

March 16, 2018

BY HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4783 - Proposed FY 2019 Electric Infrastructure, Safety, Reliability Plan
Responses to Record Requests**

Dear Ms. Massaro:

On behalf of National Grid,¹ I have enclosed ten (10) copies of the Company's responses to record requests that were issued at the PUC's evidentiary hearing on March 8, 2018 in the above-referenced docket.

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

Very truly yours,



Raquel J. Webster

Enclosures

cc: Docket 4783 Service List
Greg Booth, Division
Leo Wold, Esq.
Al Contente, Division

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

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

March 16 2018

Date

Docket No. 4783 National Grid's Electric Infrastructure, Safety and Reliability Plan FY 2019 - Service List as of 1/8/17

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Record Request No. 1

Request:

Provide the undepreciated value of meters to be replaced by AMI. What is the annual depreciation expense for the 8,000 meters that will be replaced, and what is the bill impact?

Response:

The net book value of the Company's electric meters was \$11.1 million at June 30, 2017 as reflected in the Company November 27, 2017 general rate case, Docket No. 4770 (Gross meter costs of \$57.1 million per Schedule MAL-6-ELEC, Page 3, Column (e), Lines 55-58 minus accumulated depreciation of \$46.0 million per Schedule MAL-6-ELEC, Page 5, Column (e), Line 45). The average gross cost per meter is approximately \$116 per meter, and the average net book value per meter is approximately \$22 per meter based on total electric customers of 494,000. Using these high-level estimates of per-meter costs, the estimated gross and net book value of approximately 8,000 electric meters proposed to be replaced as part of an AMI pilot would be \$928,000 and \$176,000, respectively. Annual depreciation expense of all electric meters at June 30, 2017 as reflected in Docket No. 4770 and reflecting the new proposed depreciation rates in Docket No. 4770, is approximately \$3.2 million (per Schedule MAL-6-ELEC, Page 3, Column (g), Lines 55-58). This equates to an average annual estimate of depreciation expense for 8,000 meters of approximately \$52,000 (\$3.2 million divided by 494,000 customers, times 8,000 meters). The actual gross and net book value of meters replaced, and the depreciation expense associated with those replaced meters will be dependent upon the size and type of meters ultimately replaced as part of the proposed AMI pilot.

During the March 8, 2018 evidentiary hearing in this proceeding, discussions touched upon ongoing recovery through base distribution rates of depreciation expense on existing electric meters retired as part of the AMI pilot, and retirement of all electric meters resulting from replacement with new AMI meters. When an asset is retired, depreciation expense calculated on that retired asset ceases; however, recovery of the annual depreciation on that retired asset continues under the theory that a retired asset is typically replaced with a new asset that would also accrue depreciation. However, the operation of the ISR Plan would typically capture the depreciation expense on new assets. To mitigate the unintended consequence of double-recovery of depreciation expense (on the retired asset and the new asset), the ISR revenue requirement calculation was designed to reduce the recovery of depreciation expense on all asset retirements, not just ISR asset retirements, occurring in each fiscal year. In the latest update of the FY 2019

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Electric ISR Plan revenue requirement submitted in the Company's response to Division 2-1, Attachment DIV 2-1-2, an estimate of total FY 2019 asset retirements of \$27.3 million is provided on Page 2, Line 5, and reduces the proposed FY 2019 ISR capital investment to derive Net Depreciable Capital as reflected on Line 6. Book depreciation expense included in the revenue requirement on Line 16 reflects a reduction to depreciation expense for estimated retirements that will be recorded during FY 2019, which offsets the ongoing recovery of depreciation expense through base distribution rates for assets to be retired in that year, preventing any possibility of double-recovery. A similar estimate is provided on Page 4, Line 5 of the same attachment for FY 2018. These estimates for FY 2019 and FY 2018 will ultimately be trued up to actual retirements through the ISR reconciliation process. Actual retirements are reflected in each vintage year revenue requirement for FY 2017 and all prior ISR years on each of the even numbered pages 6 through 16 of Attachment DIV 2-1-2.

If 8,000 existing electric meters are replaced by AMI meters during FY 2019, the Company will recover the \$52,000 of depreciation expense on those meters in base distribution rates, but a corresponding reduction in the amount of depreciation expense recovered through the ISR of \$52,000 will be reflected through the reconciliation of actual FY 2019 ISR investment and retirements, which will be filed with the PUC no later than August 1, 2019. Likewise, if all electric meters were replaced with AMI meters, \$3.2 million of depreciation expense in base distribution rates will be offset by a \$3.2 million reduction in depreciation expense reflected in Electric ISR rates.

