nationalgrid

Thomas R. Teehan
Senior Counsel

August 1, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4306 - Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2013 <u>Annual Report and Reconciliation Filing</u>

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed ten (10) copies of the Company's Gas Infrastructure, Safety and Reliability ("ISR") Plan Fiscal Year ("FY") 2013 Annual Report and Reconciliation filing. Pursuant to the provisions of the approved ISR Plan and implementing tariffs found at RIPUC NG-Gas No. 101, Section 3, Schedule A, the Company is to annually provide, by August 1 of each year, a reconciliation of the revenue requirements on actual cumulative capital investment covered by the ISR Plan for the prior FY to the actual billed revenue for that period. The reconciled amounts are to be used to calculate an ISR reconciliation factor in the Distribution Adjustment Charge ("DAC") 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 direct testimony and associated attachments of Walter F. Fromm and William R. Richer. Mr. Fromm presents the Company's Annual Report, which provides the actual spending for the period April 1, 2012 through March 31, 2013 as well as detailed information on the major spending variances by specific ISR categories for that time period. In his testimony, Mr. Richer calculates the revenue requirement on actual accumulated capital investment during FY 2013 and FY 2012. Mr. Richer's calculation of the updated revenue requirement takes into consideration that the forecasted ISR Plan investment was put into rate base and is now being recovered in base rates as a result of the 2012 rate case, Docket 4323. Mr. Richer's updated FY 2013 revenue requirement has been

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

included in the calculation of the ISR factor contained in the Company's annual DAC filing, filed today under separate cover. In the DAC filing, the Company provides a reconciliation of the updated FY 2013 gas ISR revenue requirement provided by Mr. Richer and actual ISR billed revenue during the same period by rate class to arrive at a total over collection of $104,147.

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

Enclosures

cc: Docket 4306 Service List
Steve Scialabba, Division
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National Grid

The Narragansett Electric Company

FY 2013 Gas Infrastructure, Safety, and Reliability Plan
Reconciliation Filing

August 1, 2013

Submitted to:
Rhode Island Public Utilities Commission
R.I.P.U.C. Docket No. 4306

Submitted by:

nationalgrid

Filing Letter

**Testimony of
Walter F. Fromm**

PRE-FILED DIRECT TESTIMONY

OF

WALTER F. FROMM

August 1, 2013

Table of Contents

I. Introduction and Qualifications 1

II. Purpose of Testimony 2

III. FY13 ISR Actual Capital Spending 3

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 USA Service Company, Inc. as Director, Network Strategy-Gas, New England. I am the Rhode Island state Jurisdictional Lead for all gas Network Strategy issues, including those related to the capital investment strategy of The Narragansett Electric Company d/b/a National Grid ("Company"). In my role, I work closely with the Rhode Island Jurisdictional President and staff on all local issues related to the Company's gas system. My responsibilities also include working on regulatory issues related to the gas system, developing of strategies to support Company objectives regarding investment in the gas system, and providing regulatory support regarding the Company's gas system.

Q. Please describe your educational background and professional experience.

A. I am a Professional Engineer licensed 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 two 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 at National Grid for approximately thirteen and one-half years in a variety of roles. I joined National Grid 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 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"), fiscal year 2013 ("FY13") and fiscal year 2014 ("FY14") Gas Infrastructure, Safety and Reliability ("ISR") Plans. I also submitted testimony in support of the Company's FY12 ISR reconciliation filing in Docket No. 4219 and in Docket No. 4339, the Company's most recent annual Distribution Adjustment Charge ("DAC") filing.

II. PURPOSE OF TESTIMONY

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 FY13 Gas ISR Plan, including the actual spending for the period April 1, 2012 through March 31, 2013. 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 FY13 Gas ISR revenue requirement with the approved budgeted amounts. This is reconciled with the Company's actual ISR revenues for FY13 and the reconciliation will then be included in the Company's annual DAC filing for rates effective November 1, 2013.

III. <u>FY13 ISR ACTUAL CAPITAL SPENDING</u>

Q. Please summarize the results of the Company's actual ISR capital spending for FY13 to its FY13 budget.

A. Attachment-WFF-1 to my testimony is the Company's FY13 ISR annual report and reconciliation for the period April 1, 2012 to March 31, 2013. As set forth in Table 1 of that attachment, for FY13, the Company spent $59.60 million for non-growth capital investment under the Gas ISR Plan or approximately $2.29 million less than the annual approved budget of $61.89 million.

As discussed in the FY12 ISR docket, while implementing the ISR Plan in any fiscal year, the Company will encounter circumstances during the year that will require reasonable deviations from the original ISR Plan approved by the Commission. This has been the case and, through the second quarter of FY13, the Company has kept the Rhode Island Division of Public Utilities and Carriers ("Division") and the Commission apprised of these deviations and variances and provided explanations for them in its quarterly report filings. In FY13, the Company consolidated its financial systems, implementing the SAP financial reporting system in November of 2012. As a result of this major system conversion, the Company was unable to file its third and fourth quarterly ISR reports due to the unavailability of certain financial information ordinarily included in those reports. The financial data required to support the capital spending amounts of the full fiscal year is now available from the SAP system and is included in this annual report for all quarters of FY13. The spending results for the FY13 ISR plan have been reviewed and several adjustments were made based on a review of capital, expense and cost of removal cost trends both pre- and post-SAP. As with any system conversion of this magnitude, continued review of financial data is ongoing until such time as the Company determines the systems are adequately stabilized and operating in an expected fashion. If the Company should discover any inaccuracies with the data recorded in its general ledger and submitted with this filing, appropriate adjustments to this filing will be submitted to ensure that customers are insulated from any unintended economic harm.

Q. Will the Company resume quarterly reporting for FY14?

A. Yes, the Company does plan to resume quarterly reporting for FY14. The Company plans to file its first quarterly report for FY14 in September 2013, and will keep the Division and Commission apprised of any delays.

Q. What were the primary drivers for the Gas ISR $2.29 million variance in FY13?

A. The primary drivers for the $2.29 million variance in FY13 were the increased costs of $1.94 million in Public Works spending. These costs were offset by under-spending in the following categories of work: $1.24 million in Proactive Main Replacement; $1.03 million in Gas System Reliability; $0.77 million in Reactive Main Replacement; and $0.69 million in Special Projects.

