

March 25, 2015

**BY HAND DELIVERY AND ELECTRONIC MAIL**

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

**RE: Docket 4539 - National Grid's Proposed FY 2016 Electric Infrastructure, Safety, and Reliability Plan**  
**Responses to Record Requests**

Dear Ms. Massaro:

On behalf of National Grid,<sup>1</sup> I have enclosed ten (10) copies of the Company's responses to record requests issued at the Rhode Island Public Utilities Commission's evidentiary hearing on March 17, 2015.

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

Very truly yours,



Raquel J. Webster

Enclosures

cc: Docket 4539 Service List  
Steve Scialabba, Division  
Leo Wold, Esq.  
Greg Booth

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

Certificate of Service

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

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

March 25, 2015

Joanne M. Scanlon

Date

**Docket No. 4539 National Grid's FY 2016 Electric Infrastructure, Safety and Reliability Plan - Service List as of 2/27/15**

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<b>File an original &amp; nine copies w/:</b> Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	<a href="mailto:Luly.massaro@puc.ri.gov">Luly.massaro@puc.ri.gov</a>	401-780-2107
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Record Request No. 1

Request:

- (a) Would the Wakefield Substation work have been necessary absent the Deepwater interconnection?
- (b) Who is paying for the Deepwater interconnection?

Response:

- (a) No, the Wakefield substation project would not have been necessary absent the Deepwater interconnection.
- (b) Deepwater Wind's Block Island Wind Farm will interconnect to a new substation owned by The Narragansett Electric Company (Company) on Block Island. Deepwater Wind is responsible for paying the costs of all directly assigned facilities (sole use facilities), including those facilities required to connect to the Company's New Shoreham interconnection substation on Block Island. Similarly, Block Island Power Company is responsible for funding their directly assigned facilities (sole use facilities) on Block Island to connect to the New Shoreham substation on Block Island. The new substation on Block Island will be connected to the Company's existing power system at the Wakefield substation. Pursuant to R.I. Gen. Laws § 39-26.1-7, the costs of the new transmission cable system will be calculated in the same manner that other transmission costs are calculated in Rhode Island for Local Network Service under the jurisdiction of the Federal Energy Regulatory Commission. The costs will be allocated consistently with Section 39-26.1-7 through transmission rates to the Company and Block Island Power Company. Because the upgrades to the Wakefield substation are to existing distribution assets, this portion of the work is "distribution" and recovered through the ISR as a component of retail rates.

Record Request No. 2

Request:

In the FY 2016 Electric ISR Plan, the Company discussed its strategy for replacing substation distribution batteries and noted that it proposes to spend \$200,000 in FY 2016 to implement this strategy.

- a. How many batteries are left for replacement?
- b. How many batteries does the proposed \$200,000 budget cover?

Response:

- a. The Battery Asset Replacement Program (Program), in line with the Company's Substation Maintenance Standard, requires that a battery be replaced at 20 years of age or sooner if there are condition issues. This is based on the Company's experience with battery life, recommendations from the manufacturer, and an industry survey. Batteries showing signs of condition issues are replaced immediately, but the Company will not use them for more than 20 years. Substation batteries are critical components that are required to ensure full substation operational capability during both normal and abnormal system conditions. Therefore, battery replacement through the Program is expected to continue as the present battery technology approaches 20 years of age, or sooner if condition issues exist. However, the number of replacements and the budget amount requested will vary on a yearly basis depending on battery age and recent condition assessments. On average, one unknown younger battery is replaced per year because of condition issues. As new technology emerges, the Program will be adjusted accordingly.
- b. The proposed budget of \$200,000 will cover the replacement of four substation batteries in FY 2016.

Record Request No. 3

Request:

What portion of the Electric ISR property tax recovery amount of \$3,057,000 is a result of additions to net plant? What portion of this is a result of changes in the tax rate?

Response:

The portion of the ISR property tax recovery amount attributable to ISR net plant additions is \$2,999,000, which represents \$6,712,000 for cumulative additions on two months of Fiscal Year (FY) 2014 ISR additions (i.e., February and March 2014), plus FY 2015 and FY 2016 estimated ISR additions net of accumulated depreciation, less \$3,713,000 of decreased property taxes associated with the annual level of cumulative depreciation of plant included in rate base in the Company's last base rate case (Docket No. 4323). The portion of the ISR property tax recovery amount attributable to the change in the effective property tax rate from the effective property tax rate reflected in Docket No. 4323 is \$58,000.

