

October 19, 2007

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket 3859 – Distribution Adjustment Clause 2007**  
**Responses to Division Data Requests – Set 1**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's responses to the Division's first set of data requests issued in the above-captioned proceeding on September 19, 2007.

This filing includes responses to Division Data Requests 1-6 and 1-11. The Company's response to Division Data Request 1-14 remains outstanding and will be forthcoming.

Thank you for your attention to this filing. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Laura S. Olton

Enclosures

cc: Docket 3859 Service List

NATIONAL GRID  
Docket No. 3859  
Re: Earnings Sharing Mechanism &  
Distribution Adjustment Charge Filing  
Responses to Division's Data Requests – Set 1  
Issued on September 19, 2007

Division Data Request 1-6

Request:

Referring to Attachment MDL-1, Page 2, please explain the increase in Revenue Related Taxes from Fiscal Year 2006.

Response:

The following table summarizes the increase in Revenue Related Taxes, or Gross Earnings Tax (GET) from Fiscal Year 2006:

	Fiscal Year 2007	Fiscal Year 2006	Difference
GET on Billed Revenue	12,810,896	13,153,320	(342,424)
GET on GCR deferral	130,565	(868,543)	999,108 (1)
FY06 Unbilled gas cost error	1,073,677	(1,073,677)	2,147,354 (2)
GET on GCR Error True-up	694,111		694,111 (3)
Unbilled Revenue Method Change	766,502		766,502 (4)
Miscellaneous Adjustments	(237,105)	38,932	(276,037) (5)
	15,238,646	11,250,032	(3,988,614)

- (1) Represents GET on Normalized GCR revenues for the respective periods.
- (2) During the March 2006 - June 2006 period, a formula error occurred in the journal entry file used to record GET on unbilled gas costs. When the unbilled gas cost balance began to turn to a liability position, the GET formula was not cell referenced to pick up the liability side of the entry. This results in an understatement of both GET expense and the GET liability balance. This error was included in the true-up Tax Return Adjustment recorded in March 2007.
- (3) This entry was recorded by Southern Union in October 2006 for the pre-National Grid time period and is related to a retroactive true up of GET on the Firm portion of the GCR deferral. An error was detected in the calculation in connection with a balance sheet review relative to the sale of the Rhode Island Gas assets to National Grid.
- (4) This amount reflects GET on Unbilled Cycle Sales Revenue which was not accrued by Southern Union prior the acquisition by National Grid.
- (5) These amounts include other miscellaneous true-ups to the GET liability. For the 2007 period, the majority of this adjustment relates to the true-up of the GET liability as calculated by the Tax Department versus the booked GET liability balance.

Prepared by or under the supervision of:  
Michael D. Laflamme

Division Data Request 1-11

Request:

Referring to Attachment MDL-3, pages 322-325, please explain the changes in the expenses charged to the following accounts for the twelve months ended June 30, 2006 from the prior year:

- a. 874 - Mains and Services Expenses
- b. 886 - Maintenance of Structures and Improvements
- c. 887 - Maintenance of Mains
- d. 892 - Maintenance of Services
- e. 893 - Maintenance of Meters and House Regulators
- f. 902 - Meter Reading
- g. 907 - Supervision
- h. 908 - Customer Assistance Expenses
- i. 921 - Office Supplies and Expenses
- j. 922 - Administrative Expenses Transferred
- k. 931 - Rents

Response:

The changes in the expenses charged to the following accounts, as reflected in Attachment MDL-3, pages 322-325, for the twelve months ended June 30, 2006 from the prior year are explained as follows:

- a. 874 - Mains and Services Expenses: decrease of (\$1,764,583)
- b. 886 - Maintenance of Structures and Improvements: decrease of (\$1,228,844)
- c. 887 - Maintenance of Mains: increase of \$5,869,808
- d. 892 - Maintenance of Services: increase of \$1,848,439
- e. 893 - Maintenance of Meters and House Regulators: increase of \$796,541

The changes in the above accounts are largely attributable to changes in the manner in which certain costs are recorded in conjunction with National Grid's acquisition of the regulated gas assets of New England Gas from Southern Union. As part of the acquisition, an effort was made to map pre-existing Southern Union accounting to post-acquisition National Grid accounting based on the type of work being performed. This resulted in shifts between various operation, maintenance and administrative and general accounts. Changes in methodology for costs such as time not worked, transportation and materials also account for some of the differences between various FERC accounts.

