

National Grid

The Narragansett Electric Company

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

December 27, 2012

Docket No. _____

Submitted to:
Rhode Island Public Utilities Commission

Submitted by:
nationalgrid



December 27, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

**RE: National Grid's Proposed FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Docket No. _____**

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed ten (10) copies of the Company's proposed Gas Infrastructure, Safety, and Reliability Plan (the "Gas ISR Plan" or "Plan") for fiscal year 2014². This proposed Gas ISR Plan is designed to enhance the safety and reliability of the Company's Rhode Island natural gas distribution system. The proposed Plan was submitted to the Division of Public Utilities and Carriers ("Division") for review. The Company received and responded to discovery requests from the Division and has met with the Division's representatives regarding this proposed Plan. The Division has agreed to the overall spending portion of this plan, but will continue to review and discuss particular Plan provisions as the Commission conducts its proceeding in this matter.

The Gas ISR Plan is designed to protect and improve the gas delivery system through proactively replacing leak-prone gas mains and services, upgrading the system's pressure regulating systems, responding to emergency leak situations, and addressing conflicts that arise out of public works projects. The Plan is intended to achieve these safety and reliability goals through a cost-effective, coordinated work plan. The level of work that the Plan provides will sustain and enhance the safety and reliability of the Rhode Island gas pipeline infrastructure and directly benefit all Rhode Island gas customers.

The Plan includes a description of the categories of work the Company proposes to perform in fiscal year 2014 as well as the proposed targeted spending levels for each work category. This filing includes the pre-filed direct testimony of three witnesses: Mr. Walter F. Fromm, whose testimony introduces the Plan document; Mr. William R. Richer, whose testimony explains the Company's revenue requirement

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

² The Gas ISR Plan is submitted in compliance with the provisions of R.I.G.L. §39-1-27.7.1.

calculation; and Ms. Mariella C. Smith, whose testimony describes the rate design and calculation of the ISR rate factors and provides the customer bill impacts of the proposed ISR factor rates.

For the average residential heating customer using 846 therms, the cumulative impact of the FY 2014 Gas ISR Plan will represent an annual increase of \$2.09, or 0.2 percent.

This ISR Plan presents an opportunity to facilitate and encourage investment in the Company's gas utility infrastructure and enhance its ability to provide safe, reliable, and efficient electric service to customers.

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

Enclosures

cc: Steve Scialabba
Leo Wold, Esq.
James Lanni

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
R.I.P.U.C. DOCKET NO. ____
RE: FY 2014 GAS INFRASTRUCTURE,
SAFETY, AND RELIABILITY PLAN
WITNESS: WALTER F. FROMM**

PRE-FILED DIRECT TESTIMONY

OF

WALTER F. FROMM

December 27, 2012

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1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, business address, title and areas of responsibility.**

3 A. My name is Walter F. Fromm. My business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451. I am employed by National Grid USA Service Company, Inc.
5 (“National Grid”) as Manager, Network Strategy-Gas. I am the Rhode Island state
6 Jurisdictional Lead for all gas Network Strategy issues, including those related to the
7 capital investment strategy for The Narragansett Electric Company d/b/a National Grid
8 (“Narragansett” or the “Company”). In my role, I work closely with the Rhode Island
9 Jurisdictional President and staff on all local issues related to the Company’s Rhode
10 Island gas system. My responsibilities also include working with regulators on issues
11 related to the gas system, development of strategies to support Company objectives
12 regarding investment in the gas system, and to provide testimony regarding capital
13 investments in the Company’s gas system during state regulatory proceedings.

14
15 **Q. Please describe your educational background and professional experience.**

16 A. I am a Professional Engineer in Massachusetts (#40443) and New Hampshire (#11271). I
17 received a Bachelor of Science degree in Civil Engineering from the University of
18 Massachusetts at Lowell. My experience includes working for approximately two and a
19 half years as a Design Engineer at the Boston Water and Sewer Commission, performing
20 engineering, design, and environmental permitting associated with the construction of
21 new and replacement water, sewer and drainage facilities. I spent almost five years

1 working as a Project Engineer at Fay, Spofford & Thorndike, Inc., continuing my career
2 in the utility engineering and environmental permitting field. I have been employed at
3 National Grid for approximately 13 years in a variety of roles. I joined National Grid as
4 the Supervisor of Short-Term Planning. I later became a Senior Gas Engineer, then
5 Principal Gas Engineer, Manager of Project Engineering & Design, and Manager of Main
6 & Service Replacement. In March 2012, I assumed my current responsibilities.

7
8 **Q. Have you previously testified or appeared before the Rhode Island Public Utilities
9 Commission (the “Commission”)?**

10 A. Yes. I previously testified before the Commission at hearings and technical conferences
11 regarding the Company’s Accelerated Replacement Program and regarding the
12 subsequent fiscal year (“FY”) 2012 Gas Infrastructure, Safety, and Reliability (“ISR”)
13 Plan. I also provided pre-filed direct testimony for the Company’s FY 2012 Gas ISR
14 reconciliation filing in Docket No. 4219. In addition, I also testified and represented the
15 Company at hearings and technical conferences for the FY 2013 Gas ISR Plan in Docket
16 No. 4306.

17
18 **II. PURPOSE OF TESTIMONY**

19 **Q. What is the purpose of your testimony?**

20 A. The purpose of my testimony is to describe the Company’s proposed Gas ISR Plan for FY

1 2014 (“ISR Plan” or the “Plan”)¹. Through my testimony, I provide the Commission with
2 Exhibit 1, the Company’s proposed FY 2014 Gas ISR Plan, which details the work to be
3 done under the proposed ISR Plan and the anticipated capital investments associated with
4 that work. Mr. William R. Richer is providing testimony on the calculation of the
5 revenue requirement impact associated with the Company’s proposed FY 2014 Gas ISR
6 Plan, and Ms. Mariella C. Smith is providing testimony relative to (1) how the rate design
7 was established for the ISR mechanism; (2) the calculation of the ISR rate factors; and (3)
8 the customer bill impacts of the proposed ISR factor rates.

9
10 **III. OVERVIEW**

11 **Q. How was the ISR Plan prepared?**

12 A. The Company’s FY 2014 Gas ISR Plan was prepared by the Company and submitted to
13 the Division of Public Utilities and Carriers (the “Division”) for review. The Company
14 met with the Division and responded to questions from the Division about each of the
15 components of the Plan, including the inclusion of a gas expansion pilot program. The
16 Division agreed to the spending portion of the Plan and will continue to review particular
17 Plan provisions as the Commission conducts its proceeding in this matter. The proposed
18 ISR Plan will allow the Company to meet state and federal safety and reliability
19 requirements and to maintain its gas distribution system in a safe and reliable condition.

¹ Pursuant to Rhode Island statutory provisions, the Company is required to annually file an infrastructure, safety, and reliability spending plan with the Commission for review and approval. (R.I.G.L. §39-1-27.7.1) In addition to budgeted spending, the annual ISR Plan is to contain a reconcilable allowance for the anticipated capital investments and other spending for the upcoming fiscal year. The Company’s FY 2014 runs from April 1, 2013 through March

1 The FY 2014 ISR Plan should improve the safety and reliability of the Company's gas
2 system for the immediate and long-term benefit of Rhode Island's natural gas customers.
3

4 **Q. What is the ISR Plan designed to accomplish?**

5 A. The Gas ISR Plan is designed to maintain and upgrade the Company's gas delivery
6 system proactively replacing leak-prone gas mains and services, upgrading the system's
7 pressure regulating systems, responding to emergency leak situations, and addressing
8 conflicts that arise out of public works projects. The Plan attempts to attain these safety
9 and reliability goals through a cost-effective, coordinated work plan. The level of work
10 that the Plan provides will sustain and enhance the safety and reliability of the Rhode
11 Island gas pipeline infrastructure and directly benefit Rhode Island gas customers. The
12 Company now submits this Plan to the Commission for final review and approval.²
13

14 **Q. Are you sponsoring any exhibits through your testimony?**

15 A. Yes. The Company's proposed FY 2014 Gas ISR Plan document is attached as Exhibit 1
16 to my testimony. It is organized as follows:

17 Section 1 – Introduction and Summary

18 Section 2 – Gas Capital Investment Plan (including major categories of work)

19 Section 3 – Revenue Requirement Calculation

31, 2014, and the proposed ISR Plan would be effective April 1, 2013.

²Pursuant to R.I. G. L. §39-1-27.7.1 (d), the Company and the Division are to work together over the course of 60 days in an attempts to reach an agreement on a proposed plan, which would then be submitted to the Commission for review and approval.

1 Section 4 – Rate Design

2 Section 5 – Bill Impacts

3 As noted above, Mr. Richer will testify about and sponsor the revenue requirement
4 calculation included in Section 3 of the Gas ISR Plan, and Ms. Smith will testify about
5 and sponsor rate design and bill impacts outline in Sections 4 and 5 of the Plan.
6

7 **Q. What types of infrastructure, safety, and reliability work does the proposed ISR**
8 **Plan include?**

9 A. The Plan seeks not only to maintain the gas distribution system, but also to proactively
10 upgrade its condition to prevent problems before they arise. A safe and reliable gas
11 delivery system in Rhode Island is essential to the health, safety, and well-being of its
12 citizens and is functional to maintaining a healthy economy and continuing to attract new
13 residents and businesses. The Commission embarked on a course of addressing Rhode
14 Island’s aging gas infrastructure in 2008, with the establishment of the Accelerated
15 Replacement Plan (the “ARP”). In addition to the type of infrastructure, safety and
16 reliability work performed under the ARP, the ISR Plan includes spending related to
17 safety and reliability for public works, mandated programs, special projects, and
18 reliability programs. Included in the ISR Plan document is a description of the
19 Company’s proposed budget for capital investment for FY 2014 and a capital forecast for
20 FY 2014 through FY 2018.
21

1 **IV. CAPITAL INVESTMENT PLAN**

2 **Q. What levels of spending are proposed in the ISR Plan?**

3 A. For FY 2014, the Company proposes ISR spending totaling \$65.3 million. The ISR Plan
4 is broken down into categories of programs designed to maintain the safety and reliability
5 of the Company's gas delivery infrastructure. For each program category in the Plan, the
6 Company proposes the following levels of spending:

- 7 • \$36.5 million combined for proactive Main and Service
8 Replacement Programs.
- 9 • \$0.5 million for Reactive Main Replacement.
- 10 • \$1.8 million for Public Works Programs.
- 11 • \$13.5 million for Mandated Programs (capital leak repairs,
12 meter replacements, corrosion and non-leak other)
- 13 • \$9.0 million for Gas System Reliability, including work
14 relative to System Automation and Gas Control, Pressure
15 Regulating Facilities (including Heater Program, Vent Pole
16 Installation and Control Line Integrity Work), System
17 Reliability Enhancement, Water Intrusion Program, LNG
18 Facilities, and Valve Installation/Replacement.
- 19 • \$4.0 million for Special Projects, including the carryover of
20 new main installation work related to the relocation of I-
21 195 in order to aid in the economic development of
22 Downtown Providence, the replacement of a boil-off
23 compressor at the Exeter LNG Facility, and the introduction
24 of a pilot program designed to provide commercial and
25 residential customers with incentives for gas expansion
26 pilot program.
27

1 **Q. In your opinion, does the Gas ISR Plan fulfill the requirements established in**
2 **relation to the safety and reliability of the Company's gas distribution system in**
3 **Rhode Island?**

4 A. Yes. The Gas ISR Plan for FY 2014 is designed to establish the capital investment in
5 Rhode Island that is necessary to meet the needs of its customers and maintain the overall
6 safety and reliability of the Company's Rhode Island gas distribution system.

7
8 **Q. Does this conclude your testimony?**

9 A. Yes, it does.

National Grid

The Narragansett Electric Company

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

December 27, 2012

Submitted to:
Rhode Island Public Utilities Commission

Submitted by:
The logo for National Grid, featuring the word "national" in a blue sans-serif font and "grid" in a bold blue sans-serif font, with a small blue diamond shape above the letter 'i' in "grid".