Record Request No. 4

Request:

Provide the cost estimate for the work to the Westerly substation. How much of this cost is attributable to customers?

Response:

Phase 2 of the Watch Hill Overhead to Underground project (CD00373) is estimated at \$1,312,046.40. The breakdown of this amount is as follows:

- Capital: \$970,258.32
- Expense: \$124,644.40
- Removal: \$217,143.68

The Company collected a full reimbursement for these costs in February 2013. At this time, the Company does not expect any costs to be passed on to customers.

Record Request No. 5

Request:

Provide an illustrative example of how the net operating loss tax issue would work for a non-consolidated Company.

Response:

At the Electric Infrastructure, Safety and Reliability (ISR) hearing on March 17, 2015, the Company described the consolidated tax arrangements in which The Narragansett Electric Company (Narragansett or the Company) participates with other National Grid USA (National Grid) subsidiaries. Participation in the National Grid consolidated tax group does not impact the Company's generation of operating tax losses, but does have positive consequences on the Narragansett's ability to utilize those generated losses on a consolidated tax return to the extent that other consolidated tax group participants generate taxable income. Page one of Attachment RR-5 to this response provides illustrative examples of Narragansett-generated tax losses and the utilization of such losses under a simplified consolidated tax group view. Page two of Attachment RR-5 provides illustrative examples of a hypothetical Narragansett standalone tax filer generating a taxable loss. For completeness, both pages also provide an example of a Narragansett-generated taxable income; however, it is worth noting that as long as Narragansett has taxable income that exceeds the amount of its own tax deductions, it will not generate operating tax losses in that year, and the Company and customers will enjoy the full value of those tax deductions in those Electric and Gas ISR plan years.

Page one of Attachment RR-5 provides the following three consolidated tax group scenarios:

Consolidated Tax Group Scenario 1 – In this illustration, the consolidated tax group is in a taxable income situation with illustrative Narragansett-generated taxable losses due to accelerated tax deductions related to bonus depreciation and capital repairs tax deductions, as shown on Line 2, fully offset by taxable income of other consolidated tax group participating companies (Line 4). As shown in that example, the calculated tax liability of the other consolidated tax group participating companies, Line 4, Column (b), is funded by those companies. Narragansett is reimbursed for 100% of its taxable losses (Line 6) with the balance of the funded amount available to pay the consolidated tax liability (Line 5). Consequently, Narragansett does not record any Net Operating Loss (NOL) tax asset because its cash tax position was fully reconciled within the consolidated group (Line 7).

Consolidated Tax Group Scenario 2 – In this illustration, the consolidated group is in a taxable loss situation with the same illustrative Narragansett-generated taxable losses, as in the previous scenario; however, in this example, those losses are only partially offset by



Record Request No. 5, page 2

taxable income of other consolidated tax group participating companies. As shown in that example, the tax liability of the other tax group participating companies, shown on Line 12 is funded by those companies and paid to Narragansett for its generated tax losses. However, Narragansett is reimbursed for only a portion of its taxable losses and, therefore, a NOL tax asset is recorded by Narragansett and equal to the difference in Narragansett's total tax receivable, line 11, Column (b) versus the amount of cash received by Narragansett from the other tax group participating companies, as shown on Line 15, Column (b).

Consolidated Tax Group Scenario 3 – The consolidated group is in a Taxable Loss situation but in this example, Narragansett is producing a taxable income which is fully offset by taxable losses generated by other tax group participating companies. In this scenario, Narragansett fully funds its tax liability, Line 20. By definition, if Narragansett generates a taxable income, no NOL is generated. In this instance the tax liability funded by Narragansett is used to partially fund the tax losses produced by other tax group participating companies, as shown on Line 21. Although not depicted in the example, because the other tax group participating companies were only partially funded for their tax losses, an NOL tax asset would be recorded on the balance sheets of those companies.

Page two of Attachment RR-2 presents two scenarios depicting a hypothetical Narragansett Electric standalone tax filer.