Q. Please explain the major over budget variance for the Public Works spending for FY13.

A. The Company's capital spending for Public Works construction exceeded the FY13 budget by $1.94 million. During FY13, the Company installed 3.6 miles of new main associated with public works activity, which was 0.6 miles more than the initial projected budget. This resulted in the abandonment of 1.5 miles (0.5 miles of unprotected steel and 1.0 miles of cast iron) of leak prone gas main. The abandonment of the remaining 2.1 miles of leak prone gas main will occur in FY14 due to the fact that fifty percent of this public works activity occurred during the Fall of 2012. The majority of the public works activity was associated with contract work for the Narragansett Bay Commission ("NBC") in Providence.

Q. Please explain the major under budget variances in FY13?

A. For FY13, the Proactive Main Replacement Program actual spending was $1.24 million (or 3.7 percent) under budget. During FY13, the Company installed 50.9 miles of new main which resulted in the abandonment of 45.9 miles (27.2 miles of unprotected steel and 18.7 miles of cast iron) of leak prone gas main. Forty percent (40%) of this program work was completed in Providence, East Providence and Warwick. By focusing more main replacement work in these urban areas, the Company was able to replace more cast iron main than originally anticipated. A portion of the under-spending can be attributed to the costs associated with the remaining leak prone pipe abandonment related to the 50.9 miles of installed main.

The primary driver for the Company's under-budget spending for Reactive Main Replacement of $0.77 million was that fewer projects were required than what had been projected in this reactive category. Only one project was required for this category of work during FY13. This project involved the replacement of 440-feet of cast iron main due to third-party encroachments.

The primary driver for the Company's under-budget spending for Special Projects of $0.69 million was due to the fact that the installation of new main to aid in the economic development of parcels related to the relocation of Interstate195 in Providence was deferred to FY14 due to RIDOT's change in project schedule.

The primary drivers for the Company's under-budget spending for Gas System Reliability of $1.03 million in FY13 were in the categories of Water Intrusion and System Automation and are discussed separately below:

- Actual spending for Water Intrusion for FY13 was only $18 thousand as compared to a budget of $0.80 million. Only one water intrusion project was completed during FY13. The Company replaced approximately 350 feet of existing low pressure cast iron gas main, located along Judi Lane, Westerly, with new high pressure main as part of this program.

- For System Automation, actual spending was $0.51 million as compared to a budget of $1.42 million for the fiscal year. For FY13, the Company installed AC power to 75 regulator stations to permit wireless communication to Gas Control for real time monitoring. In addition, new telemetry was installed at 42 locations, mainly at low points on the system to improve communications. Finally remote controls were installed on 12 regulator stations during the fiscal year. A portion of the under-spend can be attributed to the timing of when the work was performed (i.e. end of FY13) and the receipt of invoices (i.e. in FY14). In addition, certain system automation costs were related to and included in the Pressure Regulating Facilities and were included in that category of work.

- Pressure Regulating Facilities - The Company spent $2.0 million as compared to a budget of $1.72 million. The Company performed work at the following gas regulator stations during FY13:

    - Holder 20, East Providence - The Company completed the overhaul of entire site (two new pre-fabricated regulator stations and system telemetry).

    - Warren Take Station, Brown Street Rebuild - The Company completed the rebuild within existing Warren Take Station and Brown Street gas regulator building, and a new system telemetry room was installed.

    - Pawtucket / Tidewater - The Company installed two new buildings at site.

Q. What is the amount of FY13 capital spending that the Company is seeking to reconcile in this filing?

A. The Company is seeking to reconcile the actual FY13 spending amount of $59.60 million in this filing. As was noted in prior ISR Plan filings, “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] The $2.29 million under spending for FY13 is clearly consistent with the intent of the ISR Plan to maintain the overall safety and reliability of the Company's gas system and to meet the needs of customers. Overall, the Company's FY13 actual spending was in line with the overall budget, and represented a major effort particularly in light of Company's need to respond during the year to the challenges of Hurricane Sandy and the February winter storm.

Q. Does this conclude your testimony?

A. Yes, it does.

[1] For example, see FY12 Gas ISR Plan filed December 20, 2010 at Section 1, Page 3 of 6.

Attachment WFF-1

Gas Infrastructure, Safety and Reliability Plan
Fiscal Year 2013 Annual Report and Reconciliation

Executive Summary

In accordance with tariff, R.I.P.U.C. NG-Gas, No. 101, Section 3, Schedule A, Sheets 5-7, The Narragansett Electric Company d/b/a/ National Grid ("Company") submits this annual report and reconciliation filing for the Fiscal Year 2013 ("FY13") Infrastructure, Safety and Reliability ("ISR") Plan approved by the Commission in Docket No. 4219. This filing provides an overview and description of the $59.60 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. 4306. This filing serves as the annual ISR report for the period April 1, 2012 to March 31, 2013.

In FY13, the Company consolidated its financial systems, implementing the SAP financial reporting system in November of 2012. As a result of this major system conversion, the Company was unable to file its third and fourth quarterly ISR reports due to the unavailability of certain financial information ordinarily included in those reports. The financial data required to support the capital spending amounts of the full fiscal year is now available from the SAP system and is included in this annual report for all quarters of FY13. The spending results for the FY13 ISR plan have been reviewed and several adjustments were made based on a review of capital, expense and cost of removal cost trends both pre- and post-SAP. As with any system conversion of this magnitude, continued review of financial data is ongoing until such time as the Company determines the systems are adequately stabilized and operating in an expected fashion. If the Company should discover any inaccuracies with the data recorded in its general ledger and submitted with this filing, appropriate adjustments to this filing will be submitted to ensure that customers are insulated from any unintended economic harm.

FY13 Actual Results

As set forth in Table 1 below, for FY13, the Company spent $59.60 million for capital investment under the ISR Plan. This amount was $2.29 million under the annual budget of $61.89 million approved in Docket No. 4306. The key drivers and variances by category of capital are shown in Table 1 and discussed in greater detail below.

