

# Narragansett Electric

A **National Grid** Company



Terry L. Schwennesen  
*General Counsel*

November 19, 2003

## **BY HAND DELIVERY & ELECTRONIC MAIL**

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

### **Re: Docket 3551 - Petitions to Place the Navy on Narragansett Electric Rate G-62 - Proposed Settlement for Commission Review and Approval**

Dear Ms. Massaro:

Enclosed on behalf of The Narragansett Electric Company, the Department of the Navy and the Economic Development Corporation of Rhode Island (collectively, the "Parties") are ten copies of a settlement in this proceeding ("Navy Settlement") that would implement rate reductions to the Naval Station at Newport on the earlier of December 1, 2003 or such other date established by the Commission. The Parties hereby submit this Navy Settlement for the Commission's approval.

Thank you for your attention to our filing. Please contact me if you have any questions concerning this transmittal.

Very truly yours,

Terry L. Schwennesen

Enclosures

C: Docket 3551 Service List

**State of Rhode Island and Providence Plantations**

**Public Utilities Commission**

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**Narragansett Electric Company –** )  
**Petition to Place the Navy on** )  
**Narragansett Electric Rate G-62** ) **R.I.P.U.C. No. 3551**  
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**Settlement Agreement**

The Narragansett Electric Company (“Narragansett” or “Company”) enters into this Settlement Agreement (“Settlement”) with the Economic Development Corporation of Rhode Island (“EDC”) and the Department of the Navy (“Navy”) (collectively the “Parties”) to resolve all issues arising out of petitions filed by the Company and by the Navy in this Docket 3551 seeking to place the Navy onto Rate G-62.

Background

1. The Navy currently is served under Narragansett’s retail delivery service rate schedule R.I.P.U.C. No. 1142, 69 kV Rate (N-01) (“Rate N-01”). Rate N-01 is available to customers taking service at a nominal voltage of 69,000 volts, and is a mandatory rate for the Navy. Under the Third Amended Stipulation and Agreement, dated March 14, 2000, to which the Navy was not a party, approved by the Commission in Docket 2930

(“Docket 2930 Settlement”), the Navy was to remain on Rate N-01 throughout the rate freeze period established in that docket (through December 31, 2004). The Navy is the only Narragansett customer taking service under Rate N-01.

2. Narragansett’s rate schedule R.I.P.U.C. No. 1140, 3000 kW Demand Rate (G-62) (“Rate G-62”) is available to customers whose maximum 12-month demand is 3,000 kilowatts (kW) or greater. The Navy’s maximum 12-month demand for the 12-months ending July, 2003, was approximately 20.9 megawatts (MW). But for the mandatory nature of Rate N-01, the Navy would be eligible to receive service under Rate G-62.
3. As part of the National Defense Authorization Act for Fiscal Year 2002, Public Law 107-107 (Dec. 28, 2001), the Congress directed a new round of Base Realignment and Closure (“BRAC”) review to address excess military base capacity. The BRAC process was created by the United States Congress to recommend and implement the realignment and closure of Department of Defense (“DOD”) facilities on a periodic basis. Every DOD facility is subject to BRAC review. The current round of BRAC is scheduled to commence later this year, with the next round of BRAC recommendations scheduled to be acted upon in 2005.
4. Economically, Rhode Island has a higher dependence on the presence of the defense industry when compared to other states, due primarily to the Navy Station at Newport. In view of the significant impact that a BRAC decision could have on the state, the EDC has formed a BRAC 2005 Committee to help the state prepare for the upcoming BRAC review.