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The Narragansett Electric Company
d/b/a National Grid
FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Section 1: Introduction and Summary

Section 1

Introduction and Summary

Introduction and Summary
FY 2014 Proposal

National Grid¹, in consultation with the Division of Public Utilities and Carriers (“Division”), has developed the following proposed fiscal year (“FY”) 2014 gas infrastructure, safety, and reliability (“Gas ISR”) plan (the “Gas ISR Plan” or “Plan”) in compliance with R.I.G.L. §39-1-27.7.1(c)(2) (the “Decoupling Act”), which provides for an annual gas “infrastructure, safety and reliability spending plan for each fiscal year and an annual rate reconciliation mechanism that includes a reconcilable allowance for the anticipated capital investments and other spending pursuant to the annual pre-approved budget. . . .”² The proposed Gas ISR Plan addresses capital spending on gas infrastructure and other costs relating to maintaining the safety and reliability of the gas distribution system. The proposed Plan that the Company is submitting for its gas distribution operations is the product of a collaborative effort with the Division. The Gas ISR Plan is designed to maintain and upgrade the Company’s gas delivery system through proactively replacing leak-prone gas mains and services, accelerating the Company’s replacement of leak prone facilities, upgrading the system’s pressure regulating systems, responding to emergency leak situations, and addressing conflicts that arise out of public works projects. The Plan attempts to achieve these safety and reliability goals through a cost-effective, coordinated work plan. The level of work the Plan provides will sustain

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

² R.I.G.L. §39-1-27.7.1, *An Act Relating to Public Utilities and Carriers – Revenue Decoupling*.

and enhance the safety and reliability of the Rhode Island gas pipeline infrastructure and directly benefit Rhode Island gas customers. The Company now submits this plan to the Rhode Island Public Utilities Commission (“Commission”) for final review and approval.³

This Introduction and Summary presents an overview of the proposed FY 2014 Plan for the statutory categories of costs, the resulting FY 2014 revenue requirement associated with the proposed Gas ISR Plan (in conjunction with the base rate proceeding in Docket No. 4323), an illustrative tariff provision enabling the rate adjustments and mechanism underlying the proposed Gas ISR Plan, an illustrative rate design, and the estimated typical bill impacts resulting from the illustrative rate design.

The proposed Gas ISR Plan describes the Company’s multi-year plan upon which its FY 2014 Plan is based, and it describes the system safety and reliability activities and addresses capital investment in utility infrastructure for the upcoming fiscal year. The proposed Plan also itemizes the recommended work activities by general category and provides budgets for capital investment.

As envisioned in the Revenue Decoupling Statute, after the end of the fiscal year, the Company would true up the Gas ISR Plan’s budgeted levels to actual investment and expenditures and reconcile the revenue requirement associated with the actual investment and expenditures to the revenue billed from the rate adjustments implemented at the beginning of each fiscal year. The Company will continue to file quarterly reports with the Division and

³ Pursuant to R.I.G.L. §39-1-27.7.1(d), the Company and the Division must work together over the course of 60 days in an attempt to reach an agreement on a proposed plan, which would then be submitted to the

Commission concerning the progress of its Gas ISR programs. In addition, when the Company makes its reconciliation and rate adjustment filing described below, it will file an annual report on the prior fiscal year's activities. The Company is cognizant that, in implementing the Gas ISR Plan in any fiscal year, the circumstances encountered during the year may require reasonable deviations from the original Gas ISR Plan. In such cases, the Company would include an explanation of any significant deviations in its quarterly reports.

The FY 2014 level of capital investment provided in the Company's proposed Gas ISR Plan to maintain the safety and reliability of its gas delivery infrastructure is \$65.3 million. A description of the Company's proposed capital investment plan for FY 2014 is provided in Section 2. The revenue requirement description and calculations are contained in Section 3.

Gas Capital Investment Plan

The Company's proposed gas capital investment plan contained in Section 2 summarizes capital investments in terms of the following key categories: Main Replacements and Service Replacements, Reactive Main Replacements, Public Works, Mandated Programs, Gas System Reliability, and Special Projects. Section 2 itemizes the proposed activities by sub-categories and provides budgets for capital investment. The Company proposes that capital investments be recovered in a manner consistent with the calculation of the rate base in Docket No. 3943 and in conjunction with the Company's base rate filing in Docket No. 4323. The Company has included its capital budget, identified the relevant projects that would be part of the FY 2014 Gas

ISR Plan, and provided its explanation of why these projects are necessary to provide safe and reliable service to its customers. The Company has also provided a five-year capital plan to provide a longer-term approach to infrastructure, safety, and reliability and to demonstrate how the FY 2014 Plan would be incorporated into that longer-term planning approach.

Revenue Requirement

Based upon the estimated amounts for the proposed Plan, the Company has provided a calculation of the proposed revenue requirement resulting from the proposed FY 2014 capital investment plan. Section 3 contains a description of the revenue requirement model and an illustrative calculation for FY 2014. This calculation would form the basis for the Gas ISR rate adjustment, which would become effective April 1, 2013, upon Commission approval. As provided in Section 3, Schedule A, Sheet 6 of the Company's gas tariff, the Company will reconcile this rate adjustment as part of its annual Distribution Adjustment Charge ("DAC") filing. The pre-tax rate of return on rate base would be that rate of return approved by the Commission in the Company's last general rate case and, going forward, it would change as the Commission may approve changes to the rate of return in future rate case proceedings. Any change in the rate of return would be applicable on a prospective basis effective on the date on which the change is effective.

Rate Design

The revenue requirement calculated under the proposed Gas ISR Plan is appropriately allocated to the Company's rate classes. For purposes of rate design, the revenue requirement

associated with the capital investment is allocated to rate classes based upon the rate base allocator from the Company's Settlement agreement in Docket No. 4323. For rate classes, the allocated revenue requirement is divided by the applicable fiscal year forecasted therm deliveries for each rate class, arriving at a per-therm factor unique to each rate class. Other related costs mutually agreed upon between the Division and the Company would be allocated to all rate classes on a consistent per-unit basis. The proposed rate design is contained in Section 4.

Bill Impacts

The estimated typical bill impacts associated with the rate design contained in Section 4 are provided in Section 5. Since the FY 2014 revenue requirement was based upon FY 2014 capital costs that were incremental to the FY 2014 capital costs included in the Company's base rates per the Settlement Agreement in Docket No. 4323, the Company used the base rates provided in its Settlement Agreement for both the current and proposed bill comparisons. In addition, because these base rates now include ISR capital costs for FY 2012 and FY 2013, the Company zeroed out the current ISR factor in the current analysis. As shown in Section 5, the bill impact of the Gas ISR Plan for the average residential heating customer for the period April 1, 2013 through March 31, 2014 would be \$1.82, or 0.2 percent.

The Narragansett Electric Company
d/b/a National Grid
FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Section 2: Gas Capital Investment Plan

Section 2

Gas Capital Investment Plan

FY 2014 Gas ISR Plan

Gas Capital Investment Plan FY 2014 Proposal

The Company and the Division have worked diligently to arrive at a Gas ISR Plan that meets the goals of the Decoupling Act to provide a safe and reliable gas distribution system for Rhode Island.

Background

The Company developed its proposed capital investment plan to meet its obligation to provide safe, reliable, and efficient gas distribution service for customers at reasonable costs.⁴ The Gas ISR Plan includes capital investment spending needed to meet state and federal regulatory requirements applicable to the Company's gas system and to maintain its distribution infrastructure in a safe and reliable condition. It includes infrastructure, safety and reliability work for cast-iron and non-cathodically protected steel mains and non-cathodically protected steel inside services, to address the replacement of leak-prone gas main and at-risk services. The plan also contains capital spending related to safety and reliability for public works, mandated programs, gas reliability, and special projects, including a gas system expansion pilot program.

As the Decoupling Act recognizes, in order to continue providing safe and reliable gas delivery service to customers, it is critical that the Company remain vigilant with respect to investing in its infrastructure and that it has the appropriate and timely cost recovery to do so.

⁴ The Company delivers natural gas to approximately 253,000 Rhode Island residential and commercial and industrial customers in 33 cities and towns in Rhode Island. To provide this service, the Company owns and maintains over 3,100 miles of mains and approximately 190,000 services.

To that end, the Company is outlining the proposed FY 2014 Plan,⁵ which identifies the capital spending it expects to place into service during FY 2014. Table 1 contains a description of the proposed budget for the capital investment plan for FY 2014. Table 2 contains a five-year Capital Forecast for FY 2014 through FY 2017. The Company proposes to invest a total of \$77.2 million, \$65.3 million of ISR investments that would be included in either the rate base included in Docket No. 4323 or in the FY 2014 Gas ISR recovery mechanism.⁶ The FY 2014 Gas ISR Plan is designed to maintain the safety and reliability of the Company's gas delivery infrastructure. Table 3 includes the FY 2013 Capital Budget filed in the FY 2013 ISR Plan, along with the FY 2013 Forecast through Q2 2013. As set forth on Table 1, of the \$65.3 million that the Company proposes for its FY 2014 Gas ISR Plan spending, the Company proposes the following levels of spending for each category of programs:

- \$36.5 million combined for proactive Main and Service Replacement Programs.
- \$0.5 million for Reactive Main Replacement.
- \$1.8 million for Public Works Programs.
- \$13.5 million for Mandated Programs (capital leak repairs, meter replacements, corrosion and non-leak other).
- \$9.0 million for Gas System Reliability, including work relative to System Automation and Gas Control, Pressure Regulating Facilities (including Heater Program, Vent Pole Installation and Control Line Integrity Work), System Reliability Enhancement,

⁵ FY 2014 is defined as the twelve months ending March 31, 2014.

⁶ From the \$77.2 million of total investment, the Company would remove \$11.9 million of projected growth spending.

Water Intrusion Program, LNG Facilities, and Valve
Installation/Replacement.

- \$4.0 million for Special Projects, including the carryover of new main installation work related to the relocation of I-195 in order to aid in the economic development of Downtown Providence, the replacement of a boil-off compressor at the Exeter LNG Facility, and the introduction of a pilot program designed to provide commercial and residential customers with incentives in providing gas main extensions.

The Company is excluding \$11.9 million for growth spending from the proposed FY 2014 Gas ISR Plan. As noted above, the Company will continue to file quarterly reports with the Division on the progress of its Gas ISR programs.

Description of Large Programs and Projects

The proposed FY 2014 Gas ISR Plan is comprised of several programs that account for the total amount of plan spending for FY 2014. Those programs are described in detail below.

A. Main Replacement Program and Service Replacement Program

The value of, and need for, targeted spending on the replacement of leak-prone gas main and services is well-documented and has been accepted by both the Division and the Commission. For FY 2014, the Company forecasts spending \$33.4 million on its main replacement program (approximately 50 miles of leak prone pipe) and \$3.1 million on the service replacement program (1,100 services) for a total spend of \$36.5 million on these two programs.

B. Reactive Main Replacement

The Company proposes to spend \$0.5 million in Reactive Main Replacement. This category of work consists of emergency main replacements due to leaks or other unplanned work where main condition dictates immediate replacement. Reactive Main Replacement would account for approximately 1.0 mile of emergency main replacements.

C. Public Works

The purpose of the Public Works program is to address existing gas infrastructure conflicts, as appropriate, to improve the safety and reliability of the Company's natural gas distribution system in conjunction with public works projects, providing significant incremental benefits to customers and communities. Municipal work affords the Company an opportunity to replace additional leak-prone pipe and reduce paving costs by coordinating the Company's main replacement work with these planned public works construction projects, while also benefitting customers and communities by improving service delivery and minimizing construction impacts and inconvenience. National Grid has an ongoing plan to replace targeted (integrity-based selections) mains on a risk-based approach. Integration of the Company's Integrity programs with the public works process has yielded increased system reliability and system integrity. This integration has also optimized capital spending through coordination with planned public works projects. While the primary purpose of Public Works spending is to address direct conflict with

existing gas infrastructure, Public Works spending provides the opportunity to coordinate other system improvement work, such as the replacement of leak-prone pipe, system reliability upgrades, the elimination of redundant main, and regulator station upgrades.

The Company will manage multiple projects to address the dynamic nature of the public work process through effective liaison activity. Specifically, it must be recognized that, while municipal schedules and plans change due largely to funding, other factors also contribute to the scheduling of these projects (e.g. political, demand maintenance, etc.). Municipal changes in projects can and do create additional work in developing and coordinating the Company's planning and budgeting processes. Using the Company's five-year work planning process, the Company can provide some flexibility in scheduling, coordinating, and engineering projects in concert with municipal public works initiatives. For FY 2014, the proposed plan incorporates \$1.8 million in spending under the Public Works category and an additional \$1.3 million in reimbursable projects.

