

August 3, 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 4474 - Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2015 Reconciliation Filing

Dear Ms. Massaro:

On behalf of National Grid,¹ in accordance with tariff, RIPUC NG-Gas, No. 101, Section 3, Schedule A, Sheets 5-7, relating to the Company's Fiscal Year (FY) 2015 Gas Infrastructure, Safety, and Reliability (ISR) Plan, I have enclosed ten (10) copies of the Company's Gas ISR Reconciliation Filing. This filing provides an overview and description of the \$77.85 million of actual non-growth capital investment and Operation and Maintenance (O&M) spending by category as well as an explanation by category of major variances to the budget of \$71.70 million, as approved by the Rhode Island Public Utilities Commission (PUC) in Docket No. 4474.

The pre-filed direct testimonies of David G. Iseler and Melissa A. Little are enclosed with this filing. Mr. Iseler presents the Company's FY 2015 Gas ISR Plan Reconciliation Filing, including the actual spending for the period April 1, 2014 to March 31, 2015. Mr. Iseler also provides details concerning the major spending variances by specific ISR Plan categories for this time period. Ms. Little's testimony presents updated FY 2015 ISR revenue requirement associated with actual FY 2015, FY 2014, FY 2013, and FY 2012 capital investment levels, actual tax deductibility percentages for FY 2014 capital additions, and updated O&M expenses. As explained in Ms. Little's testimony, actual tax deductibility percentages for FY 2015 capital investment will not be known until the Company files its FY 2015 income tax return in December of 2015. Consequently, the actual tax deductibility percentages for FY 2015 capital investment will be reflected in the Company's FY 2016 Gas ISR Reconciliation filing next year and will generate a true up adjustment in that filing. As further explained in Ms. Little's testimony, the updated FY 2015 revenue requirement associated with the Company's updated FY 2015 ISR revenue requirement totals \$13,136,888, which consists of \$502,734 in operation & maintenance expenses and \$12,634,154 of capital-related revenue requirement. This includes the full year revenue requirement on vintage FY 2015, FY 2014, FY 2013 and FY 2012 ISR

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or Company).

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capital investments above or below the level of capital investment reflected in base distribution rates, and the property tax component. Please note that the Gas ISR reconciliation has been included in the calculation of the Gas ISR factor contained in the Company's annual Distribution Adjustment Clause (DAC) filing, which the Company filed with the PUC filed today under separate cover. The DAC filing includes a reconciliation of forecasted collections to actual collections.

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

Very truly yours,



Raquel J. Webster

Enclosures

cc: Docket 4474 Service List
LeoWold, Esq.
Steve Scialabba, Division
James Lanni, Division
Al Contente, Division

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.

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



Joanne M. Scanlon

August 3, 2015

Date

Docket No. 4474 National Grid's FY 2015 Gas Infrastructure, Safety and Reliability Plan - Service List 10/30/14

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DIRECT TESTIMONY

OF

DAVID G. ISELER

August 3, 2015

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1 **I. INTRODUCTION**

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

3 A. My name is David G. Iseler. My business address is 40 Sylvan Road, Waltham, MA
4 02451. I am employed by National Grid Corporate Services LLC as the Director of New
5 England Gas Network Strategy (National Grid or Company). I am the Rhode Island state
6 Jurisdictional Lead for all gas Network Strategy issues, including those related to the
7 Company's capital investment strategy. In my role, I work closely with the Rhode Island
8 Jurisdictional President and staff on all local issues related to the Company's Rhode
9 Island gas system. My responsibilities also include working with Regulators on issues
10 related to the gas system, developing strategies to support company objectives regarding
11 investment in the gas system, and providing testimony regarding capital investments in
12 National Grid's gas system during state regulatory proceedings.

13 **Q. Please describe your educational background and professional experience.**

14 A. I earned a B.S. in Electrical Engineering from the University of Massachusetts at
15 Amherst in 1986 and an M.B.A with a concentration in finance from Boston College in
16 1991. I have worked for National Grid and/or its predecessor companies for the past 28
17 years. My experience during that time includes working in the field along with various
18 engineering aspects associated with the gas distribution system. In 2007, I was the
19 Manager of Reliability Engineering and Planning for New England, and in 2008, I was
20 promoted to Director of Gas Reliability for National Grid. In 2010, I worked as the
21 Director of Project Engineering and Design for National Grid, and in August of 2014, I

1 assumed my current position as Director of Gas Network Strategy for New England. In
2 these roles, I have been responsible for gas system reliability planning, long term system
3 planning in support of growth, engineering and design of complex capital projects, and
4 public works. In addition, I have also worked with regulatory and jurisdiction personnel
5 regarding the development and communication of gas network strategy and capital
6 planning.

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

9 A. Yes. On February 17, 2011, I testified before the PUC in Docket No. 4219 in support of
10 the Company's FY 2012 Gas ISR Plan. I have also represented the Company in
11 negotiations with the Division on the Rhode Island FY 2016 Gas ISR Plan and testified in
12 support of that filing in Docket No. 4474. In addition, in 2014, I also submitted
13 testimony with the Massachusetts Department of Public Utilities in support of the
14 Massachusetts Electric Company's leak-prone pipe replacement plan, which was
15 mandated by legislation and designed to implement a gas system enhancement and
16 proactive main replacement program similar to the Rhode Island Gas ISR plan.

17
18 **II. PURPOSE OF TESTIMONY**

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

20 A. The purpose of this testimony is to present the Company's FY 2015 Annual Report and
21 Reconciliation filing for Gas ISR Plan, including the actual spending for the period April

1 1, 2014 to March 31, 2015. As part of this filing, I also provide detailed information on
2 the major spending variances by specific ISR Plan categories for this time period. As
3 discussed in her testimony, Ms. Melissa A. Little uses this actual spending information
4 to calculate the FY 2015 Gas ISR Plan revenue requirement, which is then reconciled
5 with the Company's actual ISR Plan revenues for FY 2015. The reconciliation balance
6 will then be included in the Company's annual Distribution Adjustment Clause (DAC)
7 filing, which will be reflected in rates effective November 1, 2015.

8
9 **III. FY 2015 GAS ISR PLAN ANNUAL REPORT AND ACTUAL SPENDING**

10 **Q. Please summarize the results of the Company's Gas ISR Plan actual spending for**
11 **FY 2015 to the FY 2015 budget.**

12 A. Attachment-DGI-1 to my testimony is the Company's FY 2015 Gas ISR Plan Annual
13 Report and actual spending for the period April 1, 2014 to March 31, 2015. As set forth
14 in Table 1 of that attachment, for FY 2015, the Company spent \$77.85 million for non-
15 growth capital investment and Operation and Maintenance expense (O&M) under the
16 Gas ISR Plan. This amount represents a variance of approximately \$6.15 million more
17 than the annual approved Gas ISR Plan budget of \$71.70 million. The \$6.15M over-
18 budget variance for the year is discussed below in more detail for each specific category
19 of the Gas ISR plan. A total of 55 miles of leak prone pipe (LPP) was abandoned under
20 all ISR categories, which is a 3.2 mile increase over the prior year results. Elimination of
21 cast and wrought iron and unprotected steel pipe (i.e., LPP) remains a key element of the
22 Company's ISR plan and provides for further enhanced safety and reliability of the gas

1 distribution system through removal of leak prone pipe. These materials have been
2 identified in the Company's Distribution Integrity Management Plan (DIMP) as riskier
3 assets and have been targeted for replacement through a twenty-year replacement plan.
4 The DIMP provides a structured approach to identification, evaluation, and mitigation of
5 risks associated with the gas distribution system. Based on average leak data associated
6 with leak prone pipe, it is estimated that approximately 47 gas leaks are eliminated
7 annually through abandonment of the 55 miles of leak prone gas main.

8
9 **Q. What were the primary drivers for the \$6.15 million over-budget variance in FY**
10 **2015?**

11 A. As shown on Table 1, the primary drivers that contributed to the \$6.15 million over-
12 budget variance in FY 2015 were the increased spending of \$4.40 million for the
13 Proactive Main Replacement Program, the increased spending of \$3.35 million for the
14 Public Works Program, and the increased spending of \$1.11 million for Mandated
15 Programs.

16
17 **Q. Please explain the over-budget variance of \$4.40 million for the Proactive Main**
18 **Replacement Program in FY 2015.**

19 A. The primary drivers for the \$4.40 million over-budget variance for the Proactive Main
20 Replacement Program for FY 2015 was the need for the replacement of more cast-iron
21 main, as well as the installation of additional services in higher cost urban areas. In
22 general, the replacement of more cast-iron main segments in urban areas, such as in the

1 City of Providence, required the replacement of more difficult main and a greater number
2 of services than in more sparsely populated areas. Urban areas include more multi-unit
3 dwellings that typically require main and service replacement up to the gas meter. In
4 addition, the Company is required to take additional safety measures in highly populated
5 urban areas to locate, verify, and protect other utility facilities. Also, restoration
6 requirements in more urban areas are greater due to the need for both sidewalk and street
7 repaving. Finally, because of the higher traffic and public presence in more urban areas,
8 the time and cost to obtain permits and the need for increased traffic control for purposes
9 of public and employee safety, are also increased when compared to work in suburban or
10 rural areas. All of these factors contributed to the higher unit costs and the \$4.40 million
11 over-spending variance for the Proactive Main Replacement Program for FY 2015.

12 For FY 2015, the Company installed 45 miles of new main and abandoned 48.7 miles of
13 LPP. This was approximately 8.0 miles or 15% less than the proposed installation and
14 4.3 miles or 8% less than the proposed abandonment of 53 miles of planned proactive
15 LPP gas main for the fiscal year. This delay in LPP replacement was primarily driven by
16 the need for additional training of contractor personnel to ensure compliance with
17 Company documentation and safety standards for main and service replacements, 2) the
18 requirement of the Company to investigate and review safety measures after a contractor
19 fatality, and 3) the heavy snow and extremely cold weather experienced in the fourth
20 quarter of the fiscal year.

1 With respect to contractor training and safety measures, through its work inspection and
2 oversight process, early in the FY 2015 construction season, the Company learned that it
3 needed to retrain its contractors that were responsible for the replacement of mains.
4 Specifically, additional training was necessary for contractor personnel to ensure
5 compliance with Company documentation and safety standards for main and service
6 replacements. Consequently, the Company halted main replacement work for an
7 equivalent period of two weeks at the beginning of the construction season until all the
8 contractor personnel were retrained. In addition, construction was also suspended for two
9 weeks in November of FY 2015 for the Company to investigate and review safety
10 measures after a contractor fatality. This loss of four critical weeks during the
11 construction season also contributed to the under-replacement of miles of LPP for FY
12 2015. Finally, the heavy snow and extremely cold weather experienced in late January
13 through March of 2015 eliminated the possibility of completing any additional work for
14 the Proactive Main Replacement Program for fourth quarter of the fiscal year.

15
16 **Q. Please explain the over-budget variance of \$3.35 million for the Public Works**
17 **Program in FY 2015.**

18 A. The key driver of the FY 2015 over-budget variance of \$3.35 million for the Public
19 Works category was the inclusion this year of more complex project work in the
20 program. For example, the public works project on Broadway in Newport required the
21 replacement of approximately 3,800 feet of 6-inch and 12-inch cast iron pipe in three
22 separate sections. In addition to the Newport project, the following five projects account

1 for approximately 40% of the public works spending: 1) Freeborn Ave & Lyon Avenue
2 project in East Providence, which required a scope of relaying 1,845 feet with 6-in plastic
3 main; 2) the Ocean Avenue project in Cranston, which required a scope of relaying 1,132
4 feet of main with 6-inch plastic main; 3) the East Bowery Street project in Newport that
5 required a scope of relaying approximately 1,176 feet of main with 2-in plastic main; 4)
6 the Frederick/Thatcher Street project in East Providence, which required a scope of
7 relaying 880 feet of main with 2-inch plastic main; and 5) the Mauran Avenue project in
8 East Providence, which required a scope of relaying 642 feet of main. For FY 2015, the
9 Company installed 6.6 miles of new gas main and abandoned 6.3 miles of LPP as part of
10 the Public Works projects.

11
12 **Q. Please explain the over-budget variance of \$1.11 million for the Mandated Programs**
13 **category in FY 2015.**

14 A. The primary drivers of the \$1.11 million over-budget variance for the Mandated
15 Programs were the \$1.90 million over-spending for a combination of service leaks and
16 cast iron joint encapsulation and an under-spending variance of \$0.65 million for meter
17 purchases and replacements.¹ Initially, the Company estimated and budgeted for the
18 replacement of 665 services and replaced 324 services due to leaks and completed 680
19 cast iron joint encapsulations compared to the five-year average of 525 cast iron joint
20 encapsulations. Spending in these categories was higher than anticipated due largely to

1 ¹ Smaller additional variances for Mandated Programs are shown on Table 2.

1 the harsh winter experienced this past year. The Company is continuing the classification
2 of work in these categories as it appears spending has not been fully differentiated.²

3 In addition, there was an under-spending variance of \$0.65 million in meter purchase and
4 replacements due to the fact that the Company purchased 15,911 meters, which was
5 approximately 9,174 meters less than the forecast of 25,085 meters for the fiscal period
6 due to the need for fewer meter changes.

7
8 **Q. Please explain the FY 2015 \$1.46 million under-budget variance for the Reliability
9 Programs category.**

10 A. The FY 2015 under-budget variance of \$1.46 million for the Reliability Programs
11 category was primarily driven by an under-spending of \$1.65 million for the Allens
12 Avenue, Tiverton and Wampanoag projects and an under-spending variance of \$0.76
13 million for valve replacement. The actual spending on these programs was offset by
14 over-spending variances of \$0.92 million related to more costly LNG work and an over-
15 spending of \$0.59 million for the Heater Program.

