

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

**IN RE: THE NARRAGANSETT ELECTRIC :
COMPANY d/b/a NATIONAL GRID 2016 :
GAS INFRASTRUCTURE, SAFETY, AND : DOCKET NO. 4540
RELIABILITY PLAN :**

REPORT AND ORDER

I. National Grid Filing

On December 24, 2014, The Narragansett Electric Company d/b/a National Grid (National Grid or Company) filed its proposed Gas Infrastructure, Safety, and Reliability Plan (Gas ISR Plan) for FY 2016 pursuant to R.I. Gen. Laws §39-1-27.7.1.¹ The Gas ISR Plan set forth proposals that the Company identified as necessary to enhance the safety and reliability of its 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 resulting from 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 David G. Iseler, Melissa A. Little, and Suhila Nouri Nutile.²

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. The plan should 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.

² The 2016 Gas ISR Plan is comprised of eight parts: Filing Letter; Testimony of Mr. Iseler; Four Sections of the Gas ISR Plan, including Section 1 – Introduction and Summary, Section 2 – Gas Capital Investment Plan, Section 3 – Revenue Requirement, Section 4 – Rate Design and Bill Impacts; Testimony of Ms. Little; and Testimony of Ms. Nutile. Collectively, this was marked as National Grid Exhibit 1 and can be found on the PUC's website at: http://www.ripuc.org/eventsactions/docket/4540-NGrid-Gas-ISR-FY2016_12-23-14.pdf.

Mr. Iseler is the Company's Rhode Island Jurisdictional Lead for all Gas Network Strategy issues including capital investment strategy. In his testimony, he described the proposed Plan, noting it was designed to proactively replace aging leak-prone pipes and services; upgrade the pressure regulating systems; respond to emergency leak situations; and address conflicts related to public works projects.³ He also indicated that the Plan was prepared in consultation with the Division of Public Utilities and Carriers (Division).

In the Plan, National Grid proposed \$78.50 million of capital investments to be included for recovery in the proposed Gas ISR Plan in FY 2016. The budget was broken down as follows: \$46.64 million for proactive main and service replacement; \$0.2 million for reactive main replacement; \$4.59 million for public works programs; \$14.3 million for mandated programs; \$9.21 million for gas system reliability; \$3.0 million for special projects; and \$0.56 million for incremental operation and maintenance expenses related to personnel to support the expansion of the leak-prone pipe replacement program. Mr. Iseler averred that the Plan fulfills the safety and reliability requirements of the gas distribution system in Rhode Island.⁴

Mr. Iseler provided an update for the Gas Expansion Pilot Program, which was modified in FY 2015 to simplify the program process and to increase the pool of eligible customers. Specifically, the Company introduced a Density Test, allowing customers within seventy feet of the main to qualify for participation in the program. The Company also included small expansion projects and modified customer commitment requirements to 10% of or at least three of prospective customers to commit to the project. Lastly, a \$150 incremental fixed charge replaced the Customer Contribution In Aide of

³ Iseler Test. at 3-4 (Dec. 24, 2014).

⁴ *Id.* at 6-7.

Construction charge. The difference between those charges would be credited back to customers in the annual Reconciliation filing. Mr. Iseler identified specific program growth resulting from the 2015 modifications.⁵

National Grid proposed investing a total of \$101.0 million. Of that amount, \$77.94 million was included in the FY 2016 Gas ISR recovery mechanism. The remainder, or \$23.1 million, was “for projected growth and allocated spending which is not included for recovery in the FY 2016 Gas ISR Plan.”⁶ The purpose of the proactive main and service replacement program is to replace leak-prone gas mains and services. National Grid forecasts spending \$46.14 million in FY 2016 to replace approximately 56 miles of leak-prone pipe, up from 53 miles in the FY 2015 Gas ISR Plan, and \$0.5 million to replace approximately 200 leak-prone services, a reduction from the FY 2015 Gas ISR Plan. In order to support the aggressive, accelerated replacement schedule, National Grid proposed including approximately \$0.56 million for new personnel to be hired and trained in FY 2015 and FY 2016 as well as the operation and maintenance expenses related to the new hires.⁷

Work in the Reactive Main Replacement category consists of emergency main replacements required because of leaks as well as other unplanned work where the condition of the main dictates immediate replacement. The Company has proposed \$200,000 in FY 2016, noting a decreased number of requests as a result of the recent increase in proactive main replacement.⁸

⁵ *Id.* at 8-9.

⁶ National Grid Ex. 1 (Section 2: Gas Capital Investment Plan) at 2.