Standalone Tax Filer Scenario 1 - This scenario assumes that Narragansett files a standalone tax return and is generating a taxable loss. As a standalone tax entity in this example, Narragansett incurs all tax position funding. Consequently, as shown in that scenario, on Page 2 at Line 7, the standalone tax losses necessarily produce an NOL tax asset as there is no funding source from consolidated tax group participating companies.

Standalone Tax Filer Scenario 2 - This scenario assumes that Narragansett files a standalone tax return and is generating a taxable income. As indicated previously, by definition, if Narragansett generates a taxable income, no NOL is generated. As shown in that scenario, on Page 2 at Line 15, the tax liability produced by Narragansett's taxable income is fully funded by Narragansett.

As was discussed at the March 17 hearing, the Company is required to fully normalize for book/tax timing differences and records associated deferred taxes on those differences, represented by the amounts shown in Column (c) for all scenarios. Accumulated deferred tax provisions are included as a reduction in the Company's rate base calculation. In previous ISR revenue requirements calculations, the Company appropriately provided customers with the full benefit of a reduction in rate base related to the provision of deferred taxes on the accelerated tax

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deductions and as represented by the amounts in Column (c). However, the Company inappropriately omitted the NOL tax asset recorded by the Company in years in which the consolidated tax group was in a taxable loss position, which is the portion of the book/tax timing difference deferred tax for which the Company did not receive cash as represented by the amounts in Column (d). These NOL tax assets will be extinguished when the Company is able to utilize the cumulative tax losses that gave rise to those NOL tax assets in future taxable years in which the group produces taxable income.

**The Narragansett Electric Company  
d/b/a National Grid  
Electric Infrastructure, Safety, and Reliability (ISR) Plan  
Illustrative Examples of Consolidated Tax Group Taxable Income Scenarios and associated Net Operating Loss Impacts**

	(a)	(b)	(c)	(d)	(e)
<b>Consolidated Tax Group Scenario 1 - Consolidated Taxable Income</b>					
<b>Narragansett Taxable Loss/Fully Offsetting Participating Company Tax Income</b>	<b>Amount</b>	<b>Income tax Liability 35.00%</b>	<b>Deferred Tax Provision Def Tax Liability (Reduces RB)</b>	<b>Non-utilized NOL NOL Tax Asset (Increases RB)</b>	
Narragansett Electric Taxable Income Before Bonus Depreciation and Capital Repairs accelerated tax deduction	\$20,000,000	\$7,000,000			
1 Bonus Depreciation and Capital Repairs Tax Deductions	<u>(\$30,000,000)</u>	<u>(\$10,500,000)</u>	\$10,500,000		
3 Total Narragansett Taxable Income/Calculated Tax liability (Receivable)	(\$10,000,000)	(\$3,500,000)			
4 Taxable Income/Tax Liability of other Consolidated Tax Participants	<u>\$25,000,000</u>	<u>\$8,750,000</u>			
5 Total Taxable Income/Tax Liability (Not Less Than Zero)	<u><u>\$15,000,000</u></u>	<u><u>\$5,250,000</u></u>			
5 Narragansett Calculated Tax Liability - Cash		\$0			
6 Cash received by Narragansett from other Consolidated tax participants		<u>\$3,500,000</u>			
7 Net Cash Received (Paid) by Narragansett		<u><u>\$3,500,000</u></u>	+	<u><u>\$0</u></u>	= <u><u>\$3,500,000</u></u>
8 Net Payment to the IRS		<u><u>\$5,250,000</u></u>			

	(a)	(b)	(c)	(d)	(e)
<b>Consolidated Tax Group Scenario 2 - Consolidated Taxable Loss</b>					
<b>Narragansett Taxable Loss/Partially Offsetting Participating Company Tax Loss</b>					
Narragansett Electric Taxable Income Before Bonus Depreciation and Capital Repairs accelerated tax deduction	\$20,000,000	\$7,000,000			
10 Bonus Depreciation and Capital Repairs Tax Deductions	<u>(\$30,000,000)</u>	<u>(\$10,500,000)</u>	\$10,500,000		
11 Total Narragansett Taxable Income/Calculated Tax liability (Receivable)	(\$10,000,000)	(\$3,500,000)			
12 Taxable Income/Tax Liability of other Consolidated Tax Participants	<u>\$7,500,000</u>	<u>\$2,625,000</u>			
13 Total Taxable Income/Tax Liability (Not Less Than Zero)	<u><u>(\$2,500,000)</u></u>	<u><u>\$0</u></u>			
14 Narragansett Calculated Tax Liability - Cash		\$0			
15 Cash received by Narragansett from other Consolidated tax participants		<u>\$2,625,000</u>			
16 Net Cash tax liability/NOL Tax Asset		<u><u>\$2,625,000</u></u>	+	<u><u>\$875,000</u></u>	= <u><u>\$3,500,000</u></u>
17 Net Payment to the IRS		<u><u>\$0</u></u>			

