

MEMORANDUM

TO: LULY MASSARO
PUC CLERK

DATE: MARCH 1, 2013

FROM: DAVID EFFRON, CPA
BERKSHIRE CONSULTING

Electric Infrastructure, Safety, and Reliability Plan FY 2014 Proposal Gas Infrastructure, Safety, and Reliability Plan FY 2014 Proposal

I performed a review of the proposed revenue requirement effects of the electric and gas ISR filings on behalf of the Division of Public Utilities. The Narragansett Electric Company d/b/a National Grid (“National Grid” or “the Company”) submitted its Draft Fiscal Year 2014 Infrastructure, Safety, and Reliability (ISR) Plans to the Division in November of 2012. Calculations supporting the revenue requirements associated with the vegetation management, inspection & maintenance, and qualifying capital investment components are included in the electric ISR Plan. Calculations supporting the revenue requirement associated with the qualifying capital investment are included in the gas ISR plan. The following exceptions were noted in the November submissions regarding the calculations of the capital investment revenue requirements, which are associated with cumulative qualifying additions to plant service through fiscal year 2014, the twelve months ending March 31, 2014.

Return Requirement Component of Capital Investment Revenue Requirement

The calculation of return component of the FY 2014 ISR capital investment revenue requirement originally used the half year convention to calculate the average rate base. The half year convention assumes that the additions to rate base take place evenly over the year. However this is not the case for the FY 2014 revenue requirement. The increase to rate base for the first ten months of FY 2014 represents the difference between the ISR plant additions reflected in Docket No. 4323 and the ISR plant additions forecasted in the instant filings. The increase to rate base for the last two months of FY 2014 represents the full amount of ISR plant additions in those months. Thus, the increase to rate base in FY 2014 is disproportionately weighted to the last two months.

The Division calculated an alternative to the half year convention reflecting the back-loading of the increase to the FY 2014 rate base, for the purpose of calculating the return components of the ISR revenue requirements and conveyed the alternative calculations to National Grid. The Company agreed that the alternative calculations proposed by the Division were appropriate and accordingly filed revised calculations of the ISR capital investment revenue requirements with the December ISR filings with the PUC. The Division reviewed the Company’s revised calculations of the revenue requirements filed in December of 2012 and did not note any further exceptions.