⁷ *Id.* at 3-6.

⁸ *Id.* at 6.

Public Works category contemplates coordination with municipalities to improve the safety and reliability of the distribution system in conjunction with otherwise unconnected public works projects. The Company noted that, although the chief purpose of such spending is addressing direct conflicts between planned projects and existing gas infrastructure, it fosters coordination with system improvement work, such as replacement of leak-prone pipe, system reliability upgrades, elimination of redundant main, and regulator station upgrades.”⁹ Such coordination allows National Grid to save money on repaving costs as well as minimizing disruptions caused by repeated roadwork projects.¹⁰ In FY 2016, the budget in this category will provide for replacement of approximately eight miles of leak prone pipe, an increase from seven miles in FY 2015.¹¹

The Company’s Mandated Programs category comprises four subcategories. First of the subcategories is the Corrosion Program. It entails cathodically protecting steel-coated underground mains installed prior to 1971 which extends the service life of the pipe. It is a standardized program mandated by the United States Department of Transportation since 1971 for all buried steel facilities. The second subcategory, the Meter Replacement Program, covers the capital costs required to purchase replacement meters. The third program, the Capital Leak Repairs Program, targets leaking gas services and extends the useful life of cast iron mains by encapsulating leaking cast iron joints. Finally, the Non-leak Other Program encompasses the capital costs for service relocations, meter protection, service abandonments, and installation of curb valves. The proposed budget for the entire Mandated Programs category is \$14.3 million.¹²

⁹ *Id.* at 7.

¹⁰ *Id.* at 6.

¹¹ *Id.* at 7.

¹² *Id.* at 9.

Gas System Reliability comprises six programs and has a total budget of \$9.21 million. First is the System Automation and Control Program, the purpose of which is to meet federal code requirements aimed at increasing system automation and control. The \$1 million allocated to this program will “provide AC power, and telemetry, and/or remote control to approximately 40 sites.”¹³ The Pressure Regulating Facilities Program involving facilities designed to control system pressures and maintain continuity of supply, is the second program in the Reliability category. Its \$3.78 million budget addresses condition-based assessments and work to be performed at six facilities in FY 2016.¹⁴ The third program, the Gas Planning Program, budgeted at \$1.5 million in FY 2016, identifies projects that support system reliability through standardization, simplification, integration, and new supply sources.¹⁵ The Water Intrusion Program is the fourth program. Budgeted at \$0.2 million, it identifies projects that address recurring customer outages from water intrusion. There have been minimal requests over recent years. Due to the proactive main replacement program, need for this kind of work has decreased substantially in many areas. The fifth program, LNG Facilities -- or liquefied natural gas -- budgeted at \$0.4 million in FY 2016, is intended to upgrade existing LNG facilities in Rhode Island, not including the Providence facility. Finally, the Valve Installation/Replacement Program, for installing or replacing new valves used to control the flow of gas, will be funded at \$0.2 million to provide additional public safety benefits and to improve meter reading and collections in those areas where the Company has had trouble accessing meters.¹⁶

¹³ *Id.* at 10.

¹⁴ *Id.* at 10-11.

¹⁵ *Id.* at 11-12.

¹⁶ *Id.* at 12-13.

In addition, one special project is included in the FY 2016 Gas ISR Plan. Budgeted at \$3 million, it is a further continuation of the Gas Expansion Pilot Program to allow for the completion of ongoing installations as well as build on the momentum created so far.¹⁷

Last year's Order No. 21779 in Docket No. 4474 required the Company to include in the instant Gas ISR Plan (1) a FY 2014 System Integrity Report; (2) an analysis of program cost reductions that may be achieved without sacrificing safety; (3) an analysis of where efficiency gains may be achieved within the programs; and (4) a proposal for how economic development benefits may be measured against increased costs related to each area of investment. The Company said it would make the CY 2014 System Integrity Report available in March 2015. The Company further provided a comparison between FY 2015 costs and FY 2016 projected costs noting that the major cost drivers of FY 2016 proposal spending are all directly related to public safety. Pointing to increased replacement footage and unit costs for the replacement of cast iron mains in more population dense areas, the Company proposed \$9.6 million more than FY 2015 costs for Proactive Main Replacements. Approximately two thirds of National Grid's proposed FY 2016 budget relates directly to public safety matters and to meeting public works requirements.¹⁸

The Company contended that because so much of its proposed spending relates directly to public safety, it is unable to significantly reduce that spending without undermining its public safety goals. The Company proposed an alternative five-year plan that would modify its replacement schedule and thereby reduce costs by approximately

¹⁷ *Id.* at 14.