16
17 **Q. Please explain the FY 2015 under-budget variances for Service Replacement
18 Program, the Reactive Main Replacement Program, and the Special Projects.**

2 This reclassification has no impact on the revenue requirement because both the Service Leak category and Joint Encapsulation category are in Mandated Programs.

1 A. The under-budget variances for FY 2015 were \$0.38 million for the Service Replacement
2 Program, \$0.03 million for the Reactive Main Replacement Program, and \$0.95 million
3 for Special Projects.

4 For FY 2015, the Company spent approximately \$1.12 million on the pro-active service
5 replacement program against a fiscal year budget of \$1.50 million, resulting in a fiscal
6 year under-spending variance of approximately \$0.38 million. Under the Service
7 Replacement Program, the Company has replaced 322 services of the targeted 665 high-
8 pressure inside services. At this time, there are 343 remaining high pressure services, and
9 the Company has committed to completing these remaining replacements by the end of
10 FY 2016. Customer scheduling logistics and the harsh winter impacted further program
11 completion.

12 As noted in the Company's FY 2015 Gas ISR Plan, the Company projected that the need
13 for additional spending in the Reactive Main Replacement Program would continue to be
14 significantly reduced as a result of the aggressive Proactive Main Replacement Program.
15 This was the case for FY 2015, as the Company spent approximately \$0.17 million for
16 Reactive Main Replacements compared to a fiscal year budget of \$0.20 million, resulting
17 in a small fiscal year under-spending variance of approximately \$0.03 million.

18 Finally, for the Special Projects category in FY 2015, the Company spent approximately
19 \$3.73 million of a fiscal year budget of \$4.68 million, resulting in an under-spending
20 variance of \$0.95 million for all FY 2015 special projects. For the Gas Pilot Expansion

1 Program, the Company spent approximately \$1.33 million against a fiscal year budget of
2 \$3.00 million, resulting in a fiscal year variance of \$1.67 million. As noted in the
3 Company's FY 2016 Gas ISR Filing, the Gas Expansion Program received sufficient
4 customer commitments in FY 2015 related to six projects, five of which were completed
5 during FY2015. The Company has installed approximately 22,000 feet of main and 97
6 services with the potential to serve a total of 370 customers.

7 Finally, regarding the Exeter LNG Boil-off project, during the third quarter of FY 2015,
8 the project team working on the Exeter LNG Boil-off Compressor project completed the
9 physical construction of the new equipment and systems and completed the
10 commissioning for this project in the fourth quarter of FY 2015. For this work, the
11 Company spent approximately \$2.40 million against a fiscal year budget of \$1.50
12 million, resulting in a fiscal year over-budget variance of \$0.90 million for the project.
13

14 **Q. What is the amount of FY 2015 capital spending that the Company is seeking to**
15 **reconcile in this filing?**

16 A. The Company is seeking to reconcile FY 2015 actual capital spending of \$77.34 million
17 in this filing. As noted in prior ISR Plan filings, in implementing the Gas ISR Plan in any
18 fiscal year, the circumstances encountered during the year may require reasonable
19 deviations from the original Gas ISR Plan approved by the PUC.³ The \$6.05 million
20 capital over spending variance for FY 2015 is clearly consistent with the intent of the Gas

3 See the FY 2012 Gas ISR Plan filed with the PUC on December 20, 2010 at Section 1, Page 3
of 6.

1 ISR Plan to maintain the overall safety and reliability of the Company's gas system and
2 to ensure that customers are only charged for the appropriate Gas ISR Plan costs in the
3 Gas ISR Plan Annual Reconciliation filing.

4
5 **Q. What is the amount of FY 2015 Operation and Maintenance (O&M) spending that**
6 **the Company is seeking to reconcile in this filing?**

7 A. The Company is seeking to reconcile approximately \$0.50 million of O&M spending for
8 FY 2015. In the FY 2015 Gas ISR Plan, the Company requested \$0.40 million of
9 incremental O&M expense dollars to hire, train, and supervise an additional eleven full
10 time equivalent (FTE) personnel to support Main Replacement work for FY 2015. The
11 Company also agreed to track and reconcile the amount of actual O&M expense
12 associated with these new hires for FY 2015. For FY 2015, the actual O&M expense to
13 hire, train, and supervise the work performed by these eleven new hires totaled
14 approximately \$0.50 million, and an over-budget variance of \$0.10 million.

15
16 **Q. Does this conclude your testimony?**

17 A. Yes, it does.

Gas Infrastructure, Safety, and Reliability Plan

Fiscal Year 2015 Reconciliation Filing

EXECUTIVE SUMMARY

In accordance with tariff, RIPUC NG-Gas, No. 101, Section 3, Schedule A, Sheets 5-7, The Narragansett Electric Company d/b/a/ National Grid (Company) submits this Annual Report, and Annual Reconciliation filing for the fiscal year 2015 (FY 2015) Gas Infrastructure, Safety and Reliability (ISR) Plan, which the Rhode Island Public Utilities Commission (PUC) approved in Docket No. 4474. This filing provides an overview and description of the \$77.85 million of actual non-growth capital investment and Operation and Maintenance (O&M) spending by category as well as an explanation by category of major variances to the budget of \$71.70 million, as approved in Docket No. 4474.

FY 2015 Actual Results

As set forth in Table 1 below, in fiscal year (FY) 2015, the Company spent \$77.34 million for non-growth capital investments and \$0.50 million for O&M expense under the Gas ISR Plan. This amount was approximately \$6.05 million more than the annual approved Gas ISR capital budget of \$71.30 million and \$0.10 million more than the O&M budget of \$0.40 million approved in Docket No. 4474 respectively. A total of 55 miles of leak prone pipe was abandoned from all ISR categories which is a 3.2mile increase over the prior year results. Based on average leak data associated with leak prone pipe it is estimated that approximately 47 gas leaks are eliminated annually through abandonment of the 55 miles of leak prone gas main. The variances by category of work are shown in Table 1 with the key drivers discussed in greater detail below. Additional details of each sub-category are provided in Table 2.

Table 1

Narragansett Gas
FY2015
in Millions

Category	Budget	Actual	Variance
Proactive Main Replacement	\$36.50	\$40.90	\$4.40
Service Replacement Program	\$1.50	\$1.12	(\$0.38)
Public Works	\$3.86	\$7.21	\$3.35
Reactive Main Replacement	\$0.20	\$0.17	(\$0.03)
Mandated Programs	\$14.14	\$15.25	\$1.11
Reliability	\$10.42	\$8.97	(\$1.46)
Special Projects	\$4.68	\$3.73	(\$0.95)
Capital Total	\$71.30	\$77.34	\$6.05
O&M	\$0.40	\$0.50	\$0.10
TOTAL	\$71.70	\$77.85	\$6.15

Proactive Main Replacement Program – \$4.40 million over-budget variance

For FY 2015, the Company spent approximately \$40.90 million of a fiscal year budget of \$36.50 million, resulting in an over-spending variance of \$4.40 million. The major drivers associated with the \$4.40 million over-budget variance were the need for the replacement of more cast-iron main and the installation of additional services in higher cost urban areas. In general, the replacement of more cast-iron main segments in urban areas, such as in the City of Providence, require the replacement of more difficult main and a greater number of services than in more sparsely populated areas. Urban areas include more multi-unit dwellings that typically require main and service replacement up to the gas meter. In addition, the Company is required to take additional safety measures in highly populated urban areas to locate, verify, and protect other utility facilities. Also, restoration requirements in more urban areas are greater due to the need for both sidewalk and street repaving. Finally, because of the higher traffic and public presence in more urban areas, the time and cost to obtain permits (which may have work time

restrictions) and the need for increased traffic control for purposes of public and employee safety, are also greater. All of these factors contributed to the higher units costs and spending variance for the Proactive Main Replacement Program for FY 2015.

Regarding the replacement of leak-prone pipe (LPP) for FY 2015, the Company installed 45 miles of new main and abandoned 48.7 miles of LPP. This was approximately eight miles or 15% less than the proposed installation and approximately four and one third miles or 8% less than the proposed abandonment of 53 miles of proactive leak-prone gas main for the fiscal year. In addition to the higher costs as discussed above, the Company's plan to replace 53 miles of LPP was further impacted by the Company's need to retrain contractors early in the FY 2015 construction season and to address additional safety measures later in the year. In addition, the extreme weather at the end of the FY 2015 construction season prevented the Company from replacing all proposed miles, as planned. Through its work inspection and oversight process, early in the FY 2015 construction season, the Company learned that it needed to retrain its contractors that were responsible for the replacement of mains. Specifically, additional training was necessary for contractor personnel to ensure compliance with Company documentation and safety standards for main and service replacements. Consequently, the Company halted main replacement work for an equivalent period of two weeks at the beginning of the construction season until all the contractor personnel were retrained.¹ In addition, construction was also suspended for two weeks in November of FY 2015 for the Company to investigate and review safety measures after a contractor fatality. This loss of four critical weeks during the construction season also contributed to the under-replacement of miles of leak-prone pipe for FY 2015. Finally, the heavy snow and extremely cold weather experienced in late January through March of 2015 eliminated the possibility of completing any additional work for the Proactive Main Replacement Program for fourth quarter of FY 2015.

Service Replacement Program - \$0.38 million under-budget variance

For FY 2015, the Company spent approximately \$1.12 million of a fiscal year budget of \$1.50 million, resulting in a fiscal year under-spending variance of approximately \$0.38 million. Under the Service Replacement Program, the Company has replaced 324 services of the targeted 665 high-pressure inside services. The program was impacted by logistical challenges and harsh winter conditions. As of fiscal year end, there are 341 remaining high pressure services, and the Company has committed to completing these remaining replacements by the end of FY 2016.

¹ The Company has supplemented its contractor resources and has established an additional contracting firm to provide for greater effectiveness associated with its FY 2016 main replacement plan.

Public Works Program - \$3.35 million over-budget variance

For FY 2015, the Company spent approximately \$7.82 million against a fiscal year budget of approximately \$5.19 million and received reimbursement of \$0.61 million against a budget of \$1.33 million, resulting in an over-spending variance of \$3.35 million. The Public Works spending reflects the coordination of gas replacement and/or relocation work with state and municipal entities. A key driver of this over-spending variance was the response to more complex site conditions and project work in the program. For example, the public works project on Broadway in Newport required the replacement of approximately 3,800 feet of 6-inch and 12-inch cast iron pipe in three separate sections. In addition to the Newport project, the following five projects account for approximately 40% of the public works spending: (1) Work Order (WO)# 90000141638 located at Freeborn Ave & Lyon Ave, East Providence, with a scope of relaying 1,845 feet with 6-in plastic main; (2) WO# 90000141273 located at Ocean Ave, Cranston, with a scope of relaying 1,132 feet of main with 6-inch plastic main; (3) WO# 90000140424 located at East Bowery St, Newport, with a scope of relaying approximately 1,176 feet of main with 2-in plastic main; (4) WO# 90000141901 located at Frederick/Thatcher St, East Providence, with a scope of relaying 880 feet of main with 2-inch plastic main; and (5) WO# 90000138646 located at Mauran Ave, East Providence with a scope of relaying 642 feet of main. For FY 2015, the Company installed 6.6 miles of new gas main and abandoned 6.3 miles of leak prone pipe as part of Public Works projects.

Reactive Main Replacement Program - \$0.03 million under-budget variance

For FY 2015, the Company spent approximately \$0.17 million for Reactive Main Replacements compared to a fiscal year budget of \$0.20 million, which resulted in a fiscal year under-spending variance of approximately \$0.03 million. As noted in the prior FY 2015 quarterly reports, the Company's aggressive spending in the Proactive Main Replacement Program has decreased the need for reactive main replacements, and this trend is expected to continue into the near future.

Mandated Programs – \$1.11 million over-budget variance

The Mandated Programs spending was \$1.11 million over-budget for FY 2015. This variance was driven primarily by spending in the following categories:

- Service Leaks and Cast Iron Joint Encapsulation - For FY 2015, actual spending for these two categories was \$11.28 million, which was approximately \$1.90 million over the budget of \$9.38 million because the Company experienced higher unit costs

associated with more costly repairs resulting in part from the harsh winter conditions. Initially, the Company estimated and budgeted for the replacement of 665 services and the encapsulation of 525 cast iron joints due to leaks. However, the Company actually repaired/replaced 322 services and encapsulated 680 cast iron joints in the fiscal year. The Company is continuing the classification of work within these two capital leak categories as it appears costs have not been fully differentiated.²

- Non-leak / Other – For FY 2015, actual spending in the Non-Leaks /Other category of work was \$1.52 million, which was \$0.12 million over the budget of \$1.4 million, basically on budget.
- Meter Purchases (Replacements) – For FY 2015, actual spending for meter purchases changes and replacements was \$2.21 million, which was \$0.65 million less than the budget of \$2.86 million. This variance was due to the need for fewer meter changes and the fact that the Company purchased 15,911 meters, which was approximately 9,174 meters less than the Company’s forecast of 25,085 meters for FY 2015.
- Corrosion/Cathodic Protection – Actual spending for FY 2015 was approximately \$0.23, as compared to a budget of \$0.50 million resulting in an under-spending variance of approximately \$0.27 million for the fiscal year due to lower than anticipated mandated work.

Gas System Reliability - \$1.46 million under-budget variance

In FY 2015, the Company spend approximately \$8.97 million of a fiscal year end budget of \$10.42 million on Gas System Reliability resulting in an under-spending variance of \$1.46 million. This underspending variance was primarily driven by an underspending of \$1.65 million for the Allens Avenue, Tiverton, and Wampanoag projects and an under-spending variance of \$0.76 million for valve replacement. This underspending variance was offset by over-spending variances of \$0.92 million for LNG and \$0.59 million for the Heater Program.