Table 1

Narragansett Gas FY 2013 ($000)			
Category	**Budget**	**Actual**	**Variance**[1]
Proactive Main Replacement	$33.36	$32.12	($1.24)
Service Replacement Program	$3.91	$3.74	($0.17)
Public Works	$1.79	$3.73	$1.94
Reactive Main Replacements	$1.02	$0.25	($0.77)
Mandated Programs	$12.13	$11.80	($0.33)
Reliability	$8.99	$7.96	($1.03)
Special Projects	$0.69	$0.00	($0.69)
Total	**$61.89**	**$59.60**	**($2.29)**

Proactive Main Replacement Program – $1.24 million under budget variance for FY13

For FY13, the Proactive Main Replacement Program actual spending was $1.24 million (or 3.7 percent) under budget. During FY13, the Company installed 50.9 miles of new main which resulted in the abandonment of 45.9 miles (27.2 miles of unprotected steel and 18.7 miles of cast iron) of leak prone gas main. Forty percent (40%) of this program work was completed in Providence, East Providence and Warwick. By focusing more main replacement work in these urban areas, the Company was able to replace more cast iron main than originally anticipated. A portion of the under spending can be attributed to the costs associated with the remaining leak prone pipe abandonment related to the 50.9 miles of installed main.

Service Replacement Program - $0.17 million under budget variance for FY13

Overall, the Company's capital spending for Service Replacement was on budget for FY13 with a variance of only $0.17 million. The Company's original FY13 goal was to replace 2,125 high pressure bare steel services with inside meter sets. However, the Company notified the Division

[1] For consistency, "Variances" in Attachments to this report that are shown in parentheses ( ) reflect an under spend.

on September 12, 2012 as part of its Quarterly Report – 1st Quarter FY2013 that this goal would be reduced from 2,125 to 1,625 bare steel services replaced in order to accommodate the remaining farm tap work (which has a higher unit cost than the typical service replacement) and to balance resources required to meet the combined efforts of all program work. During FY13, the Company replaced 1,047 bare steel services with inside meter sets. In addition, the Company replaced 48 of the remaining 49 farm taps (the last farm tap was replaced at the beginning of FY14). Factors that impacted the total spending included higher unit costs due to the replacement of the above-referenced farm taps, and of more complex services (e.g. commercial services).

Public Works - $1.94 million over budget variance for FY13

The Company's capital spending for Public Works construction exceeded the FY13 budget by $1.94 million. During FY13, the Company installed 3.6 miles of new main associated with public works activity, which was 0.6 miles more than the initial projected budget. This resulted in the abandonment of 1.5 miles (0.5 miles of unprotected steel and 1.0 miles of cast iron) of leak prone gas main. The abandonment of the remaining 2.1 miles of leak prone gas main will occur in FY14 due to the fact that fifty percent of this public works activity occurred during the Fall of 2012. The majority of the public works activity was associated with contract work for the Narragansett Bay Commission (NBC) in Providence.

Reactive Main Replacement - $0.77 million under budget variance for FY13

The Reactive Main Replacement Program was $0.77 million under budget as fewer projects were required than had been projected in this reactive category. There was only one project that was required to be performed in this category of work during FY2013. This project included the replacement of 440 feet of cast iron gas main along Pilgrim Circle, Providence due to third-party encroachments.

Mandated Programs – $0.33 million under budget variance for FY13

The Mandated Program spending was $0.33 million under budget for FY13. This variance was primarily due to spending in the following categories:

- Corrosion/Cathodic Protection – Actual spending for FY13 was approximately $10 thousand as compared to a budget of $0.62 million. The Company reallocated resources to required testing and diagnostic work on regulator station control lines during FY13.

- CI Joint Encapsulation – Actual spending for FY13 was $0.46 million over budget due to the need for the Company to address leaks and encapsulate cast iron joints during the year.

- Service Leaks - Actual spending was $0.66 million under budget as the Company repaired less leaks during the year than anticipated.

- Non-leak spending – Actual spending was $1.49 million, an over spending variance of approximately $0.49 million as compared to the budget of $1.0 million. This variance is associated with the increased costs incurred for meter protection, service relocations, service abandonments and the installation of curb valves during the year.

<u>Gas System Reliability - $1.03 million under budget variance for FY13</u>

Gas System Reliability spending for FY13 was under budget by $1.03 million. A summary of the primary drivers for this under spending variance is as follows:

- Water Intrusion – Actual spending was $18 thousand as compared to a budget of $0.80 million. This was due to fewer water intrusion projects than budgeted or anticipated. Only one water intrusion project was completed during FY13. Specifically, approximately 350 feet of existing low pressure cast iron gas main, located along Judi Lane, Westerly, was replaced with new high pressure main as part of this program.

- System Automation – Actual spending was $0.51 million as compared to a budget of $1.4 million for the fiscal year. For FY13, the Company installed AC power to 75 regulator stations to permit wireless communication to Gas Control for real time monitoring. New telemetry was installed at 42 locations, mainly at low points on the system to improve communications. Finally, remote controls were installed on 12 regulator stations during the fiscal year. A portion of the under-spend can be attributed to the timing of when the work was performed (i.e. end of FY13) and the receipt of invoices (i.e. in FY14). In addition, certain system automation costs were related to and included in the Pressure Regulating Facilities category of work below.

- Pressure Regulating Facilities - The Company spent $2.0 million as compared to a budget of $1.72 million. The Company performed work at the following gas regulator stations during FY13:

  - Holder 20, East Providence - The Company completed the overhaul of entire site (two new pre-fabricated regulator stations and system telemetry).

- Warren Take Station, Brown Street Rebuild - The Company completed the rebuild within existing Warren Take Station and Brown Street gas regulator building, and a new system telemetry room was installed.

- Pawtucket / Tidewater - The Company installed two new buildings at site.

Special Projects - $0.69 million under budget for FY13

No costs were incurred for the Rhode Island Department of Transportation's (RIDOT) Rt. I-195 Project in Providence in FY13 as the installation of approximately 2,400 feet of new gas main to aid in the economic development of parcels related to the relocation of Interstate195 was deferred to FY14 due to RIDOT's change in project schedule.

Testimony of
William R. Richer

PRE-FILED DIRECT TESTIMONY

OF

WILLIAM R. RICHER

August 1, 2013

Table of Contents

I. Introduction 1

II. ISR Plan FY 2013 Revenue Requirement 3

III. Conclusion 10

I. <u>INTRODUCTION</u>

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, 2012. That factor was based on a projected FY 2013 ISR revenue requirement of $7,272,434 associated with estimated ISR capital investment during the Company's Fiscal Years ("FY") ended March 31, 2013 and March 31, 2012. The purpose of my testimony is to present an updated FY 2013 ISR revenue requirement associated with actual FY 2013 and FY 2012 capital investment levels and actual tax deductibility percentages for FY 2012 capital additions. Actual tax deductibility percentages for FY 2013 capital investment will not be known until the Company files its FY 2013 income tax return in December of this year. As shown on Attachment WRR-1, Page 1 of 11 at Line 9 in Column (c),the updated FY 2013 ISR revenue requirement collectible through the Company's ISR factor for the FY 2013 period amounts to $5,085,563.

