



August 6, 2004

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**Re: Docket 3617 Comprehensive Distribution Rate Settlement
Responses to Commission Data Requests – Set 1**

Dear Ms. Massaro:

Enclosed please find The Narragansett Electric Company's ("Company" or "Narragansett") responses to the Commission's First Set of Data Requests issued on July 16, 2004, in the above-captioned proceeding.

Because of the voluminous nature of the attachments to Commission Data Request 1-95, the Company is submitting a CD-ROM containing those attachments. An index of those files is included with the CD-ROM.

Thank you for your attention to our filing. Should you have any questions, please call me at (401) 784-7667.

Very truly yours,

Laura S. Olton

Laura S. Olton

Enclosures

cc: Docket 3617 Service List

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THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-1

Request:

Explain and show through a schedule, the calculation of the \$10.243 million per year revenue reduction.

Response:

Exhibit 1 of the Distribution Rate Plan Stipulation and Settlement dated June 29, 2004 ("Settlement") contains a schedule depicting the calculation of the \$10.243 million. The calculation of the Distribution Rate Reduction of \$10.243 on Exhibit 1 to the Settlement is based on the comparison between the Forecasted Revenue-2005 under current rates of \$230.847 million shown on line 1 of Exhibit 1 less \$220.604 million, the agreed upon Cost of Service of \$215.604 plus 50% of Total Savings to be Shared, or \$5 million. The total Savings to be Shared of \$10 million, 50% of which is proposed to be passed back to customers, was determined by comparing the agreed upon cost of service of \$215.604 shown on Line 2 of that Exhibit to the Forecast Benchmark COS 2005 of \$225.604 million. As indicated in the note on that schedule, the Company share of merger savings was further refined to eliminate 100% of the Pension income impact on total merger savings in arriving at the proposed 50% Company share of savings of \$4.645 million.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-2

Request:

Please provide the rationale for setting the imputed capital structure of 45% debt, 5% preferred stock, and 50% common equity.

Response:

The parties agreed to continue to use the imputed capital structure of 45% debt, 5% preferred stock, and 50% common equity established in the Third Amended Stipulation and Settlement in Docket No. 2930 ('Current Settlement') approved by the Commission in 2000. Prior to the Current Settlement, the Company's actual capital structure was 37% debt, 2% preferred stock and 61% common equity (year end 1999). Clearly, the imputed capital structure includes a ratio of common equity substantially lower than Narragansett's actual common equity ratio at that time as well as at the current time. See response to Commission Data Request 1-5. The Current Settlement provides, however, that if Narragansett's actual average common equity falls below 50% for any of the five years during the Rate Freeze Period proposed in the Settlement, any Party may contend that the use of the average actual capital structure for the five-year period is more reasonable than the use of the imputed capital structure for purposes of calculating Narragansett's return and income taxes.

The Company has a long history of maintaining a conservative financial profile to ensure that it has continuous access to capital at reasonable costs, even during times of adverse capital market conditions.

Prepared by or under the supervision of: Robert H. McLaren

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-3

Request:

Please provide the rationale and any evidence for setting the ROE at 10.5% for the next five years?

Response:

The parties agreed to continue to use a return on equity (ROE) of 10.5%, which is the same ROE contained in the Current Settlement. A return on equity of 10.5% for Narragansett's jurisdictional electric distribution operations is fair and reasonable in light of average rates of return on equity recently approved for electric utilities by state regulatory agencies, current capital market requirements, and expected capital market trends.

This ROE is reasonable and consistent with recent ROEs approved by state regulatory commissions. For example, Regulatory Research Associates, Inc., reports an average authorized ROE for electric utilities during the first half of 2004 of 10.63% ("Major Rate Case Decisions—January-June 2004", *Regulatory Focus*, July 8, 2004). The Settlement ROE is also consistent with the ROE most recently approved by this Commission for another major energy delivery utility in the state (i.e., 11.25% for New England Gas, approved at an open meeting on August 28, 2002, written order # 17381 issued February 28, 2003).

Current capital market requirements also support the 10.5% ROE contained in the Current Settlement, with applications of accepted quantitative methods customarily used to estimate the current cost of equity confirming the reasonableness of this ROE. For example, the discounted cash flow (DCF) methodology, which combines a representative dividend yield with investors' expected growth rate to estimate the cost of equity, is one approach that is routinely referenced in regulatory proceedings. For the 22 firms included in Value Line's Electric Utility (East) industry group, the average indicated dividend yield is currently 4.8%. Meanwhile, after excluding negative values, Value Line's earnings growth projections indicate that investors expect average growth on the order of 5.8%. Combining a representative dividend yield of 4.8% with an average expected growth rate 5.8% results in an indicated cost of equity of 10.6% using the constant growth DCF model.

The risk premium approach is another method that is widely used to estimate the cost of equity. Under the risk premium approach, the cost of equity is estimated by first determining the additional return investors require to forgo the relative safety of bonds and to bear the greater risks associated with common stock, and then adding this equity risk premium to the current yield on bonds. Equity risk premiums for electric utilities based on (1) surveys of previously authorized rates of return on common equity for electric utilities, (2) realized rates of return on electric utility common stocks; and (3) forward-looking applications of the Capital Asset Pricing Model (CAPM) all confirm the reasonableness of the 10.5% cost of equity contained in the Current Settlement. For example, after adjusting for current capital market conditions, the

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Response to Commission's First Set of Data Requests

average allowed rate of return on common equity for electric utilities reported by Regulatory Research Associates for the 30-year period 1974 - 2003 implied a current equity risk premium of 4.5 percent. Combining this equity risk premium with the average yield on single-A public utility bonds for June 2004 by Moody's Investors Service of 6.5 percent implies a current cost of equity of 11.0%.

Under the realized-rate-of-return approach, equity risk premiums are estimated by reference to the rates of return that investors have actually earned on common stocks and bonds, measured over long historical periods. For the electric utilities included in the S&P 500 Composite Index ("S&P 500"), Stock price and dividend data are available since 1946. Over this 58-year period, annual realized rates of return for these electric utilities exceeded the returns on single-A utility bonds by an average of 3.87 percent. Combining this equity risk premium with the 6.5 percent average yield on single-A public utility bonds results in an implied cost of equity of 10.4 percent.

Meanwhile, the CAPM is a theory of market equilibrium that measures risk using the beta coefficient. The CAPM is mathematically expressed as:

$$R_j = R_f + \beta_j(R_m - R_f)$$

Where:

R_j	=	required rate of return for stock j ;
R_f	=	risk-free rate;
R_m	=	expected return on the market portfolio; and,
β_j	=	beta, or systematic risk, for stock j .