Special Projects - \$0.95 million under-budget variance

For FY 2015, the Company spent approximately \$3.73 million of a fiscal year budget of \$4.68 million, resulting in an under-spending variance of \$0.95 million for all FY 2015 special projects.

² This reclassification has no impact on the revenue requirement because the Service Leak category and Joint Encapsulation category are in Mandated Programs.

For the Gas Pilot Expansion Program, the Company spent approximately \$1.33 million against a fiscal year budget of \$3.00 million, resulting in a fiscal year variance of \$1.67 million. As noted in the Company's FY 2016 Gas ISR Filing, the Gas Expansion Program received sufficient customer commitments in FY 2015 related to six projects, five of which were completed during FY 2015. The Company has installed approximately 22,000 feet of main and 97 services with the potential to serve a total of 370 customers.

Finally, during the third quarter of FY 2015, the project team working on the Exeter LNG Boil-off Compressor project completed the physical construction of the new equipment and systems. The Company completed the commissioning for this project in the fourth quarter of FY 2015. For FY 2015, the Company spent \$2.40 million on this project against a fiscal year budget of \$1.50 million, resulting in a fiscal year variance of \$0.90 million for the project.

Table 2

Category	Budget	Actual	Variance
Proactive Main Replacement			
Sub-Total	\$36.50	\$40.90	\$4.40
Service Replacement Program			
Sub-Total	\$1.50	\$1.12	(\$0.38)
Public Works			
City State Construction - Non-Reimbursable	\$3.86	\$6.49	\$2.63
City State Construction - Reimbursable	\$1.33	\$1.33	(\$0.00)
City State Construction - Reimbursements	(\$1.33)	(\$0.61)	\$0.72
Sub-Total	\$3.86	\$7.21	\$3.35
Reactive Main Replacement			
Sub-Total	\$0.20	\$0.17	(\$0.03)
Mandated Programs			
Corrosion	\$0.50	\$0.23	(\$0.27)
CI Joint Encapsulation	\$3.33	\$0.40	(\$2.92)
Meters (Purchases, Changes and Replacements)	\$2.86	\$2.21	(\$0.65)
Leaks	\$6.05	\$10.88	\$4.83
Non-Leaks/Other	\$1.40	\$1.52	\$0.12
Sub-Total	\$14.14	\$15.25	\$1.11
Reliability			
Gas System Control	\$0.14	\$0.00	(\$0.14)
Gas Planning	\$1.00	\$1.10	\$0.10
Heater Program	\$0.00	\$0.59	\$0.59
I&R Reactive/CNG Programs	\$0.95	\$0.72	(\$0.24)
LNG	\$0.60	\$1.52	\$0.92
Pressure Regulating Facilities	\$2.71	\$2.72	\$0.01
Valve Installation/Replacement	\$0.80	\$0.04	(\$0.76)
Water Intrusion	\$0.20	\$0.00	(\$0.20)
Control Line Integrity Program	\$0.00	\$0.05	\$0.05
System Automation	\$1.00	\$0.86	(\$0.14)
Miscellaneous Capital, Equipment and Tools	\$1.08	\$1.08	(\$0.00)
Allens Ave, Tiverton, Wampanoag Projects	\$1.95	\$0.30	(\$1.65)
Sub-Total	\$10.42	\$8.97	(\$1.46)
Special Projects			
Exeter Boil Off Compressor	\$1.50	\$2.40	\$0.90
I-195	\$0.18	\$0.00	(\$0.18)
Gas Expansion Program	\$3.00	\$1.33	(\$1.67)
Sub-Total	\$4.68	\$3.73	(\$0.95)
Capital Total	\$71.30	\$77.34	\$6.05
O&M	\$0.40	\$0.50	\$0.10
TOTAL	\$71.70	\$77.85	\$6.15

PRE-FILED DIRECT TESTIMONY

OF

MELISSA A. LITTLE

August 3, 2015

PRE-FILED DIRECT TESTIMONY

OF

MELISSA A. LITTLE

August 3, 2015

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1 **I. INTRODUCTION**

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

3 A. My name is Melissa A. Little, and my business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451.

5

6 **Q. Please state your position.**

7 A. I am a Lead Specialist for New England Revenue Requirements in the Regulation and
8 Pricing department of National Grid USA Service Company, Inc. (Service Company).
9 Service Company provides engineering, financial, administrative, and other technical
10 support to subsidiary companies of National Grid USA (National Grid). My current
11 duties include revenue requirement responsibilities for National Grid's electric and gas
12 distribution activities in New England, including the gas operations of The
13 Narragansett Electric Company d/b/a National Grid (Narragansett or the Company).

14

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

16 A. In 2000, I earned a Bachelor of Science degree in Accounting Information Systems
17 from Bentley College (now Bentley University) in Waltham, Massachusetts. In
18 September 2000, I joined PricewaterhouseCoopers LLP in Boston, Massachusetts
19 where I worked as an associate and senior associate in the Assurance practice. In
20 November 2004, I joined National Grid in the Service Company as an analyst and then
21 senior analyst in the general accounting group. After the merger of National Grid and
22 KeySpan in 2007, I joined the Regulation and Pricing department as a senior analyst in

1 the Regulatory Accounting function, also supporting the Niagara Mohawk Power
2 Corporation revenue requirement team. After moving to the New England revenue
3 requirement team, I was promoted to my current position in July 2011.

4
5 **Q. Have you previously testified before the Rhode Island Public Utilities**
6 **Commission (PUC)?**

7 A. Yes. I provided pre-filed testimony in the Company's Revenue Decoupling
8 Adjustment filing in Docket No. 4514 in regards to the revenue requirement on growth
9 capital investment. I also testified before the PUC in Docket No. 4540 in regards to the
10 revenue requirement included in the Company's FY 2016 Gas ISR Plan Proposal.

11
12 **Q. What is the purpose of your testimony?**

13 A. In this docket, the PUC approved a new Gas Infrastructure, Safety, and Reliability
14 (ISR) factor, which went into effect April 1, 2014. That factor was based on a
15 projected FY 2015 ISR revenue requirement of \$4,392,480 associated with estimated
16 ISR capital investment during the Company's Fiscal Years (FY) ended March 31,
17 2015, 2014, 2013 and 2012 that were incremental to the levels reflected in rate base in
18 the Company's last base rate case (Docket No. 4323), and an estimate of operating &
19 maintenance (O&M) expenses associated with additional personnel to support main
20 replacement work for FY 2015. The purpose of my testimony is to present an updated
21 FY 2015 ISR revenue requirement associated with actual FY 2015, FY 2014, FY 2013
22 and FY 2012 capital investment levels, actual tax deductibility percentages for FY

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d/b/a NATIONAL GRID
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1 2014 capital additions, and updated O&M expenses. Actual tax deductibility
2 percentages for FY 2015 capital investment will not be known until the Company files
3 its FY 2015 income tax return in December of 2015. Consequently, the actual tax
4 deductibility percentages for FY 2015 capital investment will be reflected in the
5 Company's FY 2016 Gas ISR Reconciliation filing next year and will generate a true
6 up adjustment in that filing. The updated FY 2015 revenue requirement also includes
7 an adjustment associated with the ISR property tax recovery formula that was
8 approved in Docket No. 4323. The ISR property tax recovery adjustment became
9 effective for periods subsequent to the rate year in Docket No. 4323, which ended on
10 January 31, 2014. Consequently, the ISR property tax recovery adjustment covers
11 only the months of February and March of 2014 and the twelve months ended March
12 31, 2015. My testimony will also address the income tax Net Operating Loss (NOL)
13 issue raised in the FY 2016 Gas ISR Proposal under Docket No. 4540 and the
14 resulting increase in the FY 2015 revenue requirement related to vintage FY 2012
15 through FY 2014 investment, as well as a one-time catch-up adjustment related to the
16 increase in FY 2012 through FY 2014 revenue requirements on vintage FY 2012
17 through FY 2014 investment. Finally, this testimony addresses the correction of two
18 errors in the Company's FY 2014 Gas ISR reconciliation filing in Docket No. 4380.
19 These corrections lower the amount of the revenue requirement calculated in the FY
20 2014 reconciliation filing. The first correction relates to the calculation of average
21 rate base on incremental FY 2014 ISR investment. The second correction was made
22 to reflect the appropriate capital repairs deduction percentage for the FY 2014 revenue

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1 requirement on incremental FY 2012 ISR investment. As shown on Attachment
2 MAL-1 on Page 1 at Line 12, the updated FY 2015 ISR revenue requirement
3 collectible through the Company's ISR factor for the FY 2015 period, including the
4 one-time catch-up adjustment related to the NOL impact on prior fiscal years' revenue
5 requirements, amounts to \$13,136,888, an increase of \$8,744,408 from the projected
6 FY 2015 gas ISR revenue requirement of \$4,392,480 previously approved by the
7 PUC. More than 75 percent, or \$6.6 million, of this increase is related to the NOL
8 issue, along with an adjustment of approximately \$1.7 million related to the property
9 tax mechanism true-up that were not included in the projected revenue requirement.
10 The tax NOL adjustment is the result of tax deductions reflected on National Grid's
11 income tax returns that exceed the amount of taxable income it has generated during
12 FY 2012 through FY 2014. Guidance in recent years from the Internal Revenue
13 Service and recent economic tax incentives made available through federal income tax
14 legislation (namely bonus tax depreciation) has provided National Grid with more tax
15 deductions than taxable income with which to offset the deductions. National Grid's
16 tax NOLs are unrealized tax deductions that can be used in the future to offset taxable
17 income. As had previously been indicated, the Company had submitted its Gas ISR
18 Reconciliation filings for FY 2012 through FY 2014, and had also based its FY 2015
19 Gas ISR proposal on the incorrect assumption that the Company was able to utilize
20 one hundred percent of all Capital-related book/tax timing differences, primarily
21 related to bonus and capital repair tax deductions. However, for those years, the
22 Company did not utilize all of those accelerated tax deductions, but, instead,

1 incorrectly provided customers with the full benefit of all of those tax deductions in
2 the Gas ISR revenue requirement for each of those years. In other words, the
3 Company inappropriately reduced its Gas ISR revenue requirement billed to
4 customers for fiscal years 2012 through 2015 for presumed tax benefits that the
5 Company was unable to use. These benefits are not forfeited. however, and will be
6 flowed through to customers in future years when the Company is able to utilize them
7 on future federal income tax returns.. Approximately \$3.5 million of the \$6.6 million
8 tax NOL adjustment is a true up for understated Gas ISR Reconciliation filings in FY
9 2012 to FY 2014, and the remaining \$3.1 million is the FY 2015 revenue requirement
10 effect of the NOLs related to vintage FY 2012 to FY 2014 investment. The tax NOL
11 and property tax recovery adjustments will be described in more detail further in my
12 testimony.

13
14 **Q. Are there any schedules attached to your testimony?**

15 A. Yes, I am sponsoring the following Attachment:

- 16 • Attachment MAL-1: Gas Infrastructure, Safety and Reliability Plan
17 Revenue Requirement Reconciliation

18
19 **II. ISR PLAN FY 2015 REVENUE REQUIREMENT**

20 **Q. Did the Company calculate the updated FY 2015 ISR revenue requirement in the**
21 **same fashion as calculated in the previous ISR Factor submissions and the**
22 **August 2014 ISR factor reconciliation?**

1 A. With the exception of the aforementioned tax NOL and property tax recovery
2 adjustments, and the error corrections, the updated FY 2015 ISR revenue requirement
3 calculation is nearly identical to the ISR revenue requirement used for purposes of
4 developing the approved ISR factors that were effective April 1, 2014, and as
5 described previously in the testimony of William R. Richer in this proceeding but
6 incorporating updated ISR investment amounts, and known tax deductibility
7 percentages. I will rely on Mr. Richer's testimony for the detailed description of the
8 revenue requirement calculation, and will limit this testimony to summarizing the
9 revenue requirement and a description of the tax NOL and property tax recovery
10 adjustments, the error corrections, and the update for the known tax deductibility
11 percentages.

12
13 **Q. Please explain the adjustment related to FY 2014, FY 2013 and FY 2012 NOLs.**
14 **What are NOLs?**

15 A. Tax NOLs are generated when the Company has tax deductions on its income tax
16 returns that exceed its taxable income. This does not mean that the Company is
17 suffering losses in its financial statements; instead, the Company's tax NOLs are the
18 result of the significant tax deductions that have been generated in recent years by the
19 bonus depreciation and capital repairs tax deductions. In addition to first-year bonus
20 tax depreciation, the United States tax code allows the Company to classify certain
21 costs as repairs expense which the Company takes as an immediate deduction on its
22 income tax return; however, these costs are recorded as plant investment on the

1 Company's books. These significant bonus depreciation and capital repairs tax
2 deductions have exceeded the amount of taxable income reported in tax returns filed
3 for FY 2009 through FY 2014, with the exception of FY 2011. NOLs are recorded as
4 non-cash assets on the Company's balance sheet and represent a benefit that the
5 Company and customers will receive when the Company is able to realize actual cash
6 savings when it applies these NOLs against taxable income in the future.

