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December 4, 2014

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

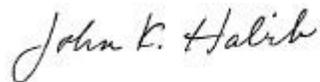
Re: Docket 4483 – In RE: Petition of Wind Energy Development, LLC and ACP Land, LLC
Relating to Interconnection – Supplemental Response to PUC 3-14

Dear Ms. Massaro:

On behalf of Narragansett Electric Company d/b/a National Grid (the “Company”), please find enclosed the Company’s revised response to data request COMM 3-14(b) and Attachment COMM 3-14, the latter of which was missing from yesterday’s filing in the above-referenced proceeding.

Thank you for your attention to this matter. Please contact me if you have any questions regarding the filing.

Very truly yours,



John K. Habib

Enclosures

cc: Docket 4483 Service List
Leo Wold, Esq.
Steve Scialabba, Division
Raquel Webster
Joanne Scanlon

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4483
In Re: Distributed Generation Interconnection Dispute between
Wind Energy Development, LLC, ACP Land, LLC and
The Narragansett Electric Company
Responses to Commission's Third Set of Data Requests
Issued on November 13, 2014

COMM 3-14

Request:

The September 12 Proposal (page 4) states that “in the meantime” all future project developers would place in escrow an amount equal to the potential tax liability which would be refunded if the IRS determines these payments are nontaxable.

- a. Please describe both in words and mathematically how National Grid will calculate the potential tax liability that DG projects will be required to place in escrow pending receipt of the PLRs. Include the tax rate(s) that will apply to these projects and the legal citation for the tax rates.
- b. Define what is meant by “in the meantime.” Will National Grid require DG projects to place in escrow the amounts listed in subparagraph a) until the Company receives all four PLRs from the IRS?

Response:

- a. The potential tax liability arising from future CIACs will be calculated as it is done today. The Company will multiply the amount it will be required to report as gross income under Internal Revenue Code (IRC) Section 118(b) by a factor of 22.84%. This tax factor is equal to the federal corporate tax rate of 35%, as specified in IRC Section 118(b), less the present value of 20 years of depreciation deductions as allowed under the Modified Accelerated Cost Recovery System (MACRS) rules in IRC Section 168, discounted at the after-tax weighted average cost of capital of 7.17% for The Narragansett Electric Company. Please see Attachment COMM 3-14 for a detailed mathematical calculation of the 22.84% factor.

The 22.84% factor is determined solely based on potential federal tax liabilities. Utility corporations are not currently subject to a net income measure tax in Rhode Island. Instead, the state imposes public service corporation tax under R.I.G.L. § 44-13-4. The measure of this tax are the gross receipts of the utility, defined in R.I.G.L. § 44-13-1(b) “as all income of the same types as are classified as operating revenues by the public utilities control authority in the uniform systems of accounts.” IRC Sec. 118(b) is not applicable to this Rhode Island public service corporation tax. Additionally, utilities subject to public service corporation tax are excluded from a Rhode Island unitary group under the state’s new combined reporting regime. See R.I.G.L. §44-11-1(2).

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4483

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COMM 3-14, page 2

Please note that in the event Congress and the President agree to an extension of 50% bonus depreciation, and the project is in an eligible tax year, the factor applied to the transaction will be 11.42%.

- b. "In the meantime" refers to a proposed interim period of time beginning when the PUC rules on the proposal in this docket until the PUC rules further on what action(s) the Company should take in response to its receipt of PLR rulings from the IRS. As previously stated, the Company would seek one to four PLRs for Rhode Island-based DG projects, and then make an additional proposal after receiving responses to those requests (the "future proposal"). Under the terms of the Company's future proposal, the Company would apply the principle of consistent non-taxable rulings, if received, to all future DG customer projects provided the PUC agrees to such broad application and approves the recovery of any tax and associated cost for any IRS audit exposure resulting from application of the rulings to projects not actually reviewed by IRS as part of the PLR request.

During this interim period, the Company proposes that potentially exempt DG customers place their tax gross-up amounts in escrow until the PUC issues a final ruling on the Company's future proposal. If the PUC later approves the future proposal, then the Company would refund such escrowed amounts to interconnecting DG customers at that time.