D. Mandated Programs

Spending for Mandated Programs falls into four categories: Corrosion, Meter Replacement, Capital Leak Repairs, and Non-leak Other. The Corrosion Program adds cathodic protection to existing coated steel main installed prior to U.S Department of Transportation ("DOT") requirements (pre-1971). In 1971, the Code of Federal Regulations, Part 192, required the cathodic protection of all new buried steel gas facilities. Cathodic protection effectively extends the service life of buried steel facilities (as compared to

unprotected buried steel facilities) and can prolong replacement by twenty years or more.

National Grid has standardized the process used to determine the cost-effectiveness of cathodically-protecting steel pipe installed prior to 1971. National Grid is targeting adding cathodic protection to ten miles of pre-1971 pipe during FY 2014 for the purpose of extending the life of the pipe. Capital costs for the Meter Replacement Program are required for the procurement of replacement meters. The Capital Leak Repair Program addresses leaking gas services and extends the useful life of cast iron mains through the encapsulation of leaking cast iron joints. Non-leak Other is associated with the capital costs for service relocations, meter protection, service abandonments, and the installation of curb valves. For FY 2014, the proposed plan includes \$13.5 million for all categories of mandated work.

E. Reliability

Reliability spending includes programs to address system automation and control, system pressure regulating facilities (including heaters, vent pole installations and control line integrity), system reliability enhancement, water intrusion projects, LNG facilities, and valve installation and/or replacements. The proposed FY 2014 Gas ISR Plan includes \$9.0 million in spending for Reliability. These programs are summarized below.

1. System Automation and Control

The primary purpose of this program is to (a) meet the new DOT code requirements under 49 CFR Part 192, Docket ID 2007-27954, issued on December 3, 2009. These new code provisions contain the following pipeline

safety requirements: (a) Control Room Management/Human Factors, (b) modernization of the Company's system data and telemetry recording, and (c) increasing the level of system automation and control. The overall program will increase the safety, reliability, and efficiency of the gas system and, by extension, the level of service the Company provides to its customers.

National Grid's ability to provide safe and reliable service is governed to a large extent by the Company's ability to maintain adequate pressure in its gas mains. To accomplish this task, National Grid has 205 pressure regulator stations disbursed throughout its Rhode Island gas service territory. While a limited number of these regulator stations have full system telemetry and control capability, most do not. In addition to monitoring and controlling the regulator stations, National Grid must also monitor system end points to ensure that adequate system pressures are being maintained in remote areas under a variety of operating conditions. Increased monitoring of these system low points is exacerbated by the need and desire to minimize the amount of system reinforcement necessary to support system load, thereby reducing our capital requirement, and to maximize the operational efficiency of the gas distribution system. National Grid is proposing implementation of a system automation and control program that would address approximately 20 percent of its pressure regulating facilities and adding select end-point monitoring. National Grid's

proposal for FY 2014 would provide AC power to fifty (50) regulator stations, telemetry to forty (40) sites and install remote controls at five (5) locations.

2. Pressure Regulating Facilities

The pressure regulating facilities have been designed to reliably control system pressures and maintain continuity of supply during normal and critical gas demand periods. Each station has specific requirements for flows and pressures based on the anticipated needs of the station. A facility includes both pressure regulating piping and equipment as well as control lines, but may also include a heater or a scrubber. A program has been initiated to address condition-based assessments. Accepted engineering guidelines provide for design, planning, and operation of these gas distribution facilities. Applicable state and federal codes are followed to help ensure safe and continuous supply of natural gas to our customers and the communities we serve. National Grid's proposed plan would address condition-based assessments and perform work at the following facilities in FY 2014:

Regulator Stations:

1. Elliot Street, N. Providence
2. Smithfield @ Gentian, N. Providence
3. Hartford @ Wilson, Johnston
4. Summit @ Taunton, E. Providence
5. Ship @ Chestnut, Providence
6. Franklin @ Wood, Bristol
7. Division Street, East Greenwich
8. Walcott @ St. Georges, Middletown

9. Tiverton Gate Main Road, Tiverton
10. Allens Avenue, Providence

Heater Projects:

1. Route 116 Gate, Lincoln
2. Portsmouth Gate State, Portsmouth

Control Line Projects:

1. Ann & Hope Way, Cumberland
2. North Bend Street, Pawtucket
3. North Country Club, Warwick
4. Traver Avenue, Johnston

In addition to the work identified above, the Company is proposing to install vent poles at another twenty (20) pressure regulating facilities during FY 2014.

3. System Reliability Enhancement Program

The System Reliability Enhancement Program identifies projects that support system reliability through standardization and simplification of system operations (e.g., system up-ratings and de-ratings and regulator elimination), integration of systems (e.g. tie-ins) and new supply sources (e.g. take stations).

4. Water Intrusion Program

The Water Intrusion Program identifies projects that address recurring customer outages resulting from water intrusion into low-pressure distribution systems through the replacement of existing leak-prone pipe.

5. LNG Facilities

LNG facility upgrades include replacement of aging equipment and infrastructure at the Rhode Island stations excluding the Providence facility.

6. Valve Installation/Replacement

Valves are used to sectionalize portions of the gas network when required to support both planned and unplanned field activities. Valve replacement is necessary to ensure the Company's continued ability to effectively isolate portions of the distribution system as inoperable valves are identified. New valve installations are also occasionally needed to provide the capability to reduce the size of an isolation area where existing valves would result in broader shutdown than desired.

F. Special Projects

Three projects have been identified for FY 2014. The first project is the carryover of work associated with the Rhode Island Department of Transportation ("RIDOT") project to relocate sections of interstate I-195 through the City of Providence. This work is required to safely and reliably serve the new parcels of land, and aid in the economic development of this area. The second project is the replacement of the boil-off compressor located the at Exeter LNG facility. The Company has had difficulty procuring parts to maintain the aging equipment, and believes that a replacement is a more prudent proactive approach to maintaining

plant reliability and safety. The third project is the Gas Expansion Pilot Program, which is described below.

The Gas Expansion Pilot Program would provide for the prudent expansion of the Company's gas infrastructure to remove or reduce financial barriers that may prevent residential and commercial customers from taking advantage of historically low gas commodity prices. The recent abundance of natural gas supply has led to historically low commodity prices and a number of states are recognizing this market shift and are now examining programs that would expand the availability of natural gas as an energy source within their jurisdictions. Currently, in Rhode Island, customers may be required to pay a Contribution In Aid of Construction ("CIAC") to help cover the costs associated with main extensions required to provide them gas service. This upfront capital cost can present a significant barrier for potential customers. The Gas Expansion Pilot Program seeks to remove or reduce this impediment by supporting projects that have the opportunity to bring gas service to more customers where the costs described above would otherwise have acted as a barrier.

At this time, the Company and the Division have agreed that the Gas Expansion Pilot Program would be funded at a level of \$3.0 million for the FY 2014 Gas ISR Plan. The Company and the Division are finalizing more specific criteria that would be used under the program to identify and evaluate these potential residential and commercial customers. A detailed description of the pilot program criteria will be submitted in this proceeding to the Commission when it has been finalized.

Table 1

Capital Investment Plan	FY 2014 (\$000s)	Description
Growth - Mains - Services - Reinforcement	\$ 11,942	<ul style="list-style-type: none"> • Installation of new main and services. Spending is generally not included in the Gas ISR Plan.
Replacement Program - Main Replacement - Service Replacements	\$ 36,462	<ul style="list-style-type: none"> • Includes the replacement of approximately 50 miles of leak prone gas main and approximately 1,100 high-pressure, unprotected steel gas services with inside meter sets.
Public Works	\$ 1,821	<ul style="list-style-type: none"> • Includes all municipal public works projects including \$1.3 million of reimbursable work.
Reactive Main Replacement	\$ 500	<ul style="list-style-type: none"> • Emergency work resulting in the immediate replacement of main resulting from leaks or other unplanned work
Mandated Programs	\$ 13,522	<ul style="list-style-type: none"> • All emergency service replacements resulting from leaks. • All cast iron joint leak repairs. • Replacement of approximately 19,000 meters • Install corrosion protection on approximately 8.5 miles of main. • Non-leak other related work load.
Reliability	\$ 8,987	<ul style="list-style-type: none"> • System Automation • Regulator Stations • Heater Upgrades • Control Lines • Installation of vent poles • Reactive Water Intrusion projects
Special Projects	\$ 4,000	<ul style="list-style-type: none"> • Carryover of the RIDOT I-195 relocation project originally identified in the FY 2013 filing • Replacement of boiler-off compressor at Exeter LNG facility • Main extension pilot program
TOTAL	\$ 77,233	

Table 2

Capital Forecast (000s)						
Investment Categories	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Growth ⁽¹⁾	\$ 11,942	\$ 16,325	\$ 15,944	\$ 16,485	\$ 16,891	\$ 77,588
Main Replacement Program ⁽²⁾	\$ 33,362	\$ 37,107	\$ 39,991	\$ 43,705	\$ 44,579	\$ 198,743
Service Replacement Program ⁽³⁾	\$ 3,100	\$ 3,100	\$ -	\$ -	\$ -	\$ 6,200
Sub-total	\$ 36,462	\$ 40,207	\$ 39,991	\$ 43,705	\$ 44,579	\$ 204,943
Public Works	\$ 1,821	\$ 1,857	\$ 1,857	\$ 1,857	\$ 1,857	\$ 9,249
Reactive Main Replacement	\$ 500	\$ 510	\$ 510	\$ 510	\$ 510	\$ 2,540
Mandated Program	\$ 13,522	\$ 14,671	\$ 14,824	\$ 14,880	\$ 14,936	\$ 72,833
Reliability	\$ 8,987	\$ 8,690	\$ 9,371	\$ 9,135	\$ 11,231	\$ 47,412
Special Projects	\$ 4,000	\$ 387	\$ -	\$ -	\$ -	\$ 4,387
TOTAL	\$ 77,233	\$ 82,648	\$ 82,497	\$ 86,571	\$ 90,004	\$ 418,953
<p>(1) Growth is generally not included in the Gas ISR Plan (2) Main Replacement mileage increases annually (50, 53, 55, 60, 60) (3) Service Replacement Program is projected to conclude in FY15</p>						

Table 3

**Capital Spending by Investment Categories
Fiscal Year 2013 Year to Date - Through September 30, 2012 (\$000s)**

<u>Investment Categories</u>	<u>Fiscal Year 2013 to Date</u>			<u>Fiscal Year 2013 Total</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>	<u>Budget</u>	<u>Forecast</u>	<u>Variance</u>
Proactive Main Replacement Program	\$17,695	\$20,454	\$2,760	\$33,362	\$31,680	(\$1,682)
Service Replacement Program	\$2,072	\$2,960	\$888	\$3,906	\$3,956	\$50
Public Works Program	\$947	\$,71	(\$876)	\$1,785	\$1,785	\$0
Reactive Main Replacement Program	\$541	\$109	(\$432)	\$1,020	\$500	(\$520)
Mandated Program	\$6,435	\$6,000	(\$436)	\$12,133	\$11,928	(\$205)
Reliability Program	\$4,767	\$2,560	(\$2,206)	\$8,987	\$6,655	(\$2,332)
Special Project (I-195)	\$0	\$0	\$0	\$692	\$0	(\$692)
Total Capital Investments	\$32,456	\$32,154	(\$302)	\$61,885	\$56,505	(\$5,381)

FY 2013 Capital Spending by Category:

Proactive Main Replacement Program – \$2.8M variance to budget year-to-date

To date, the Company has installed 38.7 miles of the planned 50 miles and has abandoned 17.8 miles (12 percent ahead of plan). The Company is on target to meet its proposed replacement of 50 miles of leak prone gas main and is currently projecting year-end costs to be less than budget due to lower than forecasted unit costs.

Service Replacement Program – \$0.9M variance to budget year-to-date

To date, the Company has completed 918 of the 1,625 service replacements and 22 of the 49 farm taps and is currently projected to be on budget at year-end.

Public Works Program – (\$0.9M) variance to budget year-to-date

To-date, public works construction activity is below forecast; however, it is anticipated that construction activity will increase in the upcoming months. The Public Works Program is currently projected to be on budget at year-end.

