

May 9, 2014

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

RE: Docket 4474 - National Grid's Proposed FY 2015 Gas Infrastructure, Safety, and Reliability Plan
Responses to Division Post-Hearing Data Requests – Set 1

Dear Ms. Massaro:

On behalf of National Grid,¹ I have enclosed National Grid's responses to the Post-Hearing Data Requests issued by the Division of Public Utilities and Carriers on April 8, 2014 in the above-referenced matter.

Thank you for your attention to this transmittal. If you have any questions, please contact me at (401) 784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4474 Service List
Steve Scialabba
Leo Wold, Esq.
James Lanni
Don Ledversis

¹ The Narragansett Electric Company d/b/a National Grid ("National Grid" or the "Company").

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4474
FY2015 Proposed Gas ISR Plan
In Re: National Grid Response to Record Request No. 1
Relating to Contribution In Aid of Construction (CIAC)
Responses to Division's First Set of Post-Hearing Data Requests
Issued April 8, 2014

Division 1-1

Request:

The Division has reviewed your March 26, 2014 Gas ISR letter entitled, "RE: Docket 4474 – National Grid's Proposed FY 2015 Gas Infrastructure, Safety, and Reliability Plan Responses to Record Requests". The Division is writing specifically in regards to your response provided to Record Request #1 relating to several gas main extension quotes to a potential customer. (*see copy attached*). In the written response the company states,

...the most significant difference in price occurred between the quote of \$4,250.00 provided on 03/26/2009, and the quote of \$10,206.00 provided on 06/25/2012. It appears that the first three estimates listed above were based on the assumption that a two-inch gas main would be required for the service at a cost of \$30.00 per foot. The remaining three estimates were based on the assumption that six-inch gas main would be required at a cost of \$67.29 per foot.

Based on the data provided the difference between the installation cost of 85 feet of 6 inch diameter plastic gas main and the installation cost of 85 feet of 2 inch diameter plastic gas main is \$5,956 ($\$10,206 - \$4,250 = \$5,956$). This equates to a price difference of \$70 per foot ($\$5,956/85 \text{ feet} = \70 per foot). Considering the fact that trench excavation depth and width, the saw cut area, the amount of backfill material required, the cost of tracer wire installation, the cost of warning tape installation, the costs of a police detail if applicable, and the road restoration costs would be identical, regardless of the pipe diameter, what would be the basis for the \$70 per foot cost differential between the two installations? For reference, the Division reviewed a CIAC quote on file identified as GSP #5696-05 where the 6" plastic gas main extension was quoted at .20 cents a foot for all "PE diameter pipe 2" and above" (see attached).

Response:

The Company's response to Record Request No. 1 was intended to highlight that the cost-per-foot of the gas main extension has significantly increased over the six-year period. The material cost of the pipe was only one input to each CIAC estimate. Other factors such as depreciation expense, the Company's authorized pre-tax weighted average cost of capital, property tax expense, labor expense, and gas costs have all changed over time. All of these factors, in addition to the increases in the cost of materials and the variance in pipe length basis cited in the Company's Response to Record Request No. 1, contributed to the different CIAC quotes the customer received over this period of time and why the estimated CIAC costs, and the resultant "cost-per-foot" for each installation, differed over the years.

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In addition, the Company has examined its records in an attempt to determine the major underlying factors for the wide spread differential in the CIAC quotes provided to the customer. However, as a result of the age of the quotes, no information was found for the two 2008 CIAC quotes provided by The Providence Gas Company and only limited documentation and information was available for the 2009 quote. Based on that limited information, the Company was able to determine that the 2009 CIAC quote incorrectly used the \$800 charge for a flat rate service line as stated in the Company's Policies and Procedures on Contributions in Aid of Construction, revised July 22, 2005 (the "2005 CIAC Policy"), instead of using the CIAC model to calculate the estimate.

The Company was able to determine the calculations for the CIAC quotes provided in 2012 and 2014. Each of these quotes was based upon a CIAC model that modified and updated provisions of the 2005 CIAC model referenced in the 2005 CIAC Policy. For example, the 2012 CIAC quote includes unit costs and meter costs, which were not provided for in the 2005 CIAC model. In addition, the 2014 CIAC quotes also reflect the Company's updates to the CIAC model to reflect changes from the 2012 rate case.

The chart below provides a summary of the 2009 and 2012 CIAC quotes, including the delta from each category used in the respective CIAC quotes. As shown, the deltas reflect the varying bases from which the components are derived.

