

Via UPS

June 19, 2008

Edward Damon, Esq.
New Hampshire Public Utilities Commission
21 South Fruit Street
Concord, NH 03301

Re: DG 06-107 Cast Iron Bare Steel Replacement Plan

Dear Mr. Damon:

I am writing to confirm the National Grid's understanding of the agreement reached at the technical session held on Friday May 9, 2008 regarding the Cast Iron Bare Steel Main Replacement Program, which was part of the May 15, 2007 Settlement Agreement approved by the Commission in Order No. 24,777 dated July 12, 2007.

On February 12, 2008, National Grid NH ("National Grid" or the "Company") submitted its initial list of proposed cast iron and bare steel main replacement candidates for fiscal year 2009. As noted in that filing, these replacement candidates were determined and prioritized in accordance with the Company's Procedure GENG-2050 (Identification, Evaluation and Prioritization of distribution Main Segments for Replacement). Over the course of several meetings between the Company and the Staff, this list was modified and refined.¹ The final list of projects that resulted includes 4.07 miles (21,502 feet) at an estimated cost of \$3,635,605 dollars and is attached as Exhibit A (the "FY 2009 CIBS Plan"). Exhibit B is an updated Bill impact analysis based on the final proposal. In accordance with the Settlement Agreement dated May 15, 2007, the Plan does not include replacement of cast iron and bare steel pipes required in public works projects and/or carried pursuant to the main encroachment policy in effect on January 1, 2007, which the Company will continue in the ordinary course of business.²

1 It also became apparent that GENG-2050 is an enterprise wide integrity management prioritized replacement policy containing many sections that are not pertinent to New Hampshire distribution systems and, as indicated below, a supplemental procedure specific to New Hampshire will need to be developed.

2 See Settlement dated May 15, 2007 at page 113 of 117.

The Company has commenced work based on the priorities established in Exhibit A and will track all capital investments made in accordance with the FY 2009 CIBS Plan. On or before May 15, 2009, the Company will file a report with the Commission in accordance with the Settlement Agreement. The report will document the actual amount of capital investments made in accordance with the Plan during fiscal year 2009 and propose recovery of that amount less the agreed upon base spending amount of \$500,000. The purpose of the filing is to true up cost estimates of planned projects, with actual costs incurred, including latest loading factors.

As agreed during the May 9, 2008 technical session, the capital investments amount to be included for recovery under the Plan may include all prudently incurred direct and indirect³ costs associated with : (i) replacement or abandonment⁴ of cast iron and bare steel mains, including replacement of existing pipe with replacement pipe up to one diameter size larger than the existing pipe, (ii) replacement or abandonment of cast iron or bare steel service lines directly connected to bare steel or cast iron main replacement projects, and (iii) tie over of connected service lines not replaced or abandoned as part of a cast iron bare steel main replacement project.

Categories of costs that may not be included for recovery under the Plan include: (i) replacement or abandonment of plastic main, (ii) replacement or abandonment of coated steel main, regardless of vintage, (iii) replacement or abandonment of plastic or coated steel services connected to cast iron or bare steel main replacement projects, (iv) the differential in cost to replace existing cast iron or bare steel mains with pipe of a diameter that is more than one size greater than the existing main and the cost to replace that main with a pipe that is one diameter size larger than the existing main, (v) relocation of customer meters from inside to out and (vi) random cast iron or bare steel service replacements not connected to a cast iron or bare steel main replacement project.

The Company and Staff have determined preliminary dates and associated milestones during fiscal year 2009 to develop a New Hampshire specific procedure to supplement the National Grid procedure GENG-2050 which supplemental procedure will be taken into account when

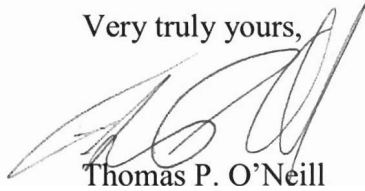
3 Indirect costs mean overheads such as pension, OPEB's and other fringe benefits, payroll taxes, material handling costs and other general & administrative expenses that are loaded on all labor and material transactions. Categories of costs that may not be included for recovery under the Plan include: (vii) costs related to CIBS planning (other than normal engineering and project planning), reporting and filing.