Q. Are there any schedules attached to your testimony?

A. Yes, I am sponsoring the following Attachment:

- Attachment WRR-1: Gas Infrastructure, Safety and Reliability Plan Revenue Requirement Reconciliation

II. <u>ISR PLAN FY 2013 REVENUE REQUIREMENT</u>

Q. Did the Company calculate the updated FY 2013 ISR revenue requirement in the same fashion as calculated in the previous ISR Factor submissions and the August 2012 ISR factor reconciliation?

A. The updated FY 2013 ISR revenue requirement calculation is identical to the ISR revenue requirement used for purposes of developing the approved ISR factors that were effective April 1, 2012, and as described previously in my testimony in this proceeding but incorporating updated ISR investment amounts, a newly approved weighted average cost of capital from Docket No. 4323 and known tax deductibility percentages. As a result, I will rely on that testimony for the detailed description of the revenue requirement calculation and will limit this testimony to the following: (1) a description of the impact of Docket No. 4323 to the Gas ISR revenue requirement,

(2) a summary of the revenue requirement update shown on Page 1 of Attachment WRR-1, and (3) a discussion of the change in the calculation of tax depreciation to coincide with tax depreciation taken on the Company's FY 2012 federal income tax return filed in December of 2012.

Q. Would you describe the impact on the FY 2013 ISR revenue requirement recoverable through the FY 2013 ISR factor as a result of the implementation of new gas base distribution rates that were approved by the Commission in Docket No. 4323 and put into effect on February 1, 2013?

A. The ISR mechanism was established to allow the Company to recover outside of base rates its costs associated with capital investment incurred to expand its gas infrastructure and improve the reliability and safety of its gas facilities. When new base rates are implemented, as was the case in Docket No. 4323, the costs being recovered associated with pre-rate case ISR capital investment cease to be recovered through a separate ISR factor, and are instead recovered through base rates, and the underlying ISR capital investment becomes a component of base distribution rate base from that point forward. In April 2012, the Company filed an application with the Commission seeking a change in base rates for its electric and gas distribution businesses. The proceeding culminated with the Commission's approval of a settlement agreement with the Division and the U.S. Department of the Navy establishing new base rates for the Company. The Company's rate base reflected in that request reflected projected capital investments through January 31, 2014. In its base rate request, the Company proposed to maintain consistency with the existing ISR mechanism for the FY 2012 and FY 2013 periods. Consequently, the forecast used to develop rate base in the distribution rate case included the ISR approved capital investment levels for FY 2012, FY 2013 and 10 months of FY 2014 (using the FY 2013 ISR approved capital investment level as a proxy for FY 2014). The FY 2014 estimate included in rate base will be factored into the FY 2014 ISR reconciliation filing a year from now and is not a consideration in this filing. The effective date of new rates in that proceeding was February 1, 2013. Therefore, recovery of the approved FY 2013 ISR revenue requirement via the ISR factor stopped on January 31, 2013, and all future recovery of those forecasted FY 2012 and FY 2013 ISR capital investments will be via the Company's base rates.

Q. Please continue.

A. As a result of the implementation of new base rates pursuant to Docket No. 4323 effective February 1, 2013, the cumulative amount of forecasted ISR capital investments was rolled into base rates effective at that date. Consequently, the Company is reflecting only a ten month amount of revenue requirement associated with the ISR capital investment that was rolled into base rates effective February 1, 2013. The Company has prorated the updated FY 2013 ISR revenue requirement for the forecasted FY 2012 and FY 2013 ISR investments rolled into base rates effective

February 1, 2013 for ten months (April 1, 2012 through January 31, 2013) based on actual throughput for FY 2013, or 66.7 percent. The FY 2013 revenue requirement for incremental FY 2012 and incremental FY 2013 ISR investments reflect a full year of revenue requirement as none of these incremental investments is included in the Company's base rate rate-base. These incremental FY vintage amounts are to remain in the ISR recovery mechanism as provided for in the terms of the Docket No. 4323 approved Settlement. Consequently, Attachment WRR-1 presents four separate revenue requirement calculations, a calculation of the updated revenue requirement on the forecasted amount of FY 2013 ISR capital investments rolled into base rates effective February 1, 2013, and a revenue requirement calculation for the incremental FY 2013 ISR capital investment which is not reflected in base rates. These calculations are also presented for FY 2012 vintage year amounts.

Q. Would you please summarize the updated FY 2013 ISR revenue requirement?

A. Certainly. As shown on Page 1, at Line 9 in Column (c) of Attachment WRR-1 the updated FY 2013 ISR revenue requirement amounts to $5,085,563. As previously described, it is comprised of the ten month (April 1, 2012 through January 31, 2013) prorated amount, or 66.7%, of the FY 2013 revenue requirement on vintage FY 2013 and FY 2012 ISR capital investments, which were rolled into the Company's base rates effective February 1, 2013 and the full year revenue requirement on vintage FY 2013 and FY 2012 incremental ISR capital investments above the level of capital investment reflected in base distribution rates. In addition, the FY 2013 revenue requirement reflects the same ten month proration of a property tax-related settlement credit that was included in the approved FY 2013 Gas ISR Proposal, and a true up for changes to previously estimated tax depreciation expense to align with tax depreciation rates used on the Company's FY 2012 tax return that was filed in December 2012.

Q. Please continue by describing how your attachment is structured.

A. Page 1 of the Attachment summarizes the individual components of the updated FY 2013 ISR revenue requirement. Lines 1 and 3 reflect the approved FY 2013 ISR revenue requirement prorated for the ten month period. Lines 2 and 4 represent the full year 2013 ISR revenue requirements for the incremental FY 2012 and FY 2013 ISR investments, or those investments not included in the Company's base rates, and as supported with a detailed calculation on Pages 2 and 4, respectively. Line 5 reflects the ten month proration of a property tax related settlement dated January 30, 2012. Lines 7 and 8 reflect the reconciliation of the approved FY 2012 and FY 2013 ISR revenue requirement for vintage FY 2012 investments with the actual vintage FY 2012 and FY 2013 revenue requirement on those investments. This reconciliation is necessary because the actual level of tax deductibility on FY 2012 investments was not known at the time of filing the FY 2012 and FY 2013 ISR Factor proposals. The calculation of the reconciliation amounts is shown on Page 7 and reflects the difference in the approved FY 2012 and FY 2013 ISR revenue requirements of FY

2012 investments and the updated revenue requirement for those fiscal years on FY 2012 ISR investments when incorporating the final tax deductibility levels. As appropriate, the FY 2013 reconciliation amount has been similarly prorated for the ten month period. Detailed calculations of the updated FY 2012 and FY 2013 revenue requirements are presented on pages 8 and 10 of the Attachment, respectively.