Application of the DCF model to the firms in the S&P 500 indicate that investors expect a return on the market as a whole of approximately 14.0%. After subtracting a 5.2 percent risk-free rate based on the July 2004 average yield on 20-year government bonds, this forward-looking rate of return produces a market equity risk premium of 8.7 percent. Multiplying this risk premium by the average Value Line beta of 0.76 for the 22 dividend paying firms in the Electric Utility (East) group, and then adding the resulting 6.6 percent risk premium to the long-term Treasury bond yield, resulted in a current cost of equity of approximately 11.9 percent.

Moreover, investors' forward-looking, required rate of return from a long-term security such as common stock is undoubtedly influenced by anticipated increases in interest rates over the horizon of the Settlement. The general expectation is that, as economic growth strengthens, bond yields will begin to rise from current levels. The Wall Street Journal reported that rapid economic improvement "has sent a riptide through the bond market," fueling higher interest rates and investor concerns that the upward trend could accelerate ("Bond Rates Are Rising on Fears That Growth Is Spurring Inflation," Apr. 15, 2004). The most recent forecast of the Energy Information Administration, a statistical agency of the Department of Energy, anticipates that the double-A public utility bond yield will increase from approximately 6.7 percent in 2004 to 7.49 percent over the next five years, with the average being 7.3 percent over the next 10 years ("Annual Energy Outlook 2004," Table 20, Dec. 16, 2003). Similarly, GlobalInsight (formerly DRI/WEFA), a widely referenced economic forecasting service, calls for double-A public utility bond yields to average 7.36 percent over the next ten years, with yields ranging between 6.29 and 7.85 percent ("The U.S. Economy, The 25-Year Focus", Table 33, Winter 2004).

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Response to Commission's First Set of Data Requests

All of these factors confirm that the 10.5% cost of equity contained in the Settlement is fair and reasonable.

Prepared by or under the supervision of: Robert H. McLaren and William E. Avera

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-4

Request:

With regard to Part 2(B)(4), please explain the rationale for allowing a rate increase if Narragansett is able to meet its allowed ROE regardless of the inflation rate increase.

Request:

Part 2(C)(2) precludes such an increase if the Company's average intrastate earned ROE exceeds 10.5%.

Prepared by or under the supervision of: Robert H. McLaren

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-5

Request:

Does Narragansett Electric have an actual capital structure?

Response:

Yes. As of March 31, 2004, Narragansett's actual capital structure, excluding goodwill, is as follows:

Actual Capital Structure (March 31, 2004)

	03/31/2004	
	<u>Balance</u>	<u>Ratio</u>
	(000's)	
Debt	\$ 74,712	14%
Preferred	\$ 5,307	1%
Common	<u>\$ 448,276</u>	85%
	\$ 528,295	100%

* Excluding goodwill of \$496,937,000.

Prepared by or under the supervision of: Robert H. McLaren

THE NARRAGANSETT ELECTRIC COMPANY
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Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-6

Request:

What is Narragansett's actual capital structure as of March 31, 2004?

Response:

See response to Commission Data Request 1-5.

Prepared by or under the supervision of: Robert H. McLaren

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-7

Request:

Under what set of circumstances would it be possible for Narragansett's actual average common equity ratio to fall below 50%?

Response:

The Company has a long history of maintaining a conservative balance sheet and solid credit ratings to ensure that it has continuous access to capital at reasonable costs, even during times of adverse capital market conditions.

Nonetheless, hypothetically, Narragansett's actual common equity ratio could fall below 50% if the Company incurred an enormous loss (in excess of \$368 million, after-tax), or the Company paid out an enormous amount of 'return of capital' dividends (in excess of \$184 million), which it could only do by borrowing the necessary cash; however, any issuance of long-term debt by Narragansett to raise this amount of cash would be subject to approval by the Commission.

Prepared by or under the supervision of: Robert H. McLaren

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-8

Request:

What is the estimated deficiency in the reserve for deferred taxes at December 31, 2004?
To what is the deficiency attributed?

Response:

Please see the attached schedule detailing the unfunded deferred tax balance as of December 31, 2004 of \$9,763,000.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's Data Requests – 1-8

The Narragansett Electric Company
Unfunded Deferred Federal Income Taxes
(\$000s)

1	Book Depreciable Plant at 12/31/98		\$713,405	
2	Less: Accumulated Depreciation		(209,159)	
3	Permanent book/tax differences			
4	Equity AFUDC		(1,489)	
5	ITC Basis Adjustment		<u>(1,689)</u>	
6	Adjusted net plant per books			\$501,068
7				
8	Tax Depreciable Plant		701,399	
9	Less: Accumulated depreciation		<u>(406,543)</u>	
10	Adjusted net tax plant			294,856
11				
12	Cumulative Timing Difference			206,212
13	Current Tax Rate			<u>35.0%</u>
14				
15	Total Cumulative Deferred Federal Tax Liability			\$72,174
16				
17	<u>Property Related Deferred FIT Reserves per Books at 12/31/98:</u>			
18				
19	Contributions in Aid of Construction		(2,408)	
20	Liberalized Depreciation		55,012	
21	Construction Interest		(1,166)	
22	Construction - Other		(11)	
23	Cost of Removal		2,591	
24	ACRS Retirements		1,560	
25	Transfer Accounts		(1,340)	
26	Unfunded Tax Liability		<u>38</u>	
27	Total			<u>\$54,275</u>
28				
29	Unfunded Property-Related Deferred FIT Reserves			\$17,899
30				
31	<u>Non- Property Related Deferred FIT Reserves per Books at 12/31/98:</u>			
32				
33		<u>Bal. per Books</u>	<u>Bal. @ 35%</u>	<u>Unfunded/</u> <u>(Excess)</u>
34	Deferred Tax Assets	(14,694)	(15,360)	(666)
35	Deferred Tax Liabilities	10,287	14,751	4,464
36				
37				
38	Unfunded Non Property-Related Deferred FIT Reserves			<u>3,798</u>
39				
40	Total Unfunded Deferred FIT Reserves @ 12/31/99			\$21,697
41				
42	Blackstone Valley Electric Unfunded @ 12/31/99			\$1,386
43	Newport Electric Unfunded @ 12/31/99			<u>\$1,630</u>
44				
45	Total Unfunded @ 12/31/99			\$24,713
46				
47	Funded with CTC Refunds and Delay Credit [(17,500 + 5,000 + 500) * 65%]			<u>(\$14,950)</u>
48				
49	Remaining Unfunded Deferred Taxes			<u>\$9,763</u>

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
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Response to Commission's First Set of Data Requests

Commission Data Request 1-9

Request:

Explain and provide supporting calculations for the bonus tax depreciation benefit at Exhibit 8 that results in \$1.3 million being returned to ratepayers.

