

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

IN RE: NARRAGANSETT ELECTRIC :
COMPANY d/b/a NATIONAL GRID : **DOCKET NO. 4306**
GAS INFRASTRUCTURE, SAFETY, :
AND RELIABILITY PLAN :

On December 29, 2011, 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 §39-1-27.7.1.¹ 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, Laurie Brown, William Richer and John Nestor.

Ms. Brown is the Director, Network Strategy - Gas specifically responsible for the gas capital investment for Rhode Island gas operations and interface between the Jurisdictional President and Network Strategy organization at 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,

¹ Enacted in May of 2010, 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.

respond to emergency leak situations and address conflicts that arise with public works projects. Ms. Brown noted that the Plan was prepared in consultation with the Division of Public Utilities and Carriers (“Division”). She described how the ISR Plan 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.²

Ms. Brown stated that for FY 2013, NGrid proposes \$61.89 million of capital investments to be included for recovery in the proposed ISR Plan. She identified each category of the plan and its proposed cost as: \$37.27 million for programs including proactive Main Replacement and Service Replacement; \$1.02 million for Reactive Main Replacement; \$1.79 million for Public Works programs; \$12.13 million for Mandated Programs; \$8.99 million for Gas System Reliability; and \$0.69 million for Special Projects. She opined that the Plan fulfills the safety and reliability requirements of the gas distribution system in Rhode Island. A copy of the Plan was attached to Ms. Brown’s testimony and will be discussed in detail below.³

William R. Richer, Director of Gas Revenue Requirements, provided testimony to describe the Company’s revenue requirement calculation for FY 2013 in support of the ISR Plan. He explained that the FY2013 Gas ISR revenue requirement of \$7,532,434 is the total of the FY2012 revenue requirement of \$1,817,890 plus an incremental investment of \$5,714,544. He defined the incremental non-growth capital investment as capital additions plus cost of removal, minus annual depreciation expense embedded in the Company’s base distribution rates net of depreciation expense attributable to general

² NGrid Exhibit 1a, Gas Infrastructure Safety, and Reliability Plan FY 2012 Proposal, Testimony of Laurie Brown, filed December 29, 2011 at 1-6.

³ *Id.* at 5-8, Exhibit 1-LTB, Sections 1-5.

plant. Mr. Richer indicated that plant retirements were deducted from plant additions in determining depreciation expense because that expense is affected by plant retirements. In calculating the revenue requirement, Mr. Richer stated that plant retirements were estimated based on the percentage of retirements to additions during 2009 and 2010 and deducted from the total depreciable capital amount. He used the net depreciable additions at the 3.38% composite depreciation rate as approved by the Commission in Docket No. 3943 to calculate the incremental book depreciation expense.⁴

To arrive at the incremental net plant investment in rate base upon which the ISR revenue requirement was calculated, Mr. Richer combined the cost of removal with the incremental depreciable amount. He noted that tax depreciation assumes that some of the capital investment will be eligible for immediate federal tax deduction. He explained that the Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010 provided for 100% bonus depreciation for investment constructed and placed into service between September 8, 2010 and December 31, 2011 and a 50% bonus depreciation for those investments placed into service for the 2012 calendar year. Those amounts of depreciation not deducted as bonus depreciation are subject to the IRS Modified Accelerated Cost-Recovery System and added to the amount of capital repairs deduction, the bonus depreciation deduction and the cost of removal to determine the total tax depreciation.⁵

Lastly, Mr. Richer described the final steps of the ISR revenue requirement calculation. He explained that the average change in rate base was multiplied by the pretax rate of return to determine the return and tax portion of the incremental revenue

⁴ NGrid Exhibit 1b, Gas Infrastructure Safety, and Reliability Plan FY 2012 Proposal, Testimony of William R. Richer, filed December 29, 2011 at 1-5.

⁵ *Id.* at 5-7.

requirement. Then the incremental revenue requirement was added to the incremental depreciation expense and property taxes to reflect the annual revenue requirement for the FY2013 and FY2012 Gas ISR Plan.⁶

John F. Nestor, III, Lead Analyst in Gas Regulatory and Pricing provided testimony regarding how the rate design was established, the calculation of the ISR rate factors and the customer bill impacts. 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 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 \$7,532,434 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 \$0.0049 to \$0.0703 per therm. He indicated that the ISR factors would become effective April 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 \$19.25 or 1.4 percent.⁷

Section 2 of the Plan attached to Ms. Brown's testimony described each of the categories beginning first with the Main Replacement and Service Replacement Programs. The programs in this category replace leak-prone gas mains and services. The Company proposed spending a total of \$37.27 million on this program. The second category of programs is the Reactive Main Replacement category which consists of

⁶ *Id.* at 7.