Reactive Main Replacement Program – (\$0.4M) variance to budget year-to-date

To-date, the lower-than-budget spending is due to lower-than-forecasted unplanned emergency-related work. This variance is currently projected to carry through to year-end.

Mandated Program – (\$0.4M) variance to budget year-to-date

To date, the primary driver for the lower-than-budget spending is the shifting of resources to accelerate the service replacement program and to address growth related services. However, it is expected that Mandated Program spending will be on or near budget at fiscal year-end.

Reliability Program – (\$2.2M) variance to budget year-to-date

To date, the lower-than-budgeted spending is primarily driven by the delay in the relocation of three regulator stations (Canal Street, Friendship Street, Westerly) due to conflicts with a water main as well as fewer water intrusion projects than forecasted. This variance is currently projected to carry through to year-end.

Special Project (I-195) – Deferred to FY 2014

To date, there has been no spending on this project. All proposed work for FY 2013 has been deferred to the FY 2014 plan.

The Narragansett Electric Company
d/b/a National Grid
FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Section 3: Revenue Requirement

Section 3

Revenue Requirement

FY 2014 Gas ISR Plan

**Revenue Requirement
FY 2014 Proposal**

The attached proposed revenue requirement calculation reflects the revenue requirement related to the Company's proposed investment in its Gas Infrastructure, Safety, and Reliability ("ISR") Plan ("ISR Plan") for the fiscal year ("FY") ended March 31, 2014. Notably, the revenue requirement for the FY 2014 ISR recovery mechanism excludes amounts embedded in base rates in Docket No. 4323 for FY years 2012, 2013, and 2014 investments.

As shown on Page 1, Column (a) of Attachment 1, the Company's FY 2014 Gas ISR Plan revenue requirement totals \$664,509 and consists of the revenue requirement on FY 2014 proposed incremental non-growth ISR capital investment, as calculated on Attachment 1, Page 2, plus the FY 2014 revenue requirement on incremental non-growth ISR capital investment of \$-0- and \$459,728 for FY 2013 and FY 2012 incremental investment, respectively. Incremental non-growth capital investment for this purpose is intended to represent the net change in net plant for non-growth infrastructure investments during the relevant FY and is defined as capital additions plus cost of removal, less annual depreciation expense not ultimately embedded in the Company's base rates (excluding depreciation expense attributable to general plant). These amounts are shown on Lines 1 through 8.

For illustration purposes only, Column (b) of Page 1 of Attachment 1 provides the FY 2015 revenue requirement for the respective vintage year capital investments as calculated on Attachment 1, Pages 2 and 3. Importantly, these amounts will be trued up to actual investment

activity after the conclusion of the FY, with rate adjustments for the revenue requirement differences incorporated in future ISR filings.

Impacts of Base Rate Case Docket No. 4323 on FY 2014 Gas ISR Revenue Requirement

In April 2012, the Company filed an application with the Commission seeking a change in base rates for its electric and gas distribution businesses. The application was assigned Docket No. 4323. The test year used in the Company's request was calendar year 2011. The effective date of new rates in that proceeding is February 1, 2013 for a Rate Year ending January 31, 2014. On October 19, 2012, the Company entered into a settlement agreement with the Division and the U.S. Department of the Navy with regard to the Company's base rate change request. On November 14, 2012, the Company entered into an amended settlement agreement (the "Amended Settlement Agreement") with the Division and the U.S. Department of the Navy with regard to the Company's base rate request. The Commission approved the Amended Settlement Agreement on December 20, 2012. The base rate change request and associated Amended Settlement Agreement have affected various aspects of the FY 2014 Gas ISR Plan as follows:

The FY 2014 revenue requirement associated with the Company's capital investment in gas utility infrastructure is based on incremental capital investment in excess of capital investment that has been reflected in rate base in the Company's base rate case. The FY 2014 ISR revenue requirement has been calculated on estimated FY 2014 incremental capital investment, as well as on incremental capital investment for FY 2012 and FY 2013 because some or all of the capital investment for these years will occur beyond the end of the test year ended December 31, 2011.

The FY 2014 gas infrastructure revenue requirement has been calculated based upon the agreed-to level of embedded depreciation expense and associated composite depreciation rate, effective property tax rate, capital structure, and cost

of capital rates (including a 9.50 percent equity return) per the Amended Settlement Agreement.

The method used to recover property tax expense under the ISR has been modified by the Amended Settlement Agreement. In determining the base on which property tax expense is calculated for purposes of the ISR revenue requirement, the Company shall include an amount equal to the base-rate allowance for depreciation expense and depreciation expense on incremental ISR plant additions in the accumulated reserve for depreciation that is deducted from plant in service. The ISR property tax recovery will also include the impact of any changes in the Company's effective property tax rates on base-rate embedded property, plus cumulative ISR net additions. Property tax impacts associated with non-ISR plant additions are excluded from the property tax recovery calculation.

Gas Infrastructure Investment

Incremental Capital Investment

As noted above, Pages 2 and 3 of Attachment 1 calculate the revenue requirement of incremental capital investment associated with the Company's FY 2014 Gas ISR Plan, plus the FY 2014 revenue requirement on the incremental capital investment associated with the Company's FY 2012 Gas ISR Plan, excluding investments reflected in rate base in Docket No.4323 for each of those fiscal years; that is, gas infrastructure investment (net of general plant) incremental to the amounts embedded in the Company's base distribution rates. In the base rate proceeding, Docket No. 4323, the Company proposed to maintain consistency with the existing ISR mechanism for the FY 2012 and FY 2013 periods. The Company did this by reflecting the FY 2012 and FY 2013 level of ISR-eligible capital additions previously approved by the Commission in those years for purposes of rolling forward the level of rate base from the December 31, 2011 end of the test year to the January 31, 2014 end of the rate year in Docket No. 4323. Because there was no approved FY 2014 ISR when the Company filed its request for

a change in base rates, for the April 2013 through January 2014 period, the Company assumed the same level of annual ISR-eligible capital investments as those approved for FY 2013, prorated for that ten-month period. Incremental gas capital investment for this purpose is defined as cumulative allowed capital plus cost of removal, less annual depreciation expense embedded in the Company's base rates, net of depreciation expense attributable to general plant.

Page 6 of Attachment 1 calculates the incremental ISR capital investment and the related incremental cost of removal and incremental retirements for the FY 2014 gas ISR revenue requirement. The calculation compares ISR-eligible capital investment, cost of removal and retirements for FY 2012 through FY 2014, to the corresponding amounts reflected in rate base in Docket No. 4323. Column (a) on Page 6 reflects FY 2012 **actual** ISR-eligible capital investment, cost of removal and retirements which are compared to the amounts estimated in rate base in Docket No. 4323 for FY 2012. The comparable columns for FY 2013 and FY 2014 are represented in columns (b) and (c) however, the comparison of the capital investment, cost of removal, and retirements in rate base in Docket No. 4323 are made to **estimated** ISR-eligible amounts since the actual amounts will not be known until those years are completed. For FY 2013, estimated ISR-eligible amounts are the same amounts that were reflected in rate base in Docket No. 4323. Consequently, the incremental ISR capital investment, cost of removal and retirements to be used in the revenue requirement calculation for vintage year 2013 investments for the FY 2014 revenue requirement are \$-0-. Actual ISR-eligible amounts for FY 2013 will be known and reflected in the Company's FY 2015 Gas ISR Plan filing. Finally, estimated ISR-eligible capital investment, cost of removal and retirements for the twelve months of FY 2014

are being compared to the estimated amount of ISR-eligible investment included in Docket No. 4323 through the rate year ending January 31, 2014 for determining the incremental amounts to be included in this proceeding. As described above, because all ISR-eligible investment is fully reconciling through the ISR reconciliation mechanism, the Company used the FY 2013 approved level of spending as a proxy for estimated FY 2014 investment in the rate case.

Gas Infrastructure Revenue Requirement

The revenue requirement calculation on incremental gas infrastructure investment for vintage year FY 2014 is shown on Page 2 of Attachment 1. The revenue requirement calculation incorporates the incremental ISR capital investment, cost of removal and retirements calculated on Page 6, which is the basis for determining the three components of the revenue requirement: (1) the return on investment (i.e. average ISR Plan rate base at the weighted average cost of capital); (2) depreciation expense; and (3) property taxes. The calculation on Page 2 begins with the determination of the depreciable net incremental capital that will be included in the ISR Plan rate base. Because depreciation expense is affected by plant retirements, retirements have been deducted from the total allowed capital included in ISR Plan rate base in determining depreciation expense. Retirements however, do not affect rate base as both “plant in service” and the “depreciation reserve” are reduced by the installed value of the plant being retired and therefore have no impact on net plant. For purposes of calculating the revenue requirement, plant retirements have been estimated based on the percentage of retirements to additions during FY 2012, and have been deducted from the total depreciable capital amount as shown on Lines 1

through 3. Incremental book depreciation expense on Line 12 is computed based on the net depreciable additions, from Line 3 at the 3.38 percent composite depreciation rate as approved in Docket No. 4065⁷, and as shown on Line 9. The Company has assumed a half year convention for the year of installation. Unlike retirements, cost of removal affects rate base but not depreciation expense. Consequently, the cost of removal, as shown on Line 7, is combined with the incremental depreciable amount from Line 6 (vintage year ISR Plan allowable capital additions less non-general plant depreciation expense included in base distribution rates) to arrive at the incremental investment on Line 8 to be included in the rate base upon which the return component of the annual revenue requirement is calculated.

The rate base calculation incorporates net plant from Line 8, accumulated depreciation and accumulated deferred tax reserves as shown on Lines 18 and 19, respectively. The deferred tax amount arising from the capital investment, as calculated on Lines 14 through 16, equals the difference between book depreciation and tax depreciation on the capital investment, times the effective tax rate. The calculation of tax depreciation is described below.

The average change in rate base is shown on Line 21. Average rate base in the ISR Plan revenue requirement is normally calculated as the average year-end cumulative change in rate base. However, since a portion of FY 2014 non-growth capital investment is reflected in the rate case and the other portion is not, a separate calculation was necessary to apportion the incremental non-growth capital for the year for purposes of determining the weighted average rate base for FY 2014 investment. This calculation is shown on Page 7 of Attachment 1. The

⁷ The Commission did not change depreciation rates in the Company's base rate filing in Docket No. 4323.

portions of FY 2014 that falls outside of the rate year are the months of February and March of 2014. Therefore, it is assumed that one-twelfth of total FY 2014 non-growth capital investment will be incurred in each of those months. For the remaining FY 2014 incremental non-growth capital investment (i.e. total incremental non-growth capital investment less the portion attributed to February and March of 2014) it is assumed that such remaining investment will be incurred evenly during the months of April 2013 to January 2014. The incremental investment for each month is then weighted for the period that such investment was outstanding during the year, generating a weighted average plant investment ratio of 22.62 percent (i.e.: the ratio of the weighted average plant investment for the year over total incremental ISR capital investment). Average rate base on Line 21 of Page 2 for FY 2014 on vintage FY 2014 capital investment equals the year-end rate base from Line 20 times the 22.62 percent from Page 7. This amount is multiplied by the pre-tax rate of return agreed to in the Amended Settlement Agreement approved by the Commission in Docket No. 4323, as shown on Line 22, to compute the return and tax portion of the incremental revenue requirement, as shown on Line 23. Incremental depreciation expense is added on Line 24 to this amount, as are property taxes on Line 25, which are computed at the 3.06 percent effective property tax rate agreed to in the Amended Settlement Agreement and approved by the Commission in Docket No. 4323 on net capital investment in the year following the investment to coincide with the timing in which property taxes are assessed. The sum of these three amounts reflects the annual revenue requirement associated with the capital investment portion of the Company's Gas ISR Plan on Line 26, which is carried forward to Page 1 as part of the total Gas ISR Plan revenue requirement. A similar revenue

requirement calculation for the vintage FY 2012 incremental ISR capital investment is shown on Page 3.