Response:

The Job Creation and Worker Assistance Act of 2002, signed into law in March of 2002, amended the Internal Revenue Code Section 168 by adding a subsection (k) - Special Allowance for Certain Property Acquired After September 10, 2001 and Before September 11, 2004 (IRC 168(k)). IRC 168(k) provided for additional first year 30% tax depreciation deductions for certain qualifying property ('Bonus Depreciation') placed in service after September 11, 2001 and before September 11, 2004. In 2003, the first year bonus depreciation was increased from 30% to 50% for qualifying property acquired after May 5, 2003. Additional tax depreciation allowances contribute to the accrual of additional deferred taxes in the early years of the associated property's depreciable life, and in turn have a decreasing impact on the Company's rate base. Exhibit 8, pages 5 through 11 detail the calculation of this bonus tax depreciation estimated benefit and its associated impact on the Company's revenue requirement for calendar year 2004, \$1,279,391.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-10

Request:

What is the basis for the change in the cost of debt and preferred stock in the capital structure from that approved in the 2000 Settlement shown in Part 3(B) of the Proposed Settlement?

Response:

The Cost of Debt and Preferred Stock shown in Part 3(B) were each adjusted to reflect the Company's actual 2003 cost rates for Long Term Debt and Preferred Stock.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-11

Request:

Please provide workpapers supporting the estimated 2004 income available for common equity. The amount is \$34,105,000, per Exhibit 8, page 1 of 11.

Response:

Please see the attached schedule which provides the derivation of estimated 2004 income available for common equity of \$34,105,000 along with the 5 quarter average common equity amount for 2004 of \$260,719,000 as shown on Exhibit 8, page 1 of 11.

Prepared by or under the supervision of: Michael D. Laflamme

Narragansett Electric Company
Estimated 2004 Earnings Available for Common

THE NARRAGANSETT ELECTRIC COMPANY
 R.I.P.U.C. Docket No. 3617
 Distribution Rate Plan Stipulation & Settlement
 Response to Commission's Data Requests - 1-11 & 1-12

	Actual Jan-04	Actual Feb-04	Actual Mar-04	Actual Apr-04	Estimate May-04	Estimate Jun-04	Estimate Jul-04	Estimate Aug-04	Estimate Sep-04	Estimate Oct-04	Estimate Nov-04	Estimate Dec-04	YTD Total
Total Operating Revenues	75,162	64,242	66,304	68,542	48,973	52,836	58,283	60,798	57,377	52,190	56,172	61,469	712,347
Proposed 2004 Rate Decrease (10,243 / 12)										(854)	(854)	(854)	(2,561)
Adjusted Revenue	75,162	64,242	66,304	68,542	48,973	52,836	58,283	60,798	57,377	51,336	55,319	60,616	709,787
Total Operating Expenses	66,961	58,473	63,782	63,692	44,122	46,844	50,127	51,712	48,302	46,490	49,894	53,238	634,636
VERO Amortization (25,122 * 97% / 120)	203	203	203	203	203	203	203	203	203	203	203	203	2,437
Adjusted Operating Expenses	67,164	58,676	63,985	63,895	44,326	47,047	50,330	51,915	49,505	46,693	50,097	53,441	637,073
Operating Income	7,998	5,566	2,319	4,647	4,648	5,789	7,953	8,882	7,872	4,643	5,222	7,175	72,713
Imputed Interest Expense (a)	1,534	1,529	1,525	1,515	1,523	1,523	1,523	1,523	1,523	1,523	1,523	1,523	18,286
Taxable Income	6,464	4,037	794	3,132	3,125	4,266	6,430	7,359	6,349	3,120	3,699	5,652	54,427
Income Tax (35%) (b)	2,242	1,393	258	1,076	1,094	1,493	2,250	2,576	2,222	1,092	1,295	1,978	18,970
Net Income	4,222	2,644	536	2,056	2,031	2,773	4,179	4,784	4,127	2,028	2,404	3,674	35,457
Preferred Equity Requirement (a)	113	113	113	112	113	113	113	113	113	113	113	113	1,353
Income Available for Common Equity	4,108	2,531	423	1,944	1,918	2,660	4,067	4,671	4,014	1,916	2,292	3,561	34,104

	5 Quarter Average
Rate Base	520,941
Imputed Common Equity (50%)	260,470
	260,719

(a) For Imputed Interest Expense and Preferred Equity costs for the months of May through December, assumed rate base of \$520 million and LongTerm Debt rate of 7.81% and Preferred equity costs of 5.20%
 (b) The tax calculation for the months Jan - Apr excluded ITC amortization of approximately \$57k per month
 (c) Average of rate base amounts for Jan - Apr. Amount held constant through December.

THE NARRAGANSETT ELECTRIC COMPANY
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Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-12

Request:

Please provide workpapers supporting the estimated 2004 average common equity for 2004 in the amount of \$260,716.

Response:

Please see the response to Commission Data Request 1-11.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-13

Request:

Please prepare a companion page to Exhibit 8, page 1 of 11, to show the calculation of estimated shareholder shared earnings at December 31, 2004.

Response:

Please see the attached schedule which includes a column depicting "Company Share".

Prepared by or under the supervision of: Michael D. Laflamme

NARRAGANSETT ELECTRIC COMPANY

CALCULATION OF ESTIMATED CUSTOMER AND COMPANY SHARED EARNINGS AT DECEMBER 31, 2004
(\$000)