7
8 **Q. Does National Grid generate NOLs frequently?**

9 **A.** No, it does not. Prior to FY 2009, National Grid generated NOLs very infrequently.
10 During 2009, the Internal Revenue Service (IRS) issued guidance regarding the capital
11 repairs tax deduction. As a result of this additional guidance, the Company recorded a
12 one-time tax expense for repair and maintenance costs in the FY 2009 federal income
13 tax return filed on December 11, 2009 by National Grid Holdings, Inc. The FY 2009
14 capital repairs tax deduction was particularly large in the first year in which the
15 deduction was taken because the deduction included capital repairs amounts from FY
16 2005 through FY 2009. Since that time, the Company has taken a capital repairs
17 deduction on all subsequent FY tax returns. This has formed the basis for the capital
18 repairs deduction assumed in the Company's revenue requirement. This tax deduction
19 has the effect of increasing accumulated deferred taxes which reduce rate base and,
20 consequently, lower the revenue requirement that customers have paid under the ISR
21 mechanism.

1 **Q. Why are these tax NOLs causing revisions to the Gas ISR revenue requirements**
2 **calculations as filed in the FY 2012, FY 2013 and FY 2014 reconciliation filings,**
3 **and generating an increase in the revenue requirement calculation proposed for**
4 **FY 2015?**

5 A. The FY 2012 to FY 2014 reconciliation filings and the FY 2015 Gas ISR revenue
6 requirements calculation were prepared as if the Company had received, and provided
7 customers with, the full tax benefits associated with FY 2012 through FY 2014 ISR
8 investment. During the preparation of the Gas ISR Plan FY 2016 Proposal, the
9 Company consulted with its Tax Department for advice on the treatment of the
10 December 2014 tax law legislation that extended bonus depreciation to calendar 2014
11 capital investment. The Tax Department indicated that deductibility resulting from the
12 tax law legislation would be limited to the extent that there was insufficient taxable
13 income to absorb the full bonus depreciation tax deduction. Any bonus depreciation
14 that could not be deducted because of excess tax deductions over taxable income
15 would generate NOLs. This prompted the Company to consider whether NOLs were
16 generated since the inception of the Gas ISR program in FY 2012, and the Tax
17 Department confirmed that in FY 2012, FY 2013 and FY 2014, NOLs were also
18 generated. As described above, prior to FY 2009, NOLs were generated infrequently,
19 and while the Company was aware that NOLs were generated by the sizable capital
20 repairs deduction covering FY 2005 through FY 2009 when the Company first
21 included a capital repairs deduction in its FY 2009 tax return, the Company did not

1 recognize that NOLs had been generated after FY 2009 and did not reflect those NOLs
2 in the Gas ISR for fiscal years 2012 through 2015.

3
4 **Q. How do these NOLs impact the revenue requirement calculations, and why**
5 **should customers pay for this error?**

6 A. Accumulated NOLs represent an offset to the Company's accumulated deferred
7 income taxes, which are included as a credit, or reduction, in the calculation of rate
8 base. Consequently, including accumulated NOLs in the revenue requirement
9 calculations reduces the amount of accumulated deferred taxes in the derivation of ISR
10 rate base. As described previously, deferred taxes are an offset, or reduction, to ISR
11 rate base and are intended to represent the amount of cash benefit generated by and
12 associated with ISR investment related tax deductions that the Company has reflected
13 in its income tax returns. Since the inception of the Gas ISR program in FY 2012, the
14 Company has assumed in its revenue requirement calculations that the Company
15 received the full cash benefit of the significant ISR investment related bonus
16 depreciation and capital repairs tax deductions. However, the actual cash benefits
17 from these deductions have been limited due to the fact that the Company, and the
18 consolidated entity for which a consolidated tax return is prepared, reported a taxable
19 loss. Therefore, all previously filed Gas ISR revenue requirement calculations since
20 FY 2012 have provided customers with too much of a cash benefit associated with
21 these tax deductions by not reducing ISR related deferred taxes by the amount of ISR
22 investment related NOLs.

1 **Q. Why not spread the increase in the FY 2012 through FY 2015 revenue**
2 **requirements over a period of years?**

3 A. As explained earlier, this NOL issue impacts ISR rate base and represents the
4 cumulative impact of NOLs for all years prior to and including FY 2015. Because of
5 its cumulative rate base nature, this NOL issue also has an impact on ISR revenue
6 requirements for FY 2012 through FY 2014 as well. Consequently, the FY 2015
7 cumulative revenue requirement impact of \$3.1 million, as shown on Page 15 at Line
8 6 on Column (d), is permanent until the Company can utilize the underlying
9 cumulative tax losses that gave rise to this annual impact. In other words, the
10 Company's current cumulative NOLs will produce a \$3.1 million revenue requirement
11 in the FY 2016 and for all future years until such time as the Company is able to
12 utilize its cumulative NOLs. This is only further compounded by the fact that the
13 Company did not include a deferred tax offset for NOLs in its vintage FY 2014, FY
14 2013 and FY 2012 rate base calculations, which results in an additional \$3.5 million in
15 excess benefit granted to customers, representing the cumulative revenue requirement
16 impact for the FY 2012 through FY 2014 ISR reconciliation periods. Therefore,
17 deferring an amount of the FY 2015 revenue requirement impact will only result in the
18 need for increased recovery in future years and would result in incremental carrying
19 charges on amounts deferred.

20
21 **Q. Is the Company seeking to recover the revenue requirement impact for all ISR**
22 **years affected by NOLs in the FY 2015 Gas ISR reconciliation?**

1 A. Yes, it is. By excluding NOLs in its FY 2012, FY 2013 and FY 2014 Gas ISR
2 reconciliation filings, the Company has provided customers with assumed deferred tax
3 cash benefits in excess of those actually realized by the Company on its tax returns for
4 those years. To address those excess benefits, the FY 2015 Gas ISR reconciliation
5 includes a one-time, prior period adjustment for the revenue requirement years FY
6 2012 through FY 2014 related to tax years' 2012 through 2014 NOLs on vintage FY
7 2012 through FY 2014 capital investment. This totals \$3.5 million as shown on Page 1
8 at Line 8. The FY 2015 Gas ISR reconciliation also includes the cumulative impact
9 on the FY 2015 revenue requirement of tax years' 2012 through 2014 NOLs related to
10 FY 2012 through FY 2014 investment. That amount equates to \$3.1 million as shown
11 on Page 15 at Line 6, Column (d) and is embedded in each vintage year's revenue
12 requirement shown on Page 1 at Lines 2 through 5. Therefore, of the total \$13.1
13 million revenue requirement requested for FY 2015, \$6.6 million of that total is the
14 result of applying NOL offsets against deferred tax liabilities in the calculation of rate
15 base for vintage FY 2012 through FY 2014 capital investment.

16
17 **Q. Why has the Company not included NOL in its vintage FY 2015 rate base**
18 **calculation?**

19 A. The tax depreciation calculation on vintage FY 2015 investment is an estimate until
20 the Company files its FY 2015 tax return in December 2015. Until the FY 2015 tax
21 return is filed, the Company assumes it will be able to receive the full benefit of
22 capital repairs and bonus depreciation deductions. If the Company generates

1 additional NOLs based on its actual FY 2015 tax position, that adjustment will be
2 reflected as a prior period adjustment to the FY 2015 revenue requirement in the FY
3 2016 Gas ISR reconciliation filing. Conversely, if the Company is able to utilize any
4 of its currently accumulated NOLs that benefit will be flowed through to customers in
5 its FY 2016 Gas ISR reconciliation filing
6

7 **Q. Please describe the ISR property tax recovery adjustment.**

8 A. The method used to recover property tax expense under the ISR has been modified by
9 the rate case settlement agreement. In determining the base on which property tax
10 expense is calculated for purposes of the ISR revenue requirement, the Company
11 includes an amount equal to the base-rate allowance for depreciation expense and
12 depreciation expense on incremental ISR plant additions in the accumulated reserve
13 for depreciation that is deducted from plant in service. The ISR property tax recovery
14 adjustment also includes the impact of any changes in the Company's effective
15 property tax rates on base-rate embedded property, plus cumulative ISR net additions.
16 Property tax impacts associated with non-ISR plant additions are excluded from the
17 property tax recovery formula. This provision of the settlement agreement took effect
18 for ISR property tax recovery periods subsequent to the end of the first rate year
19 period, or January 31, 2014.
20

21 **Q. Please explain the correction of the FY 2014 revenue requirement associated with**
22 **the calculation of average rate base on incremental FY 2014 ISR investment..**

1 A. The Company incorrectly calculated the FY 2014 average rate base on FY 2014
2 investment in its FY 2014 Gas ISR reconciling filing. The average change in rate base
3 on FY 2014 ISR investment is shown on Page 4 at Line 21. Average rate base in the
4 ISR Plan revenue requirement is normally calculated as the average year-end
5 cumulative change in rate base. This simple averaging method is how average year-
6 end rate base was calculated on vintage FY 2014 investment in the FY 2014 Gas ISR
7 Reconciliation revenue requirement. However, since a portion of FY 2014 non-
8 growth capital investment was reflected in the Company's projected rate base through
9 the January 31, 2014 end of rate year in Docket No. 4323, and the other portion is not,
10 a separate calculation was necessary to apportion the incremental non-growth capital
11 for the year for purposes of determining the weighted average rate base for
12 incremental FY 2014 investment. This calculation is shown on Page 16 of Attachment
13 1. The portions of FY 2014 that fall outside of the rate year are the months of February
14 and March of 2014. Therefore, it is assumed that one-twelfth of total FY 2014 non-
15 growth capital investment was incurred in each of those months. For the remaining FY
16 2014 incremental non-growth capital investment (i.e. total incremental non-growth
17 capital investment less the portion attributed to February and March of 2014) it is
18 assumed that such remaining investment will be incurred evenly during the months of
19 April 2013 to January 2014. The incremental investment for each month is then
20 weighted for the period that such investment was outstanding during the year,
21 generating a weighted average plant investment ratio of 32.54 percent (i.e.: the ratio of
22 the weighted average plant investment for the year over total incremental ISR capital

1 investment). Average rate base on Line 21 of Page 4 for FY 2014 on vintage FY 2014
2 capital investment equals the year-end rate base from Line 20 times the 32.54 percent
3 from Page 16. This amount is multiplied by the pre-tax rate of return, as shown on
4 Line 22, to compute the return and tax portion of the incremental revenue requirement,
5 as shown on Line 23.

6
7 **Q. Are there any other changes to the FY 2014 revenue requirement that are being**
8 **trued up in the FY 2015 Gas ISR Reconciliation?**

9 A. The only other change is one that was anticipated during the preparation of the FY
10 2014 Gas ISR Reconciliation. The Company filed its FY 2014 Gas ISR
11 Reconciliation on August 1, 2014. However, the Company had not filed its FY 2014
12 income tax return until later that year in the month of December. As a result, it used
13 an estimated capital repairs tax deduction. Consequently, the Company has revised its
14 FY 2014 revenue requirement to reflect an actual capital repairs deduction rate of
15 74.94 percent as shown on page 5, line 2 on MAL-1. The ultimate true up to the FY
16 2014 revenue requirement on FY 2014 incremental capital investment resulting from
17 the correction of the average rate base and the update to the actual capital repairs
18 deduction percentage, exclusive of the impact of the NOL effect on the FY 2014
19 revenue requirement, is calculated on Page 6 of MAL-1, and the resulting reduction to
20 the revenue requirement of \$262,965 is carried forward to Line 7 of Page 1.

21

1 **Q. Please describe the correction to the FY 2014 revenue requirement on FY 2012**
2 **vintage investment.**

3 A. The FY 2014 revenue requirement on FY 2012 vintage investment, as included in the
4 FY 2014 Gas ISR reconciliation filing, improperly reflected a capital repairs deduction
5 percentage of 48.33%, which was the estimated capital repairs deduction percentage
6 used in the FY 2012 Gas ISR Plan filing. The FY 2012 capital repairs deduction rate
7 was properly adjusted to 67.43% in the FY 2013 Gas ISR reconciliation filing to
8 reflect the actual capital repairs deduction taken on the Company’s FY 2012 tax
9 return. However, the estimated FY 2012 capital repairs deduction rate of 48.33% was
10 incorrectly carried forward to the FY 2014 revenue requirement calculation on FY
11 2012 investment included in the FY 2014 Gas ISR reconciliation filing. The corrected
12 FY 2014 revenue requirement calculation is shown on Page 9 of MAL-1 at Line 32(c),
13 which, when compared to the FY 2014 revenue requirement on FY 2012 investment
14 as filed in Docket 4380, results in a \$10,357 reduction in revenue requirement. This
15 comparison is shown on Page 6 beginning on Line 6. This amount is carried forward
16 to Line 9 of Page 1.

17
18 **Q. Please summarize the updated FY 2015 ISR revenue requirement.**

19 A. Certainly. As shown on Page 1, at Line 12 of Attachment MAL-1, the updated FY
20 2015 ISR revenue requirement amounts to \$13,136,888 which consists of \$502,734 in
21 operation & maintenance expenses and \$12,634,154 of capital related revenue

1 requirement. As previously described, it includes the full year revenue requirement on
2 vintage FY 2015, FY 2014, FY 2013 and FY 2012 ISR capital investments above or
3 below the level of capital investment reflected in base distribution rates, and the
4 property tax component.