Also discussed during the March 8, 2018 evidentiary hearing, and as well was the topic of pre-hearing Information Request PUC 4-2, involved the Company's plan to recover the undepreciated costs of existing electric meters that would be replaced by AMI meters. The Company has explained that depreciation expense is recorded on assets while such assets remain in service, which can result in over depreciation for assets that are retired after the end of their depreciable lives, and under depreciation for assets that are retired prior to the end of their depreciable lives. The Company also explained (and referred to above) that depreciation expense stops when an asset is retired from service. This is consistent with the Uniform System of Accounts description of Account 403, Depreciation Expense, in the Code of Federal Regulations which states that "This account shall include the amount of depreciation expense for all classes of depreciable **electric plant in service** ..."

Record Request No. 1, page 3

Under normal utility retirement accounting of an asset, a credit is recorded to Account 101, Utility Plant in Service, in the amount of the original cost of that asset, with an equal and offsetting debit to Account 108, Accumulated Provision for Depreciation of Electric Utility Plant (accumulated depreciation).¹ Unless an asset is retired from service at exactly the end of its depreciable life, that asset will either be retired after the end of its depreciable life, or retired before the end of its depreciable life.

An asset retired after the end of its depreciable life will result in a net credit balance included in the accumulated depreciation account to eventually be returned to customers. The debit recorded to the accumulated depreciation account when the asset is retired will effectively be netted against the cumulative depreciation expense taken on that asset while it was in service and reflected in the accumulated depreciation account. This means that cumulative depreciation expense taken will exceed the original cost, leaving a net credit balance in the accumulated depreciation account. This net credit reduces rate base until it is returned to customers.

An asset retired before the end of its depreciable life will result in a net debit balance included in the accumulated depreciation account to eventually be recovered from customers. The debit recorded to the accumulated depreciation account when the asset is retired will effectively be netted against the cumulative depreciation expense taken on that asset while it was in service and reflected in the accumulated depreciation account. This means that the cumulative depreciation expense taken is less than the original cost, leaving a net debit balance in the accumulated depreciation account. This net debit remains in rate base until it is recovered from customers.

For retirements that occur in the normal course of business, the return of over-recovered depreciation to customers, or the recovery of under-recovered depreciation from customers is typically addressed by decreasing or increasing depreciation rates as part of a future depreciation study normally filed as part of a general rate case. However, for retirements of a significant nature in which assets are retired prior to the end of their depreciable lives outside of the normal course of business, an alternate method of recovery of the undepreciated value of such assets may be preferable to minimize the rate base impact of such a large retirement on customers, and mitigate potential inter-generational issues of a prolonged recovery of the remaining costs from customers. One alternative is to transfer the undepreciated value of early retired assets to a

¹ Per Electric Plant Instructions Part 10, *Additions and Retirements of Electric Plant*, Section B. (2) of the Uniform System of Accounts, "When a retirement unit is retired from electric plant, with or without replacement, the book cost thereof shall be credited to the electric plant account in which it is included, determined in the manner set forth in paragraph D, below. If the retirement unit is of a depreciable class, the book cost of the unit retired and credited to electric plant shall be charged to the accumulated provision for depreciation applicable to such property. The cost of removal and the salvage shall be charged or credited, as appropriate, to such depreciation account."

The Narragansett Electric Company
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separate regulatory asset account and to amortize the regulatory asset over a reasonable period of time for recovery through the ISR or through some other means. Due to the relatively small value of the AMI pilot and the estimated value of the assets to be retired, the Company does not recommend implementing an alternate recovery method for the AMI pilot; however, an alternate approach as identified above may be appropriate if there is a complete replacement of existing electric meters at all or most customer service locations with AMI meters.

In estimating the bill impact associated with a reduction in depreciation expense, the Company based the analysis on a simplifying assumption that the reduction would be reflected in an ISR Plan revenue requirement for purposes of allocating the reduction to the Company's rate classes. A reduction of \$52,000 of annual depreciation expense is too small to result in a change in any of the ISR CapEx Factors; therefore, there is no impact on customer bills. A reduction of \$3.2 million of annual depreciation would result in a 30 cent decrease in a monthly bill for a residential customer receiving Standard Offer Service and using 500 kWh.