Tax Depreciation Calculation

The tax depreciation calculations for FY 2014 and FY 2012 are provided on Pages 4 and 5 of Attachment 1, respectively. The tax depreciation amount assumes that a portion of the capital investment, as shown on Line 1 of those pages, will be eligible for immediate deduction on the Company's corresponding FY federal income tax return. This immediate deductibility is referred to as the capital repairs deduction.⁸ In addition, plant additions not subject to the capital repairs deduction may be subject to bonus depreciation as shown on Lines 4 through 12 on Page 5. During 2010, Congress passed the Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 (the "Act") which provided for an extension of bonus depreciation. Specifically, the Act provides for the application of 100 percent bonus depreciation for investment constructed and placed into service after September 8, 2010 through December 31, 2011, and then 50 percent bonus depreciation for similar capital investment placed into service after December 31, 2011 through December 2012. Under the Act, capital investments made

⁸ In 2009, the Internal Revenue Service ("IRS") issued additional guidance, under Internal Revenue Code Section 162. This guidance relates to certain work that is considered as repair and maintenance expense and which is eligible for immediate tax deduction for income tax purposes, but capitalized by the Company for book purposes. As a result of this additional guidance, the Company recorded a one-time tax expense for repair and maintenance costs in its FY 2009 federal income tax return filed on December 11, 2009 by National Grid Holdings, Inc. Since that time, the Company has taken a capital repairs deduction on all subsequent FY tax returns. This has formed the basis for the capital repairs deduction assumed in the Company's revenue requirement. This tax deduction has the effect of increasing deferred taxes and lowering the revenue requirement that customers will pay under the capital investment reconciliation mechanism. The Company's federal income tax returns are subject to audit by the IRS. If it is determined in the future that the Company's position on its tax returns on this matter was incorrect, the

from January 2012 through December 2012 are eligible for 50 percent bonus depreciation, as shown on Page 5 Line 10.⁹ Finally, the remaining plant additions not deducted as bonus depreciation are then subject to the IRS Modified Accelerated Cost-Recovery System, or MACRS tax depreciation rate. The amount of depreciation deducted for MACRS is added to the amount of capital repairs deduction plus the bonus depreciation deduction and cost of removal to arrive at total tax depreciation. These annual total tax depreciation amounts are carried forward to Line 10 and Line 8 of Attachment 1, Pages 2 and 3, for the respective years, and incorporated in the deferred tax calculation.

Company will reflect any related IRS disallowances, plus any associated interest assessed by the IRS, in a subsequent reconciliation filing under the ISR Plan.

⁹ The Company anticipates that the IRS will issue further guidance on this issue. Should such guidance differ from the Company's interpretation of the 2010 Act, the Company will reflect any resulting differences in a subsequent reconciliation filing under the Gas ISR Plan.

**The Narragansett Electric Company
d/b/a National Grid
Gas Infrastructure, Safety, and Reliability (ISR) Plan
Annual Revenue Requirement Summary**

Line No.		Fiscal Year <u>2014</u> (a)	Fiscal Year <u>2015</u> (b)
	Capital Investment:		
1	Actual Revenue Requirement on Incremental FY 2012 Capital included in ISR Rate Base	\$459,728	\$442,246
2	Forecasted Annual Revenue Requirement on FY 2013 Capital included in ISR Rate Base	\$0	\$0
3	Forecasted Annual Revenue Requirement on FY 2014 Capital Included in ISR Rate Base	\$204,781	\$1,411,460
4	Total	\$664,509	\$1,853,706
5	Total Incremental Fiscal Year Rate Adjustment	\$664,509	

Line Notes

- 1 From Page 3, Line 24
- 3 From Page 2, Line 26
- 4 Line 1 + Line 2 + Line 3
- 5 Current Year Line 4 - Prior Year Line 4

**The Narragansett Electric Company
d/b/a National Grid
Computation of Gas Capital Investment Revenue Requirement
FY 2014 Investment**

Line No.			Fiscal Year <u>2014</u> (a)	Fiscal Year <u>2015</u> (b)
<u>Depreciable Net Capital Included in ISR Rate Base</u>				
1	Total Allowed Capital Included in ISR Rate Base in Current Year	Page 6 Line 3, Column (c)	\$14,503,237	\$0
2	Retirements	Page 6 Line 9, Column (c)	\$1,422,767	\$0
3	Net Depreciable Capital Included in ISR Rate Base	Column (a) = Line 1 - Line 2; Column (b) = Prior Year Line 3	\$13,080,470	\$13,080,470
<u>Change in Net Capital Included in ISR Rate Base</u>				
4	Capital Included in ISR Rate Base	Line 1	\$14,503,237	\$0
5	Depreciation Expense	Per Settlement Agreement Docket No. 4323, excluding General Plant	\$4,060,176	\$0
6	Incremental Depreciable Amount	Column (a) = Line 4 - Line 5; Column (b) = Prior Year Line 6	\$10,443,061	\$10,443,061
7	Cost of Removal	Page 6 Line 6, Column (c)	(\$783,176)	(\$783,176)
8	Net Plant Amount	Line 6 + Line 7	\$9,659,885	\$9,659,885
<u>Deferred Tax Calculation:</u>				
9	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943 & 4323	3.38%	3.38%
10	Tax Depreciation	Page 4, Line 10	\$6,507,257	\$540,979
11	Cumulative Tax Depreciation	Prior Year Line 11 + Current Year Line 10	\$6,507,257	\$7,048,236
12	Book Depreciation	Column (a) = Line 3 * Line 9 * 50% * 2/12; Column (b) = Line 3 * Line 9	\$36,843	\$442,120
13	Cumulative Book Depreciation	Prior Year Line 13 + Current Year Line 12	\$36,843	\$478,963
14	Cumulative Book / Tax Timer	Line 11 - Line 13	\$6,470,414	\$6,569,273
15	Effective Tax Rate		35.00%	35.00%
16	Deferred Tax Reserve	Line 14 * Line 15	\$2,264,645	\$2,299,245
<u>ISR Rate Base Calculation:</u>				
17	Cumulative Incremental Capital Included in ISR Rate Base	Line 8	\$9,659,885	\$9,659,885
18	Accumulated Depreciation	- Line 13	(\$36,843)	(\$478,963)
19	Deferred Tax Reserve	- Line 16	(\$2,264,645)	(\$2,299,245)
20	Year End Rate Base	Sum of Lines 17 through 19	\$7,358,397	\$6,881,677
<u>Revenue Requirement Calculation:</u>				
21	Average ISR Rate Base	Column (a) Page 7 Line 15 * Line 20; Column (b) = (Prior Year Line 20 + Current Year Line 20) ÷ 2	\$1,664,399	\$7,120,037
22	Pre-Tax ROR		10.09%	10.09%
23	Return and Taxes	Line 21 * Line 22	\$167,938	\$718,412
24	Book Depreciation	Line 12	\$36,843	\$442,120
25	Property Taxes	\$0 in Year 1, then Prior Year (Line 3 + Line 7 - Line 5 - Line 13) * Property Tax Rate	\$0	\$250,928
26	Annual Revenue Requirement	Sum of Lines 23 through 25	\$204,781	\$1,411,460

1/ Depreciation Expense has been prorated for 2 months (February - March 2014)

2/ Weighted Average Cost of Capital per Settlement Agreement R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.78%	2.89%		2.89%
Short Term Debt	0.76%	0.80%	0.01%		0.01%
Preferred Stock	0.15%	4.50%	0.01%		0.01%
Common Equity	49.14%	9.50%	4.67%	2.51%	7.18%
	100.00%		7.58%	2.51%	10.09%

3/ Assumes an Effective Property Tax Rate of 3.06% subject to true up per Settlement Agreement R.I.P.U.C. Docket No. 4323

The Narragansett Electric Company
d/b/a National Grid
Computation of Gas Capital Investment Revenue Requirement
FY 2012 Investment

Line No.		Fiscal Year 2012 (a)	Fiscal Year 2013 (b)	Fiscal Year 2014 (c)	Fiscal Year 2015 (d)
<u>Depreciable Net Capital included in ISR Rate Base</u>					
1	Incremental Capital Investment	Page 6 Line 3, Column (a)	\$7,020,631	\$0	\$0
2	Retirements	Page 6 Line 9, Column (a)	\$2,292,446	\$0	\$0
3	Net Depreciable Capital Included in ISR Rate Base	Column (a) = Line 1 - Line 2; Columns (b), (c) & (d) = Prior Year Line 3	\$4,728,185	\$4,728,185	\$4,728,185
<u>Change in Incremental Capital Investment Included in ISR Rate Base</u>					
4	Incremental Depreciable Amount	Line 1	\$7,020,631	\$7,020,631	\$7,020,631
5	Incremental Cost of Removal	Page 6 Line 6, Column (a)	(\$3,171,476)	(\$3,171,476)	(\$3,171,476)
6	Incremental Plant Amount	Line 4 + Line 5	\$3,849,155	\$3,849,155	\$3,849,155
<u>Deferred Tax Calculation:</u>					
7	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943 & 4323	3.38%	3.38%	3.38%
8	Tax Depreciation	Page 5 Line 20	\$2,954,452	\$67,105	\$62,067
9	Cumulative Tax Depreciation	Prior Year Line 9 + Current Year Line 8	\$2,954,452	\$3,021,557	\$3,083,624
10	Book Depreciation	Column (a) = Line 3 * Line 7 * 50%; Columns (b), (c) & (d) = Line 3 * Line 7	\$79,906	\$159,813	\$159,813
11	Cumulative Book Depreciation	Prior Year Line 11 + Current Year Line 10	\$79,906	\$239,719	\$399,532
12	Cumulative Book / Tax Timer	Line 9 - Line 11	\$2,874,546	\$2,781,838	\$2,684,092
13	Effective Tax Rate		35.00%	35.00%	35.000%
14	Deferred Tax Reserve	Line 12 * Line 13	\$1,006,091	\$973,643	\$939,432
<u>ISR Rate Base Calculation:</u>					
15	Cumulative Incremental Capital Included in ISR Rate Base	Line 6	\$3,849,155	\$3,849,155	\$3,849,155
16	Accumulated Depreciation	- Line 11	(\$79,906)	(\$239,719)	(\$399,532)
17	Deferred Tax Reserve	- Line 14	(\$1,006,091)	(\$973,643)	(\$939,432)
18	Year End Rate Base	Sum of Lines 15 through 17	\$2,763,158	\$2,635,793	\$2,510,191
<u>Revenue Requirement Calculation:</u>					
19	Average ISR Rate Base	(Prior Year Line 18 + Current Year Line 18) ÷ 2	\$1,381,579	\$2,699,475	\$2,572,992
20	Pre-Tax ROR				10.09%
21	Return and Taxes	Line 19 * Line 20			\$259,615
22	Book Depreciation	Line 10			\$159,813
23	Property Taxes	\$0 in Year 1, then Prior Year (Line 3 + Line 5 - Line 11) * Property Tax Rate			\$40,300
24	Annual Revenue Requirement	Sum of Lines 21 through 23	3/	N/A	\$459,728

1/ Weighted Average Cost of Capital per Settlement Agreement R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.78%	2.89%		2.89%
Short Term Debt	0.76%	0.80%	0.01%		0.01%
Preferred Stock	0.15%	4.50%	0.01%		0.01%
Common Equity	49.14%	9.50%	4.67%	2.51%	7.18%
	100.00%		7.58%	2.51%	10.09%

2/ Assumes an Effective Property Tax Rate of 3.06% subject to the true up per Settlement Agreement R.I.P.U.C. Docket No. 4323

3/ Column (a) The FY 2012 Revenue Requirement on the FY 2012 Capital investment was reconciled in the FY 2012 Gas ISR Reconciliation Filing R.I.P.U.C Docket No. 4219.
Column (b) The FY 2013 Revenue Requirement on the FY 2012 Capital Investment will be reconciled in the FY 2013 Gas ISR Reconciliation Filing due August 1, 2013.

The Narragansett Electric Company
d/b/a National Grid
Calculation of Tax Depreciation
On FY 2014 Capital Investment

Line No.			Fiscal Year <u>2014</u> (a)	Fiscal Year <u>2015</u> (b)
	<u>Capital Repairs Deduction</u>			
1	Plant Additions	Page 2 Line 1	\$14,503,237	
2	Capital Repairs Deduction Rate	Per Tax Department	48.33%	
3	Capital Repairs Deduction	Line 2 * Line 3	\$7,009,415	
	<u>Remaining Tax Depreciation</u>			
4	Plant Additions	Line 1	\$14,503,237	
5	Less Capital Repairs Deduction	Line 3	\$7,009,415	
6	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 4 - 5	\$7,493,822	\$7,493,822
7	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%
8	Remaining Tax Depreciation	Line 6 * Line 7	\$281,018	\$540,979
9	Cost of Removal	Page 2 Line 7	(\$783,176)	
10	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 8, 9	\$6,507,257	\$540,979

^{1/} Capital Repairs percentage is based on the actual results of the FY 2011 tax return. Since growth is not included in the ISR, the percentage was derived by taking property qualifying for the repairs deduction as a percentage of the total annual plant additions in those categories that are considered as potentially qualifying for Capital Repairs deduction.