With respect to tax gross-up amounts collected before the PUC rules on the future proposal, not held in escrow, and already reported as taxable income on a filed tax return, the Company will not make refund payments to DG customers unless the PUC issues an order to the contrary and such refunds are recoverable from customers should the IRS later determine that the projects' CIACs were taxable income. With respect to such non-escrowed payments made in a tax year for which the Company has not filed its tax return, the Company will report those transactions as non-taxable and make refund payments to the applicable DG customers provided that the PUC's order on the future proposal requires such refunds and approves recovery of any future tax and associated costs as a result of an IRS audit in which the IRS determines that the projects' CIACs were taxable income.

National Grid

Income Tax Gross-up Calculations... Version 1-04

Utility Services Analysis & Support Department

Calculation #

11

Company Number:

5360

Company Name:

Narangansett Electric

Segment:

ELEC DIST

Recovery Period:

20 Yrs

Federal Tax Rate:

35.00%

State:

RI

State Tax Rate:

0.00%

After Tax WACC:

7.17%

Case Valid Through:

12/31/2014

The Narragansett Electric Company

d/b/a National Grid

RIPUC Docket No. 4483

Attachment COMM 3-14

Page 1 of 1

CIAC Income Tax Gross-up calculation based upon the above assumptions

Year	Investment	MACRS Rate	Effective Federal Tax Depr Rate	Effective State Tax Depr Rate	Federal Tax Depr	State Tax Depr	State Tax	Fed Taxable Inc	Fed Tax	Total Tax	NPV of Tax Benefit
Bonus Depreciation Factors ----->			0%	0%							
1	100,000.00	3.750%	3.750%	3.750%	\$3,750.00	\$3,750.00	\$0.00	\$3,750.00	\$1,312.50	\$1,312.50	\$20,154.55
2		7.219%	7.219%	7.219%	\$7,219.00	\$7,219.00	\$0.00	\$7,219.00	\$2,526.65	\$2,526.65	
3		6.677%	6.677%	6.677%	\$6,677.00	\$6,677.00	\$0.00	\$6,677.00	\$2,336.95	\$2,336.95	
4		6.177%	6.177%	6.177%	\$6,177.00	\$6,177.00	\$0.00	\$6,177.00	\$2,161.95	\$2,161.95	
5		5.713%	5.713%	5.713%	\$5,713.00	\$5,713.00	\$0.00	\$5,713.00	\$1,999.55	\$1,999.55	
6		5.285%	5.285%	5.285%	\$5,285.00	\$5,285.00	\$0.00	\$5,285.00	\$1,849.75	\$1,849.75	
7		4.888%	4.888%	4.888%	\$4,888.00	\$4,888.00	\$0.00	\$4,888.00	\$1,710.80	\$1,710.80	
8		4.522%	4.522%	4.522%	\$4,522.00	\$4,522.00	\$0.00	\$4,522.00	\$1,582.70	\$1,582.70	
9		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
10		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
11		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
12		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
13		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
14		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
15		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
16		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
17		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
18		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
19		4.462%	4.462%	4.462%	\$4,462.00	\$4,462.00	\$0.00	\$4,462.00	\$1,561.70	\$1,561.70	
20		4.461%	4.461%	4.461%	\$4,461.00	\$4,461.00	\$0.00	\$4,461.00	\$1,561.35	\$1,561.35	
21		2.231%	2.231%	2.231%	\$2,231.00	\$2,231.00	\$0.00	\$2,231.00	\$780.85	\$780.85	
			100.000%	100.000%	\$100,000.00	\$100,000.00	\$0.00	\$100,000.00	\$35,000.00	\$35,000.00	

Final Calculation:

Investment
 Req'd pmt to keep rate-payers whole
 Total CIAC
 State Income Tax @ 0.00%
 Federal Tax @ 35.00%
 Net Value from CIAC
 Tax Benefit from Tax Depreciation using a discount rate noted above
 Total Economic Value to Narangansett Electric
 CIAC Gross-up Percentage

Gross-up Calculation	
	100,000.00
	\$22,839.15
\$	122,839.15
	-
	\$42,993.70
	\$79,845.45
	\$20,154.55
\$	100,000.00
	22.84%