⁷ NGrid Exhibit 1c, Gas Infrastructure Safety, and Reliability Plan FY 2012 Proposal, Testimony of John F. Nestor, III, filed December 29, 2011 at 1-5.

emergency main replacements due to leaks or other unplanned work where immediate replacement is required. For this program, the Company proposed spending \$1.0 million. The purpose of the third category, Public Works, is 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. NGrid proposed a \$1.79 million budget for this category. Mandated Programs are the fourth category of programs and are comprised of three subcategories: 1) cathodic protection for existing steel-coated mains; 2) gas meter replacement and 3) capital leak repairs. The Plan identified cathodic protection as extending the service life of the pipe and has been mandated by the U.S. Department of Transportation since 1971 for all buried steel facilities. The capital costs associated with this program are incurred for meters that must be replaced. Finally, the capital leak repairs subcategory addresses leaking gas services and extends the useful life of cast iron mains by encapsulating leaking cast iron joints. The proposed budget for this program is \$12.13 million.⁸

The Plan identified the six different programs that comprise the Gas System Reliability category and has a total budget of \$8.99 million. The first of those programs is 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, integration and new supply sources. The Water Intrusion

⁸ NGrid Exhibit 1a, Gas Infrastructure Safety, and Reliability Plan FY 2012 Proposal, Testimony of Laurie Brown, Exhibit 1-LTB, Section 2 at 4-6.

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. 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. The Plan adds a new Special Projects category to address projects associated with the relocation of I-195 in the City of Providence, specifically necessary main replacement or relocation. The amount allocated to this category is \$0.69 million.⁹

On January 30, 2012, NGrid filed a Settlement Agreement entered into between it and the Division of Public Utilities and Carriers (“Division”). The Settlement Agreement set forth the parties’ positions regarding the calculation of property taxes and their agreement to resolve their different positions by reducing the FY2013 Gas ISR Plan revenue requirement by \$260,000. The parties specified that they would not view the agreed reduction as precedent in future filings and that both maintained their original positions as to the calculation of property tax expense in future filings.

On March 2, 2012, the Commission conducted a Technical Session. The following appearances were entered:

FOR NGRID:	Thomas Teehan, Esq.
FOR THE DIVISION:	Leo Wold, Esq. Assistant Attorney General
FOR THE COMMISSION:	Patricia S. Lucarelli Chief of Legal Services

⁹ *Id.* 3, 6-15.

Laurie Brown presented NGrid's proposed Plan and answered questions regarding the same. The Company had several other witnesses present to assist Ms. Brown in describing the various components of the Plan and to answer questions. Ms. Brown explained the fiscal year 2013 plan and Mr. Richer and Mr. Nestor explained the revenue requirements and bill impacts, respectively. Noting that the fiscal year 2013 plan has a total of \$61,089,000 in capital investment, Ms. Brown explained each of the six categories that comprised the plan. She also discussed the \$690,000 being used to address the I-195 Rhode Island DOT project and how that money has been put into a special project category.¹⁰

Ms. Brown testified that the Company will replace a total of 50 miles of leak-prone pipe in 2013, an increase from the 2012 replacement of 45 miles. She noted that 1800 services and 65 farm taps will be addressed in the next segment of the Company's bare steel high pressure inside meter sets. She also explained that a certain amount of money is set aside for situations, such as environmental conditions, where there is a break in a water main and a gas pipe is put at risk so that the Company can replace the main rather than merely repair it. In describing the public works category, Ms. Brown asserted that coordination with these public projects allows for lower costs and less interruption. She noted that this coordination gives the Company the opportunity to do system reliability upgrades.¹¹

Ms. Brown also described the mandated programs section of the Plan. She represented that the Company will file a report with Division's pipeline safety inspector, Mr. Ledversis, regarding the efficiency and effectiveness of the cathodic protection

¹⁰ Transcript of Hearing ("T."), March 2, 2012 at 7-8.