Q. Were there other provisions of the approved rate case settlement agreement that are affecting the ISR mechanism?

A. The method used to recover property tax expense under the ISR has been modified by the rate case settlement agreement. In determining the base on which property tax expense is calculated for purposes of the ISR revenue requirement, the Company shall include an amount equal to the base-rate allowance for depreciation expense and depreciation expense on incremental ISR plant additions in the accumulated reserve for depreciation that is deducted from plant in service. The ISR property tax recovery will also include the impact of any changes in the Company's effective property tax rates on base-rate embedded property, plus cumulative ISR net additions. Property tax impacts associated with non-ISR plant additions are excluded from the property tax recovery calculation. This provision of the settlement agreement will only take effect for ISR property tax recovery periods subsequent to the January 31, 2014 end of the rate year.

Q. Has the Company provided support for the actual level of FY 2013 ISR eligible plant investments?

A. Yes. The description of the FY 2013 Gas ISR program and the amount of the incremental non-growth capital investment eligible for inclusion in the ISR Mechanism are supported by the direct testimony and supporting attachment of Company Witness 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, 2012 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. The actual ISR eligible non-growth capital investment for FY 2013 amounts to $56.5 million[1] associated with the Company's FY 2013 ISR Plan (non-growth infrastructure investment net of general plant).

[1] Total ISR eligible capital investment for FY2013 of $56.5 million plus total ISR eligible cost of removal of $3.1 million reflects $59.6 million of actual capital spending as referenced in the testimony of Mr. Fromm.

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

A. The updated FY 2013 revenue requirement associated with the Company's actual FY 2012 and FY 2013 ISR eligible plant investments amounts to $5,085,563 and includes the updated FY 2013 revenue requirement on FY 2012 and FY 2013 investments, reconciliation of the approved FY 2012 and FY 2013 ISR revenue requirement for vintage FY 2012 investments with the actual vintage FY 2012 and FY 2013 revenue requirement on those investments reconciliation and the inclusion of a property tax settlement dated January 30, 2012.

III. CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.

Index of Attachments

Attachment WRR-1 Gas Infrastructure, Safety and Reliability Plan Revenue Requirement Calculation

Attachment WRR-1

Gas Infrastructure, Safety, and Reliability Plan Revenue Requirement Calculation

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
Summary

Line No.		As Approved (a)	(b)	Calculated (c)
1	FY2013 Revenue Requirement on Proposed FY2013 Capital Investment	$2,506,927	*66.7%	$1,672,120
2	FY2013 Revenue Requirement on FY2013 Actual Incremental Capital Investment			($151,130)
3	FY2013 Revenue Requirement on Proposed FY2012 Capital Investment	$5,025,507	*66.7%	$3,352,013
4	FY2013 Revenue Requirement on FY 2012 Actual Incremental Capital Investment			$515,967
5	Less Property Tax Related Settlement Agreement dated 1/30/12	($260,000)	*66.7%	($173,420)
6	Total Actual FY2013 Revenue Requirement	$7,272,434		$5,215,550
7	True Up for Capital Repairs Deduction Rate of FY2012 Revenue Requirement Reconciliation in R.I.P.U.C. Docket No. 4219			($51,435)
8	True Up for Capital Repairs Deduction Rate of Proposed FY2013 Revenue Requirement on FY2012 Capital Investment in R.I.P.U.C. Docket No. 4306			($78,552)
9	Total Adjusted FY2013 Revenue Requirement			$5,085,563

Column Notes
(a) R.I.P.U.C. Docket No. 4306 FY 2013 Proposal, Schedule WRR-1, Page 1 of 5, Column (b)
(b) Actual Throughput Percentage for Narragansett Gas for ten months April 1, 2012 through January 31, 2013

Line Notes
1(c) Line 1(a) multiplied by Line 1(b)
2(c) Page 2 of 11, Line 24(a)
3(c) Line 3(a) multiplied by Line 3(b)
4(c) Page 4 of 11, Line 24(b)
5(c) Line 5(a) multiplied by Line 5(b)
6(c) Sum of Lines 1(c) through 5(c)
7(c) Page 7 of 11, Line 4(c)
8(c) Page 7 of 11, Line 8(c)
9(c) Sum of Lines 6(c) through 8(c)

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY2013 Actual Incremental Capital Investment

Line No.				Fiscal Year 2013 (a)
	Depreciable Net Capital Included in Rate Base			
1	Total Allowed Capital Included in Rate Base in Current Year	Page 6 of 11, Line 3, Column (b)		($723,236)
2	Retirements	Page 6 of 11, Line 9, Column (b)	1/	3,276,842
3	Net Depreciable Capital Included in Rate Base	Line 1 - Line 2		($4,000,078)
	Change in Net Capital Included in Rate Base			
4	Capital Included in Rate Base	Line 1		($723,236)
5	Cost of Removal	Page 6 of 11, Line 6, Column (b)	2/	($1,548,831)
6	**Net Plant Amount**	**Line 4 + Line 5**		**($2,272,067)**
	Deferred Tax Calculation:			
7	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 4323 and 3943		3.38%
8	Tax Depreciation	Page 3, Line 20		($2,098,038)
9	Cumulative Tax Depreciation	Current Year Line 8		($2,098,038)
10	Book Depreciation	Column (a) = Line 3 * Line 7 * 50%		($67,601)
11	Cumulative Book Depreciation	Current Year Line 10		($67,601)
12	Cumulative Book / Tax Timer	Line 9 - Line 11		($2,030,437)
13	Effective Tax Rate			35.00%
14	Deferred Tax Reserve	Line 12 * Line 13		($710,653)
	Rate Base Calculation:			
15	Cumulative Incremental Capital Included in Rate Base	Line 6		($2,272,067)
16	Accumulated Depreciation	- Line 11		$67,601
17	Deferred Tax Reserve	- Line 14		$710,653
18	Year End Rate Base	Sum of Lines 15 through 17		($1,493,813)
	Revenue Requirement Calculation:			
19	Average Rate Base	Current Year Line 18 ÷ 2		($746,906)
20	Pre-Tax ROR		3/	11.18%
21	Return and Taxes	Line 19 * Line 20		($83,529)
22	Book Depreciation	Line 10		($67,601)
23	Property Taxes	$0 in Year 1, then Prior Year (Line 3 + Line 5 - Line 11) * Property Tax Rate		$0
24	**Annual Revenue Requirement**	**Sum of Lines 21 through 23**		**($151,130)**