Line

1	Actual Intrastate Earnings Available for Common - CY 2000	26,870	(a)				
2	Actual Intrastate Earnings Available for Common - CY 2001	35,077	(b)				
3	Actual Intrastate Earnings Available for Common - CY 2002	41,576	(c)				
4	Actual Intrastate Earnings Available for Common - CY 2003	34,937	(d)				
5	Estimated Intrastate Earnings Available for Common - CY 2004	<u>34,105</u>	(e)				
6							
7	Annual Average			34,513			
8							
9	Actual Average Common Equity - 2000	226,307	(a)				
10	Actual Average Common Equity - 2001	250,787	(b)				
11	Actual Average Common Equity - 2002	255,258	(c)				
12	Actual Average Common Equity - 2003	258,493	(d)				
13	Estimated Average Common Equity - 2004	260,719	(e)				
14							
15	Five Year Average			<u>250,313</u>			
16							
17	Average Annual Return			<u>13.79%</u>		Customer Share	Company Share
18							
19	ROE in 50%/50% Bandwith (>12.00%, <13.00%)	1.00%	*	50.00%	=	0.50%	50.00% = 0.50%
20	ROE in 75%/25% Bandwith (>13.00%)	0.79%	*	75.00%	=	<u>0.59%</u>	25.00% = 0.20%
21							
22	Total Customer ROE Sharing					1.09%	0.70%
23	Annual Average Equity					<u>250,313</u>	<u>250,313</u>
24							
25	Average Annual Customer Shared Earnings					2,735	1,746
26	Tax Gross-up					<u>/ 65.00%</u>	<u>/ 65.00%</u>
27							
28	Average Annual Customer Shared Earnings - Pre-tax					4,207	2,686
29	Number of Years					<u>x 5</u>	<u>x 5</u>
30							
31	Total Customer Shared Earnings 1/1/2000 - 12/31/2004					21,036	13,430
32							
33	Accrued Service Quality Penalties to Date					1,744 (f)	-
34	Company Share of Incremental Low Income Expansion 2000 - 2004 (25%)	5,280	*	25.00%	=	(1,320) (g)	1,320
35	Bonus Tax Depreciation Revenue Requirement Benefit - 2004					<u>1,279 (h)</u>	-
36							
37	Total Net Customer Shared Earnings to be Refunded					<u>22,739</u>	<u>14,750</u>

- (a) December 31, 2000 Earnings Report - Revision 2 submitted February 28, 2003
(b) December 31, 2001 Earnings Report - Revised submitted February 28, 2003
(c) December 31, 2002 Earnings Report - Revised submitted February 12, 2004
(d) December 31, 2003 Earnings Report adjusted to exclude the impact of the 2003 VERO charge.
(e) Company estimate for 2004.
(f) Accrued Service Quality Penalties through December 31, 2003 pursuant to current Service Quality Performance Standards
(g) See Distribution Rate Plan Stipulation and Settlement dated June 29, 2004, Exhibit 8, Page 2 of 11.
(h) See Distribution Rate Plan Stipulation and Settlement dated June 29, 2004, Exhibit 8, Page 5 of 11.

THE NARRAGANSETT ELECTRIC COMPANY
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Response to Commission's First Set of Data Requests

Commission Data Request 1-14

Request:

With regard to the over earnings that have accrued for the benefit of ratepayers since 2000, will the ratepayers receive interest on those amounts? If not, why not?

Response:

No interest is included on the earnings that have accrued for the benefit of customers. The rationale for this is two-fold. First, the earnings to be credited to customers are based on the cumulative earnings over the five-year rate freeze period from 2000 through 2004 under the Current Settlement. As a result, it was not clear that earnings were available to be shared until the financial performance over the rate freeze period was known and a settlement had been reached on the treatment of the VERO costs. Second, to avoid the issues associated with whether interest should be paid on the credit and if so at what rate, the Parties agreed to return the credit over the twelve months occurring immediately after the Effective Date of the Settlement. The immediate implementation of the credit over a twelve-month period assures that the credit is distributed fairly based on customers' usage throughout the year, and returns the funds in the shortest possible time.

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Response to Commission's First Set of Data Requests

Commission Data Request 1-15

Request:

Please address why the earnings sharing mechanism should be based on a five year average rather than shared earnings being addressed annually.

Response:

The earnings sharing mechanism in the Settlement continued the same calculation that was included in the Current Settlement. The rationale for the five-year average in both settlements is based on two primary considerations. First, Narragansett's earnings will fluctuate over the five-year period of the rate freeze as the result of normal changes in expenses and revenues. An annual evaluation of the return that requires a refund in the years that Narragansett exceeded the 10.5 percent return on equity set forth in the Settlement, but which did not offset the excess earnings with the amounts of the under-recoveries in other years would substantially increase the risk that Narragansett would earn less than 10.5 percent over the Fixed Rate Period. Such a construct would change the risk/reward profile and economics of the Settlement in a fundamental way. This effect is avoided in the Settlement by performing the earnings evaluation over the entire Fixed Rate Period.

Second, the Company may often incur costs and expenses in one year to produce savings in future years. The averaging of savings over the entire five-year period facilitates the longer term planning horizon that allows costs to be incurred in the near term to produce the earnings necessary to reimburse the costs in later years. A good example of this kind of planning is a VERO under which a significant one-time expense is incurred in one year in order to produce lower payroll and other costs in the future. Likewise, important technology or capital projects, such as the implementation of automatic meter reading, often require significant upfront costs in order to produce greater savings in the future. Absent averaging or otherwise maintaining a cumulative balance over the entire Fixed Rate Period, the expenses in the first year of such initiatives would produce earnings below the allowed return in that year, and the savings in the later years would be credited to customers and would not be available to pay for the initial outlay. This could prevent the efficiency improvement from being undertaken in the first place, in which case both the Company and its customers would lose the efficiency gain. This same phenomenon can occur whenever the Company undertakes a major program to improve efficiency.

The averaging of the earnings or otherwise maintaining a cumulative balance avoids the disincentives to undertake projects with longer-term planning horizons and pay-back periods. Thus, the ability to evaluate earnings over the entire Fixed Rate Period provides the opportunity to realize the economic benefits from a project which has significant up-front costs. It is a fundamental element of performance-based rate making. During the initial Rate Freeze Period under the Third Amended Stipulation and Settlement, this longer-term planning horizon allowed Narragansett to support the one-time costs necessary to implement automated meter reading,

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consolidate and improve its customer service centers, implement its reductions to payroll, and otherwise manage its business over a five-year planning horizon.

Prepared by or under the supervision of: Carlos A. Gavilondo

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Commission Data Request 1-16

Request:

Why are the A-16 and A-60 classes and the G-32 and M-1 classes consolidated for purposes of allocating the customer credit?

Response:

In general, the Company has allocated the proposed customer credit in the same manner as it has allocated the proposed distribution rate decrease and designed the proposed distribution charges, except as described below.

The low income rate class, Rate A-60, is generally considered part of the larger residential rate class for cost allocation and rate design purposes. As can be seen from Exhibit 5 of the Settlement, pages 5 through 7, the distribution charges for Rate A-60 are based on the Rate A-16 distribution charge. There is no difference in the cost to serve Rate A-60 customers as compared to Rate A-16 customers and consequently they are considered one class for the purposes of allocating any amounts that are to be shared among all customers. Therefore, the kWh deliveries and revenue associated with Rate A-60 have been combined with the remainder of the residential class in the allocation and design of the customer credit.

