nationalgrid

Thomas R. Teehan
Senior Counsel

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VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4218 - Electric Infrastructure, Safety, and Reliability Plan FY 2012
<u>Response to Division Data Request 2-1</u>

Dear Ms. Massaro:

On behalf of National Grid[1], I have enclosed ten (10) copies of the Company's response to Division Data Request 2-1 in the above-captioned proceeding.

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

Very truly yours,

Thomas R. Teehan

Enclosure

cc: Docket 4219 Service List

[1] The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "National Grid" or the "Company").

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Docket No. 4218 National Grid's FY 2012 Electric Infrastructure, Safety and Reliability Plan - Service List as of 1/13/11

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Division 2-1

Request:

Referring to the response to Division 1-1, why does the Company assume that 75 percent of plant additions, rather than 100 percent of plant additions, qualify for bonus depreciation? In other words, why does the Company assume that 25 percent of plant additions will not qualify for bonus depreciation?

Response:

The 75 percent qualification percentage is one of several estimates used in developing the fiscal year 2012 ("FY 2012") ISR Plan revenue requirement. Tax depreciation for the FY 2012 investments will be dependent on a number of factors related to capital repair eligibility for an immediate 100 percent tax deduction, and bonus depreciation eligibility as specified under the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 ("2010 Act"). For purposes of calculating the ISR Plan revenue requirement, the Company has assumed that 32 percent of FY 2012 investments will qualify for the 100 percent capital repair deduction leaving the residual 68 percent to potentially be eligible for bonus depreciation. Bonus depreciation eligibility for FY 2012 investments, however, is also dependent on a number of factors. Capital projects commenced from January 1, 2008 and prior to September 8, 2010 and placed in service prior to December 31, 2012 are generally eligible for 50 percent bonus depreciation. Capital projects commencing September 8, 2010 or later and placed in service by December 31, 2011 are eligible for 100 percent bonus depreciation. Finally capital projects commenced as of September 8, 2010 and placed in service by December 31, 2012 are generally eligible for 50 percent bonus depreciation. As evidenced by the number of assumptions that must be considered in estimating FY 2012 tax depreciation, any estimate is far from an exact science.

While it is possible that the 75 percent qualification percentage may be low in terms of total eligibility, it is also very likely that the Company's estimate that 100 percent of plant investments occurring during the period April 1, 2011 to December 31, 2011 period will qualify for 100 percent bonus depreciation is overstated. Furthermore, the Company is awaiting additional guidance from the IRS concerning the application of bonus depreciation resulting from the 2010 Act, which may ultimately affect the bonus depreciation calculation.

Division 2-1 (continued)

For these reasons, the Company believes that its assumptions used to calculate tax depreciation on FY 2012 investments are as reasonable as any, and currently anticipate that the impact of any variances from the Company's assumptions will result in an insignificant difference in the revenue requirement estimate calculated in this proceeding. Finally, it is also important to note that the Company's FY 2012 ISR Plan revenue requirement calculation, including the calculation of bonus depreciation, is an estimate and will be trued up to actual amounts following the close of each fiscal year.

Prepared by or under the supervision of: David E. Tufts