1/ Actual Incremental Retirements
2/ Actual Incremental 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%	0.45%		0.45%
Common Equity	47.71%	10.50%	5.01%	2.70%	7.71%
	100.00%		8.71%	2.70%	11.41%

Weighted Average Cost of Capital as approved in R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.70%	2.85%		2.85%
Short Term Debt	0.76%	0.80%	0.01%		0.01%
Preferred Stock	0.15%	4.50%	0.01%		0.01%
Common Equity	49.14%	9.50%	4.67%	2.51%	7.18%
	100.00%		7.54%	2.51%	10.05%

	Tax-Effected Weighted Cost		**Blended Tax Effected Weighted Cost**
R.I.P.U.C. Docket No. 3943	11.41%	Apr 12 - Jan 13	9.51%
R.I.P.U.C. Docket No. 4323	10.05%	Feb 13 - Mar 13	1.68%
			11.18%

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY2013 Actual Incremental Capital Investment
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year 2013 (a)	
	Capital Repairs Deduction			
1	Plant Additions	Page 2, Line 1	($723,236)	
2	Capital Repairs Deduction Rate	Per Tax Department	50.00%	1/
3	Capital Repairs Deduction	Line 1 x Line 2	($361,618)	
	Bonus Depreciation			
4	Plant Additions	Line 1	($723,236)	
5	Less Capital Repairs Deduction	Line 3	($361,618)	
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	($361,618)	
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Department	100.00%	
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	($361,618)	
9	Bonus Depreciation Rate (April 2012 - December 2012)	1 * 75% * 50%	37.50%	
10	Bonus Depreciation Rate (January 2013 - March 2013)	1 * 25% * 50%	12.50%	
11	Total Bonus Depreciation Rate	Line 9 + Line 10	50.00%	
12	Bonus Depreciation	Line 8 x Line 11	($180,809)	
	Remaining Tax Depreciation			
13	Plant Additions	Line 1	($723,236)	
14	Less Capital Repairs Deduction	Line 3	($361,618)	
15	Less Bonus Depreciation	Line 12	($180,809)	
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	($180,809)	
17	20 YR MACRS Tax Depreciation Rates		3.750%	
18	Remaining Tax Depreciation	Line 16 x Line 17	($6,780)	
19	Cost of Removal	Page 2, Line 5	($1,548,831)	
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	($2,098,038)	

1/ Capital Repairs percentage is based on a three year average, 2010, 2011 and 2012 of gas property qualifying for the repairs deduction as a percentage of total annual plant additions.

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Gas FY2013 Revenue Requirement on FY 2012 Actual Incremental Capital Investment

Line No.				Fiscal Year 2012 (a)	Fiscal Year 2013 (b)
	Depreciable Net Capital Included in Rate Base				
1	Total Allowed Capital Included in Rate Base in Current Year	Page 6 of 11, Line 3, Column (a)		$7,020,631	$0
2	Retirements	Page 6 of 11, Line 9, Column (a)	1/	2,292,446	$0
3	Net Depreciable Capital Included in Rate Base	Column (a) = Line 1 - Line 2; Column (b) = Prior Year Line 3		$4,728,185	$4,728,185
	Change in Net Capital Included in Rate Base				
4	Capital Included in Rate Base	Line 1		$7,020,631	$7,020,631
5	Cost of Removal	Page 6 of 11, Line 6, Column (a)	2/	($3,171,476)	($3,171,476)
6	**Net Plant Amount**	**Line 4 + Line 5**		**$3,849,155**	**$3,849,155**
	Deferred Tax Calculation:				
7	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943		3.38%	3.38%
8	Tax Depreciation	Page 5, Line 20		$2,954,452	$67,105
9	Cumulative Tax Depreciation	Prior Year Line 9 + Current Year Line 8		$2,954,452	$3,021,557
10	Book Depreciation	Column (a) = Line 3 * Line 7 * 50%; Column (b) = Line 3 * Line 7		$79,906	$159,813
11	Cumulative Book Depreciation	Prior Year Line 11 + Current Year Line 10		$79,906	$239,719
12	Cumulative Book / Tax Timer	Line 9 - Line 11		$2,874,546	$2,781,838
13	Effective Tax Rate			35.00%	35.00%
14	Deferred Tax Reserve	Line 12 * Line 13		$1,006,091	$973,643
	Rate Base Calculation:				
15	Cumulative Incremental Capital Included in Rate Base	Line 6		$3,849,155	$3,849,155
16	Accumulated Depreciation	- Line 11		($79,906)	($239,719)
17	Deferred Tax Reserve	- Line 14		($1,006,091)	($973,643)
18	Year End Rate Base	Sum of Lines 15 through 17		$2,763,158	$2,635,793
	Revenue Requirement Calculation:				
19	Average Rate Base	Column (a) = Current Year 18 ÷ 2; Column (b) = (Prior Year Line 18 + Current Year Line 18) ÷ 2		$1,381,579	$2,699,475
20	Pre-Tax ROR		3/		11.41%
21	Return and Taxes	Line 19 * Line 20			$308,010
22	Book Depreciation	Line 10			$159,813
23	Property Taxes	$0 in Year 1, then Prior Year (Line 3 + Line 5- Line 11) * Property Tax Rate			$48,144
24	**Annual Revenue Requirement**	**Sum of Lines 21 through 23**		**N/A**	**$515,967**

1/ Actual Incremental Retirements
2/ Actual Incremental 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%	0.45%		0.45%
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 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Gas FY2013 Revenue Requirement on FY 2012 Actual Incremental Capital Investment
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year 2012 (a)	Fiscal Year 2013 (b)	
	Capital Repairs Deduction				
1	Plant Additions	Page 4, Line 1	$7,020,631		
2	Capital Repairs Deduction Rate	Per Tax Department	48.33%		1/
3	Capital Repairs Deduction	Line 1 x Line 2	$3,393,071		
	Bonus Depreciation				
4	Plant Additions	Line 1	$7,020,631		
5	Less Capital Repairs Deduction	Line 3	$3,393,071		
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	$3,627,560		
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	$3,083,426		
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	$2,697,998		
	Remaining Tax Depreciation				
13	Plant Additions	Line 1	$7,020,631		
14	Less Capital Repairs Deduction	Line 3	$3,393,071		
15	Less Bonus Depreciation	Line 12	$2,697,998		
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	$929,562	$929,562	
17	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%	
18	Remaining Tax Depreciation	Line 16 x Line 17	$34,859	$67,105	
19	Cost of Removal	Page 4, Line 5	($3,171,476)		
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	$2,954,452	$67,105	

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 additions 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%.

