a report for the Division to review at the conclusion of the Plan year. This further review

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<sup>20</sup> *Id.* at 33-38.

<sup>21</sup> *Id.* at 42-48.

will ensure ratepayers are benefitting by the continued funding of this subcategory. Commissioner Roberti seconded the motion, and the motion was unanimously passed.

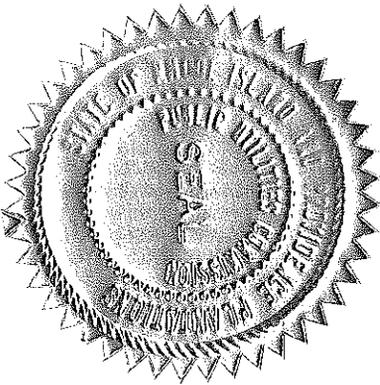
Accordingly, it is

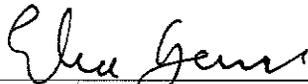
(20468) ORDERED:

1. That National Grid's proposed Gas Infrastructure, Safety and Reliability Plan is hereby approved.
2. That National Grid shall file a report with the Division of Public Utilities and Carriers and the Commission on its cathodic protection subcategory of its Mandated Programs at the conclusion of the Gas Infrastructure, Safety and Reliability Plan year.
3. That National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 1, 2011  
PURSUANT TO AN OPEN MEETING DECISION ON MARCH 17, 2011.  
WRITTEN ORDER ISSUED SEPTEMBER 12, 2011.

PUBLIC UTILITIES COMMISSION



  
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Elia Germani, Chairman

  
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Mary E. Bray, Commissioner

  
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Paul J. Roberti, Commissioner