	(a)	(b)	(c)	(d)	(e)
<b>Consolidated Tax Group Scenario 3 - Consolidated Taxable Loss</b>					
<b>Narragansett Taxable Income/Participating Company Tax Loss</b>					
Narragansett Electric Taxable Income Before Bonus Depreciation and Capital Repairs accelerated tax deduction	\$35,000,000	\$12,250,000			
19 Bonus Depreciation and Capital Repairs Tax Deductions	<u>(\$30,000,000)</u>	<u>(\$10,500,000)</u>	\$10,500,000		
20 Total Narragansett Taxable Income/Calculated Tax liability (Receivable)	\$5,000,000	\$1,750,000)			
21 Taxable Income/Tax Liability of other Consolidated Tax Participants	<u>(\$7,500,000)</u>	<u>(\$2,625,000)</u>			
22 Total Taxable Income/Tax Liability (Not Less Than Zero)	<u><u>(\$2,500,000)</u></u>	<u><u>\$0</u></u>			
23 Narragansett Calculated Tax Liability - Cash		(\$1,750,000)			
24 Cash received by Narragansett from other Consolidated tax participants		<u>\$0</u>			
25 Net Cash tax liability/NOL Tax Asset		<u><u>(\$1,750,000)</u></u>	+	<u><u>\$0</u></u>	= <u><u>(\$1,750,000)</u></u>
25 Net Payment to the IRS		<u><u>\$0</u></u>			

The Narragansett Electric Company  
d/b/a National Grid  
Electric Infrastructure, Safety, and Reliability (ISR) Plan  
Illustrative Examples of a Standalone Narragansett Electric Company Tax Filer Taxable Income Scenarios and associated Net Operating Loss Impacts

	(a)	(b)	(c)	(d)	(e)
	Amount	Income tax Liability 35.00%	Deferred Tax Provision Def Tax Liability (Reduces RB)	Non-utilized NOL NOL Tax Asset (Increases RB)	
<b>Standalone Narragansett Tax Filer Scenario 1 - Taxable Loss</b>					
Narragansett Electric Taxable Income Before Bonus Depreciation and Capital Repairs accelerated tax deduction	\$20,000,000	\$7,000,000			
1					
2 Bonus Depreciation and Capital Repairs Tax Deductions	<u>(\$30,000,000)</u>	<u>(\$10,500,000)</u>	\$10,500,000		
3 Total Narragansett Taxable Income/Calculated Tax liability (Receivable)	<u>(\$10,000,000)</u>	<u>(\$3,500,000)</u>			
4					
5 Total Taxable Income/Tax Liability (Not Less Than Zero)	<u>(\$10,000,000)</u>	<u>\$0</u>			
5 Narragansett Calculated Tax Liability - Cash		\$0			
6					
7 Net tax liability to the IRS/NOL Tax Asset		<u>\$0</u>	+	<u>\$3,500,000</u>	= <u>\$3,500,000</u>

<b>Standalone Narragansett Tax Filer Scenario 2 - Taxable Income</b>					
Narragansett Electric Taxable Income Before Bonus Depreciation and Capital Repairs accelerated tax deduction	\$35,000,000	\$12,250,000			
8					
9 Bonus Depreciation and Capital Repairs Tax Deductions	<u>(\$30,000,000)</u>	<u>(\$10,500,000)</u>	\$10,500,000		
10 Total Narragansett Taxable Income/Calculated Tax liability (Receivable)	<u>\$5,000,000</u>	<u>\$1,750,000</u>			
11					
12 Total Taxable Income/Tax Liability (Not Less Than Zero)	<u>\$5,000,000</u>	<u>\$1,750,000</u>			
13 Narragansett Calculated Tax Liability - Cash		(\$1,750,000)			
14					
15 Net tax liability to the IRS/NOL Tax Asset		<u>(\$1,750,000)</u>	+	<u>\$0</u>	= <u>(\$1,750,000)</u>