Rate M-1, Station Service Reliability and Delivery, has only three customers with extremely variable usage and the potential to over or under refund the customer credit to this class would be high if the class were allocated its own share of the credit. These three customers would be eligible for Rate G-32 were they not taking service on Rate M-1. Therefore, the kWh deliveries and revenue associated with Rate M-1 have been combined with Rate G-32 in the allocation and design of the customer credit.

Prepared by or under the supervision of: Jeanne A. Lloyd

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Commission Data Request 1-17

Request:

Is it correct that an A-16 customer, who is currently in that rate class, using 500 kWh per month will receive a monthly customer credit of \$1.645 whereas an A-32 customer turned A-16 customer using 500 kWh per month will receive a \$4.10 monthly credit despite the fact that the bill impact analysis indicates that this customer will pay less per month than a comparable A-16 customer not previously on A-32?

Response:

Yes. The proposed customer credit applicable to Rate A-32 was designed to mitigate the bill impacts for those customers at higher levels of usage upon their transition to Rate A-16. To simplify the calculation and implementation of the customer credit for Rate A-32 customers, the customer credit is proposed to apply to all customers receiving service on Rate A-32 immediately prior to the effective date of the Settlement.

Prepared by or under the supervision of: Jeanne A. Lloyd

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Commission Data Request 1-18

Request:

Looking at Exhibit 5, with the exception of the phase-in rates, why do the distribution rates change each year during the rate freeze period?

Request:

The Company has proposed a five-year phase-in period for Rates E-30, T-06 and R-02, and customers receiving Auxiliary Service (transitional classes) prior to actually transferring these customers onto their ultimate rate classes as proposed by the Company. The calculation of the phase-in charges is similar for all of the transitional classes. The distribution charges of the transitional classes are designed to increase each year by a fixed, equal amount assuming a five-year phase-in period.¹ The amount of the annual increase in the charges is equal to approximately one-fifth of the difference between each transitional class's current distribution charge and the proposed distribution charge of the ultimate rate class to which these customers will be moved at the end of the phase-in period.

Each year, the incremental revenue received from the transitional classes is credited against the revenue requirement of the ultimate rate class, thereby resulting in a decrease in the revenue required from these rate classes and thus results in a decrease in their distribution charges. Therefore, as part of this crediting process, the distribution charges of the ultimate rate classes will also change (decrease) annually.

Finally, the demand charges for rates G-02, G-32 and G-62 are reduced in 2006 to reflect the increased billing demand units associated with an increase in the kVA billing threshold from 80% to 90%.

Prepared by or under the supervision of: Jeanne A. Lloyd

¹ Due to the process of truncating distribution charges as part of the rate design, in some cases the increase in the charges in the final year of the phase-in period are slightly different than in the early years.

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Commission Data Request 1-19

Request:

Referring to Exhibit 8, page 1 of 11, what is the rationale for not using actual numbers to determine the shared earnings as anticipated in the 2000 Settlement?

Response:

Under the Settlement, actual earnings through 2004 will be used to determine the ultimate amount of the Customer Credit. In arriving at the preliminary Customer Credit value, actual amounts for the years 2000 through 2003 were used and amounts for calendar year 2004 were estimated. As indicated in Footnote 10 on Page 18 of the Settlement, estimated amounts for 2004 are to be reconciled at the time of the Company's 2004 year end earnings report, due May 1, 2005, with the reconciled amounts to be included in the Company's first annual reconciliation filing occurring after the expiration of the Customer Credit.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-20

Request:

Will there be a true-up in May 2005 to base shared earnings on actual numbers? When will the effect of the true-up appear in rates?

Response:

Yes. See response to Commission Data Request 1-19.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-21

Request:

Is there any possibility that the estimated shared earnings could be higher than the actual amount to ratepayers? Will there be any interest applied to any amounts owed to or due from ratepayers as a result of the shared savings being based in part on estimates?

Response:

The estimated net shared earnings to be refunded to customers of \$22.8 million could be more or less than the actual amount once calendar year 2004 actual data is included. Because no interest is accrued on the Customer Credit amount, and because the true-up of this amount is intended to be returned or charged to customers in the Company's immediately subsequent annual reconciliation filing, no return is included on the true-up amount, whether positive or negative.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-22

Request:

What is the procedure for Providence and/or East Providence to seek their share of the estimated shared earnings for the period 2000 through December 31, 2004 under the Proposed Settlement only.

Response:

The Settlement does not describe any particular procedure for how the cities of Providence and/or East Providence could exercise their option under the Settlement to waive the implementation of the Customer Credits in those communities in order to fund the undergrounding of the E-183 transmission line. However, under G.L. 42-98-1.1, as amended by H 8673, the cities of Providence and East Providence are provided with the authority to apply their shares of the customer credit to the undergrounding of the E-183 line following a resolution of their City Councils.

Prepared by or under the supervision of: Legal Department

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Commission Data Request 1-23

Request:

What is the basis for the calculation of how the shared savings are returned to ratepayers (i.e., the 50% based on kWh deliveries/50% based on the normalized distribution service revenues of each class in the rate year)?

Response:

The allocation of the Customer Credit and the rate reduction was one of the key issues among the Parties to the Settlement, and represents a compromise of their positions. Both are done on the same basis—50% on kilowatt-hour deliveries and 50% on the normalized revenue from each rate class. Representatives of each rate class could reasonably justify allocations that produced more favorable results to their respective classes, and thus all parties compromised to the result in the Settlement.

The compromise reached by the Parties is reasonable, given that, as shown on Exhibit 1 to the Settlement, roughly fifty-percent of the rate decrease is associated with the growth in kilowatt-hour deliveries, which is appropriately returned through an allocation to kilowatt-hour deliveries, and fifty percent is associated with earned savings, which is related to the revenue requirements in each rate class. Although the analysis in Exhibit 1 relates to the base rate decrease, the same allocation formula was applied to both the base rate decrease and the Customer Credit. Both phenomena—delivery growth and savings in the cost of service—were also responsible for the generation of the Customer Credit.

Prepared by or under the supervision of: Carlos A. Gavilondo

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Commission Data Request 1-24

Request:

What happens if the actual levels of shared savings are lower than what is estimated?

Response:

See response to Commission Data Request 1-19.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-25

Request:

Referring to R.I.G.L. § 42-98-1.1(a), what happens if, after the City Council(s) pass a resolution and a petition is filed, residents of the Cities request through public comment that the Commission allow them to be credited their share of the earnings?