5
6 **Q. Please continue by describing how your attachment is structured.**

7 A. Page 1 of the Attachment summarizes the individual components of the updated FY
8 2015 ISR revenue requirement. Line 1 shows the operating & maintenance expenses
9 associated with an additional eleven full time equivalent (FTE) personnel to support
10 Main Replacement work for FY 2015 as described in the testimony of Mr. Iseler.
11 Lines 2 through 6 represent the full year 2015 ISR revenue requirements for the FY
12 2015 and incremental FY 2012, FY 2013 and FY 2014 ISR investments, or those
13 investments not included in the Company's base rates, and as supported with detailed
14 calculations on Pages 2, 4, 7, and 9, respectively. Line 7 reflects the reconciliation of
15 the approved FY 2014 ISR revenue requirement for vintage FY 2014 investments with
16 a revised vintage FY 2014 revenue requirement on those investments. This
17 reconciliation is necessary because the actual level of tax deductibility on FY 2014
18 investments was not known at the time of filing the FY 2014 ISR Reconciliation
19 Factor or the Electric ISR FY 2015 Proposal. In addition, the Company has corrected
20 the calculation of average rate base in the FY 2014 revenue requirement calculation as
21 described previously. The calculation of the reconciliation amounts is shown on Page
22 6 and reflects the difference in the approved FY 2014 ISR revenue requirement on FY

1 2014 investments and the updated revenue requirement for FY 2014 on FY 2014 ISR
2 investments when incorporating the final tax deductibility levels and the average rate
3 base correction. Detailed calculations of the updated FY 2014 and FY 2015 revenue
4 requirements on vintage FY 2014 investments and the updated FY 2014 tax
5 depreciation on vintage FY 2014 ISR investments are presented on Pages 4 and 5 of
6 the Attachment, respectively. Line 8 represents the FY 2012, FY 2013, and FY 2014
7 revenue requirement impact of NOLs, which are described further in my testimony.
8 Line 9 represents a true up to correct the FY 2014 revenue requirement on FY 2012
9 investment, related to the capital repairs deduction rate used in the FY 2014 Gas ISR
10 reconciliation filing in Docket 4380. Detailed calculations of the revised FY 2014
11 revenue requirements on vintage FY 2012 investments and updated tax depreciation
12 on vintage FY 2012 ISR investments are presented on Pages 9 and 10 of the
13 Attachment, respectively. Line 10 represents the results of the FY 2015 property tax
14 recovery adjustment, which is supported by a detailed calculation on Page 12.

15
16 **Q. Has the Company provided support for the actual level of FY 2015 ISR eligible**
17 **plant investments?**

18 A. Yes. The description of the FY 2015 Gas ISR program and the amount of the
19 incremental non-growth capital investment eligible for inclusion in the ISR
20 Mechanism are supported by the direct testimony and supporting attachment of
21 Company Witness, David G. Iseler. The ultimate revenue requirement on the
22 incremental non-growth capital investment equals the return on the investment (i.e.

1 average rate base at the weighted average cost of capital), plus depreciation expense
2 and property taxes associated with the investment. Incremental non-growth capital
3 investment for this purpose is intended to represent the net change in rate base for non-
4 growth infrastructure investments since the establishment of the Company's ISR
5 mechanism effective April 1, 2012 and is defined as capital additions plus cost of
6 removal, less annual depreciation expense embedded in the Company's rates, net of
7 depreciation expense attributable to general plant. The actual ISR eligible non-growth
8 capital investment for FY 2015 amounts to \$74.9 million¹ associated with the
9 Company's FY 2015 ISR Plan (non-growth infrastructure investment net of general
10 plant).

11
12 **Q. What is the updated revenue requirement associated with actual capital**
13 **investment?**

14 A. The updated FY 2015 revenue requirement associated with the Company's actual FY
15 2015, FY 2014, FY 2013, and FY 2012 ISR eligible plant investments amounts to
16 \$13,136,888 and includes the following: the updated FY 2015 revenue requirement on
17 FY 2015 through FY 2012 investments; the reconciliation of the approved FY 2014
18 ISR revenue requirement for vintage FY 2014 investments with the actual FY 2014
19 revenue requirement on those vintage investments; the FY 2015 impact of FY 2012
20 through FY 2014 NOLs generated on vintage FY 2012, FY 2013 and FY 2014 ISR

¹ Total ISR eligible capital investment for FY2015 of \$74.9 million plus total ISR eligible cost of removal of \$2.4 million reflects \$77.3 million of actual capital spending, as referenced in the testimony of Mr. Iseler (Attachment DGI-1, Page 2, Table 1).

1 eligible investment; a prior-period adjustment to the FY 2012, FY 2013 and FY 2014
2 ISR revenue requirements related to NOLs generated on vintage FY 2012, FY 2013
3 and FY 2014 ISR eligible investment; and the inclusion of a property tax formula
4 adjustment pursuant to the rate case settlement agreement in Docket No. 4323.

5

6 **III. CONCLUSION**

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

8 A. Yes, it does.

**THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID
RIPUC DOCKET NO. 4474
FY 2015 GAS INFRASTRUCTURE, SAFETY, AND RELIABILITY PLAN
ANNUAL RECONCILIATION FILING
WITNESS: MELISSA A. LITTLE
ATTACHMENTS**

Attachment MAL-1

Gas Infrastructure, Safety, and Reliability Plan Revenue Requirement Calculation

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Summary

<u>Line</u> <u>No.</u>		FY 2015 Actuals (a)
1	FY 2015 Operation & Maintenance expense	\$502,734
2	FY 2015 Revenue Requirement on FY 2015 Actual Capital Investment	\$2,694,048
3	FY 2015 Revenue Requirement on FY 2014 Actual Incremental Capital Investment	\$3,572,053
4	FY 2015 Revenue Requirement on FY 2013 Actual Incremental Capital Investment	\$284,765
5	FY 2015 Revenue Requirement on FY 2012 Actual Incremental Capital Investment	\$1,130,740
6	Subtotal- FY 2015 Revenue Requirement on Actual Capital Investment	\$7,681,606
7	True Up for Capital Repairs Rate and Bonus Depreciation and to Correct Weighted Average Rate Base in FY 2014 Revenue Requirement on FY 2014 Capital Investment in RIPUC Docket No. 4380	(\$262,965)
8	True Up for Net Operating Losses generated in FY 2012, FY 2013 and FY 2014	\$3,537,706
9	True Up for FY 2014 Revenue Requirement on FY 2012 Investment due to error in Capital Repairs Deduction Rate	(\$10,357)
10	FY 2015 Property Tax recovery adjustment	\$1,688,164
11	Total FY 2015 Capital Component of Revenue Requirement	\$12,634,154
12	Total Adjusted FY 2015 Revenue Requirement	\$13,136,888

Line Notes

- | | |
|----|---|
| 1 | From Attachment DGI-1, Page 6 |
| 2 | From Page 2 of 17, Line 27 |
| 3 | From Page 4 of 17, Line 26 |
| 4 | From Page 7 of 17, Line 24 |
| 5 | From Page 9 of 17, Line 26 |
| 6 | Sum of Line 2 through Line 5 |
| 7 | From Page 6 of 17, Line 5 |
| 8 | From Page 15 of 17, Line 7 |
| 9 | From Page 6 of 17, Line 10 |
| 10 | From Page 12 of 17, Line 48(g) |
| 11 | Line 6 + Line 7 + Line 8 + Line 9 + Line 10 |
| 12 | Line 1 + Line 11 |

**The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY 2015 Actual Incremental Gas Capital Investment**

Line No.		Fiscal Year <u>2015</u> (a)
<u>Depreciable Net Capital Included in ISR Rate Base</u>		
1	Total Allowed Capital Included in ISR Rate Base in Current Year	Per Attachment DGI-1, Table 2 less Line 7 \$74,915,000
2	Retirements	1/ \$5,566,546
3	Net Depreciable Capital Included in ISR Rate Base	Line 1 - Line 2 <u>\$69,348,454</u>
<u>Change in Net Capital Included in ISR Rate Base</u>		
4	Capital Included in ISR Rate Base	Line 1 \$74,915,000
5	Depreciation Expense	Per Settlement Agreement Docket No. 4323, excluding General Plant \$24,356,183
6	Incremental Depreciable Amount	Line 4 - Line 5 <u>\$50,558,817</u>
7	Cost of Removal	2/ \$2,425,000
8	Net Plant Amount	Line 6 + Line 7 <u>\$52,983,817</u>
<u>Deferred Tax Calculation:</u>		
9	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943 & 4323 3.38%
10	Tax Depreciation	Page 3, Line 20 \$62,663,710
11	Cumulative Tax Depreciation	Current Year Line 10 \$62,663,710
12	Book Depreciation	Line 3 * Line 9 * 50% \$1,171,989
13	Cumulative Book Depreciation	Current Year Line 12 \$1,171,989
14	Cumulative Book / Tax Timer	Line 11 - Line 13 \$61,491,721
15	Effective Tax Rate	35.00%
16	Deferred Tax Reserve	Line 14 * Line 15 <u>\$21,522,102</u>
17	Less: FY 2015 NOL	Per Page 14 of 17, Line 10 \$0
18	Net Deferred Tax Reserve	Line 16 + Line 17 <u><u>\$21,522,102</u></u>
<u>ISR Rate Base Calculation:</u>		
19	Cumulative Incremental Capital Included in ISR Rate Base	Line 8 \$52,983,817
20	Accumulated Depreciation	- Line 13 (\$1,171,989)
21	Deferred Tax Reserve	- Line 18 <u>(\$21,522,102)</u>
22	Year End Rate Base	Sum of Lines 19 through 21 <u><u>\$30,289,726</u></u>
<u>Revenue Requirement Calculation:</u>		
23	Average ISR Rate Base	Column (a) = Current Year Line 22/2; Column (b) = (Prior Year Line 20 + Current Year Line 20) ÷ 2 \$15,144,863
24	Pre-Tax ROR	3/ <u>10.05%</u>
25	Return and Taxes	Line 23 * Line 24 \$1,522,059
26	Book Depreciation	Line 12 \$1,171,989
27	Annual Revenue Requirement	Line 25 + Line 26 <u>\$2,694,048</u>

1/ Actual FY 2015 retirements per Company's books

2/ Actual FY 2015 Cost of Removal per Company's books

3/ 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%	5.70%	2.85%		2.85%
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%
	<u>100.00%</u>		<u>7.54%</u>	<u>2.51%</u>	<u>10.05%</u>

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Calculation of Tax Depreciation and Repairs Deduction on FY 2015 Capital Investments
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year <u>2015</u> (a)
	<u>Capital Repairs Deduction</u>		
1	Plant Additions	Page 2 Line 1	\$74,915,000
2	Capital Repairs Deduction Rate	Per Tax Department 1/	67.43%
3	Capital Repairs Deduction	Line 2 * Line 3	\$50,518,050
	 <u>Bonus Depreciation</u>		
4	Plant Additions	Line 1	\$74,915,000
5	Less Capital Repairs Deduction	Line 3	\$50,518,050
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	\$24,396,950
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Department	100.00%
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	\$24,396,950
9	Bonus Depreciation Rate (April 2014 - December 2014)	1 * 75% * 50%	37.50%
10	Bonus Depreciation Rate (January 2015 - March 2015)	1 * 25% * 0%	0.00%
11	Total Bonus Depreciation Rate	Line 9 + Line 10	37.50%
12	Bonus Depreciation	Line 8 x Line 11	\$9,148,856
	 <u>Remaining Tax Depreciation</u>		
13	Plant Additions	Line 1	\$74,915,000
14	Less Capital Repairs Deduction	Line 3	\$50,518,050
15	Less Bonus Depreciation	Line 12	\$9,148,856
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - Line 14 - Line 15	\$15,248,094
17	20 YR MACRS Tax Depreciation Rates	Per IRS	3.750%
18	Remaining Tax Depreciation	Line 16 * Line 17	\$571,804
19	Cost of Removal	Page 2 Line 7	\$2,425,000
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	\$62,663,710

1/ Agrees to FY 2015 ISR Plan Proposal filing. Capital Repairs percentage is based on a three year average, 2010, 2011, and 2012. 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 gas plant additions in those categories that are considered as potentially qualifying for Capital Repairs deduction.

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY 2014 Actual Incremental Gas Capital Investment