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
FY2012 - FY2013 Incremental Capital Investment Summary

Line No.			Actual Fiscal Year 2012 (a)	Estimated Fiscal Year 2013 (b)	
	Capital Investment				
1	ISR-eligible Capital Investment	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation Filing; Col (b) Actual FY2013 ISR Gas Capital Spend per Company's Books	$54,681,347	$56,460,955	
2	ISR-eligible Capital Additions included in Rate Base per R.I.P.U.C. Docket No. 4323	Docket No. 4323 Schedule MDL-3-Gas Page 51, Line Notes 1(a) and 2(b)	$47,660,716	$57,184,191	
3	Incremental ISR Capital Investment	Line 1 - Line 2	$7,020,631	($723,236)	
	Cost of Removal				
4	ISR-eligible Cost of Removal	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation Filing; Col (b) Actual FY2013 ISR Gas Cost of Removal per Company's Books	$2,583,612	$3,152,565	
5	ISR-eligible Cost of Removal in Rate Base per R.I.P.U.C. Docket No. 4323	Docket No. 4323, Workpaper MDL-19-GAS, Page 3	$5,755,088	$4,701,396	
6	Incremental Cost of Removal	Line 4 - Line 5	($3,171,476)	($1,548,831)	
	Retirements				
7	ISR-eligible Retirements	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation Filing; Col (b) Actual FY2013 ISR Gas Retirements	$5,366,562	5,775,791	1/
8	ISR-eligible Retirements per Docket 4323	Col (a) Docket No. 4219 Supplemental Testimony 2-17-2011; Col (b) Docket No. 4306 FY 2013 ISR Proposal Filing	$3,074,116	$2,498,949	
9	Incremental Retirements	Line 7- Line 8	$2,292,446	$3,276,842	

1/ Assumes 9.81% based on FY 2012 retirements as a percent of capital investment

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
True up for FY2012 Capital Repairs Deduction Rate Summary

Line No.		(a)	(b)	(c)
1	True Up for Capital Repairs Deduction Rate of FY2012 Revenue Requirement Reconciliation R.I.P.U.C. Docket No. 4219			
2	FY2012 Revenue Requirement using estimated capital repairs deduction rate of 48.33%			$2,012,983
3	FY 2012 Revenue Requirement using actual capital repairs deduction rate of 67.43%			$1,961,548
4	True Up Amount			($51,435)
5	True Up for Capital Repairs Deduction Rate of FY2013 Revenue Requirement on FY2012 Capital Investment R.I.P.U.C. Docket No. 4306			
6	Revenue Requirement using estimated capital repairs deduction rate of 48.00%	$5,025,507	*66.7%	$3,352,013
7	Revenue Requirement using actual capital repairs deduction rate of 67.43%	$4,907,738	*66.7%	$3,273,461
8	True Up Amount			($78,552)

Column Notes

(b) Actual Throughput Percentage for Narragansett Gas for ten months April 1, 2012 through January 31, 2013

Line Notes

2(c) R.I.P.U.C. Docket No. 4219, Attachment WRR-1, Page 1 of 3, Line 1(b)
3(c) Page 8 of 11, Line 26(a)
4(c) Line 3(c) minus Line 2(c)
6(a) R.I.P.U.C. Docket No. 4306, Schedule WRR-1, Page 1 of 5, Line 1(b)
6(c) Line 6(a) multiplied by Line 6(b)
7(a) Page 10 of 11, Line 26(b)
7(c) Line 7(a) multiplied by Line 7(b)
8(c) Line7(c) minus Line 6(c)

The Narragansett Electric Company
d/b/a National Grid
FY 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Gas FY 2012 Actual Capital Investment Revenue Requirement
True Up of Capital Repairs Deduction Rate

Line No.				Fiscal Year 2012 (a)
	Depreciable Net Capital Included in Rate Base			
1	Total Allowed Capital Included in Rate Base in Current Year	Docket No. 4219 FY 2012 Reconciliation Filing, Attachment WRR-1, Page 2, Line 1		$54,681,347
2	Retirements	Docket No. 4219 FY 2012 Reconciliation Filing, Attachment WRR-1, Page 2, Line 2	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	Docket No. 4219 FY 2012 Reconciliation Filing, Attachment WRR-1, Page 2, Line 7	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 9, Line 20		$52,872,360
11	Cumulative Tax Depreciation	Current Year Line 10		$52,872,360
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		$52,038,940
15	Effective Tax Rate			35.00%
16	Deferred Tax Reserve	Line 14 * Line 15		$18,213,629
	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		($18,213,629)
20	Year End Rate Base	Sum of Lines 17 through 19		$19,774,368
	Revenue Requirement Calculation:			
21	Average Rate Base	Current Year Line 20 ÷ 2		$9,887,184
22	Pre-Tax ROR		3/	11.41%
23	Return and Taxes	Line 21 * Line 22		$1,128,128
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**		**$1,961,548**

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%	0.45%		0.45%
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 2013 Gas ISR Revenue Requirement Reconciliation
Computation of Gas FY 2012 Tax Depreciation and Repairs Deduction
True Up of Capital Repairs Deduction Rate

Line No.			Fiscal Year 2012 (a)	
	Capital Repairs Deduction			
1	Plant Additions	Page 8, Line 1	$54,681,347	
2	Capital Repairs Deduction Rate	Per Tax Department	67.43%	1/
3	Capital Repairs Deduction	Line 1 x Line 2	$36,871,632	
	Bonus Depreciation			
4	Plant Additions	Line 1	$54,681,347	
5	Less Capital Repairs Deduction	Line 3	$36,871,632	
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	$17,809,715	
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	$15,138,258	
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	$13,245,976	
	Remaining Tax Depreciation			
13	Plant Additions	Line 1	$54,681,347	
14	Less Capital Repairs Deduction	Line 3	$36,871,632	
15	Less Bonus Depreciation	Line 12	$13,245,976	
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	$4,563,739	
17	20 YR MACRS Tax Depreciation Rates		3.750%	
18	Remaining Tax Depreciation	Line 16 x Line 17	$171,140	
19	Cost of Removal		$2,583,612	
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	$52,872,360	

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 additions 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%.