Response:

The procedure under G.L. s. 42-98-1.1(a) would control the use of the funds. The Company is not aware of any basis for the Commission to grant the hypothetical request by the residents while also comporting with the statute. Accordingly, the Commission should deny the request of the residents.

Prepared by or under the supervision of: Legal Department

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Commission Data Request 1-26

Request:

What type of notice is required by the Cities of Providence and East Providence to their residents before the Cities can waive the shared earnings?

Request:

G.L. s. 42-98-1.1 requires the action by the City Council by passage of a resolution. The resolution would have to be appropriately noticed under the laws and regulations governing actions and resolution by the City Council of each community. The legal requirements for notice by the cities will be determined by the counsel for the cities, and Narragansett expresses no opinions on the specific notice requirements.

Prepared by or under the supervision of: Legal Department

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Commission Data Request 1-27

Request:

If one City chooses not to waive its portion of the shared earnings, will undergrounding of the E-183 line occur?

Response:

Section 7(C)(1) of the Settlement contemplates that both cities will choose to apply the credits to the undergrounding of the E-183 line. However, failure of one city to implement the option will not preclude the undergrounding of the E-183 line. The Settlement provides that the undergrounding can go forward if "Narragansett receives funding for the undergrounding from alternative sources," in which case Narragansett will notify the Cities and shall implement that portion of the Customer Credits not otherwise used to fund the undergrounding project for Narragansett's customers in those communities. Under G.L. s. 42-98-1.1(a), the action of both cities is not required, and conceivably one city may go forward with the option, but the other may not. In that event, the undergrounding could still go forward, if adequate funding was secured from other sources and the other conditions of the E-183 Settlement were met.

Prepared by or under the supervision of: Legal Department

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Commission Data Request 1-28

Request:

How will the Company show the rate differential on the ratepayers' bills in the event the Cities of Providence and East Providence waive their portion of the shared earnings?

Response:

The Company intends to reflect the Customer Credit as a separate line item on bills, appearing in the retail delivery section. In the event that the cities of Providence and East Providence forgo their portion of the shared earnings, the separate line item will not appear on bills of customers in those communities.

Prepared by or under the supervision of: Jeanne A. Lloyd

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Commission Data Request 1-29

Request:

Which party in this docket will be responsible for explaining to the Providence and East Providence ratepayers why they are paying more for their distribution rates than their neighbors in surrounding cities?

Response:

In addition to any communication or notification that might be provided by local or state government agencies or officials, or the media, Narragansett will notify customers in the affected communities about the application of Customer Credit funds to the E-183 project, and will respond to customer questions concerning rate impacts through its customer inquiry center.

Prepared by or under the supervision of: Carlos A. Gabilondo

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Commission Data Request 1-30

Request:

The Settlement approved by the EFSB in Docket SB-2003-1 states that in the event the funding provided to underground the E-183 line proves to be insufficient to fully pay the costs for the project, each donor will subsequently be billed for his/her/its pro rata share of the cost overruns, an amount to be paid within thirty (30) days of the issuance of a bill from Narragansett Electric. If such an event occurs, will the Cities of Providence and East Providence and the Storm Fund be billed for overruns?

Response:

The issues associated with the risk of shortfalls and reconciliation of estimated funding levels to actual expenditures will be addressed in a separate agreement among the parties to the funding and Narragansett. At that time, the issue discussed in this question will be addressed and resolved in a way that does not put Narragansett's other customers at risk for additional intra-state charges for the project.

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Commission Data Request 1-31

Request:

Please explain the effect of footnote 7 of the Proposed Settlement on the Company's earnings for 2004 and on the shared earnings allocation between the Company and customers. Please indicate how the provisions of this footnote will be reflected in the 2004 through 2009 earnings reports.

Response:

Footnote 7 maintains the shared earnings calculation through the original Rate Freeze period, or December 31, 2004, as provided for in the Current Settlement. That calculation, which provides for a 150 basis point incentive on Return on Equity in lieu of a Company share of merger savings, continues in effect through December 31, 2004. The only effect of the new Settlement on this calculation is to decrease revenues, if the Settlement becomes effective during calendar year 2004 and the \$10.2 million rate decrease is implemented before December 31, 2004. The Customer Credit, which is returned to customers in the 12-month period following the effective date of the Settlement, reflects the current estimate of customers' shared earnings through December 31, 2004.

For the period January 1, 2005 through the remainder of the Settlement period (i.e., through 2009), earnings calculations will include an allowance for the Company's share of merger savings of \$4.645 million and earnings above 10.5% will be shared with customers.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-32

Request:

Parts 7(A) and 7(B) state in part: "For purposes of these earnings reports, results will be adjusted to reflect established Commission ratemaking principles, and the items reflected in the prior paragraph. However, there will be no adjustments to actual results to recognize or annualize known and measurable changes." Please explain the "established Commission ratemaking principles" for each of the respective periods and how they impact earnings.

Response:

"Established Commission ratemaking principles" are intended to represent principles that have been articulated and applied by the Commission in prior rate cases. For example, the Commission has an established procedure for the calculation of bad debt expense that varies from the calculation normally completed for accounting purposes. Other examples include the exclusion of general advertising expenses and membership dues and the inclusion of interest on customer deposits and donations as operating expenses. Application of these methodologies would constitute "established Commission ratemaking principles." Other principles will depend on the facts presented during the case. The application of these established rate-making principles to earnings will depend on the facts and circumstances at the time. They can either increase the Company's expenses (reducing its earnings) or have the opposite effect.

Prepared by or under the supervision of: Legal Department

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Commission Data Request 1-33

Request:

How will earnings be credited after the Rate Freeze period ending December 31, 2009?

Response:

Section 7(C)(2) of the Settlement provides that the customers' share of the earnings shall be credited to customers "in a manner approved by the Commission." No specific methodology is set forth. The Settlement also makes clear that Narragansett has the option to propose implementation of a credit (or credits) during the Rate Freeze Period that would return a portion of the shared earnings to customers during that period. The method used to credit customers any portion of shared earnings during the Rate Freeze Period would also be subject to approval of the Commission.

Prepared by or under the supervision of: Carlos A. Gavilondo

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Commission Data Request 1-34

Request:

When is the annual report required under Part 8(C), due each year?