Line No.			Fiscal Year 2014 (a)	Fiscal Year 2015 (b)
<u>Depreciable Net Capital Included in Rate Base</u>				
1	Total Allowed Capital Included in Rate Base in Current Year	Page 11 of 17, Line 3, Column (c)	\$22,750,553	\$0
2	Retirements	Page 11 of 17, Line 9, Column (c)	1/ 1,615,155	\$0
3	Net Depreciable Capital Included in Rate Base	Column (a) = Line 1 - Line 2; Column (b) = Prior Year Line 3	\$21,135,397	\$21,135,397
<u>Change in Net Capital Included in Rate Base</u>				
4	Capital Included in Rate Base	Line 1	\$22,750,553	
5	Depreciation expense	Per Compliance filing Docket No. 4323, excluding General Plant	2/ \$4,060,176	
6	Incremental Depreciable Amount	Column (a) = Line 4 - Line 5; Column (b) = Prior Year Line 6	\$18,690,377	
7	Cost of Removal	Page 11 of 17, Line 6, Column (c)	3/ (\$1,210,006)	
8	Net Plant Amount	Line 6 + Line 7	\$17,480,371	\$17,480,371
<u>Deferred Tax Calculation:</u>				
9	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 4323 and 3943	3.38%	3.38%
10	Tax Depreciation	Page 5 of 13, Line 20	\$18,769,364	\$207,846
11	Cumulative Tax Depreciation	Prior Year Line 11 + Current Year Line 10	\$18,769,364	\$18,977,210
12	Book Depreciation	Column (a) = Line 3 * Line 9 * 50% ; Column (b) = Line 3 * Line 9	\$357,188	\$714,376
13	Cumulative Book Depreciation	Prior Year Line 13 + Current Year Line 12	\$357,188	\$1,071,565
14	Cumulative Book / Tax Timer	Line 11 - Line 13	\$18,412,176	\$17,905,645
15	Effective Tax Rate		35.00%	35.00%
16	Deferred Tax Reserve	Line 14 * Line 15	\$6,444,262	\$6,266,976
17	Less: FY 2014 Federal NOL	Lessor of Line 17 or Page 14 of 17, Line 9	(\$6,444,262)	(\$6,444,262)
18	Net Deferred Tax Reserve	Line 16 + Line 17	\$0	(\$177,286)
<u>Rate Base Calculation:</u>				
17	Cumulative Incremental Capital Included in Rate Base	Line 8	\$17,480,371	\$17,480,371
18	Accumulated Depreciation	- Line 13	(\$357,188)	(\$1,071,565)
19	Deferred Tax Reserve	- Line 16	\$0	\$177,286
20	Year End Rate Base	Sum of Lines 17 through 19	\$17,123,183	\$16,586,092
<u>Revenue Requirement Calculation:</u>				
21	Average Rate Base	Col (a) = Line 20 * Page 16 Line 16; Col (b) = (Prior Year Line 20 +		
22	Pre-Tax ROR	Current Year Line 20) ÷ 2	\$5,572,728	\$16,854,637
23	Return and Taxes	Line 21 * Line 22	4/ 10.05%	10.05%
24	Book Depreciation	Line 12	\$560,059	\$1,693,891
25	Property Taxes	\$0 in Year 1, then Prior Year (Line 8 - Line 13) * Property Tax Rate	\$357,188	\$714,376
25			\$0	\$0
26	Annual Revenue Requirement on Incremental FY14 Investment	Sum of Lines 23 through 25	\$917,247	\$2,408,267
27	Remaining FY14 NOL attributable to embedded rate base in RIPUC Docket 4323	Per Page 14 of 17, Line 9 less Line 17	\$11,579,957	\$11,579,957
28	Average Rate Base	Col (a) = Line 27 * Page 16, Line 16; Col (b) = (Prior Year Line 27 +		
29	Pre-Tax ROR	Current Year Line 27) ÷ 2	\$6,754,975	\$11,579,957
30	Return and Taxes	Line 27 * Line 28	4/ 10.05%	10.05%
30			\$678,875	\$1,163,786
31	Annual Revenue Requirement adjustment to base rates relat	Line 30	\$678,875	\$1,163,786
32	Total Annual Revenue Requirement	Line 26 + Line 31	\$1,596,122	\$3,572,053

1/ Actual Incremental Retirements

2/ Depreciation expense has been prorated for two months (February - March 2014).

3/ Actual Incremental Cost of Removal

4/ Weighted Average Cost of Capital as approved in R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.70%	2.85%		2.85%
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%		7.54%	2.51%	10.05%

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY 2014 Actual Incremental Gas Capital Investment
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year <u>2014</u> (a)	Fiscal Year <u>2015</u> (b)
	<u>Capital Repairs Deduction</u>			
1	Plant Additions	Page 4, Line 1	\$22,750,553	
2	Capital Repairs Deduction Rate	Per Tax Department	1/ 74.94%	
3	Capital Repairs Deduction	Line 1 x Line 2	<u>\$17,049,264</u>	
	<u>Bonus Depreciation</u>			
4	Plant Additions	Line 1	\$22,750,553	
5	Less Capital Repairs Deduction	Line 3	<u>\$17,049,264</u>	
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	\$5,701,289	
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Department	<u>99.00%</u>	
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	\$5,644,276	
9	Bonus Depreciation Rate (April 2013 - December 2013)	1 * 75% * 50%	37.50%	
10	Bonus Depreciation Rate (January 2014 - March 2014)	1 * 25% * 50%	<u>12.50%</u>	
11	Total Bonus Depreciation Rate	Line 9 + Line 10	50.00%	
12	Bonus Depreciation	Line 8 x Line 11	\$2,822,138	
	<u>Remaining Tax Depreciation</u>			
13	Plant Additions	Line 1	\$22,750,553	
14	Less Capital Repairs Deduction	Line 3	\$17,049,264	
15	Less Bonus Depreciation	Line 12	<u>\$2,822,138</u>	
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	\$2,879,151	\$2,879,151
17	20 YR MACRS Tax Depreciation Rates		<u>3.750%</u>	<u>7.219%</u>
18	Remaining Tax Depreciation	Line 16 x Line 17	\$107,968	\$207,846
19	Cost of Removal	Page 4, Line 7	(\$1,210,006)	
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	<u>\$18,769,364</u>	<u>\$207,846</u>

1/ Capital Repairs percentage is based on the actual results of the FY 2014 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
FY 2015 Gas ISR Revenue Requirement Reconciliation
True-up for Capital Repairs and Bonus Depreciation Deduction on FY 2014 Capital Investments,
Weighted Average Rate Base on FY 2014 Capital Investments, and
Capital Repairs on FY 2012 Capital Investments

Line No.	<u>Update Capital Repairs Rate and Bonus Depreciation and Correct Weighted Average Rate Base in FY 2014 Revenue Requirement on FY 2014 Capital Investment</u>	(a)
1	FY 2014 Revenue Requirement using simple average rate base, estimated capital repairs deduction rate of 48.33%, estimated bonus depreciation rate of 37.50%, and no NOL	\$969,436
2	FY 2014 Revenue Requirement using weighted average rate base, actual capital repairs deduction rate of 74.94% and actual bonus depreciation rate of 50.00%, and NOL of \$18,204,218	<u>\$1,596,122</u>
3	Change in revenue requirement	\$626,686
4	Less: NOL impact	(\$889,652)
5	True Up Amount	<u><u>(\$262,965)</u></u>
<u>Correct Capital Repairs Rate in FY 2014 revenue requirement on FY 2012 Capital Investment</u>		
6	FY 2014 Revenue Requirement using capital repairs deduction rate of 48.33%	\$539,314
7	FY 2014 Revenue Requirement using capital repairs deduction rate of 67.43% and NOL of \$6,268,061	<u>\$1,158,897</u>
8	Change in revenue requirement	\$619,583
9	Less: NOL impact	(\$629,940)
10	True Up Amount	<u><u>(\$10,357)</u></u>

Line Notes

- 1 RIPUC Docket No. 4380, Attachment WRR-1, Page 2 of 13, Line 26
- 2 From Page 4 of 17, Line 32(a)
- 3 Line 2 - Line 1
- 4 Per Page 15 of 17, Line 5
- 5 Line 3 + Line 4
- 6 RIPUC Docket No. 4380, Attachment WRR-1, Page 7 of 13, Line 24
- 7 Per Page 9 of 17, Line 32(c)
- 8 Line 7 - Line 6
- 9 Per Page 15 of 17, Line 3
- 10 Line 8 + Line 9

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY2013 Actual Incremental Capital Investment

Line No.			Fiscal Year 2013 (a)	Fiscal Year 2014 (b)	Fiscal Year 2015 (c)
<u>Depreciable Net Capital Included in Rate Base</u>					
1	Total Allowed Capital Included in Rate Base in Current Year	Page 11 of 17, Line 3, Column (b)	(\$723,236)	\$0	\$0
2	Retirements	Page 11 of 17, Line 9, Column (b)	1/ 3,276,842	\$0	\$0
3	Net Depreciable Capital Included in Rate Base	Line 1 - Line 2	(\$4,000,078)	(\$4,000,078)	(\$4,000,078)
<u>Change in Net Capital Included in Rate Base</u>					
4	Capital Included in Rate Base	Line 1	(\$723,236)	(\$723,236)	(\$723,236)
5	Cost of Removal	Page 11 of 17, Line 6, Column (b)	2/ (\$1,548,831)	(\$1,548,831)	(\$1,548,831)
6	Net Plant Amount	Line 4 + Line 5	(\$2,272,067)	(\$2,272,067)	(\$2,272,067)
<u>Deferred Tax Calculation:</u>					
7	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 4323 and 3943	3.38%	3.38%	3.38%
8	Tax Depreciation	Page 5 of 13, Line 26	(\$2,166,837)	(\$7,893)	(\$7,300)
9	Cumulative Tax Depreciation	Col (a)= Current Yr Line 8; Col (b)= Prior Yr Line 9 + Current Yr Line 8	(\$2,166,837)	(\$2,174,730)	(\$2,182,030)
10	Book Depreciation	Column (a) = Line 3 * Line 7 * 50%; Column (b) = Line 3 * Line 7	(\$67,601)	(\$135,203)	(\$135,203)
11	Cumulative Book Depreciation	Col (a) = Current Yr Line 10; Col (b) = Prior Yr Line 9 + Current Yr	(\$67,601)	(\$202,804)	(\$338,007)
12	Cumulative Book / Tax Timer	Line 9 - Line 11	(\$2,099,236)	(\$1,971,926)	(\$1,844,024)
13	Effective Tax Rate		35.00%	35.00%	35.000%
14	Deferred Tax Reserve	Line 12 * Line 13	(\$734,733)	(\$690,174)	(\$645,408)
15	Less: FY 2013 Federal NOL	Per Page 14 of 17, Line 9	\$0	\$0	\$0
16	Net Deferred Tax Reserve	Line 14 - Line 15	(\$734,733)	(\$690,174)	(\$645,408)
<u>Rate Base Calculation:</u>					
15	Cumulative Incremental Capital Included in Rate Base	Line 6	(\$2,272,067)	(\$2,272,067)	(\$2,272,067)
16	Accumulated Depreciation	- Line 11	\$67,601	\$202,804	\$338,007
17	Deferred Tax Reserve	- Line 14	\$734,733	\$690,174	\$645,408
18	Year End Rate Base	Sum of Lines 15 through 17	(\$1,469,733)	(\$1,379,089)	(\$1,288,652)
<u>Revenue Requirement Calculation:</u>					
19	Average Rate Base	Col (a)= Current Yr Line 18 ÷ 2; Col (b) = (Prior Yr Line 18 + Current Yr Line 18) ÷ 2	(\$734,867)	(\$1,424,411)	(\$1,333,871)
20	Pre-Tax ROR		3/ 11.18%	10.05%	10.05%
21	Return and Taxes	Line 19 * Line 20	(\$82,158)	(\$143,153)	(\$134,054)
22	Book Depreciation	Line 10	(\$67,601)	(\$135,203)	(\$135,203)
23	Property Taxes	\$0 in Year 1, then Prior Year (Line 6 - Line 11) * Property Tax Rate	4/ \$0	(\$73,850)	(\$62,699)
24	Annual Revenue Requirement on Incremental FY 2013 Investment	Sum of Lines 21 through 23	(\$149,759)	(\$352,206)	(\$331,955)
25	Remaining FY13 NOL attributable to embedded rate base in RIPUC Docket 4323	Per Page 14 of 17, Line 9 less Line 13	\$6,136,520	\$6,136,520	\$6,136,520
26	Average Rate Base	Col (a) = Line 25 * 50%; Col (b) = (Prior Year Line 25 + Current Year Line 25) ÷ 2	\$3,068,260	\$6,136,520	\$6,136,520
27	Pre-Tax ROR		5/ 11.18%	10.05%	10.05%
28	Return and Taxes	Line 26 * Line 27	\$343,031	\$616,720	\$616,720
29	Annual Revenue Requirement adjustment to base rates related to NOL	Line 28	\$343,031	\$616,720	\$616,720
30	Total Annual Revenue Requirement	Line 24 + Line 29	\$193,272	\$264,515	\$284,765

1/ Actual Incremental Retirements
2/ Actual Incremental Cost of Removal

3/ Weighted Average Cost of Capital as approved in R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.70%	2.85%		2.85%
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%
	<u>100.00%</u>		<u>7.54%</u>	<u>2.51%</u>	<u>10.05%</u>

4/ FY 2015 effective property tax rate of 3.03% per Page 12 of 17 at Line 22(h)

5/ Col (a) - Per Page 15 of 17, Line 1; Cols (b) & (c) - Per Note 3 above

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY2013 Actual Incremental Capital Investment
Calculation of Tax Depreciation and Repairs Deduction

Line No.			Fiscal Year 2013 (a)	Fiscal Year 2014 (b)	Fiscal Year 2015 (c)
<u>Capital Repairs Deduction</u>					
1	Plant Additions	Page 4, Line 1(a)	(\$723,236)		
2	Capital Repairs Deduction Rate	Per Tax Department	1/ 67.95%		
3	Capital Repairs Deduction	Line 1 x Line 2	(\$491,439)		
<u>Bonus Depreciation</u>					
4	Plant Additions	Line 1	(\$723,236)		
5	Less Capital Repairs Deduction	Line 3	(\$491,439)		
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	(\$231,797)		
7	Percent of Plant Eligible for 100% Bonus Depreciation	Per Tax Department	2/ 5.67%		
8	Plant Eligible for 100% Bonus Depreciation	Line 6 x Line 7	(\$13,137)		
9	Bonus Depreciation Rate (April 2012 - December 2012)	1 * 75% * 100%	75.00%		
10	Bonus Depreciation Rate (January 2013 - March 2013)	1 * 25% * 100%	25.00%		
11	Total Bonus Depreciation Rate	Line 9 + Line 10	100.00%		
12	100% Bonus Depreciation	Line 8 x Line 11	(\$13,137)		
13	Plant Additions Net of Capital Repairs Deduction and 100% Bonus Depreciation	Line 6 - Line 12	(\$218,660)		
14	Plant Eligible for 50% Bonus Depreciation	Per Tax Department	100.00%		
15	Bonus Depreciation Rate (April 2012 - December 2012)	1 * 75% * 50%	37.50%		
16	Bonus Depreciation Rate (January 2013 - March 2013)	1 * 25% * 50%	12.50%		
17	Total Bonus Depreciation Rate	Line 9 + Line 10	50.00%		
18	50% Bonus Depreciation	Line 13 x Line 17	(\$109,330)		
<u>Remaining Tax Depreciation</u>					
19	Plant Additions	Line 1	(\$723,236)		
20	Less Capital Repairs Deduction	Line 3	(\$491,439)		
21	Less Bonus Depreciation	Line 12 + Line 18	(\$122,467)		
22	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 19 - 20 - 21	(\$109,330)	(\$109,330)	(\$109,330)
23	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%	6.677%
24	Remaining Tax Depreciation	Line 22 x Line 23	(\$4,100)	(\$7,893)	(\$7,300)
25	Cost of Removal	Page 4, Line 5(a)	(\$1,548,831)		
26	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 24, & 25	(\$2,166,837)	(\$7,893)	(\$7,300)

1/ Capital Repairs percentage is based on the actual results of the FY 2013 tax return.