¹⁸ *Id.* at 16-18.

\$14 million over five years. The Company also highlighted its continual efforts to improve productivity and cost efficiency, pointing to its competitive bidding processes and coordination with state and municipal public works projects.¹⁹

Finally, the Company discussed how its investment in gas infrastructure will provide increased economic benefits for Rhode Island, including: (1) construction impact of investment spending; (2) cost savings realized by customers; (3) economic impact of reduced emissions of criteria pollutants and greenhouse gases based on avoided healthcare costs; and (4) job creation and increased tax revenue. The Company performed this analysis employing widely-used economic models. Discussing the five-year Gas ISR investment plan, the Company identified as a primary driver of change in FY 2016 and FY 2017 the continued replacement of leak-prone pipe, with sixty-five miles in 2016 and seventy miles each year for 10 years thereafter, providing for replacement of all leak-prone pipe in Rhode Island.²⁰

Ms. Little, Lead Specialist for New England Revenue Requirements in the Regulation and Pricing department of National Grid USA Service Company, Inc. (Service Company), described the Company's revenue requirement calculation for FY 2016 based on the Gas ISR Plan. She explained that the FY 2016 Gas ISR revenue requirement of \$13,543,842 includes National Grid's return, depreciation expense, and property tax expense associated with \$9,566,256 in capital investment; a forecasted Annual Property Tax Recovery Mechanism; plus \$560,000 of the operation and

¹⁹ *Id.* at 19.

²⁰ *Id.* at 20-21.

maintenance (personnel) expense related to the expansion of the proactive main replacement program.²¹ The total incremental fiscal year rate adjustment is \$9,151,362.²²

Ms. Nutile, Senior Analyst in the New England Pricing group of the Regulation and Pricing department of the Service Company, provided testimony regarding how the rate design was established, how ISR rate factors were calculated, and the resulting customer bill impacts. Ms. Nutile noted that the starting point for developing the rate design was the rate base that was approved in the Company's last rate case, Docket No. 4323, using the updated rate base allocator from the Amended Settlement Agreement. She described how the Company then compiled forecasted throughput data by rate class and allocated the incremental revenue requirement 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. Finally, Ms. Nutile explained that the incremental operation and maintenance expense was allocated to all rate classes based on the total forecasted throughput on a per therm basis. Ms. Nutile identified each class' ISR rate factor which ranged from \$0.0108 to \$0.0661 per therm. She indicated that the ISR factors would become effective April 1, 2015. Ms. Nutile noted that the bill impact for an average residential heating customer using 846 therms would result in an annual rate increase of \$25.87 or 2.2%.²³

II. The Division of Public Utilities and Carriers' Letter

²¹ Little Testimony at 2-3.

²² Section 3: Revenue Requirement at Attachment 1, 1.

²³ Nutile Testimony at 1-4.

On March 3, 2015, the Division filed comments in the form of a letter from Leo Wold, Assistant Attorney General.²⁴ Mr. Wold explained that the Division had reviewed the proposed budget and summarized the Division's positions on each of the six Gas ISR Plan categories. The Division supported the additional personnel expense included in the expansion of the proactive main replacement program, specifically noting that it would be subject to reconciliation. Citing the end to the downward trend in emergency main breaks, such as those caused by homeowners or excavators, the Division supported continuing a minimal amount of funding for the reactive gas main replacement program.²⁵ The Division also supported the policy to coordinate infrastructure replacement with public works projects to reduce paving costs, "a high cost component of any gas main installation."²⁶ The Division had no comments on the mandated programs or the reliability category.²⁷ Further, the Division opined that the proposed modifications to the gas expansion pilot program should "produce better results in the FY16 period."²⁸ Finally, the Division supported the continued budget allocation of \$3.0 million.²⁹

III. National Grid's Revised Attachments and Supplemental Testimony

National Grid filed revised attachments to its proposed ISR Plan on March 10, 2015 to incorporate the impact of the extension of federal bonus tax depreciation rules into its revenue requirement and to correct the Company's omission of net operating losses. The revisions resulted in an increase to the ISR revenue requirement of

²⁴ Division Letter from Leo Wold, Assistant Attorney General to Luly Massaro (Feb. 27, 2015), http://www.ripuc.org/eventsactions/docket/4540-DPU-Comments_2-27-15.pdf.

²⁵ Division Letter at 1-2.

²⁶ *Id.* at 3.