Response:

No due date was established for filing the annual report required under Part 8(C). The Company last filed an Environmental Response Fund annual report, which covered the period of January 1, 2002 through March 31, 2003, on September 18, 2003. In that submission, the Company had noted its intention to file annual reports that covered the Company's fiscal years ending March 31st rather than calendar years in order to better align with the Company's accounting cycle. The annual report covering the period April 1, 2003 through March 31, 2004 was being reviewed as these Data Requests were issued and is being provided with the response to Commission Data Request 1- 49.

Prepared by or under the supervision of: Joseph Kwasnik

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Commission Data Request 1-35

Request:

Why are ratepayers responsible for 100% of the costs of the 2003 VERO?

Response:

The purpose of the VERO was to reduce on-going payroll and other operating costs in the future. Accordingly, it is appropriate that the VERO costs, which were incurred to achieve these ongoing savings be amortized over a ten-year period and recovered in rates. Whether Narragansett actually recovers the amortization of the VERO during the Fixed Rate Period will depend on Narragansett's earnings over that period. Narragansett also is amortizing these costs over ten years without a return. This represents an economic sharing of the VERO expense, in that the net present value of the amortized ten-year recovery is much less than current recovery of that amount. Assuming the Company's settled cost of capital, amortizing an amount over ten years without a return produces an economic value of approximately 65 percent of the amount being amortized. It also should be pointed out that under the Settlement, Narragansett explicitly committed to continue its long-standing practice of funding its pension plan at the maximum tax-deductible amount each year.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-36

Request:

Will the 2003 VERO expenses amortized over ten years be part of the rate base or accrue carrying costs?

Response:

No. The Settlement does not include a return on the unamortized VERO charges. See the response to Data Request 1-35.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-37

Request:

What is the estimated net savings to ratepayers from 2004 through 2014 as a result of the 2003 VERO? Please provide a schedule showing the savings for each year.

Response:

Attached please find a schedule estimating the annual payroll and benefits savings only resulting from the 2003 VERO. The estimate is based on the remaining service life of employees accepting the VERO to age 62, the earliest age at which they could retire with full pension benefits. The remaining service life of VERO acceptees included in the analysis is as of April 1, 2004. As noted in the response to Commission Post Hearing Data Request 6-3 in Docket 2930, the 2003 VERO was conducted in concert with the renegotiation of the Company's field force union contracts. Thus, in addition to any estimated salary and benefit expense savings that may result from the VERO, the new contracts afford Narragansett increased flexibility to employ contractor services than it had in the past, and provide greater work practice flexibility than under prior contracts. At this time, the Company has not quantified the incremental cost savings of this added contractor and work practice flexibility.

Prepared by or under the supervision of: Michael D. Laflamme

Narragansett Electric Company
Estimated Annual Labor and Benefits Savings
2003 VERO

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	<u>Narragansett Direct</u>	<u>Allocated Service Company</u>	<u>Total Narragansett</u>
Gross Labor Savings per Year	(a) 6,240	14,976	
Labor Backfill Expense	(a) (1,597)	(9,447)	
Net Labor Savings	4,643	5,529	
SC amount charged to Narragansett	(b) n/a	12.92%	
	4,643	714	5,357
Benefits Adder - 40%	(a) 1,857	286	2,143
Estimated Annual Labor and Benefit savings	6,500	1,000	7,500
Average Remaining Services years to age 62	(c) 3.7	4.1	
Total Estimated Labor and Benefits Savings	24,051	4,100	28,152
	<u>4/1 - 12/31/04</u>	<u>2005</u>	<u>2006</u>
			<u>2007</u>
			<u>Total</u>
Average Remaining Service Months - Narra Employees	44	6,500	6,500
Average Remaining Service Months - SC Employees	49	1,000	1,000
	5,625	7,500	7,500
			6,175
			1,000
			350
			350
			24,051
			4,100
			28,152

- (a) From Response to Commission Post-Hearing Data Request 6-3
- (b) Actual Percentage of Service Company Payroll Charged to Narragansett for Calendar Year 2003
- (c) As of April 1, 2004, the Average Remaining Service Life of VERO Acceptees to Age 62, the earliest age at which they could retire with full Benefits.

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Commission Data Request 1-38

Request:

How many positions have been filled or are estimated to be filled through 2009 that were vacated due to the 2003 VERO?

Response:

A combined total of 154 positions for Narragansett Electric and National Grid USA Service Company that have been or will be vacated due to the 2003 VERO have either already been filled or are estimated to be filled by 2009. This is the Company's best estimate at this time and the Company will continue to review its operations and these estimates may change as our understanding of our future business needs evolve.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-39

Request:

How many positions have been eliminated as a result of the 2003 VERO and for each position, what was the last date of employment?

Response:

Of the 327 employees from Narragansett Electric and National Grid USA Service Company who accepted the 2003 VERO, a combined total of 173 positions have been eliminated and are not expected to be replaced and 154 positions are expected to be backfilled as indicated in the response to Commission Data Request 1-38. To date, 122 eliminated positions have been vacated and the last date of employment for these positions is provided in summary below. A total of 51 eliminated positions have not yet been vacated.

<u>Last Employment Date</u>	<u>Positions</u>
November 30, 2003	24
December 31, 2003	2
January 31, 2004	61
February 29, 2004	6
March 31, 2004	2
April 30, 2004	6
May 31, 2004	12
June 30, 2004	8
July 31, 2004	1
Total	122

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-40

Request:

Referring to Docket No. 2930, please provide a copy of the May 14, 2004 data response that updates the February 23, 2004 'pension expense handout' stating that the VERO cost for 2003 is \$18.75 million.

Response:

Attached please find a copy of Commission Data Request 3-10 in Docket 2930, which was originally filed on March 26, 2004 and revised on May 14, 2004. The \$18.75 million referred to in that Data Request represents only the pension related amount of the 2003 VERO charge. The total 2003 VERO charge of \$25.12 million also includes \$6.37 million of post-retirement benefits other than pensions (FAS106).

Prepared by or under the supervision of: Michael D. Laflamme

Expense and Contribution History

(Commission Data Request 3-10, Filed March 26, 2004; Revised May 14, 2004)

- Narragansett expense and contribution levels, 1999 through 2003

Calendar Year	Narragansett FAS 87 Expense/(Income)	Narragansett Contribution Made	Total Contribution Made
1999-Benchmark Year ¹	\$ (133,000)	\$ 8,853,000	\$ 54,910,000
2000 ¹	\$ (7,805,000)	\$ 0 ²	\$ 0 ²
2001	\$ (7,157,000)	\$ 0 ²	\$ 0 ²
2002	\$ (6,612,000) ³	\$ 0 ²	\$ 0 ²
2003 est.	\$ 18,956,000 ⁴	\$ 5,285,000	\$ 35,000,000

¹ Includes pre-merger income associated with Blackstone Valley Electric and Newport Electric.