4 For purposes of ii. and iii., abandonments such as mains that are not servicing a customer via a service will not be allowed. Other abandonments will be considered by Staff on a case by case basis.

Edward Damon, Esq.
New Hampshire Public Utilities Commission
June 19, 2008
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developing the National Grid, NH cast iron bare steel plan for fiscal year 2010 and beyond. Finally, bare steel segments that have been removed will be catalogued, photographed, and tested for remaining wall thickness and reported back to Staff.

Very truly yours,

A handwritten signature in black ink, appearing to read 'T. O'Neill', is written over a light gray rectangular background.

Thomas P. O'Neill

Enclosures

cc: Randy Knepper
Stephen Frink

Bill Impacts due to Cast Iron and Bare Steel Replacement Program

Annual Increase due to REP Cap program	\$512,004
Annual Throughput (based on Nov 07 COG filing)	155,445,404 Therms
Increase Factor	\$0.0033 /therm
Typical Residential bill (Based on Nov 07 COG)	\$1,862
Typical Usage	1250 therms
Annual Increase for Residential Heating customer	\$4.12
Percent bill increase	0.22%
Annual Revenues 2006-07 from Rate Case	\$176,520,000
Annual percent increase	0.29%

Energy North
Illustrative Cast Iron, Bare Steel Replacement Program
Illustrative Computation of Revenue Requirement

		4/08-3/09
		Year
		1
<u>Deferred Tax Calculation</u>		
1	CIBS Program Targeted Spend	3,635,605
2	Base Spending Amount	500,000
3	Incremental Amount	3,135,605
4	Cumulative REP Program Spend	3,135,605
5		
6	Book Depreciation Rate (a)	2.23%
7	15/20 YR MACRS Tax Depr. Rates	5.00%
8	Vinatge Year Tax Depreciation:	
9	Year 1 Spend	181,780
10	Year 2 Spend	
11	Year 3 Spend	
12	Year 4 Spend	
13	Year 5 Spend	
14		
15	Annual Tax Depreciation	181,780
16	Cumulative Tax Depreciation	181,780
17		
18	Book Depreciation	81,013
19	Cumulative Book Depreciation	81,013
20		
21	Book/Tax Timer	100,767
22	Effective Tax Rate	40.53%
23		
24	Deferred Tax Reserve	40,836
25		
26	<u>Rate Base Calculation</u>	
27	Plant In Service	3,135,605
28	Accum Depr	(81,013)
29	Def Tax Reserve	(40,836)
30	Year End Rate Base	3,013,756
31		
32	<u>Revenue Requirement Calculation</u>	
33	Year End Rate Base	3,013,756
34	Pre-Tax ROR	12.30%
35	Return and Taxes	370,787
36	Book Depreciation	81,013
37	Property Taxes (b)	60,204
38	Annual Revenue Requirement	512,004
39		
40	<u>Annual Rate Adjustment</u>	
41		
42	Incremental Annual Rate Adjustment	512,004
43		
44		
45	<u>Imputed Capital Structure</u>	
46		
47	Long Term Debt (c)	
48	Short Term Debt	
49	Common Equity (d)	
50		
51		

			Weighted	
	Ratio	Rate	Rate	Pre Tax
	50.00%	7.12%	3.56%	3.56%
	0.00%	0.00%	0.00%	0.00%
	50.00%	10.39%	5.20%	8.74%
	100.00%		8.76%	12.30%

(a) Composite (Actual/Rate Case) Depreciation for Energy North Mains

(b) Actual 2007 ratio of municipal tax expense to net plant in service

(c) Actual/Rate Case Composite LTD Rate

(d) Last approved ROE. To be replaced with ROE ultimately approved in Energy North's First Rate Case or subsequent rate cases.

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FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),

WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:

DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
NHPUC
21 SOUTH FRUIT STREET, SUITE 10
CONCORD NH 03301-2429

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DIRECTLY WITH THE FOLLOWING STAFF

RATHER THAN WITH THE EXECUTIVE DIRECTOR

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BULK MATERIALS:

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

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