¹¹ *Id.* at 9-14.

program by the end of 2012. In response to a question regarding the life of the facility, Walter Fromm interjected that cathodic protection would add approximately 20 plus years to a main. Ms. Brown added that the protection would prevent further degradation of the main allowing the Company to address replacing the pipe at a later time. Amy Smith offered in explanation to a question regarding the fifteen month proof-of-compliance requirement by stating that the Company has fifteen months after the protection of the main to test whether or not the protection is effective. She anticipates that the first fifteen month period will end in June of 2012 with the first report being completed some time before the end of that calendar year.¹²

Ms. Brown noted that the Company is preparing a detailed analysis of why there was a substantial increase in the money requested for 2013. She discussed the reliability projects (specifically the regulator stations that do not have automated telemetering) noting that it is the Company's intention to automate those stations over the course of five to seven years. She also testified about the areas where there is water intrusion into the low pressure gas distribution systems and the three stations that are going to be replaced and relocated to higher ground.¹³

When questioned about the new category, titled Special Projects, Ms. Brown explained how the Company was approached by the Rhode Island Department of Transportation regarding its I-195 relocation project. She testified that there are three components to the project. The first component involves the approximately \$800,000 that will be reimbursed to NGrid for facilities that require relocation. The replacement of a large portion of leak-prone pipe and services that will cost approximately \$418,000

¹² *Id.* at 15-21.

¹³ *Id.* at 26-35.

comprises the second portion of the project and is included in the proactive program. Finally she identified approximately \$692,000 that is required to address the entire campus area that is being reviewed for development at some future time. The total of this Special Projects category is approximately \$1.9 million. Mr. Gavula testified that the project is expected to start construction during 2012 and will be spread over two years.¹⁴

William Richer noted that the revenue requirement for the Plan is \$5 million on FY12 investment and \$2.5 million on the planned FY13 investment. He pointed out that this amount was reduced as the result of a settlement with the Division by \$260,000. John Nestor testified an average residential ratepayer using 922 therms will pay \$18.44 per year for this Plan that will become part of the DAC.¹⁵

When questioned about the minimal increases for years subsequent to FY13 as opposed to the FY13 \$60 million increase, Mr. Scilabba interjected that the increase will continue to grow as an effect of layering of each year's ISR. He explained that the revenue requirements tied to the capital forecasts of each of the coming years is "pancaked" on the previous years which were not shown on the Company's slide depicting capital forecasts or provided by the Company in its presentation. Counsel for the Company assured inclusion in next year's Plan of data depicting the total cost associated with the Plan as well as data regarding the characteristics of the system whether it be cast iron, steel and plastic piping and the leaks associated with each of those specific materials on the system.¹⁶ The Division, through counsel, noted its comfort to approving the FY13 plan for the cathodic protection program even though it was unable

¹⁴ *Id.* at 36-39.

¹⁵ *Id.* at 40-42.

¹⁶ Commissioner Roberti was specific in requesting that charts depicting the trends in leak rates based on a breakdown of gas pipeline materials be included in future filings.

to conclude that there was any payback on the investment as it requested in Docket No. 4219 and recommended approval of the mandated programs funding despite not receiving the finalized data requested in its March 4, 2012 letter.¹⁷

On March 2, 2012, immediately following the hearing, the Commission approved NGrid's December 20, 2010 proposed Gas Infrastructure, Safety and Reliability Plan for FY 2013 finding it complied with the provisions of R.I.G.L. §39-1-27.7.1. The Commission commends the Division on its careful and thorough analysis of the Plan and its efforts in negotiating an agreement with NGrid. The Commission finds that allowing NGrid to immediately put capital expenses into rate base as opposed to having to wait until it files a distribution rate case, will allow not only for timely recovery of the expense but will encourage the Company to engage in capital improvements resulting in shareholders enjoying a return on those investments earlier than under traditional ratemaking. Additionally and notably, ratepayers will benefit significantly from these capital projects financed by these expenditures. The upgrades and improvements to NGrid's infrastructure will provide increased safety and will continue to minimize risk created by an aging system.

Accordingly, it is

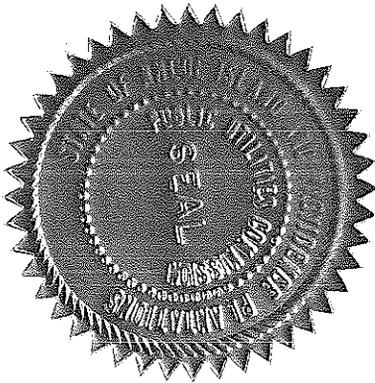
(20725) ORDERED:

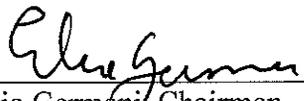
1. That National Grid's proposed FY 2013 Gas Infrastructure, Safety and Reliability Plan is hereby approved.
2. That National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

¹⁷ *Id.* at 42-55.

EFFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 1, 2012
PURSUANT TO A BENCH DECISION ON MARCH 2, 2012. WRITTEN ORDER
ISSUED MAY 3, 2012.

PUBLIC UTILITIES COMMISSION




Elia Germani, Chairman


Mary E. Bray, Commissioner


Paul J. Roberti, Commissioner