Response to Division Data Request 1-11 (continued):

In addition, an increase in account 887 – Maintenance of Mains was experienced due to an effort to catch up on mandatory work including reducing the grade 2 leak backlog and paving restoration.

- f. 902 - Meter Reading: increase of \$449,106  
The increase in Meter Reading is largely attributable to higher costs incurred in connection with an increase in the number of periodic meter tests performed each year as required by the Rhode Island Public Utilities Commission. Changes in methodology for costs such as time not worked and transportation also account for some of the increase.
- g. 907 – Supervision: increase of \$422,359  
The increase in Supervision is related largely to the manner in which Customer Service Management and Contact Center labor costs are charged post-acquisition. Under Southern Union, these groups principally charged FERC Accounts 903 and 920 versus FERC Account 907 under National Grid. In addition, changes in the manner in which time not worked is accounted for under National Grid versus Southern Union also contribute to the increase.
- h. 908 - Customer Assistance Expenses: increase of \$803,497  
The increase in Customer Assistance Expenses is related largely to the manner in which labor costs related to the Business Services / Marketing function are charged post-acquisition. Under Southern Union, this group had principally charged its time to FERC Accounts 902, 910, 916 and 920 versus FERC Account 908 under National Grid. In addition, changes in the manner in which time not worked is accounted for under National Grid versus Southern Union also contribute to the increase.
- i. 921 - Office Supplies and Expenses: increase of \$3,746,964  
The increase in Office Supplies and Expenses is due primarily to costs to achieve incurred in connection with the New England Gas and KeySpan acquisitions (\$2.4 million). In addition, a change in the manner in which certain costs are charged under Southern Union as compared to National Grid are also contributing to the increase. For example, under Southern Union, facility maintenance costs were charged to FERC account 886, rather than FERC account 921 as they are under National Grid and costs associated with certain administrative functions which were held by Southern Union and reflected as part of 'corporate allocations' on the Earnings Sharing Mechanism are directly charged by National Grid. Finally, a \$200,000 payment to the State of Rhode Island for the Weatherization Program for Low

Response to Division Data Request 1-11 (continued):

Income which is typically charged to FERC account 930.2 was charged to FERC account 921 in error in fiscal year 2007.

- j. 922 - Administrative Expenses Transferred: decreased credit of \$3,222,957  
The reduction in administrative expense transfer credit is the result of a change in accounting practices related to capitalized overheads following National Grid's acquisition from Southern Union of the regulated gas assets of New England Gas. Under Southern Union, costs incurred in support of capital construction would first be incurred to various O&M accounts and then credited to a single O&M account through FERC account 922, with an offsetting charge to capital. Under National Grid, specific clearing work orders are set up to distribute all such A&G costs across all capital spending for the period.
- k. 931 – Rents: increase of \$936,099  
The increase in rents expense is largely attributable to charges associated with system infrastructure and computer systems leased through IBM and Bankers Leasing, as well as a portion of the costs associated with facilities which house employees performing work for the benefit of the gas operations in Rhode Island. Under Southern Union, such costs would have been treated either as a utility plant or a capital lease on the books of the former New England Gas Company, recorded to FERC account 905, or held by Southern Union and reflected as part of 'corporate allocations' on the Earnings Sharing Mechanism. Under National Grid, infrastructure and systems costs are treated as operating leases and, along with facilities rents, are recorded as rents expense directly on the books of the gas operations in Rhode Island.

## Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate were hand-delivered, electronically transmitted and delivered via U.S. Mail to the individuals listed below on October 19, 2007.



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Joanne M. Scanlon  
National Grid

### **Docket No. 3859 – National Grid – Annual Distribution Adjustment Clause Filing (“DAC”) - Service List as of 9/12/07**

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