2/ Long period production assets qualifying for 100% bonus depreciation in FY 2013 totaled \$3.2 million, taken over total FY13 ISR-eligible capital investment of \$56.4 million equals 5.67%.

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY 2012 Actual Incremental Capital Investment

Line No.			Fiscal Year 2012 (a)	Fiscal Year 2013 (b)	Fiscal Year 2014 (c)	Fiscal Year 2015 (d)
Depreciable Net Capital Included in Rate Base						
1	Total Allowed Capital Included in Rate Base in Current Year	Page 11 of 17, Line 3, Column (a)	\$7,020,631	\$0	\$0	\$0
2	Retirements	Page 11 of 17, Line 9, Column (a)	2,292,446	\$0	\$0	\$0
3	Net Depreciable Capital Included in Rate Base	Column (a) = Line 1 - Line 2; Column (b) = Prior Year Line 3	\$4,728,185	\$4,728,185	\$4,728,185	\$4,728,185
Change in Net Capital Included in Rate Base						
4	Capital Included in Rate Base	Line 1	\$7,020,631	\$7,020,631	\$7,020,631	\$7,020,631
5	Cost of Removal	Page 11 of 17, Line 6, Column (a)	2/ (\$3,171,476)	(\$3,171,476)	(\$3,171,476)	(\$3,171,476)
6	Net Plant Amount	Line 4 + Line 5	\$3,849,155	\$3,849,155	\$3,849,155	\$3,849,155
Deferred Tax Calculation:						
7	Composite Book Depreciation Rate	As Approved in R.I.P.U.C. Docket No. 3943	3.38%	3.38%	3.38%	3.38%
8	Tax Depreciation	Page 8 of 13, Line 20	\$3,285,182	\$42,299	\$39,124	\$36,194
9	Cumulative Tax Depreciation	Prior Year Line 9 + Current Year Line 8	\$3,285,182	\$3,327,481	\$3,366,605	\$3,402,798
10	Book Depreciation	Column (a) = Line 3 * Line 7 * 50%; Columns (b) & (c) = Line 3 * Line 7	\$79,906	\$159,813	\$159,813	\$159,813
11	Cumulative Book Depreciation	Prior Year Line 11 + Current Year Line 10	\$79,906	\$239,719	\$399,532	\$559,344
12	Cumulative Book / Tax Timer	Line 9 - Line 11	\$3,205,276	\$3,087,762	\$2,967,073	\$2,843,454
13	Effective Tax Rate		35.00%	35.00%	35.00%	35.00%
14	Deferred Tax Reserve	Line 12 * Line 13	\$1,121,846	\$1,080,717	\$1,038,476	\$995,209
15	Less: FY 2012 Federal NOL	Per Page 14 of 17, Line 10	(\$1,121,846)	(\$1,121,846)	(\$1,121,846)	(\$1,121,846)
16	Net Deferred Tax Reserve	Line 14 + Line 15	\$0	(\$41,130)	(\$83,371)	(\$126,638)
Rate Base Calculation:						
17	Cumulative Incremental Capital Included in Rate Base	Line 6	\$3,849,155	\$3,849,155	\$3,849,155	\$3,849,155
18	Accumulated Depreciation	- Line 11	(\$79,906)	(\$239,719)	(\$399,532)	(\$559,344)
19	Deferred Tax Reserve	- Line 16	\$0	\$41,130	\$83,371	\$126,638
20	Year End Rate Base	Sum of Lines 17 through 19	\$3,769,249	\$3,650,566	\$3,532,994	\$3,416,448
Revenue Requirement Calculation:						
21	Average Rate Base	Column (a) = Current Yr Line 120 ÷ 2; Column (b) & (c) = (Prior Yr Line 20 + Current Yr Line 20) ÷ 2	\$1,884,624	\$3,709,907	\$3,591,780	\$3,474,721
22	Pre-Tax ROR		11.41%	11.18%	10.05%	10.05%
23	Return and Taxes	Line 21 * Line 22	\$215,036	\$414,768	\$360,974	\$349,209
24	Book Depreciation	Line 10	\$79,906	\$159,813	\$159,813	\$159,813
25	Property Taxes	\$0 in Year 1, then Prior Year (Line 6- Line 11) * Property Tax Rate	4/ \$0	\$48,144	\$120,916	\$104,524
26	Annual Revenue Requirement	Sum of Lines 23 through 25	\$294,942	\$622,724	\$641,703	\$613,546
27	Remaining FY12 NOL attributable to embedded rate base in RIPUC Docket 4323	Per Page 14 of 17, Line 9 less Line 13 Col (a) = Line 27 * 50%; Col (b) = (Prior Year Line 27 + Current Year Line 27) ÷ 2	\$5,146,215	\$5,146,215	\$5,146,215	\$5,146,215
28	Average Rate Base		\$2,573,107	\$5,146,215	\$5,146,215	\$5,146,215
29	Pre-Tax ROR		11.41%	11.18%	10.05%	10.05%
30	Return and Taxes	Line 28 * Line 29	\$293,592	\$575,347	\$517,195	\$517,195
31	Annual Revenue Requirement adjustment to base rates related to NOL	Line 30	\$293,592	\$575,347	\$517,195	\$517,195
32	Total Annual Revenue Requirement	Line 26 + Line 31	\$588,534	\$1,198,071	\$1,158,897	\$1,130,740

1/ Actual Incremental Retirements

2/ Actual Incremental Cost of Removal

3/ Weighted Average Cost of Capital as approved in R.I.P.U.C. Docket No. 4323

	Ratio	Rate	Rate	Taxes	Return
Long Term Debt	49.95%	5.70%	2.85%		2.85%
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%		7.54%	2.51%	10.05%

4/ FY 2015 effective property tax rate of 3.03% per Page 12 of 17 at Line 22(h)

5/ Cols (a) & (b) - Per Page 15 of 17, Line 1 ; Cols (c) & (d) - Per Note 3 above

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Computation of Revenue Requirement on FY 2012 Actual Incremental Capital Investment
Calculation of Tax Depreciation and Repairs Deduction

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 7, Line 1	\$7,020,631			
2	Capital Repairs Deduction Rate	Per Tax Department	1/ 67.43%			
3	Capital Repairs Deduction	Line 1 x Line 2	\$4,734,011			
<u>Bonus Depreciation</u>						
4	Plant Additions	Line 1	\$7,020,631			
5	Less Capital Repairs Deduction	Line 3	\$4,734,011			
6	Plant Additions Net of Capital Repairs Deduction	Line 4 - Line 5	\$2,286,620			
7	Percent of Plant Eligible for Bonus Depreciation	Per Tax Department	2/ 85.00%			
8	Plant Eligible for Bonus Depreciation	Line 6 x Line 7	\$1,943,627			
9	Bonus Depreciation Rate (April 2011 - December 2011)	1 * 75% * 100%	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 x Line 11	\$1,700,674			
<u>Remaining Tax Depreciation</u>						
13	Plant Additions	Line 1	\$7,020,631			
14	Less Capital Repairs Deduction	Line 3	\$4,734,011			
15	Less Bonus Depreciation	Line 12	\$1,700,674			
16	Remaining Plant Additions Subject to 20 YR MACRS Tax Depreciation	Line 13 - 14 - 15	\$585,946	\$585,946	\$585,946	\$585,946
17	20 YR MACRS Tax Depreciation Rates		3.750%	7.219%	6.677%	6.177%
18	Remaining Tax Depreciation	Line 16 x Line 17	\$21,973	\$42,299	\$39,124	\$36,194
19	Cost of Removal	Page 7, Line 5	(\$3,171,476)			
20	Total Tax Depreciation and Repairs Deduction	Sum of Lines 3, 12, 18, 19	\$3,285,182	\$42,299	\$39,124	\$36,194

1/ Capital Repairs percentage is based on the actual results of the FY 2012 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 2015 Gas ISR Revenue Requirement Reconciliation
FY 2012 - FY 2014 Incremental Capital Investment Summary

Line No.			Actual Fiscal Year 2012 (a)	Actual Fiscal Year 2013 (b)	Actual Fiscal Year 2014 (c)
<u>Capital Investment</u>					
1	ISR-eligible Capital Investment	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation Filing; Col (b) Docket No. 4306 FY 2013 ISR Reconciliation Filing; Col (c) Actual FY2014 ISR Gas Capital Investment per Company's Books	\$54,681,347	\$56,460,955	\$70,404,045
2	ISR-eligible Capital Additions included in Rate Base per R.I.P.U.C. Docket No. 4323	Docket No. 4323 Schedule MDL-3-Gas Page 51, Line Notes 1(a), 2(b) and 3(e)	\$47,660,716	\$57,184,191	\$47,653,493
3	Incremental ISR Capital Investment	Line 1 - Line 2	\$7,020,631	(\$723,236)	\$22,750,553
<u>Cost of Removal</u>					
4	ISR-eligible Cost of Removal	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation Filing; Col (b) Docket No. 4306 FY 2013 ISR Reconciliation Filing; Col (c) Actual FY 2014 ISR Gas Cost of Removal per Company's Books	\$2,583,612	\$3,152,565	\$2,707,824
5	ISR-eligible Cost of Removal in Rate Base per R.I.P.U.C. Docket No. 4323	Docket No. 4323, Workpaper MDL-19-GAS, Page 3	\$5,755,088	\$4,701,396	\$3,917,830
6	Incremental Cost of Removal	Line 4 - Line 5	(\$3,171,476)	(\$1,548,831)	(\$1,210,006)
<u>Retirements</u>					
7	ISR-eligible Retirements	Col (a) Docket No. 4219 FY 2012 ISR Reconciliation filing; Col (b) Docket No. 4306 FY 2013 ISR Reconciliation filing; Col (c) Actual FY 2014 ISR Gas Retirements	\$5,366,562	5,775,791	\$5,274,944
8	ISR-eligible Retirements per R.I.P.U.C. Docket No. 4323	Col (a) Docket No. 4219 Supplemental Testimony 2-17-2011; Col (b) Docket No. 4306 FY 2013 ISR Proposal Filing; Col (c)= Line 2(c) * 7.68% Retirement rate per Docket No. 4323 (Workpaper MDL-19-GAS p 4)	\$3,074,116	\$2,498,949	\$3,659,788
9	Incremental Retirements	Line 7- Line 8	\$2,292,446	\$3,276,842	\$1,615,155

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Property Tax Recovery Adjustment
(\$000s)

Line	Effective Tax Rate Calculation	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
		<u>RY End</u>	<u>ISR Additions</u>	<u>Non-ISR Add's</u>	<u>Total Add's</u>	<u>Bk Depr</u>	<u>Retirements</u>	<u>COR</u>	<u>End of FY14</u>
1	Plant In Service	\$805,721	\$11,734	\$994	\$12,728			(\$879)	\$817,569
2									
3	Accumulated Depr	\$347,664				\$4,691	(\$879)	(\$451)	\$351,025
4									
5	Net Plant	\$458,057							\$466,544
6									
7	Property Tax Expense	\$13,995							\$15,624
8									
9	Effective Prop tax Rate	3.06%							3.35%
10									
11		(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
12		<u>End of FY14</u>	<u>ISR Additions</u>	<u>Non-ISR Add's</u>	<u>Total Add's</u>	<u>Bk Depr</u>	<u>Retirements</u>	<u>COR</u>	<u>End of FY15</u>
13									
14	Plant In Service	\$817,569	\$74,915	\$21,927	\$96,842		(\$7,969)		\$906,442
15									
16	Accumulated Depr	\$351,025				\$30,032	(\$7,969)	(\$2,425)	\$370,663
17									
18	Net Plant	\$466,544							\$535,779
19									
20	Property Tax Expense	\$15,624							\$16,221
21									
22	Effective Prop tax Rate	3.35%							3.03%
23									
24	Property Tax Recovery Calculation	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
25		Cumulative Incremental ISR			Cumulative Incremental ISR				
26		Property Tax for FY14			Property Tax for FY15				
27	ISR Additions		\$11,734				\$74,915		
28	Book Depreciation: base allowance on ISR eligible plant		(\$4,060)				(\$24,356)		
29	Book Depreciation: current year ISR additions		(\$631)				(\$1,172)		
30	COR		\$451				\$2,425		
31									
32	Net Plant Additions		\$7,494				\$51,812		
33									
34	Rate Year Effective Tax Rate		3.06%				3.06%		
35	Property Tax Recovery on 2 mos FY 14 vintage investment			\$229					\$236
36	Property Tax Recovery on FY15 vintage investment								\$1,583
37									
38									
39	ISR Year Effective Tax Rate	3.35%				3.03%			
40	RY Effective Tax Rate & differential	3.06%	0.29%			3.06%	-0.03%		
41	RY Effective Tax Rate differential for 2 months FY 2014		0.05%						
42	RY Net Plant times Tax Rate differential	\$458,057	* 0.05%	\$225		\$458,057	* -0.03%		(\$116)
43	2 mos FY14 Net Adds times ISR Year Effective Tax rate	\$7,494	* 0.29%	\$22		\$7,727	* -0.03%		(\$2)
44	FY15 Net Adds times ISR Year Effective Tax rate					\$51,812	* -0.03%		(\$13)
45									
46	Total Property Tax related to rate differential			\$247					(\$131)
47									
48	Total ISR Property Tax Recovery			\$476					\$1,688