Record Request No. 6

Request:

When did the Company remove police detail costs from the Company's Cycle Pruning program vendor bidding process and place these costs into an separate police detail and flagger budget account, as noted in the proposed FY 2016 Electric ISR Plan?

Response:

Beginning in 2011, for greater accuracy, the Company removed police detail and flagging costs from the bidding process and tracked these costs separately.

Record Request No. 7

Request:

Which Rhode Island towns permit the use of flaggers only in certain areas? Which towns permit the use of flaggers in lieu of police officers?

Response:

**Rhode Island Municipalities That Allow Flaggers:**

With the exception of work performed on main roads, the following Rhode Island municipalities allow flaggers: Barrington, Burrillville, Charlestown, Coventry, Cumberland, East Greenwich, East Providence, Foster, Glocester, Hopkinton, Jamestown, Lincoln, Little Compton, Middletown, Narragansett, North Kingstown, North Providence, Portsmouth, Richmond, Scituate, Smithfield, South Kingstown, Tiverton, Warren, Warwick, West Greenwich, West Warwick, Westerly, and Woonsocket.

East Greenwich and North Kingstown allow flaggers in some instances. Therefore, the Company reviews circuit maps with these municipalities prior to beginning work to determine where flaggers will be allowed.

Central Falls has allowed flaggers, but has required police details on nearly every street and has not been flexible on this matter during the Company's discussions with the municipalities.

In Newport, the Company is allowed to use flaggers, because of the work being located in very busy areas with narrow roads, there have not been many opportunities to use flaggers.

Providence has allowed the Company to use flaggers, but it has been inconsistent and varies by ward (political district) and department personnel.

Exeter has provided the Company with a list of roads that require police details. Because Exeter does not have a typical police force with clearly defined roles and responsibilities, the Company has been communicating with the State Police regarding the Town Constable's authority to demand police details.

**Rhode Island Municipalities That Do Not Allow Flaggers:**

Johnston and Pawtucket do not allow flaggers and require police details.

Record Request No. 8

Request:

Please provide the depreciation life for the following Company assets:

- a. Distribution Poles
- b. Distribution Transformers
- c. Metalclad Switchgears
- d. Substation Batteries
- e. Substation Power Transformers
- f. Circuit Breakers and Reclosers

Response:

The table below reflects the last approved depreciable lives for the Company's electric distribution plant by plant account number.

<b>Distribution Plant</b>		
<u>Account</u>	<u>Description</u>	<u>Depreciation Life (years)</u>
361	Structure and Improvements	55
362	Station Equipment	65
364	Poles, Towers and Fixtures	38
365	Overhead Conductors and Devices	40
366	Underground Conduit	60
367.1	Underground Conductors and Devices	37
368.1	Line Transformers Stations	31
368.2	Line Transformers - Bare Install	31
368.3	Line Transformers - Install Cost	31
369.1	Overhead Services	40
369.22	Underground Services	40
370.1	Meters - Bare Cost - Domestic	23
370.2	Meters - Install Cost - Domestic	23
370.3	Large Meters - Bare Cost	23
370.35	Large Meters - Install Cost	23
371	Installations on Customers' Premises	35
373.1	OH Street Lighting and Signal Systems	20
373.2	UG Street Lighting and Signal Systems	20

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- a. Distribution poles are recorded in plant account 364 and have a depreciation life of 38 years.
- b. Distribution transformers are recorded in plant account 368 and have a depreciation life of 31 years.
- c. Metalclad switchgears are recorded in plant account 362 and have a depreciation life of 65 years.
- d. Substation batteries are recorded in plant account 362 and have a depreciation life of 65 years.
- e. Substation power transformers are recorded in plant account 362 and have a depreciation life of 65 years.
- f. Circuit breakers and reclosers are recorded in plant account 362 and have a depreciation life of 65 years.