The Narragansett Electric Company
d/b/a National Grid
Illustrative Computation of Gas FY 2012 Capital Investment Revenue Requirement
FY 2012 Proposed Capital Investment
True Up of Capital Repairs Deduction Rate

Line No.				Fiscal Year 2012 (a)	Fiscal Year 2013 (b)
	Depreciable Net Capital Included in Rate Base				
1	Total Allowed Capital Included in Rate Base in Current Year	Docket No. 4306 FY 2013 Proposal, Schedule WRR-1, Page 3 of 5, Line 1(a)		$47,660,716	$0
2	Retirements	Docket No. 4306 FY 2013 Proposal, Schedule WRR-1, Page 3 of 5, Line 2(a)	1/	$3,074,116	$0
3	Net Depreciable Capital Included in Rate Base	Column (a) = Line 1 - Line 2; Column (b) = Prior Year Line 3		$44,586,600	$44,586,600
	Change in Net Capital Included in Rate Base				
4	Capital Included in Rate Base	Line 1		$47,660,716	$0
5	Depreciation Expense	As approved per Docket No. 3943, excluding general plant and 2009 CXT		$18,443,542	$0
6	Incremental Depreciable Amount	Column (a) = Line 4 - Line 5; Column (b) = Prior Year Line 6		$29,217,174	$29,217,174
7	Cost of Removal	Docket No. 4306 FY 2013 Proposal, Schedule WRR-1, Page 3 of 5, Line 7(a)		$5,755,088	$5,755,088
8	**Net Plant Amount**	**Line 6 + Line 7**		**$34,972,262**	**$34,972,262**
	Deferred Tax Calculation:				
9	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943		3.38%	3.38%
10	Tax Depreciation	Page 11, Line 20		$48,279,842	$385,210
11	Cumulative Tax Depreciation	Prior Year Line 11 + Current Year Line 10		$48,279,842	$48,665,052
12	Book Depreciation	Column (a) = Line 3 * Line 9 * 50%; Column (b) = Line 3 * Line 9		$753,514	$1,507,027
13	Cumulative Book Depreciation	Prior Year Line 13 + Current Year Line 12		$753,514	$2,260,541
14	Cumulative Book / Tax Timer	Line 11 - Line 13		$47,526,328	$46,404,511
15	Effective Tax Rate			35.00%	35.00%
16	Deferred Tax Reserve	Line 14 * Line 15		$16,634,215	$16,241,579
	Rate Base Calculation:				
17	Cumulative Incremental Capital Included in Rate Base	Line 8		$34,972,262	$34,972,262
18	Accumulated Depreciation	- Line 13		($753,514)	($2,260,541)
19	Deferred Tax Reserve	- Line 16		($16,634,215)	($16,241,579)
20	Year End Rate Base	Sum of Lines 17 through 19		$17,584,534	$16,470,142
	Revenue Requirement Calculation:				
21	Average Rate Base	Line 20÷2 for Year 1 then, (Prior Year Line 20 + Current Year Line 20)÷2		$8,792,267	$17,027,338
22	Pre-Tax ROR		2/		11.41%
23	Return and Taxes	Line 21 * Line 22			$1,942,819
24	Book Depreciation	Line 12			$1,507,027
25	Property Taxes	$0 in Year 1, then Prior Year (Line 3 + Line 7 - Line 13) * Property Tax Rate	3/		$1,457,892
26	**Annual Revenue Requirement**	**Sum of Lines 23 through 25**		**N/A**	**$4,907,738**

1/ Assumes 6.45% based on 2009 retirements as a percent of capital spend; to be replaced with actual retirements
2/ 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%	0.45%		0.45%
Common Equity	47.71%	10.50%	5.01%	2.70%	7.71%
	100.00%		8.71%	2.70%	11.41%

3/ Property Tax Rate Calculation based on 2010 actual net plant in service and property tax expense applicable to distribution

Plant in Service	$613,322,109	
Completed Construction Not Classified	$41,756,384	
Total Plant in Service	$655,078,494	
Less: Intangible Plant	$28,697,923	
Distribution-Plant in Service	$626,380,570	$626,380,570
Accumulated Depreciation	$309,170,951	
Accumulated Depreciation -Intangible Plant	($18,669,589)	
Accumulated Depreciation Distribution-Plant in Service		$290,501,363
Distribution-Related Net Plant in Service	$335,879,208	$335,879,208
Distribution-Related Rate Year Property Tax Expense		$9,878,147
Distribution-Related Property Tax Rate		2.94%

The Narragansett Electric Company
d/b/a National Grid
Illustrative Calculation of Tax Depreciation and Repairs Deduction
FY 2012 Proposed Capital Investment
True Up of Capital Repairs Deduction Rate

Line No.			Fiscal Year 2012 (a)	Fiscal Year 2013 (b)
	Capital Repairs Deduction			
1	Plant Additions	Page 10, Line 1	$47,660,716	
2	Capital Repairs Deduction Rate	Per Tax Dept	67.43%	
3	Capital Repairs Deduction	Line 2 x Line 3	$32,137,621	
	Bonus Depreciation			
4	Plant Additions	Line 1	$47,660,716	
5	Less Capital Repairs Deduction	Line 3	$32,137,621	
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	$15,523,095	
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Dept	75.00%	
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	$11,642,321	
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	$10,187,031	
	Remaining Tax Depreciation			
13	Plant Additions	Line 1	$47,660,716	
14	Less Capital Repairs Deduction	Line 3	$32,137,621	
15	Less Bonus Depreciation	Line 12	$10,187,031	
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	$5,336,064	$5,336,064
17	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%
18	Remaining Tax Depreciation	Line 16 x Line 17	$200,102	$385,210
19	Cost of Removal	Page 10, Line 7	$5,755,088	
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	$48,279,842	$385,210