²⁷ *Id.* at 3-4.

²⁸ *Id.* at 4.

²⁹ *Id.*

\$2,767,632.³⁰ To explain the March 10, 2015 revisions, the Company filed the joint testimony of Michael D. Laflamme and William R. Richer (the witnesses). The witnesses explained that on December 19, 2014, Congress extended for the third time the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 allowing for 50% bonus depreciation tax deductions for capital investment made during 2014 and helping to significantly lower the amount the Company pays for federal income tax. The witnesses identified a \$0.3 million decrease to the Company's Gas ISR revenue requirement that resulted from incorporating this bonus tax depreciation change into the revenue requirement filed on December 23, 2014.³¹

The witnesses explained that when the Company's tax deductions exceed its taxable income, net operating losses result which are recorded as non-cash assets and which customers will receive the benefit of when the Company is able to apply the net operating losses to taxable income in the future. The FY 2016 revenue requirement was increased by \$3.1 million to correct the Company's failure to reduce ISR related deferred taxes by the amount of ISR investment related to net operating losses. Because bonus depreciation and capital repairs tax deductions exceeded the Company's amount of taxable income, the witnesses stated that net operating losses were generated for FY 2009, FY 2010, FY 2012, FY 2013 and FY 2014. They explained again that when net operating losses are generated, they are recorded as non-cash assets that customers will receive the benefit of when the Company is able to apply those losses against taxable income in the future. They indicated that including the net operating losses in the

³⁰ Revised Section 3: Attachment 1 and Revised Section 4: Attachments 1 and 2 (Mar. 10, 2015); [http://www.ripuc.org/eventsactions/docket/4540-NGrid-Rev-Section3,4\(3-10-15\).pdf](http://www.ripuc.org/eventsactions/docket/4540-NGrid-Rev-Section3,4(3-10-15).pdf).

³¹ Joint Prefiled Direct Testimony of Michael D. Laflamme and William R. Richer at 4-6 (Mar. 13, 2015); [http://www.ripuc.org/eventsactions/docket/4539-4540-NGrid-LaFlamme-Richer\(3-13-15\).pdf](http://www.ripuc.org/eventsactions/docket/4539-4540-NGrid-LaFlamme-Richer(3-13-15).pdf).

revenue requirement calculation reduced the amount of deferred taxes in the derivations of the ISR rate base. Since they were unaware that net operating losses were generated in the years set forth above, customers received too much of a cash benefit, because ISR related deferred taxes were not reduced by the amount of ISR investment related to those losses.³²

The witnesses explained that spreading the FY2016 increase over a period of years would require increased recovery in future years and incremental carrying charges on the amounts deferred. They provided that the \$3.1 million increase to the gas revenue requirement was for FY 2016 only and that the Company would file a reconciliation for its FY 2015 Gas ISR Plan to address the \$3.1 million increase to that year's revenue requirement resulting from the net operating loss issue. In addition to the \$3.1 million increase to the FY 2016 and FY 2015 revenue requirements, they noted that failure to include the net operating losses in the revenue requirement for FY 2012, FY 2013, and FY 2014 resulted in customers receiving a \$3.6 million benefit in excess of what was actually realized by the Company. Whether to recover those benefits through the FY 2015 reconciliation is being considered.³³ The revisions result in an annual bill increase for an average residential customer using 846 therms of \$33.91 or 2.8%.³⁴

IV. The Division of Public Utilities and Carriers' Memorandum

David Effron, a consultant with Berkshire Consulting Services hired by the Division, filed a memorandum setting forth his analysis of the Company's revenue requirement. He represented that its capital repairs deductions and bonus depreciation had the Company in a net operating loss position for certain previous years. He provided

³² *Id.* at 7-10.

³³ *Id.* at 10-12.

³⁴ Revised Attachments (Mar. 10, 2015).

that because National Grid USA was also in a consolidated tax net operating position, the National Grid Rhode Island's net operating losses could not be offset. In order to remedy the effect of the net operating loss position, Mr. Effron explained that the accumulated deferred income tax calculation had to be corrected to recognize an offset for the losses, which the Company did. After review, he found National Grid's revisions and treatment of the net operating losses appropriate.