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Estimate Date:		03/26/2009	06/25/2012	Delta
Cost per foot ⁽¹⁾		\$30.00	\$67.29	\$37.29
Main Footage (feet)		115	100	(15)
Main Cost		\$3,450	\$6,729	\$3,279
Service ⁽²⁾		\$800	\$2,034	\$1,234
Meter ⁽³⁾			\$200	\$200
Total		\$4,250	\$8,963	\$4,713
Other ⁽⁴⁾		Not included	\$1,243	\$1,243
Customer Contribution		\$4,250	\$10,206	\$5,956

- (1) While both cost per foot values were derived from actual historical costs, the \$30 value is an average cost for all pipe sizes and the \$67.29 value pertains to 6" plastic pipe.
- (2) The 2009 service cost of \$800 was quoted in error instead of one based on a project specific IRR analysis.
- (3) Meter charges of \$200 in 2012 should not apply
- (4) Other: This reflects the income tax gross-ups per the Tax Act of 1986 as well as other costs including depreciation, financing costs, and operating costs.

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Division 1-2

Request:

The tariff excerpt language shown below is from National Grid's Rhode Island Gas Tariff, Section 1, General Rules and Regulations, Schedule A, Sheet 6. It is located in Section 5.0 Service Supplied. It is the CIAC policy of the Company.

Whenever the estimated expenditures necessary to supply gas to a customer(s) or to resume service to a customer following relocation of Company equipment for reasons other than the needs of the Company shall be of such an amount that the income to be derived from gas service at the applicable rates will, in the opinion of the Company, be insufficient to warrant such expenditure, the Company will require the customer(s) to pay a Contribution in Aid of Construction (CIAC) for meter relocation or for main and service extension. The level of the CIAC will be based on an economic analysis looking at appropriate impacts associated with the capital expenditures. A detailed written cost estimate will be provided to the customer upon request.

- a) Please explain how an estimated quote, the estimate being based on a "cost per foot" and provided over the phone by your customer service department meets compliance with your existing gas tariff which requires an economic analysis looking at appropriate impacts associated with the capital expenditures, i.e. a CIAC model.
- b) Please explain how providing a "cost per foot quote" over the phone meets compliance with your existing gas tariff which requires the availability of a detailed written cost estimate

Response:

- a) When a customer contacts the Company by telephone and requests an estimate of a CIAC, the Company requests various information from the customer and enters that information into the CIAC model. The Company also obtains any relevant information from Company systems, which is also entered into the CIAC model to estimate a quote for the CIAC. This initial quote is generated by the same CIAC model as all CIAC quotes. The only difference between the initial and final CIAC quotes is that the initial quote is based upon information the customer provides to the Company by telephone; the final CIAC quote may reflect the

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results of a field visit that refines the inputs into the CIAC model such as length of pipe or unexpected site conditions resulting in additional cost factors to be reflected in the CIAC. Therefore, the initial CIAC quote the Company provides to a customer by telephone is a result of an economic analysis performed through the use of the Company's CIAC model based upon the customer's input and information from the Company's systems, where applicable.

- b) As is indicated by the Company's tariff, the Company will provide a detailed written CIAC estimate to the customer upon request. In addition, the Company will also provide a detailed written estimate once the customer has indicated that they wish to proceed with gas service. The Company does not provide a detailed written cost estimate if one is not requested by the customer. When requested by the customer, the detailed written CIAC estimate will be based upon the information provided by the customer and the information from the Company's systems. The detailed written CIAC estimate may also, in certain situations, include information from a site visit conducted by Company personnel. The customer will then receive a detailed written CIAC quote and contract for the work to be performed.

Division 1-3

Request:

Is an accounting true up of the actual costs expended conducted after a gas main extension project is completed?

If the answer is "yes" is a refund provided to the customer if the initial cost per foot for the gas main extension project was overestimated?

If the answer is "no" explain how the failure to provide a refund to the customer for an overestimate is reasonable and just as required by **RI General Law § 39-2-1(a) Reasonable and adequate services – Reasonable and just charges** as shown below.

§ 39-2-1(a) Reasonable and adequate services – Reasonable and just charges.

- (a) Every public utility is required to furnish safe, reasonable, and adequate services and facilities. The rate, toll, or charge, or any joint rate made, exacted, demanded, or collected by any public utility for the conveyance or transportation of any persons or property, including sewage, between points within the state, or for any heat, light, water, or power produced, transmitted, distributed, delivered, or furnished, or for any telephone or telegraph message conveyed or for any service rendered or to be rendered in connection therewith, shall be reasonable and just, and every unjust or unreasonable charge for the service is prohibited and declared unlawful.

Response:

The Company's Policies and Procedures on Contributions in Aid of Construction, revised July 22, 2005 (the "2005 CIAC Policy") do not require the Company to reconcile the estimated cost to the actual cost of construction. However, if a customer requests that the Company reconcile the estimated cost to the actual cost of construction, the Company will prepare such reconciliation. It is just as likely that the result of such a true-up may reflect that the cost was more than what the Company originally estimated and used in the CIAC calculation. However, unless there were extenuating circumstances in the construction of the gas service pursuant to Section 1.4 of the 2005 CIAC Policy, the Company does not seek to recover the higher costs from the customer.