## Agreement of the Parties

5. Given the vital role that the Naval Station at Newport plays in the economic well-being of the State of Rhode Island and of all of its citizens, and given the adverse impact that would result for Rhode Island if existing activities at the Naval Station were significantly curtailed or terminated, the Parties agree it is in the public interest to take actions that would reduce the costs to, and increase the competitiveness of, the Naval Station at Newport via non-discriminatory and equitable means.
6. Pursuant to Sections 6(D) and 23 of the Docket 2930 Settlement, the Company is required to file either a revenue neutral rate filing or has the right to file for a general rate increase for rates to become effective on January 1, 2005. Effective upon the date of Commission approved rates in that proceeding or the effective date of a new rate plan that supersedes the Docket 2930 Settlement, whichever occurs earlier, the Navy will be permanently transferred to Narragansett's Rate G-62, or the most competitive rate that the Navy qualifies for at the time.
7. The Parties acknowledge that upon the transfer of the Navy to a superseding rate, there will be no customers served on Rate N-01. In order to consolidate and simplify Narragansett's rate schedules, Rate N-01 shall be closed and cancelled.
8. Commencing as of December 1, 2003, or such other effective date ordered by the Commission upon approval of this Settlement Agreement, and until such time as new rates become effective pursuant to Section 6. above, Narragansett shall provide the Navy with a credit (the "Rate N-01 Credit") on its monthly bill equal to \$.01209 per kWh. Based on the Navy's consumption in calendar year 2002, this would result in a total bill reduction of approximately \$1.380 million per year. Given further reductions to payment

of Rhode Island's four percent gross earnings tax that would result from the Rate N-01 Credit, the Navy's total annual bill would be reduced by about \$1.437 million per year. A schedule calculating the impact of the Rate N-01 Credit is provided in Exhibit A, attached. The Rate N-01 Credit shall continue until such time as the Navy is transferred to Rate G-62 or any other rate pursuant to Section 7. above, and may be prorated in the event the Navy receives a prorated bill.

9. The Parties acknowledge that the provision of the Rate N-01 Credit described in the preceding paragraph would reduce the per unit retail distribution charges to the Navy and reduce Narragansett's revenue correspondingly. In addition to reducing Narragansett's earnings, the reduction in revenues resulting from the monthly credit to the Navy would result in a reduction in so-called "shared earnings" accrued on behalf of all customers under the earnings sharing provisions in Section 11 (A) of the Docket No. 2930 Settlement, so long as Narragansett's earnings remain above the authorized rate of return.
10. Pursuant to Commission rules established by Docket 2509 and supplemented by the Docket 2930 Settlement, the Company maintains a Storm Contingency Fund ("Storm Fund") to defray the expense of extraordinary storms above certain thresholds. The Storm Fund is funded, pursuant to Sections 13 and 17 of the Docket 2930 Settlement, by a combination of distribution revenues and pole attachment fees. The balance in the Storm Fund presently exceeds \$12 million. In order to mitigate the impact of the Rate N-01 Credit on Narragansett's revenues and the shared earnings accrual for other customers, an amount equal to the monthly Rate N-01 credit shall be withdrawn monthly from Narragansett's Storm Fund and credited to Narragansett's revenues.

11. Pursuant to Section 11 of the Docket 2930 Settlement, Narragansett is accruing shared earnings above certain earnings thresholds through the rate freeze period ending December 31, 2004, to be credited to customers in a manner to be approved by the Commission. According to the terms of the Docket 2930 Settlement, the amount accrued through the end of the rate freeze period will be reported to the Commission by no later than May 1, 2005. The Navy agrees, as part of this Navy Settlement, that it will forego receipt of its allocable share of any shared savings credit or up to 20% of the Rate N-01 Credits actually received by the Navy, whichever is less. The amount foregone by the Navy will be returned to the Storm Fund in a manner approved by the Commission. In addition, however, if the Commission determines that some or all of the shared earnings credited pursuant to Section 11 (C) of the Docket 2930 Settlement will be utilized for economic development or other customer incentives, nothing in this Navy Settlement shall preclude the Navy from participating in such programs as would any other similarly situated customer.

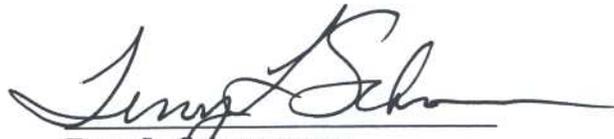
#### Other Provisions

12. This Settlement Agreement in no way nullifies, modifies or amends the Settlement approved by the Commission in Docket No. 2930.
13. Unless expressly stated herein, the making of this Settlement establishes no principles and shall not be deemed to foreclose any Party from making any contention in any other proceeding or investigation with respect to matters not addressed by this Settlement.