V. Hearing

On March 24, 2015, the Commission conducted an Evidentiary Hearing at its offices. National Grid presented Mr. Iseler, Ms. Little, Ms. Nutile, and Mr. Richer for cross examination. All of the witnesses adopted their prefiled testimony. Ms. Little and Ms. Nutile made minor changes to reflect information contained in the supplemental filing. Mr. Richer testified that he had reviewed the transcript of Mr. Laflamme's testimony from the Company's Electric ISR Evidentiary Hearing held on March 17, 2015 and adopted that testimony as his own.³⁵

Mr. Iseler explained the two alternatives available to the Company for its main replacement program. The first would replace sixty-five miles in FY 2016 and seventy miles per year until the project is complete or over the course of nineteen years. The second, which was supported by the Division, would replace sixty-five miles of leak-prone pipe per year until the project is complete or over the course of twenty-one years.³⁶ He agreed that as more risk-prone pipe is eliminated, the probability of an event occurring is reduced.³⁷ Regarding the manpower associated with the replacement of

³⁵ Hr'g Tr. 8-20 (Mar. 24, 2015).

³⁶ *Id.* at 20-25.

³⁷ *Id.* at 25-26.

2,000 to 3,000 services per year, Mr. Iseler testified that when complete, those resources would be transitioned to address other unprotected steel services.³⁸

Addressing the gas pilot expansion program, Mr. Iseler acknowledged that the Company spent only \$1.3 million of its \$3 million budget in FY2015. He expounded on how the Company had simplified the criteria which resulted in six projects being sold, four of which are complete, and noted that there are a number of areas that show promise for expansion. Based on project momentum that has accelerated over the past year as well as increased community outreach, he asserted that he was confident that there will be enough projects to satisfy the \$3 million proposed budget.³⁹ When questioned about why the Company was adding gas customers when the region is experiencing constraint issues, Mr. Iseler responded that the customers being added are primarily residential and any effect those customers add to the constraint issue is minimal.⁴⁰ John Isberg also testified about the Company's gas pilot expansion program and discussed the Company's outreach. He provided that there are approximately nine additional projects. He also expressed that as information about the programs is disseminated, interest will increase quickly. He stated that the nine potential projects will total 5.2 miles of additional main. Regarding customer commitment, Mr. Isberg stated that the qualification process takes approximately thirty days.⁴¹

When questioned about whether the Company should be devoting resources to expanding the existing system while it faces significant challenges with its aging infrastructure, Mr. Iseler stated that a balanced approach makes sense. He expressed that

³⁸ *Id.* at 26-27.

³⁹ *Id.* at 27-35, 73-74.

⁴⁰ *Id.* at 45-47.

⁴¹ *Id.* at 75-79.

over three quarters of the program budget is spent on addressing risks associated with leak-prone pipe. Additionally, he expounded that expansion will afford customers the opportunity for an alternative fuel. Moreover, because natural gas costs less than other alternatives, converting customers will reinvest their savings into the economy.⁴²

Mr. Iseler testified about the remaining high pressure bare steel services that require replacement and noted that protocols had been put into place for when the Company is unable to access a customer's property. Those protocols include sending letters, making telephone calls, and leaving door hangers at customers' homes. He stated that absent a leak being evident, the Company is unable to assess whether or not any safety risks exist for the remaining 200 services that have yet to be replaced. He expressed that once those services are replaced, resources devoted to that part of the program will be reassigned to either capital or to operations and maintenance programs.⁴³

Mr. Isler discussed how National Grid shares information with municipalities and the coordination that occurs between state and municipal projects and the Company's replacement programs. He explained how National Grid sends letters to the municipalities in the fall to assess whether its main replacement work can be coordinated with those state or municipal projects. He noted that, at times, replacement may be accelerated to coincide with a state or municipal project, making it more cost effective for the Company because the state or municipality does most of the restoration.⁴⁴

In discussing how the Company assesses a broad set of risks and threats, Mr. Iseler explained that the Distribution Integrity Management Plan prioritizes projects. He testified that the prioritization determines what projects move forward first. He noted

⁴² *Id.* at 83-87.

⁴³ *Id.* at 39-43.

⁴⁴ *Id.* at 64-70.

that certain factors can accelerate when a project is scheduled, like paving.⁴⁵ He described how the Distribution Integrity Management Plan also assesses risks and threats to the system and then identifies how to mitigate those risks. He identified leak trends as a form of risk and described how leaks are graded depending on severity. He noted that the Company's process identifies the riskiest pipe and replaces that pipe first. He pointed out that the introduction of the accelerated replacement program had resulted in a significant reduction in leak rates.⁴⁶