**The Narragansett Electric Company
d/b/a National Grid
Calculation of Tax Depreciation
On FY 2012 Capital Investment**

Line No.			Fiscal Year <u>2012</u> (a)	Fiscal Year <u>2013</u> (b)	Fiscal Year <u>2014</u> (c)	Fiscal Year <u>2015</u> (d)
<u>Capital Repairs Deduction</u>						
1	Plant Additions	Page 3 Line 1	\$7,020,631			
2	Capital Repairs Deduction Rate	Per Tax Department	48.33%			
3	Capital Repairs Deduction	Line 2 * Line 3	\$3,393,071			
<u>Bonus Depreciation</u>						
4	Plant Additions	Line 1	\$7,020,631			
5	Less Capital Repairs Deduction	Line 3	\$3,393,071			
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	\$3,627,560			
7	Percent of Plant Eligible for Bonus Depreciation		85.00%			
8	Plant Eligible for Bonus Depreciation	Line 6 * Line 7	\$3,083,426			
9	Bonus Depreciation Rate (April 2011 - December 2011)	1 * 75%	75.00%			
10	Bonus Depreciation Rate (January 2012 - March 2012)	1 * 25% * 50%	12.50%			
11	Total Bonus Depreciation Rate	Line 9 + Line 10	87.50%			
12	Bonus Depreciation	Line 8 * Line 11	\$2,697,998			
<u>Remaining Tax Depreciation</u>						
13	Plant Additions	Line 1	\$7,020,631			
14	Less Capital Repairs Deduction	Line 3	\$3,393,071			
15	Less Bonus Depreciation	Line 12	\$2,697,998			
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 1 - 14 - 15	\$929,562	\$929,562	\$929,562	\$929,562
17	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%	6.677%	6.177%
18	Remaining Tax Depreciation	Line 16 * Line 17	\$34,859	\$67,105	\$62,067	\$57,419
19	Cost of Removal	Page 3 Line 5	(\$3,171,476)			
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	\$2,954,452	\$67,105	\$62,067	\$57,419

^{1/} Capital Repairs percentage is based on the actual results of the FY 2011 tax return. Since growth is not included in the ISR, the percentage was derived by taking property qualifying for the repairs deduction as a percentage of the total annual plant additions in those categories that are considered as potentially qualifying for Capital Repairs deduction.

^{2/} Since not all property additions qualify for bonus depreciation and because a project must be started after the beginning of the bonus period, January 1, 2008, an estimate of 85% is used rather than 100%.

The Narragansett Electric Company
d/b/a National Grid
FY 2012 - FY 2014 Incremental Capital Investment Summary

Line No.		Actual Fiscal Year <u>2012</u> (a)	Estimated Fiscal Year <u>2013</u> (b)	Estimated Fiscal Year <u>2014</u> (c)	
<u>Capital Investment</u>					
1	ISR-eligible Capital Investment	Col (a) FY 2012 ISR Reconciliation Filing Docket No. 4219; Col (b) FY 2013 ISR Filing Docket No. 4306; Col (c) Proposed FY 2014 Capital Investment	\$54,681,347	\$57,184,191	\$62,156,730
2	ISR-eligible Capital Additions included in Rate Base per R.I.P.U.C. Docket No. 4323	Schedule MDL-3-GAS Page 51, Docket No. 4323; Col (a)= Line Note 1(a); Col (b)= Line Note 2(b); Col (c)= Line Note 3(e)	\$47,660,716	\$57,184,191	\$47,653,493
3	Incremental ISR Capital Investment	Line 3 - Line 4	\$7,020,631	\$0	\$14,503,237
<u>Cost of Removal</u>					
4	ISR-eligible Cost of Removal	Col (a) FY 2012 ISR Reconciliation Filing Docket No. 4219; Col (b) FY 2013 ISR Filing Docket No. 4306; Col (c) Proposed FY 2014 Capital Investment	\$2,583,612	\$4,701,396	\$3,134,654
5	ISR-eligible Cost of Removal in Rate Base per R.I.P.U.C. Docket No. 4323	Workpaper MDL-19-GAS Page 3, Docket No. 4323; Col (a)= Line Note 1(a); Col (b)= Line Note 2(b); Col (c)= Line Note 3(e)	\$5,755,088	\$4,701,396	\$3,917,830
6	Incremental Cost of Removal	Line 4 - Line 5	(\$3,171,476)	\$0	(\$783,176)
<u>Retirements</u>					
7	ISR-eligible Retirements	Col (a) FY 2012 ISR Reconciliation Filing Docket No. 4219; Col (b) FY 2013 ISR Filing Docket No. 4306; Col (c) Line 1 * 9.81%	\$5,366,562	\$2,498,949	\$6,097,575 1/
8	ISR-eligible Retirements per Docket 4323	Col (a) Supplemental Testimony 2-17-2011 Docket No. 4219; Col (b) FY 2013 ISR Filing Docket No. 4306; Col (c) Line 2 * 9.81%	\$3,074,116	\$2,498,949	\$4,674,808 1/
9	Incremental Retirements	Line 7- Line 8	\$2,292,446	\$0	\$1,422,767

1/ Assumes 9.81% based on FY 2012 retirements as a percentage of capital investment

**The Narragansett Electric Company
d/b/a National Grid
Gas Infrastructure, Safety, and
Reliability Plan FY 2014 Proposal
Section 3: Attachment 1
Page 7 of 7**

**The Narragansett Electric Company
d/b/a National Grid
Calculation of FY 2014 Weighted Average Rate Base Ratio**

<u>Line No.</u>	<u>Month No.</u>	<u>Month</u>	<u>FY 2014 Plant Additions</u> (a)	<u>In Rates</u> (b)	<u>Not In Rates</u> (c) = (a) - (b)	<u>Weight</u> (d)	<u>Weighted Average</u> (f) = (d) * (c)
1				57,184,191			
2	1	Apr-13	5,179,728	4,765,349	414,378	0.958	397,113
3	2	May-13	5,179,728	4,765,349	414,378	0.875	362,581
4	3	Jun-13	5,179,728	4,765,349	414,378	0.792	328,049
5	4	Jul-13	5,179,728	4,765,349	414,378	0.708	293,518
6	5	Aug-13	5,179,728	4,765,349	414,378	0.625	258,986
7	6	Sep-13	5,179,728	4,765,349	414,378	0.542	224,455
8	7	Oct-13	5,179,728	4,765,349	414,378	0.458	189,923
9	8	Nov-13	5,179,728	4,765,349	414,378	0.375	155,392
10	9	Dec-13	5,179,728	4,765,349	414,378	0.292	120,860
11	10	Jan-14	5,179,728	4,765,349	414,378	0.208	86,329
12	11	Feb-14	5,179,728	-	5,179,728	0.125	647,466
13	12	Mar-14	5,179,728	-	5,179,728	0.042	215,822
14		Total	<u>\$62,156,730</u>	<u>\$47,653,493</u>	<u>\$14,503,238</u>		<u>\$3,280,495</u>
15		Ratio					<u>22.62%</u>

Column (a) Page 6 Line 1(c)
Column (b) Page 6 Line 2(c)
Column (d)= (12.5- Month No.) / 12

The Narragansett Electric Company
d/b/a National Grid
FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Section 4: Rate Design

Section 4

Rate Design

FY 2014 Gas ISR Plan

**Rate Design
FY 2014 Proposal**

Like the revenue requirement, the Gas ISR Plan proposed rate design for FY 2014 is based on incremental capital investment in excess of capital investment that was been reflected in rate base in the Company's base rate case in Docket No. 4323. For purposes of rate design, the revenue requirement associated with the capital investment is allocated to rate classes based upon the rate base allocator from the Company's Amended Settlement Agreement in Docket No. 4323. The throughput has been updated for the April 2013 to March 2014 period based upon the most recent forecast filed in the Company's Gas Cost Recovery filing in Docket No. 4346. Attachment 1, Page 1 provides the new ISR factors by rate class, and Page 2 provides the forecasted throughput for April 2013 through March 2014 used for the derivation of the rates presented on Page 1.

FY 2014 Gas ISR

Revenue Requirement	Rate Class	Rate Base Allocator %	Allocation to Rate Class	Throughput dth	ISR Factor dth	ISR Factor therm	Uncollectible	ISR Factor therm
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\$664,509

Res-NH	3.73%	\$24,793	558,646	\$0.0444	0.0044	3.18%	\$0.0045
Res-H	61.56%	\$409,059	17,795,825	\$0.0230	0.0023	3.18%	\$0.0024
Small	8.19%	\$54,404	2,372,969	\$0.0229	0.0023	3.18%	\$0.0024
Medium	13.58%	\$90,262	5,366,475	\$0.0168	0.0017	3.18%	\$0.0018
Large LL	6.04%	\$40,116	2,780,728	\$0.0144	0.0014	3.18%	\$0.0014
Large HL	2.35%	\$15,645	933,103	\$0.0168	0.0017	3.18%	\$0.0018
XL-LL	0.77%	\$5,110	1,060,123	\$0.0048	0.0005	3.18%	\$0.0005
XL-HL	3.78%	\$25,120	4,762,643	\$0.0053	0.0005	3.18%	\$0.0005

Dth forecast
Apr 13-Mar 14

	2013	2013	2013	2013	2013	2013	2013	2013	2013	2013	2014	2014	2014	Total
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar		
Res-NH	52,095	46,325	34,178	29,995	27,280	27,901	28,447	38,121	58,146	75,724	74,451	65,983		558,646
Res-H	1,998,463	1,232,855	674,166	443,392	388,331	399,794	515,751	1,094,400	2,105,511	3,075,805	3,119,383	2,747,974		17,795,825
Small	264,475	142,278	71,605	53,665	47,990	48,259	48,988	121,113	260,519	463,720	443,919	406,437		2,372,969
Medium	540,515	358,911	226,708	183,310	172,711	188,419	212,996	363,608	594,460	842,663	893,943	788,231		5,366,475
Large LL	308,325	143,544	88,793	53,607	46,769	54,797	98,791	225,556	362,321	488,406	478,218	431,602		2,780,728
Large HL	81,907	74,577	60,247	55,624	59,555	62,527	58,297	78,046	93,424	99,942	103,761	105,197		933,103
XL-LL	99,241	47,910	23,709	18,513	18,206	23,719	50,092	108,976	161,915	182,189	175,920	149,734		1,060,123
XL-HL	340,930	390,126	372,971	371,195	379,890	396,990	371,180	394,193	489,801	441,550	425,028	388,789		4,762,643
	3,685,951	2,436,526	1,552,377	1,209,300	1,140,732	1,202,406	1,384,542	2,424,013	4,126,096	5,669,999	5,714,623	5,083,947		35,630,512

The Narragansett Electric Company
d/b/a National Grid
FY 2014 Gas Infrastructure, Safety, and Reliability Plan
Section 5: Bill Impacts

Section 5

Bill Impacts

FY 2014 Gas ISR Plan

Bill Impacts
FY 2014 Proposal

The estimated typical bill impacts associated with the rate design contained in Section 4 are provided in this Section. Because the FY 2014 revenue requirement was based upon FY 2014 capital costs that were incremental to the FY 2014 capital costs included in the Company's base rates per the Amended Settlement Agreement (approved by the Commission in Docket No. 4323), the Company used the base rates provided in its Amended Settlement Agreement for both the current and proposed bill comparisons. Also, because these base rates now include ISR capital costs for FY 2012 and FY 2013, the Company zeroed out the current ISR factor in the current analysis. Attachment 1 of this section provides the bill impact of the FY 2014 Gas ISR Plan by rate class. For the average residential heating customer utilizing 846 therms, the cumulative impact of the FY 2014 Gas ISR Plan will represent an annual increase of \$2.09, or 0.2 percent¹⁰.

¹⁰ Please note that the bill impact includes the Rhode Island Gross Earnings Tax of three percent.