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d/b/a National Grid
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On March 8, 2018

Record Request No. 2

Request:

Please describe the accounting change and provide the audit report that Mr. Constable referenced at the hearing, which resulted in a change to how costs for the Admiral Street project costs are captured. If there was no audit, please describe the reason for the accounting change.

Response:

As corrected in the re-direct with Mr. Constable at the hearing, the transfer of Admiral Street project costs were based on the Preliminary Survey and Investigation (PS&I) Monitoring Procedure, not an audit report. As stated in section 3.2.2 (c) of the attached procedure, inactive work orders are reviewed on a periodic basis. During the review, the study status is verified, and costs are transferred to specific projects, which is the case for the Admiral Street project group. Please see Attachment RR-2, the PS&I Monitoring Procedure.

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	Preliminary Survey and Investigation (PS&I) Monitoring Procedure	Version 1.0 – 02/01/2017

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1.0 PURPOSE

This document provides a procedure documenting how Distribution Planning and Asset Management and Transmission Planning and Asset Management intend to monitor preliminary engineering studies where charges accumulate in the Preliminary Survey and Investigation (PS&I) ledger account (FERC Account 183000).

2.0 SCOPE

This document applies to:

- i. All work orders for studies initiated by Distribution Planning and Asset Management in NE and NY.
- ii. All work orders for studies initiated by Transmission Planning and Asset Management in NE and NY.
- iii. All work orders initiated by other departments under the PS&I reserve funding projects.

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FILE: PR.11.01.003 PS&I MONITORING PROCEDURE	ORIGINATING DEPARTMENT: DISTRIBUTION PLANNING AND ASSET MANAGEMENT	SPONSOR: CAROL SEDEWITZ

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3.0 PROCESS

3.1 Origination and monitoring

3.1.1 Origination

- The Transmission Planning Engineer/Asset Management Engineer fills out the study work order request form and sends it to the Transmission analyst. The information requested on the form includes company, title, description and an estimate of when the study will be completed. The Transmission Analyst opens a work order in PowerPlan using the information on the work order request form. It is assumed that the in-service date is the date the study is complete not the date the assets will go into service.
- Distribution Planning Engineers initiate study work orders in PowerPlan. The analyst runs a monthly report from PowerPlan to capture all newly created work orders.
- Other departments needing to initiate a study work order go through the respective distribution or transmission group to create the work order.

3.1.2 Tracking Studies

Distribution Planning and Asset Management and Transmission Planning and Asset Management will maintain a SharePoint list for the purposes of tracking all preliminary engineering studies. Distribution and Transmission may maintain different lists, but the appearance and function will be consistent, and they will cover work in both NE and NY. The lists will track all studies and allow for key milestones to be tracked and date stamped. The following information will be tracked:

- a) Study Title/Work Order Description
- b) State
- c) Work Order Number
- d) Work Order Status
- e) Assigned Engineer(s)
- f) Requesting Department (If other than the originating department)
- g) Capital Work Expected (Y or N field)
- h) Capital Funding Project
- i) Comments
- j) Study Completed (Y or N field)
- k) Date Cross Charges Were Transferred
- l) Work Order(s) Transferred to

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- m) Transfer Request Date
- n) Next Review Date (the date to follow up with Plant Accounting if the work order was transferred).
- o) Expected Study Completion Date

Additional columns may be added at the discretion of the analyst but are not mandatory.

3.1.3 Disbursing Study Charges

For all completed studies, the analyst asks the engineer for the capital work that resulted from the study.

- i. The Distribution Analyst obtains the new capital construction funding project number(s) from the Distribution Engineer. The Transmission Planning Engineer/Asset Management Engineer requests the Transmission analyst to initiate a capital construction funding project number(s).
- ii. The new capital construction funding project will not be available for charging until the project information required in PowerPlan is complete and the project is routed for approval through the Delegation of Authority (DOA) process.
- iii. The analyst records the capital construction funding project number(s) in the SharePoint list.
- iv. Once the capital construction funding projects are approved and open in Power Plan, the analyst asks the responsible department to take out work orders to transfer the charges. The following are the responsible departments for specific work:
 - Substation Engineering for Substation work
 - Design for Distribution Line Work
 - Transmission Line Engineering for Transmission Line Work
- v. The analyst checks PowerPlan to see if a construction work order is open under the approved project. If multiple funding projects/work orders exist, the planning engineer will provide guidance to disburse the charges from the PS&I work order to the construction work orders. The disbursement basis can be a direct allocation or a percentage of charges to one or several work orders.
- vi. The planning analyst sends an email to Plant Accounting with the following instructions:
 - If applicable, remove the suspension from the PS&I work order