14. This Settlement is the product of settlement negotiations. The content of those negotiations is privileged and all offers of settlement shall be without prejudice to the position of any Party.
15. This Settlement is submitted on the condition that it be approved in full by the Commission, and on the further condition that if the Commission does not approve the Settlement in its entirety, the Settlement shall be deemed withdrawn and shall not constitute a part of the record in any proceeding or used for any purpose.

Respectfully submitted,

The Narragansett Electric Company  
By its Attorney



Terry L. Schwennesen  
General Counsel

The Economic Development Corporation  
of Rhode Island  
By its Attorney

A handwritten signature in black ink, appearing to read 'W. Mark Russo', written over a horizontal line.

W. Mark Russo

The United States Department of the Navy  
By its Attorney

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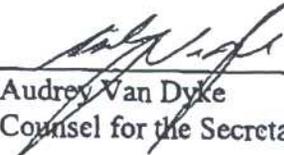
Audrey Van Dyke  
Counsel for the Secretary of the Navy

The Economic Development Corporation  
of Rhode Island  
By its Attorney

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W. Mark Russo

The United States Department of the Navy  
By its Attorney



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Audrey Van Dyke  
Counsel for the Secretary of the Navy

**NARRAGANSETT ELECTRIC COMPANY**  
**Demonstration of Application of Settlement Credit**  
**Billing Units for Year Ending December 31, 2002**

	Rate N-01			Rate N-01(w/ Settlement Credit)			Difference
	Unit Charges	Billing Units	Revenues	Unit Charges	Billing Units	Revenues	
<u>Delivery Service Charges:</u>						\$1,437,368.77	
Distribution Charges:							
Customer Charge	\$0.00	12	\$0.00	\$0.00	12	\$0.00	
Distribution kWh Charge	\$0.00574	114,133,500	\$655,126.29	\$0.00574	114,133,500	\$655,126.29	
Distribution Demand Charge	\$5.52	218,235.00	\$1,204,657.20	\$5.52	218,235.00	\$1,204,657.20	
Reactive Demand	\$0.17	25,485	\$4,332.45	\$0.17	25,485	\$4,332.45	
Settlement Credit (1)				(\$0.01209)	114,133,500	(\$1,379,874.02)	
Total Distribution Revenue			\$1,864,115.94			\$484,241.92	\$1,379,874.02
Conservation	\$0.00230	114,133,500	\$262,507.05	\$0.00230	114,133,500	\$262,507.05	\$0.00
Transmission Charges:							
Base Transmission Charge	\$0.00408	114,133,500	\$465,664.68	\$0.00408	114,133,500	\$465,664.68	
Transmission Adjustment Factor	\$0.00063	114,133,500	\$71,904.11	\$0.00063	114,133,500	\$71,904.11	
Total Transmission Revenue			\$537,568.79			\$537,568.79	\$0.00
Transition Charge	\$0.00944	114,133,500	\$1,077,420.24	\$0.00944	114,133,500	\$1,077,420.24	\$0.00
Total Delivery Services			\$3,741,612.02			\$2,361,738.00	\$1,379,874.02
Gross Receipts Tax			\$155,900.50			\$98,405.75	\$57,494.75
<b>Total Delivery Services Including Taxes</b>			<b>\$3,897,512.52</b>			<b>\$2,460,143.75</b>	<b>\$1,437,368.77</b>
<u>Generation Charges:</u>							
Standard Offer Charge	\$0.05500	114,133,500	\$6,277,342.50	\$0.05500	114,133,500	\$6,277,342.50	
Total Generation Service			\$6,277,342.50			\$6,277,342.50	\$0.00
Gross Receipts Tax			\$261,555.94			\$261,555.94	\$0.00
<b>Total Generation Services Including Taxes</b>			<b>\$6,538,898.44</b>			<b>\$6,538,898.44</b>	<b>\$0.00</b>
<b>Total Cost of Electricity</b>			<b>\$10,436,410.96</b>			<b>\$8,999,042.19</b>	<b>\$1,437,368.77</b>

(1) Per kWh credit of \$0.01209 calculated as Settlement Credit (\$3.8 million) divided by 2002 kWh deliveries truncated to five (5) places.

Note: Analysis reflects rates in effect at July 1, 2003