Memorandum

TO: RHODE ISLAND PUBLIC UTILITIES COMMISSION

FROM: DAVID EFFRON, BERKSHIRE CONSULTING SERVICES,
ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS.

DATE: MARCH 20, 2015

Gas Infrastructure, Safety, and Reliability Plan FY 2016, Docket 4540

The Narragansett Electric Company d/b/a National Grid ("Narragansett" or "the Company") submitted its Fiscal Year 2016 Infrastructure, Safety, and Reliability (ISR) Plans for fiscal year 2016 to the Division on October 10, 2014. Calculations supporting the revenue requirement associated with the qualifying capital investment are included in the gas ISR Plan. At the request of the Division, I have reviewed the filings for the purpose of verifying the accuracy of the filed revenue requirements associated with the FY 2016 activity under the ISR programs.

Certain inconsistencies between the calculation of the property tax expense included in the annual capital investment revenue requirements and the property tax recovery adjustment in the October 10 filing were noted. In addition, certain discrepancies were noted in the calculation of the capital repairs deduction used in the determination of the accumulated deferred income taxes ("ADIT") deducted from plant in service in the calculation of the revenue requirement. These inconsistencies and discrepancies were discussed with the Company and were corrected in the Fiscal Year 2016 ISR Plan filed with the Commission on December 23, 2014.

The "Tax Increase Prevention Act of 2014" (HR 5771) was signed into law on December 19, 2014. The Tax Increase Prevention Act of 2014 extended 50% bonus deprecation through 2014, with retroactive effect to January 1, 2014. The Company's filing of December 23, 2014 did not reflect the 2014 bonus depreciation in the calculation of the ISR revenue requirements. This was discussed with the Company, and the Company agreed that it would be appropriate to revise the calculation of the revenue requirements to incorporate the effect of the 2014 bonus depreciation.

When analyzing the effect of the 2014 bonus depreciation, the Company discovered that the combination of the capital repairs deductions and bonus depreciation had put Narragansett into a net operating loss ("NOL") position for income tax purposes in certain years. As National Grid USA was also in a consolidated tax NOL position, there was no consolidated taxable income against which the Narragansett NOLs could be offset. In effect, being in an NOL position meant that the Company was not able to fully utilize the capital repairs deductions and bonus depreciation in those years. However, the ADIT calculations in those years reflected full utilization of the capital repairs deductions and bonus depreciation. As the balance of ADIT is deducted from plant in service in the determination of rate base, the overstatement of ADIT led to an understatement of the rate base and the revenue requirement. To recognize the effect of the NOL position, it was necessary to correct the ADIT calculation to reflect an offset for the NOL.

On March 10, 2015, the Company filed revised revenue requirement calculations incorporating the effect of 2014 bonus depreciation and the effect of the NOL in the relevant years in which Narragansett was in an NOL position. On March 13, 2015, the Company filed supplemental testimony clarifying the revisions to the revenue requirements filed on March 10 and explaining the generation of the NOLs and the effect of the NOLs on the balances of ADIT.

I have reviewed the Company's revised revenue requirement calculations and the testimony filed on March 13, 2015. I agree that the Company's revisions and the treatment of the NOLS are appropriate for the purpose of determining the Fiscal Year 2016 revenue requirement.