

October 1, 2015

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4573 - 2015 Distribution Adjustment Charge Filing
Docket 4473 - FY 2015 Electric Infrastructure, Safety, and Reliability Plan
Reconciliation Filing
Responses to PUC Data Requests – Set 1**

Dear Ms. Massaro:

On behalf of National Grid,¹ I am filing ten (10) copies of the Company's responses to the Public Utilities Commission's First Set of Data Requests issued on September 10, 2015 in the above-referenced dockets.

Thank you for your attention to this filing. If you have any questions, please contact me at 781-907-2121.

Very truly yours,



Raquel J. Webster

Enclosure

cc: Docket 4573 Service List
Docket 4473 Service List
Leo Wold, Esq.
Steve Scialabba, Division
Bruce Oliver, Division

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

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d/b/a National Grid
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COMM 1-1

Request:

Regarding Ms. Little's August 3, 2015 testimony in Docket No. 4474 and the Company's failure to realize net operating loss (NOL) in the prior years disclosed in that docket, please indicate whether the Company's annual reports/financial statements contain the correct figures or whether the annual reports/financial statements will have to be corrected and refiled with the appropriate agencies.

Response:

The Company's accounting for NOLs was done correctly, and its balance sheets during the time it incurred NOLs properly reflected the accumulation of NOLs as they were generated. No corrections or re-filings of annual reports/financial statements are necessary as a result of this NOL issue, which is isolated to the revenue requirement calculations in the most recent ISR Plan proceedings.

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COMM 1-2

Request:

Identify the amount of carrying charges referred to in Ms. Little's August 3, 2015 testimony in Docket No. 4474 that the Company believes customers should pay if the amounts sought for increased revenue requirements are deferred. Also explain why customers, as opposed to shareholders, should have to pay these charges.

Response:

The Company is not seeking carrying costs from customers for the time period during which the annual revenue requirement was affected by the exclusion of the NOL tax asset from rate base through the current reconciliation recovery period, or twelve months ended September 30, 2016 for the electric reconciliation and October 31, 2016 for the gas reconciliation. The impact of carrying this incremental cost for that timeframe has been borne by the Company's shareholders. The current recovery mechanism provides for recovery or credit of reconciliation balances during the November through October period following the end of the ISR Plan year. If the Company is required to defer recovery of this reconciliation balance beyond the end of the upcoming recovery period (November 2015 through October 2016), the Company submits that it should be allowed a reasonable carrying charge to compensate it for the delay in recovery.

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COMM 1-3

Request:

Identify any safeguards and/or procedures implemented to insure that the Narragansett Electric Company's and/or National Grid's failure to realize NOLs does not occur in the future.

Response:

As explained at the March 24, 2015 PUC hearing in Docket No. 4540, the accumulation of NOLs for the consolidated National Grid tax group was the result of an extremely rare event. Internal Revenue Service (IRS) guidance, which led to the Company taking full advantage of capital repair-related tax deductions and with the continuation of bonus tax depreciation benefits gave rise to the recent NOL position for the consolidated National Grid group. Consequently, until recently, NOL tax assets were an anomaly for the Company and ultimately were omitted from rate base calculations in the previously submitted ISR Plan revenue requirement calculations. As a result of this Company omission, the Company now convenes regular information sessions with the regulatory and tax teams to ensure that these kinds of tax anomalies are not missed in future regulatory submissions.

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COMM 1-4

Request:

Identify the urgency to recovering the full amount requested and explain why the Company cannot recover that amount over a period of time.

Response:

The Company is fully aware that the recovery of the cumulative impact of reflecting the NOL in its revenue requirements is a result of its own actions. As indicated in the response to COMM 1-2, the Company is not seeking carrying charges for the period associated with the impact of the NOL on the revenue requirements through its recovery via the ISR reconciliation factors. Also, as explained in the testimony of Ms. Little, NOL tax assets are a rate base component and, as such, result in a permanent annual revenue requirement component until the tax losses can be utilized to offset future years' taxable income. In addition, if the Company continues to generate new NOLs, incremental revenue requirement impacts will be generated which will increase rate base and would produce upward pressure on the total ISR revenue requirements, again, until the underlying tax losses can be utilized. Furthermore, due to the cumulative nature of the ISR program, each year of program investment results in an increase in rate base and a corresponding increase to the revenue requirement. Completing the recovery in a single year rather than over a number of years helps to mitigate bill impacts to customers in the years to which the recovery would be spread. Finally, if the Company were to recover the cumulative impact of the NOLs on past revenue requirements over a period of longer than one year, the Company would request to accrue carrying costs on amounts deferred, which would increase costs to customers. For these reasons, the Company believes that recovering this cumulative catch-up amount over one year as proposed is in the best interest of customers and properly compensates the Company for the true ISR Plan revenue requirements.

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COMM 1-5

Request:

In a clear and concise example, explaining each step, please illustrate what was done incorrectly with the NOL's. The example should illustrate how various accounts were impacted (i.e. Taxable Income, Tax Liability NOL's, ADIT, Rate Base). Explain why the Narragansett Electric Company failed to realize the NOLs in each year.

Response:

As indicated in the response to COMM 1-1, there was no error in the Company's accounting, and no general ledger accounts or financial statements were impacted by this error. The error only impacted the Company's ISR Plan filings. Simply put, when accumulating the financial data to calculate rate base for the years 2012, 2013, and 2014, the Company failed to include the NOL tax asset, which was properly recorded on the Company's balance sheet. This NOL tax asset represents the non-cash portion of accumulated deferred income taxes on the Company's balance sheet. The Company properly included the cash portion of accumulated deferred income taxes in rate base for these years, but failed to include the non-cash NOL tax asset.

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COMM 1-6

Request:

In a clear and concise example, explaining each step, please illustrate what should have been done with the NOL's. The example should illustrate how various accounts should have been impacted (i.e. Taxable Income, Tax Liability, NOL's, ADIT, Rate Base).

Response:

As described in the responses to COMM 1-1 and COMM 1-5, the Company simply failed to include a properly recorded NOL tax asset in the ISR rate base calculations originally submitted to the PUC for the fiscal years 2012, 2013, and 2014.

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COMM 1-7

Request:

In addition to increasing its revenue requirements for the requested years, what other corrections, modifications, or other alterations has or does the Narragansett Electric Company have to undertake due to its failure to realize the NOLs.

Response:

The Company does not need to make any other corrections, modifications, or other alterations associated with the NOL tax assets. This NOL issue is strictly isolated to an error in the ISR rate base calculations included in the ISR Plan filings submitted to the PUC for fiscal years 2012, 2013, and 2014.

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COMM 1-8

Request:

Is the Narragansett Electric Company's failure to realize the NOLs in any way related to the Company's SAP?

Response:

No. The Company's omission of the NOL tax assets from the revenue requirements for fiscal years 2012, 2013, and 2014 is not related to the Company's implementation of SAP.