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Property Tax Recovery Adjustment (continued)
(\$000s)

Line Notes

1(a) - 9(a) Per Rate Year cost of service per Compliance filing Attachment 6 at Docket No. 4323.
1(b) - 9(h) Per Docket 4380 FY 2014 Gas ISR Plan Reconciliation filing at Page 10 of 13
14(a) Line 1(h)
14(b) Per Page 2 of 17, Line 1
14(c) FY 2015 actual Growth investment of \$19,871K and General Plant of \$2,056K per Company's books
14(d) Line 14(b) + Line 14(c)
14(f) Per Page 2 of 17, Line 2 + FY15 retirements on General plant of \$2,283K
14(h) Line 14(a) + Line 14(d) + Line 14(f)
16(a) Line 3(h)
16(e) Rate Year depn allowance of \$28,130k + (Line 1(d)+Line 1(f)* composite depn rate of 3.38%) + (Line 14(d)+Line 14(f)* composite depn rate of 3.38% * 50%)
16(f) Line 14(f)
16(g) Less Page 2 of 17, Line 7. No COR on General Plant.
16(h) Sum of Line 16 (a) through (g)
18(a) Line 5(h)
18(h) Line 14(h) - Line 16(h)
20(a) Line 7(h)
20(h) FY 2015 actual property tax expense per Company's books.
22(a) Line 9(h)
22(h) Line 20(h) ÷ Line 18(h)

Line Notes

27(a) - 48(c) Per Docket 4380 FY 2014 Gas ISR Plan Reconciliation filing at
27(f) Line 14(b)
28(f) Per Page 2 of 17, Line 5
29(f) Per Page 2 of 17, Line 12
30(f) Less Line 16(g)
32(f) Sum of Lines 27 through 30
34(f) Line 9(a)
35(g) ((Lines 27(b) + 28(b) + 30(b)) - ((Line 27(b)+Line 1(f)) * 3.38% composite depn rate * 50% * 2/12) - ((Line 27(b)+Line 1(f)) * 3.38% composite depn rate) * Line 34(f)
36(g) Line 32(f) * 34(f)
39(e) Line 22(h)
40(e) Line 9(a)
40(f) Line 39(e) - Line 40(e)
42(e) Line 5(a)
43(e) ((Lines 27(b) + 28(b) + 30(b)) - ((Line 27(b)+Line 1(f)) * 3.38% composite depn rate * 50% * 2/12) - ((Line 27(b)+Line 1(f)) * 3.38% composite depn rate)
44(e) Line 32(f)
42(f)-44(f) Line 40(f)
42(g)-44(g) Line 42(e) * Line 42(f) ; Line 43(e) * Line 43(f) ; Line 44(e) * Line 44(f)
46(g) Sum of Lines 42(g) through 44(g)
48(g) Line 35(g) + Line 36(g) + Line 46(g)

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
Deferred Income Tax ("DIT") Provisions and Net Operating Losses ("NOL")

	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
						CY 2011	CY 2012	Jan-2013	Feb 13 - Jan 14	
1 Total Base Rate Plant DIT Provision						\$16,572,023	\$19,058,494	\$ 1,700,343	\$ 13,893,167	
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
2 Total Base Rate Plant DIT Provision						\$17,193,641	\$18,309,741	\$11,577,639	\$0	\$0
3 Incremental FY 12	\$1,121,846	\$1,080,717	\$1,038,476	\$995,209	\$950,991	\$1,121,846	(\$41,129)	(\$42,241)	(\$43,267)	(\$44,218)
4 Incremental FY 13	\$0	(\$734,732)	(\$690,174)	(\$645,408)	(\$600,451)	\$0	(\$734,732)	\$44,558	\$44,766	\$44,957
5 Incremental FY 14	\$0	\$0	\$6,444,262	\$6,266,976	\$6,084,229	\$0	\$0	\$6,444,262	(\$177,286)	(\$182,747)
6 FY 2015	\$0	\$0	\$0	\$19,944,225	\$19,572,840	\$0	\$0	\$0	\$19,944,225	(\$371,385)
7 FY 2016	\$0	\$0	\$0	\$0	\$19,399,366	\$0	\$0	\$0	\$0	\$19,399,366
8 TOTAL Plant DIT Provision	\$1,121,846	\$ 345,985	\$6,792,564	\$26,561,002	\$45,406,975	\$18,315,487	\$17,533,880	\$18,024,218	\$ 19,768,438	\$18,845,973
9 NOL						\$ 6,268,061	\$ 6,136,520	\$23,775,494	TBD	TBD
10 Lesser of NOL or DIT Provision						\$ 6,268,061	\$ 6,136,520	\$18,024,218	TBD	TBD

Line Notes:

- 1(f) Per Dkt 4323 Compliance filing Attachment 6, Page 59 of 65, Line 18(e) less Line 18(a)
- 1(g)-1(i) Per Dkt 4323 Compliance filing Attachment 6, Page 64 of 65, Lines 32, 38, and 44
- 2 Col (f)= Line 1(f) * 75% + Line 1(g) * 25% ; Col (g)= Line 1(g) * 75% + Line 1(h) + Line 1(i) * 2/12ths; Col (h) = Line 1(i) * 10/12ths
- 3(a)-7(e) Cumulative DIT per vintage year ISR revenue requirement calculations (Page 10, Line 14; Page 8, Line 14; Page 6, Line 16; Page 4, Line 16 ; Page 2, Line 16)
- 3(f) -7(j) Year over year change in cumulative DIT shown in Cols (a) through (e)
- 8 Sum of Lines 2 through 7
- 9 Per Tax dept
- 10 Lesser of Line 8 or Line 9

The Narragansett Electric Company
d/b/a National Grid
FY 2015 Gas ISR Revenue Requirement Reconciliation
True-Up for FY 2012, FY 2013 and FY 2014 Net Operating Losses ("NOL")

	(a)	(b)	(c)	(d)	(e)
	Revenue Requirement Year				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
1 Return on Rate Base	11.41%	11.18%	10.05%	10.05%	10.05%
	Vintage Capital Investment Year				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
2 Lesser of NOL or DIT Provision	\$ 6,268,061	\$ 6,136,520	\$ 18,024,218	TBD	TBD

Revenue Requirement Increase due to NOL

	Revenue Requirement Year				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
3 FY 2012	\$ 357,593	\$ 700,769	\$ 629,940	\$ 629,940	\$ 629,940
4 FY 2013	\$ -	\$ 343,031	\$ 616,720	\$ 616,720	\$ 616,720
5 FY 2014	\$ -	\$ -	\$ 889,652	\$ 1,811,434	\$ 1,811,434
6 TOTAL	<u>\$ 357,593</u>	<u>\$ 1,043,801</u>	<u>\$ 2,136,312</u>	<u>\$ 3,058,094</u>	<u>\$ 3,058,094</u>
7 Total FY 2012 through FY 2014 revenue requirement impact					\$ 3,537,706

Line Notes:

- 1 Col (a) - per Docket 4219, Attachment WRR-1 at Page 2; Col (b) - per Docket 4306, Attachment WRR-1 at Page 2; Col (c) - per Docket 4380, Attachment WRR-1 at Page 2; Cols (d) & (e) - per Page 2
- 2 Per Page 14 of 17, Line 10
- 3 Line 2(a) * Line 1(a) * 50%; Line 2(a) * Line 1(b); Line 2(a) * Line 1(c); Line 2(a) * Line 1(d); Line 2(a) * Line 1(e)
- 4 Line 2(b) * Line 1(b) * 50%; Line 2(b) * Line 1(c); Line 2(b) * Line 1(d); Line 2(b) * Line 1(e)
- 5 Col (c) =

a) NOL applied to FY 2014 ISR DIT	\$ 6,444,262	Page 14 of 17 Line 2(h)
b) FY 2014 ISR weighted average additions rate	<u>32.54%</u>	Page 16 of 17 Line 16
c) FY 2014 ISR weighted average NOL	\$ 2,097,281	Line (a) * Line (b)
d) FY 2014 Rate of Return	<u>10.05%</u>	Line 1(c) above
e) FY 2014 Return on weighted average ISR NOL	\$ 210,777	Line (c) * Line (d)
f) NOL applied to base rate deferred tax provision	\$ 11,579,956	Page 14 of 17 Line 8(h) less Line (a) above
g) FY 2014 weighted average base rate DIT rate	<u>58.33%</u>	Per Page 17 of 17 Line 15
h) FY 2014 base rate weighted average NOL	\$ 6,754,974	Line (f) * Line (g)
i) FY 2014 Rate of Return	<u>10.05%</u>	Line 1
j) FY 2014 Return on weighted average base rate NOL	\$ 678,875	Line (h) * Line (i)
k) Total FY 2014 NOL impact on vintage FY 2014 investment	<u>\$ 889,652</u>	Line (e) + Line (j)
- 5 cont. Col (d) = Line 2(c) * Line 1(d); Col (e) = Line 2(c) * Line 1(e)
- 6 Sum of Lines 3 through 5
- 7 Line 6(a) + Line 6(b) + Line 6(c)

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4474
FY 2015 Gas Infrastructure, Safety,
and Reliability Plan Reconciliation Filing
Attachment MAL-1
Page 16 of 17

The Narragansett Electric Company
d/b/a National Grid
Weighted ISR Additions FY 2014
(\$000s)

<u>Line No.</u>	<u>Month No.</u>	<u>Month</u>	<u>FY 2014 ISR Additions</u> (a)	<u>In Rates</u> (b)	<u>Not In Rates</u> (c) = (a) - (b)	<u>Weight</u> (d)	<u>Weighted Average</u> (e) = (d) * (c)
1				\$57,184,191			
2	1	Apr-13	\$5,867,004	4,765,349	\$1,101,655	0.958	\$1,055,752
3	2	May-13	5,867,004	4,765,349	1,101,655	0.875	963,948
4	3	Jun-13	5,867,004	4,765,349	1,101,655	0.792	872,143
5	4	Jul-13	5,867,004	4,765,349	1,101,655	0.708	780,339
6	5	Aug-13	5,867,004	4,765,349	1,101,655	0.625	688,534
7	6	Sep-13	5,867,004	4,765,349	1,101,655	0.542	596,730
8	7	Oct-13	5,867,004	4,765,349	1,101,655	0.458	504,925
9	8	Nov-13	5,867,004	4,765,349	1,101,655	0.375	413,120
10	9	Dec-13	5,867,004	4,765,349	1,101,655	0.292	321,316
11	10	Jan-14	5,867,004	4,765,349	1,101,655	0.208	229,511
12	11	Feb-14	5,867,004	-	5,867,004	0.125	733,375
13	12	Mar-14	5,867,004	-	5,867,004	0.042	244,458
14	Total FY 2014		<u>\$70,404,045</u>	<u>\$47,653,493</u>	<u>\$22,750,553</u>		<u>\$7,404,152</u>

15 Total Additions February & March 2014 \$11,734,008
16 FY 2014 Weighted Average Incremental Rate Base Percentage 32.54%

Column (a) = Page 9 Line 1 (c)
 Column (b) = Page 9 Line 2 (c)
 Column (d) = (12.5 - Month No.) ÷ 12
 Line 15 = Line 12(c) + Line 13(c)
 Line 16 = Line 14(e)/Line 14(c)

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4474
FY 2015 Gas Infrastructure, Safety,
and Reliability Plan Reconciliation Filing
Attachment MAL-1
Page 17 of 17

The Narragansett Electric Company
d/b/a National Grid
Weighted ISR Deferred Tax Provision FY 2014
(\$000s)

<u>Line No.</u>	<u>Month No.</u>	<u>Month</u>	<u>FY 2014 ISR Deferred Tax</u> (a)	<u>In Rates</u> (b)	<u>Not In Rates</u> (c) = (a) - (b)	<u>Weight</u> (d)	<u>Weighted Average</u> (e) = (d) * (c)
1				\$13,893,167			
2	1	Apr-13	\$ -	1,157,764	(\$1,157,764)	0.958	(\$1,109,524)
3	2	May-13	-	1,157,764	(1,157,764)	0.875	(1,013,043)
4	3	Jun-13	-	1,157,764	(1,157,764)	0.792	(916,563)
5	4	Jul-13	-	1,157,764	(1,157,764)	0.708	(820,083)
6	5	Aug-13	-	1,157,764	(1,157,764)	0.625	(723,602)
7	6	Sep-13	-	1,157,764	(1,157,764)	0.542	(627,122)
8	7	Oct-13	-	1,157,764	(1,157,764)	0.458	(530,642)
9	8	Nov-13	-	1,157,764	(1,157,764)	0.375	(434,161)
10	9	Dec-13	-	1,157,764	(1,157,764)	0.292	(337,681)
11	10	Jan-14	-	1,157,764	(1,157,764)	0.208	(241,201)
12	11	Feb-14	-	-	-	0.125	-
13	12	Mar-14	-	-	-	0.042	-
14	Total FY 2014		<u>\$ -</u>	<u>\$11,577,639</u>	<u>(\$11,577,639)</u>		<u>(\$6,753,623)</u>
15	FY 2014 Weighted Average Deferred Tax Provision Percentage						58.33%

Column (a) = Page 4 Line 18(a)

Column (b) = Page 14 Line 1(i) and Line 2(h). Lines 2 through 11 = 1/12th of Line 1.

Column (d) = (12.5 - Month No.) ÷ 12

Line 15 = Line 14(e)/Line 14(c)