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- Transfer charges to capital in the construction work order(s) created under the appropriate capital construction funding project(s).
 - Include guidance for disbursing the charges when there are multiple work orders/funding projects.
 - Close the study work order once all charges are transferred.
 - Suspend the construction work order if the project kick-off will not happen within six months of the charges transfer.
- vii. The analyst logs the Transfer Request Date in the SharePoint list.

If it has been determined that a capital project is unlikely to result from ongoing study activities:

- viii. The analyst will expense the charges and close the work order by sending a request to Plant Accounting.¹
- ix. The analyst will seek director approval before expensing charges if they are greater than \$50,000.

3.2 Review and Monitoring Controls

Monthly, the analysts will review charges made to PS&I work orders to make sure that all charges are classified as PS&I. If erroneous charges exist, the analyst works with Plant accounting to resolve the charges. Quarterly, the analyst reviews the studies for inactivity. For inactive work orders, the analyst affirms that the inactivity is valid, or transfers charges.

3.2.1 Monthly Review

- A. The analyst checks the Expected Study Completion Date in the SharePoint list for any studies that should be complete. For such studies, the analyst checks with the Engineer to see if it is complete.
- i. If the study is complete, the analyst follows the process of disbursing charges described in 3.1.3 above.

¹ Prior to final settlement of PS&I charges related to Federal Energy Regulatory Commission (FERC) governed regional transmission projects, Transmission Planning and Asset Management must:

1. Have the appropriate Independent System Operator’s (ISO) support that the project will not move forward.
2. Must consult with and gain approval from National Grid’s FERC Legal team on the approach to settling the charges in question.

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- ii. If the study is not complete, the analyst updates the revised Expected Study Complete Date in the SharePoint list with the new date given by the Engineer.

- B. A report is run by Plant Accounting (“Day 2 Report”) to assess current charges to all active studies. The analyst may consult with the sponsoring engineer on all erroneous charges.
- C. The analyst identifies which charges are incorrect and asks Plant Accounting to transfer them. The analyst keeps track of the Transfer Request Date.
- D. The analyst follows up on previous actions taken to drive resolution. The analyst checks PowerPlan to see if requests to Plant Accounting to transfer dollars are complete and the work order has been cancelled or closed. The analyst follows up with Plant Accounting if there are still charges in the work order or if it’s not cancelled or closed. The analyst logs the date of the requests of the follow up with Plant Accounting in the Next Review Date field in the SharePoint list.
- E. The Transmission Planning Engineer/Asset Management Engineer fills out the study work order request form and sends it to the Transmission analyst. The information requested on the form includes company, title, description and an estimate of when the study will be completed.

All requests for PS&I work orders should be directed to the planning departments. However, when other departments take out work orders, the analyst will capture and keep track of the work orders as they run the monthly review.

3.2.2 Quarterly Review

- A. Analyst confirms with the engineer that Capital projects are expected to result and updates the appropriate Y/N field in the tracking database.
- B. The analyst reviews the inactive work order list derived from the Day 2 report, which is circulated to various business departments by Project Controls, as part of the ongoing management of inactive work.
- C. For all work orders that are inactive, the analyst verifies with the engineer the status of the study and reasons for inactivity. If the charges are transferrable, the analyst requests Plant Accounting to transfer the charges, if not the analyst provides the reason for exemption in the file and returns it to the Project Controls group.

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- D. The analyst will confirm with the engineer that the study is still expected to result in capital work and log it in the ‘Capital Work Expected’ field in SharePoint list.
- E. If a study has been inactive for twenty four months, the charges will be expensed. The analyst will keep track and notify the director of work orders that are inactive for over 18 months to give visibility of potential work to be expensed.

4.0 REVISION HISTORY

<u>Version</u>	<u>Date</u>	<u>Description of Revision</u>
1.1	01/20/2017	Initial Document

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