**Residential Heating ISR Bill Impact Analysis with Various Levels of Consumption:
ISR Rates**

Residential Heating:					FY 14 Difference due to:			
Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	GCR	DAC		
						Base DAC	ISR	
550	\$856	\$854	\$1	0.2%	\$0.00	\$0.00	\$1.37	
608	\$928	\$927	\$1	0.2%	\$0.00	\$0.00	\$1.49	
667	\$1,002	\$1,001	\$2	0.2%	\$0.00	\$0.00	\$1.66	
727	\$1,076	\$1,075	\$2	0.2%	\$0.00	\$0.00	\$1.82	
788	\$1,149	\$1,147	\$2	0.2%	\$0.00	\$0.00	\$1.94	
Average Customer	846	\$1,216	\$1,214	\$2	0.2%	\$0.00	\$0.00	\$2.09
904	\$1,284	\$1,281	\$2	0.2%	\$0.00	\$0.00	\$2.24	
966	\$1,356	\$1,353	\$2	0.2%	\$0.00	\$0.00	\$2.38	
1,023	\$1,422	\$1,419	\$3	0.2%	\$0.00	\$0.00	\$2.53	
1,081	\$1,488	\$1,486	\$3	0.2%	\$0.00	\$0.00	\$2.67	
1,145	\$1,561	\$1,558	\$3	0.2%	\$0.00	\$0.00	\$2.86	

Residential Heating Low Income:					FY 14 Difference due to:			
Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	GCR	DAC		
						Base DAC	ISR	
550	\$813	\$812	\$1	0.2%	\$0.00	\$0.00	\$1.37	
608	\$883	\$881	\$1	0.2%	\$0.00	\$0.00	\$1.49	
667	\$954	\$952	\$2	0.2%	\$0.00	\$0.00	\$1.66	
727	\$1,026	\$1,024	\$2	0.2%	\$0.00	\$0.00	\$1.82	
788	\$1,095	\$1,093	\$2	0.2%	\$0.00	\$0.00	\$1.94	
Average Customer	846	\$1,161	\$1,158	\$2	0.2%	\$0.00	\$0.00	\$2.09
904	\$1,226	\$1,224	\$2	0.2%	\$0.00	\$0.00	\$2.24	
966	\$1,296	\$1,293	\$2	0.2%	\$0.00	\$0.00	\$2.38	
1,023	\$1,359	\$1,357	\$3	0.2%	\$0.00	\$0.00	\$2.53	
1,081	\$1,424	\$1,421	\$3	0.2%	\$0.00	\$0.00	\$2.67	
1,145	\$1,494	\$1,491	\$3	0.2%	\$0.00	\$0.00	\$2.86	

Residential Heating ISR Bill Impact Analysis with Various Levels of Consumption:
ISR Rates

Residential Non-Heating:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC Base DAC	ISR
140	\$328	\$327	\$1	0.2%	\$0.00	\$0.00	\$0.68
155	\$346	\$345	\$1	0.2%	\$0.00	\$0.00	\$0.71
171	\$365	\$364	\$1	0.2%	\$0.00	\$0.00	\$0.79
184	\$380	\$380	\$1	0.2%	\$0.00	\$0.00	\$0.87
198	\$397	\$396	\$1	0.2%	\$0.00	\$0.00	\$0.92
Average Customer 214	\$416	\$415	\$1	0.2%	\$0.00	\$0.00	\$0.99
228	\$433	\$432	\$1	0.2%	\$0.00	\$0.00	\$1.07
244	\$452	\$451	\$1	0.3%	\$0.00	\$0.00	\$1.14
258	\$469	\$468	\$1	0.3%	\$0.00	\$0.00	\$1.21
275	\$489	\$488	\$1	0.3%	\$0.00	\$0.00	\$1.27
288	\$505	\$503	\$1	0.3%	\$0.00	\$0.00	\$1.36

Residential Non-Heating Low Income:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC Base DAC	ISR
140	\$296	\$296	\$1	0.2%	\$0.00	\$0.00	\$0.68
155	\$313	\$312	\$1	0.2%	\$0.00	\$0.00	\$0.71
171	\$331	\$330	\$1	0.2%	\$0.00	\$0.00	\$0.79
184	\$345	\$344	\$1	0.2%	\$0.00	\$0.00	\$0.87
198	\$361	\$360	\$1	0.2%	\$0.00	\$0.00	\$0.92
Average Customer 214	\$378	\$377	\$1	0.3%	\$0.00	\$0.00	\$0.99
228	\$394	\$393	\$1	0.3%	\$0.00	\$0.00	\$1.07
244	\$412	\$411	\$1	0.3%	\$0.00	\$0.00	\$1.14
258	\$428	\$427	\$1	0.3%	\$0.00	\$0.00	\$1.21
275	\$447	\$445	\$1	0.3%	\$0.00	\$0.00	\$1.27
288	\$461	\$460	\$1	0.3%	\$0.00	\$0.00	\$1.36

Residential Heating ISR Bill Impact Analysis with Various Levels of Consumption:
ISR Rates

C & I Small:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
880	\$1,409	\$1,407	\$2	0.2%	\$0.00	\$0.00	\$2.18
973	\$1,516	\$1,513	\$3	0.2%	\$0.00	\$0.00	\$2.40
1,067	\$1,622	\$1,620	\$2	0.2%	\$0.00	\$0.00	\$2.63
1,162	\$1,728	\$1,725	\$3	0.2%	\$0.00	\$0.00	\$2.88
1,258	\$1,829	\$1,826	\$3	0.2%	\$0.00	\$0.00	\$3.13
Average Customer 1,352	\$1,926	\$1,923	\$3	0.2%	\$0.00	\$0.00	\$3.33
1,446	\$2,025	\$2,021	\$4	0.2%	\$0.00	\$0.00	\$3.57
1,542	\$2,124	\$2,121	\$3	0.2%	\$0.00	\$0.00	\$3.81
1,635	\$2,221	\$2,217	\$4	0.2%	\$0.00	\$0.00	\$4.05
1,730	\$2,319	\$2,315	\$4	0.2%	\$0.00	\$0.00	\$4.28
1,825	\$2,417	\$2,412	\$5	0.2%	\$0.00	\$0.00	\$4.51

C & I Medium:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
7,941	\$9,336	\$9,322	\$15	0.2%	\$0.00	\$0.00	\$14.29
8,796	\$10,249	\$10,232	\$17	0.2%	\$0.00	\$0.00	\$15.82
9,650	\$11,159	\$11,142	\$17	0.2%	\$0.00	\$0.00	\$17.37
10,505	\$12,072	\$12,052	\$20	0.2%	\$0.00	\$0.00	\$18.91
11,361	\$12,985	\$12,964	\$21	0.2%	\$0.00	\$0.00	\$20.44
Average Customer 12,217	\$13,898	\$13,875	\$23	0.2%	\$0.00	\$0.00	\$22.67
13,073	\$14,811	\$14,786	\$25	0.2%	\$0.00	\$0.00	\$23.54
13,928	\$15,722	\$15,697	\$25	0.2%	\$0.00	\$0.00	\$25.07
14,782	\$16,634	\$16,606	\$28	0.2%	\$0.00	\$0.00	\$26.61
15,637	\$17,546	\$17,517	\$29	0.2%	\$0.00	\$0.00	\$28.15
16,492	\$18,458	\$18,427	\$31	0.2%	\$0.00	\$0.00	\$29.70

**Residential Heating ISR Bill Impact Analysis with Various Levels of Consumption:
ISR Rates**

C & I LLF Large:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
41,066	\$43,943	\$43,884	\$59	0.1%	\$0.00	\$0.00	\$59.27
45,488	\$48,442	\$48,376	\$66	0.1%	\$0.00	\$0.00	\$65.66
49,910	\$52,941	\$52,869	\$72	0.1%	\$0.00	\$0.00	\$72.03
54,334	\$57,441	\$57,363	\$78	0.1%	\$0.00	\$0.00	\$78.41
58,757	\$61,941	\$61,856	\$85	0.1%	\$0.00	\$0.00	\$84.80
Average Customer 63,179	\$66,440	\$66,348	\$91	0.1%	\$0.00	\$0.00	\$91.20
67,600	\$70,937	\$70,840	\$98	0.1%	\$0.00	\$0.00	\$97.56
72,023	\$75,437	\$75,333	\$104	0.1%	\$0.00	\$0.00	\$103.95
76,447	\$79,938	\$79,828	\$110	0.1%	\$0.00	\$0.00	\$110.34
80,870	\$84,438	\$84,321	\$117	0.1%	\$0.00	\$0.00	\$116.73
85,292	\$88,936	\$88,813	\$123	0.1%	\$0.00	\$0.00	\$123.10

C & I HLF Large:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
50,411	\$48,762	\$48,669	\$94	0.2%	\$0.00	\$0.00	\$93.56
55,841	\$53,782	\$53,678	\$104	0.2%	\$0.00	\$0.00	\$103.63
61,273	\$58,803	\$58,689	\$114	0.2%	\$0.00	\$0.00	\$113.69
66,699	\$63,818	\$63,695	\$124	0.2%	\$0.00	\$0.00	\$123.77
72,129	\$68,838	\$68,704	\$134	0.2%	\$0.00	\$0.00	\$133.86
Average Customer 77,558	\$73,856	\$73,712	\$144	0.2%	\$0.00	\$0.00	\$143.93
82,989	\$78,875	\$78,721	\$154	0.2%	\$0.00	\$0.00	\$153.98
88,416	\$83,892	\$83,728	\$164	0.2%	\$0.00	\$0.00	\$164.08
93,847	\$88,912	\$88,738	\$174	0.2%	\$0.00	\$0.00	\$174.15
99,275	\$93,930	\$93,745	\$184	0.2%	\$0.00	\$0.00	\$184.22
104,705	\$98,949	\$98,755	\$194	0.2%	\$0.00	\$0.00	\$194.30

Residential Heating ISR Bill Impact Analysis with Various Levels of Consumption:
ISR Rates

C & I LLF Extra-Large:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
174,357	\$164,116	\$164,026	\$90	0.1%	\$0.00	\$0.00	\$87.18
193,136	\$181,225	\$181,126	\$100	0.1%	\$0.00	\$0.00	\$96.56
211,912	\$198,332	\$198,223	\$109	0.1%	\$0.00	\$0.00	\$105.96
230,688	\$215,440	\$215,321	\$119	0.1%	\$0.00	\$0.00	\$115.34
249,466	\$232,548	\$232,420	\$129	0.1%	\$0.00	\$0.00	\$124.72
Average Customer 268,243	\$249,656	\$249,518	\$138	0.1%	\$0.00	\$0.00	\$138.28
287,018	\$266,762	\$266,614	\$148	0.1%	\$0.00	\$0.00	\$147.96
305,796	\$283,871	\$283,714	\$158	0.1%	\$0.00	\$0.00	\$157.64
324,573	\$300,979	\$300,812	\$167	0.1%	\$0.00	\$0.00	\$167.31
343,350	\$318,087	\$317,910	\$177	0.1%	\$0.00	\$0.00	\$176.97
362,127	\$335,195	\$335,008	\$187	0.1%	\$0.00	\$0.00	\$186.66

C & I HLF Extra-Large:

Annual Consumption (Therms)	FY 14 Rates	FY 13 Rates	Difference	% Chg	FY 14 Difference due to:		
					GCR	DAC	
						Base DAC	ISR
447,421	\$379,631	\$379,400	\$231	0.1%	\$0.00	\$0.00	\$230.63
495,605	\$419,948	\$419,693	\$255	0.1%	\$0.00	\$0.00	\$255.46
543,789	\$460,266	\$459,985	\$280	0.1%	\$0.00	\$0.00	\$280.30
591,972	\$500,582	\$500,277	\$305	0.1%	\$0.00	\$0.00	\$305.15
640,155	\$540,898	\$540,568	\$330	0.1%	\$0.00	\$0.00	\$329.98
Average Customer 688,340	\$581,216	\$580,862	\$355	0.1%	\$0.00	\$0.00	\$354.80
736,523	\$621,533	\$621,153	\$380	0.1%	\$0.00	\$0.00	\$379.66
784,708	\$661,851	\$661,446	\$405	0.1%	\$0.00	\$0.00	\$404.51
832,891	\$702,168	\$701,738	\$429	0.1%	\$0.00	\$0.00	\$429.33
881,074	\$742,484	\$742,030	\$454	0.1%	\$0.00	\$0.00	\$454.15
929,259	\$782,802	\$782,323	\$479	0.1%	\$0.00	\$0.00	\$478.98

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
R.I.P.U.C. DOCKET NO. _____
RE: FY 2014 GAS INFRASTRUCTURE,
SAFETY, AND RELIABILITY PLAN
WITNESS: WILLIAM R. RICHER**

PRE-FILED DIRECT TESTIMONY

OF

WILLIAM R. RICHER

December 27, 2012

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II. ISR Plan Revenue Requirement 3

1 **I. INTRODUCTION**

2 **Q. Please state your full name and business address.**

3 A. My name is William R. Richer and my business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451.

5
6 **Q. By whom are you employed and in what position?**

7 A. I am the Director of Revenue Requirements - Rhode Island for National Grid USA
8 Service Company, Inc. (“Service Company”). Service Company provides
9 engineering, financial, administrative, and other technical support to subsidiary
10 companies of National Grid USA. My current duties include revenue requirements
11 oversight for National Grid’s electric and gas distribution activities in the U.S.,
12 including the gas division of The Narragansett Electric Company d/b/a National Grid
13 (“Narragansett” or the “Company”).