Finally, he discussed the additional employees that would be hired to support the ramp up in the number of miles of main to be replaced, noting that the employees would be Rhode Island employees working out of Rhode Island offices. Each of the employees would receive hands-on training in the field over a period of six to nine months.⁴⁷ When questioned about the additional employees hired last year to replace fifty-three miles of pipe in the proactive main replacement program, Mr. Iseler testified that winter weather conditions were, in part, the reason for the Company's failure to complete replacement of all fifty-three miles of pipe.⁴⁸ Lastly, he discussed the steps that the Company is taking to ensure success in the main replacement programs including renegotiating construction contracts to add additional crews and supplementing the workforce.⁴⁹

VI. Commission Findings

At an Open Meeting held on March 31, 2015, the Commission deliberated on the 2016 Gas ISR Plan. The Commission discussed the Company's Gas Pilot Expansion

⁴⁵ *Id.* at 88-98.

⁴⁶ *Id.* at 108-115.

⁴⁷ *Id.* at 119-131.

⁴⁸ *Id.* at 154-160, 170-175.

⁴⁹ *Id.* at 139-143.

Program, noting that the Company had spent only \$1.3 million of the budgeted \$3 million last year. The Commission found that the Company failed to present any evidence that the gas pilot expansion program provides a benefit to customers other than those who are actually converting to natural gas. Although the \$0.79 annual cost to an average residential hearing customer using 846 therms is low, the Commission noted that it still amounts to another burden on customers. The Commission stated that it will continue to review the gas pilot expansion program to ensure that the program does not impede resources that could be better used for the benefit of all customers in the Company's gas main replacement efforts.

The Commission recognized that removal of high risk facilities in an expeditious fashion is significant and important. The Commission remains concerned with the risk associated with the Company's legacy cast iron and bare steel mains and encourages the Company to continue to take advantage of every opportunity to cost-effectively accelerate its replacement program. The Commission authorized the hiring of additional personnel last year in order to accelerate replacement; however, the Company fell short of its goal. Again this year, the Company requested funding to hire additional personnel which it asserted are necessary to satisfy the goal of replacing sixty-five miles of leak-prone pipe. Knowing that, beginning next year, the Company intends to accelerate the sixty-five mile goal to seventy miles until replacement is complete, the Commission desires detailed information regarding the Company's risk analysis. Specifically, the Commission is requiring the Company to submit a report on its methodology of assessing risk and the reduction of risk resulting from its replacement efforts. That information should allow the Commission to better analyze and evaluate the Company's request to

increase replacement from sixty-five to seventy miles in future years. The Company's efforts, the Commission stated, should be focused more on upgrading the existing system by modernizing infrastructure, rather than expanding its customer base. Because there was no evidence presented to establish that the Gas Pilot Expansion Program provides a benefit to all customers and that \$3 million is a necessary expense, the Commission approved \$1.3 million to continue funding the Gas Pilot Expansion Program.

The Commission also considered the Company's supplemental filing that incorporated the impact of the extension of federal bonus tax depreciation rules, as well as the impact of the Company's failure to properly reflect an offset to accumulated deferred taxes related to tax net operating losses generated by the Company since its FY ending March 31, 2012 into its revenue requirement. The supplemental filing represented that the effect of these two events caused the Company's FY 2016 Gas ISR Plan revenue requirement to increase by \$2,767,632. The Commission finds the Company's explanation, in both the prefiled and oral testimony of Messrs. Laflamme and Richer, informative. Because the Company corrected its 2016 Gas ISR Plan revenue requirement prior to the Commission's decision, the Commission approved the revised revenue requirement for FY 2016.

In conclusion, the Commission approves a budget of \$76.8 million and a revenue requirement of \$16,169,761, which results in a fiscal rate year adjustment of \$11,777,281. It also approves the proposed rates for each rate class. The impact on a residential customer using 846 therms annually is an increase of \$33.41 or 2.7%.

Accordingly, it is

(22046) ORDERED:

1. National Grid's proposed FY 2016 Gas Infrastructure, Safety, and Reliability Plan, with the exception of the funding of the Gas Pilot Expansion Program, is hereby approved.
2. National Grid is authorized to collect \$1.3 million from ratepayers for the Gas Pilot Expansion Program.
3. National Grid shall provide a report to the Commission and the Division detailing its methodology of assessing risk and quantifying the reduction of risk resulting from its replacement efforts within sixty days of receiving this Report and Order.
4. National Grid shall comply with the reporting requirements and all other findings and directives contained in this Report and Order.

EFFECTIVE APRIL 1, 2015 IN WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON MARCH 31, 2015. WRITTEN ORDER ISSUED AUGUST 24, 2015.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Jr., Commissioner

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven days (7) from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.