14
15 **Q. Please describe your education and professional experience.**

16 A. In 1985, I earned a Bachelor of Science degree in Accounting from Northeastern
17 University. During my schooling, I interned at the public accounting firm Pannell
18 Kerr Forster in Boston, Massachusetts as a staff auditor and continued with this firm
19 after my graduation. In February 1986, I joined Price Waterhouse in Providence,
20 Rhode Island where I worked as a staff auditor and senior auditor. During this time, I
21 earned my certified public accountants license in the State of Rhode Island. In June
22 1990, I joined National Grid in the Service Company (then known as New England

1 Power Service Company) as a supervisor of Plant Accounting. Since that time, I have
2 held various positions within the Service Company, including Manager of Financial
3 Reporting, Principal Rate Department Analyst, Manager of General Accounting,
4 Director of Accounting Services, and Assistant Controller.

5
6 **Q. Have you previously filed testimony or testified before the Rhode Island Public**
7 **Utilities Commission (the “Commission”)?**

8 A. Yes. I have testified before the Commission on numerous occasions.

9
10 **Q. What is the purpose of your testimony in this proceeding?**

11 A. The purpose of my testimony is to sponsor Section 3 of the Fiscal Year (“FY”) 2014
12 Gas Infrastructure, Safety, and Reliability Plan (“ISR Plan”), which describes the
13 calculation of the Company’s revenue requirement for FY 2014 in Attachment 1 of
14 that section. This revenue requirement is based on the Gas ISR Plan capital
15 investment described in the testimony of Mr. Walter Fromm and detailed in Section 2
16 of the ISR Plan.

17
18
19
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22

1 **II. ISR PLAN REVENUE REQUIREMENT**

2 **Q. Please summarize the revenue requirement for the Company's FY 2014 Gas ISR**
3 **Plan.**

4 A. As shown on Page 1, Column (a) of Attachment 1 to Section 3 of the Gas ISR Plan,
5 the Company's FY 2014 Gas ISR Plan revenue requirement amounts to \$664,509 and
6 consists of the revenue requirement on FY 2014 proposed incremental non-growth
7 ISR capital investment of \$204,781, plus the FY 2014 revenue requirement on
8 incremental non-growth ISR capital investment of \$-0- and \$459,728 for FY 2013 and
9 FY 2012 incremental investments, respectively.

10
11 For illustration purposes only, Column (b) of Page 1 provides the FY 2015 revenue
12 requirement for the respective vintage year capital investments as calculated on
13 Attachment 1. Importantly, these amounts will be trued up to actual investment
14 activity after the conclusion of the FY, with rate adjustments for the revenue
15 requirement differences incorporated in future ISR filings.

16
17 In April 2012, the Company filed an application with the Commission seeking a
18 change in base rates for its electric and gas distribution businesses. The application
19 was assigned Docket No. 4323. The test year used in the Company's request was
20 calendar year 2011. The effective date of new rates in that proceeding is February 1,
21 2013 for a Rate Year ending January 31, 2014. On October 19, 2012, the Company
22 entered into a settlement agreement with the Division of Public Utilities and Carriers

1 (the “Division”) and the U.S. Department of the Navy (the “Navy”) with regard to the
2 Company’s base rate change request. On November 14, 2012, the Company entered
3 into an amended settlement agreement (the “Amended Settlement Agreement”) with
4 the Division and the Navy with regard to the Company’s base rate request. The
5 Amended Settlement Agreement was approved by the Commission on December 20,
6 2012. It is important to note that the revenue requirement for the FY 2014 ISR Plan
7 recovery mechanism excludes amounts embedded in base rates in Docket No. 4323 for
8 FY 2012, 2013, and 2014 investments. The calculation of incremental non-growth
9 capital investment is shown on Page 6 of Attachment 1 to Section 3 of the Gas ISR
10 Plan. The amount of vintage year FY 2013 non-growth capital investment in the rate
11 case is equal to the amount of FY 2013 ISR investment so there is no incremental non-
12 growth capital investment for FY 2013, and consequently no incremental revenue
13 requirement for FY 2013 in this proposal.

14
15 The detailed FY 2014 revenue requirement calculation on incremental non-growth
16 capital investment for vintage years FY 2014 and FY 2012 are shown on Pages 2 and
17 3 of Attachment 1. A description of this calculation is provided in Section 3 of the
18 Gas ISR Plan.

19 Tax depreciation used to determine the deferred tax reserve component of rate base
20 has been calculated on Pages 4 and 5 of Attachment 1 for vintage years FY 2014 and
21 FY 2012, respectively, and is described further in Section 3 of the Gas ISR Plan.

1 Finally, average rate base in the ISR revenue requirement is normally calculated as the
2 average year-end cumulative change in rate base. However, since a portion of FY
3 2014 non-growth capital investment is reflected in the rate case and the other portion
4 is not, a separate calculation was necessary to apportion the incremental non-growth
5 capital for the year for purposes of determining the weighted average rate base for FY
6 2014 investment. This calculation is shown on Page 7 of Attachment 1 and is
7 described further in Section 3 of the Gas ISR Plan.

8
9 **Q. Were there other impacts of the aforementioned rate case settlement that affected**
10 **the FY 2014 Gas ISR Plan revenue requirement?**

11 A. Yes. The FY 2014 Gas ISR Plan revenue requirement has been calculated based upon
12 the agreed to level of embedded depreciation expense and associated composite
13 depreciation rate, effective property tax rate, capital structure, and cost of capital rates
14 (including a 9.50 percent equity return) per the Amended Settlement Agreement.

15 The property tax recovery provisions of the Amended Settlement Agreement have also
16 been incorporated in this revenue requirement proposal as described in Section 3 of
17 the Gas ISR Plan.

18
19 **Q. Does this conclude your testimony?**

20 A. Yes, it does.

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
R.I.P.U.C. DOCKET NO. _____
RE: FY 2014 GAS INFRASTRUCTURE,
SAFETY, AND RELIABILITY PLAN
WITNESS: MARIELLA C. SMITH**

PRE-FILED DIRECT TESTIMONY

OF

MARIELLA C. SMITH

December 27, 2012

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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is Mariella C. Smith, and my business address is 40 Sylvan Road,
4 Waltham, Massachusetts 02451.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am a Lead Analyst in the Gas Regulatory and Pricing organization for National
8 Grid USA Service Company, Inc. (“Service Company”). Service Company
9 provides engineering, financial, administrative, and other technical support to
10 subsidiary companies of National Grid USA. My responsibilities include
11 overseeing the design, implementation, and administration of rates and tariffs for
12 the gas division of The Narragansett Electric Company d/b/a National Grid
13 (“Narragansett” or the “Company”).

14

15 **Q. Please provide your educational background.**

16 A. I received a Bachelor of Arts in Political Science from the University of
17 California, Los Angeles and a Master of Arts in Law and Diplomacy from the
18 Fletcher School at Tufts University.

19

20

21

1 **Q. Please provide your professional background.**

2 A. I was first employed by KeySpan Energy in New York from September 2005
3 through May 2007 as an analyst in the Regulatory Affairs Department. Prior to
4 re-joining National Grid in 2012, I was an energy consultant with PA Consulting
5 Group. In that role, I provided strategic advisory services on portfolio
6 optimization, asset acquisition, development, and disposition activities to large
7 utilities. I also performed strategic and operational assessments for utilities in the
8 United States and co-authored market expert reports, white papers, and briefings
9 on a variety of topics related to U.S. energy markets. Most recently, I worked
10 with National Grid at the executive level to analyze its company costs and internal
11 allocations. In 2012, I became a Lead Analyst with the Regulatory and Pricing
12 Group - my current position at National Grid.

13

14 **Q. What is the purpose of your testimony?**

15 A. The purpose of my testimony is to sponsor Section 4 and Section 5 of the Fiscal
16 Year (“FY”) 2014 Gas Infrastructure, Safety, and Reliability (“ISR”) Plan (“ISR
17 Plan”), which describes the rate design used for the calculation of the FY 2014
18 ISR rate factors and the customer bill impacts of the proposed ISR factor rates.

19

1 **II. RATE DESIGN**

2 **Q. Please summarize the rate design used to develop the ISR rates presented as**
3 **part of this filing.**

4 A. As with the revenue requirement, the proposed ISR rate design for FY 2014 is
5 based on incremental capital investment in excess of capital investment that has
6 been reflected in the rate base part of the Company's base rate case in Docket No.
7 4323. The revenue requirement associated with the capital investment was
8 allocated to each rate class based on the updated rate base allocator from the
9 Amended Settlement Agreement among the Company, the Division of Public
10 Utilities and Carriers, and the U.S. Department of the Navy (the "Amended
11 Settlement Agreement"). The Amended Settlement Agreement was approved by
12 the Rhode Island Public Utilities Commission (the "Commission") on December
13 20, 2012 in Docket No. 4323¹. The Company also utilized the most recently
14 available forecasted throughput for the period April 2013 through March 2014
15 that had been developed for the Company's 2012-2013 Gas Cost Recovery
16 ("GCR") filing (Docket No. 4346). That data was compiled by rate class and
17 summarized as set forth in Section 4, Attachment 2, of the Gas ISR Plan. Finally,
18 as shown in Section 4, Attachment 1, of the Gas ISR Plan, the updated
19 incremental revenue requirement of \$581,884 was then allocated to each rate class
20 based on the previously noted rate base percentage allocations and forecasted

¹ Last year, the Company utilized the rate base allocation factors as approved in the last gas distribution base rate case, Docket No. 3943, in 2008.

1 throughput to develop separate ISR factors per rate class on a per therm basis.
2 Each rate class ISR factor was then adjusted to reflect the 3.18 percent
3 uncollectible factor from the Amended Settlement Agreement approved by the
4 Commission in Docket No. 4323.

5

6 **III. ISR RATE FACTORS**

7 **Q. Please provide the ISR rate factors proposed by the Company.**

8 A. The ISR rates proposed by the Company are shown in the table below and in
9 Section 4, Attachment 1.

10

Table 3-1 FY 2014 ISR factors per rate class

Rate Class	ISR Rate (\$/therm)
Res- NH	\$0.0045
Res-H	\$0.0024
Small C&I	\$0.0024
Medium C&I	\$0.0018
Large LL	\$0.0014
Large HL	\$0.0018
XL-LL	\$0.0005
XL-HL	\$0.0005

11

*Rates include uncollectible allowance.

12

The same factors noted above for Residence Heating and Residence Non-Heating

13

customers would also apply to each of the Low-Income customer rate classes.

14

1 **IV. BILL IMPACTS**

2 **Q. Please describe the impact of the proposed ISR rates on customer's bills.**

3 A. For the average residential heating customer using 846 therms annually, the ISR
4 rate will result in an annual rate increase of \$2.09, or 0.2 percent². The annual
5 ISR rate impacts and the incremental rate increase for the period April 1, 2013 to
6 March 31, 2014 for all rate classes are shown in Section 5 (Bill Impacts) of the
7 Gas ISR Plan.

8

9 **Q. Does this conclude your testimony?**

10 A. Yes, it does.

² Please note that the bill impact includes the Rhode Island Gross Earnings Tax of three percent.