² Tax deductible contribution not allowed due to IRS limits.

³ Does not reflect Niagara Mohawk merger-related VERO expense of \$2.1 million recorded by Narragansett in 2002.

⁴ Includes \$18.75 million one-time VERO charges.

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Commission Data Request 1-41

Request:

With regard to the Proposed Settlement agreement that the 2003 VERO expenses will be amortized over ten years, is there an additional 2004 VERO amount that will be recovered or amortized?

Response:

The Company is proposing to defer and amortize only the 2003 VERO charge in the proposed Settlement. The Company has no current plans of offering an additional VERO in 2004.

Prepared by or under the supervision of: Michael D. Laflamme

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Commission Data Request 1-42

Request:

What is appropriate minimum and maximum balance to maintain in the Storm Fund?

Response:

The Storm Contingency Fund ("Storm Fund") is intended to provide a means of funding extraordinary storm-related expenses in a manner consistent with rate stability, and without the need for periodic rate surcharges to recover such costs. In the past, Rhode Island distribution companies did have caps on Storm Fund levels. *See, e.g.,* Order No. 15360 (Aug. 19, 1997) in Docket No. 2509 (noting previous Storm Fund caps for Narragansett and the former Newport Electric Corporation). However, there currently is no required minimum or maximum balance for Narragansett's Storm Fund.

Based on the intent of the Storm Fund, an appropriate balance to maintain in the Storm Fund would be an amount that would enable the Company to pay the incremental non-capital costs of extraordinary storm events without incurring a significant deficit balance (interest accrues on Storm Fund balances, both positive and negative, at a rate equal to the 10-year constant maturity Treasury Bonds as reported by the Federal Reserve Board). Because of the unpredictable nature of extraordinary storm events, it is not possible to establish a Storm Fund balance that would assure achieving this intent. However, a reasonable range for the balance of the Storm Fund can be estimated by examining previous Storm Fund activity.

Since it was implemented in 1982, Narragansett's Storm Fund balance has ranged from a low of (\$5.638 million) (deficit balance) at year-end 1992 (prior to the merger with Blackstone Valley Electric Company and Newport Electric Corporation), to a high of approximately \$13.4 million at year-end 2003. (See the Attachment to this response). During this period, the Storm Fund has recorded thirteen years of surplus balances and eight years of deficit balances. As reflected in the Attachment, the Storm Fund is funded through annual deposits, which reflect the level of Storm Fund recovery in rates, and through occasional "adjustments" that may not necessarily have originated from base rate recoveries. The current level of Storm Fund recovery in base rates is \$1,041,000 annually. As for past Storm Fund adjustments, these include a \$2.5 million Storm Fund deficit write-off by Narragansett in 1988 and a net \$6.3 million transfer into the fund from a DSM surplus in 1996-97. Recently, the Storm Fund has reflected annual upward adjustments related to pole attachment fee revenues. Finally, as mentioned above, interest accrues on the balance in the Storm Fund, whether positive or negative. As the Commission noted in its Report and Order in Docket No. 2509, the use of "available funding sources outside of base rate revenues allocated to [Storm Funds] . . . has remedied the significant deficits in [Storm Funds] for Narragansett and Newport, and provided both companies a positive reserve balance for storm restoration costs without affecting current rates." Order No. 15360, Docket No. 2509 (August 19, 1997).

The maximum charges against the Storm Fund for any single event relate to Hurricane Bob in 1991. For Narragansett, incremental O&M costs related to Hurricane Bob totaled approximately

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\$7.7 million (net of the Storm Fund deductible) and for Newport Electric totaled approximately \$1.4 million.. Adjusted for inflation to 2004 (based on the GDP Chain-type price index), these incremental O&M costs attributable to Hurricane Bob would be approximately \$11.4 million. Applying the Consumer Price Index, U.S. Urban Average, which is the escalation method applied annually to adjust the Storm Fund threshold, would result in the costs of Hurricane Bob being \$12.5 million in 2004 dollars. Hurricane Bob was a Category II storm when it hit Rhode Island. It has been over ten years since Rhode Island has experienced a direct hit from a hurricane. It is not unreasonable to believe that a potential future hurricane that hits Rhode Island could be more severe than Hurricane Bob. Further, the effect of multiple severe storms in a single year or successive years (whether or not they are hurricanes) also could place a substantial demand on the Storm Fund. Based on these considerations, and the objectives of the Storm Fund, it would appear that the current rate of funding and the current balance in the Storm Fund are reasonable.

Prepared by or under the supervision of: Carlos A. Gavilondo

Narragansett Electric
Storm Fund Activity
1982 - 2003

Year	Beginning Balance	Deposits	Interest	Storm Charges	Adjustments	Ending Balance
1982		250,000	7,287			257,287
1983	257,287	400,000	74,978			732,265
1984	732,265	400,000	94,468			1,226,733
1985	1,226,733	400,000	79,900	(2,941,541) (1)		(1,234,908)
1986	(1,234,908)	400,000	(187,500)	(1,890,153) (2)		(2,912,561)
1987	(2,912,561)	400,000	(179,535)			(2,692,096)
1988	(2,692,096)	400,000	(182,982)		2,475,078 (1)	0
1989	0	400,000	14,268			414,268
1990	414,268	631,020	52,426			1,097,714
1991	1,097,714	641,100	10,013	(6,508,608) (3)		(4,759,781)
1992	(4,759,781)	641,100	(191,292)	(1,328,398) (4)		(5,638,371)
1993	(5,638,371)	641,100	(157,420)	33,635 (5)		(5,121,056)
1994	(5,121,056)	641,100	(152,527)	1,110,200 (6)		(3,522,283)
1995	(3,522,283)	641,100	(209,068)	(585,787) (7)		(3,676,038)
1996	(3,676,038)	641,100	(173,291)	(221,399) (8)	8,120,000 (2)	4,690,372
1997	4,690,372	641,100	194,227	(419,090) (9)	(1,520,442) (3)	3,586,167
1998	3,586,167	641,100	249,330			4,476,597
1999	4,476,597	641,100	259,900	(361,661) (10)		5,015,936
2000	5,015,936	907,600	389,106	(10,981) (11)	1,759,533 (4)	8,061,194
2001	8,061,194	1,041,000	496,475		206,668 (5)	9,805,337
2002	9,805,337	1,041,000	536,409		244,978 (5)	11,627,724
2003	11,627,724	1,041,000	557,565		186,673 (5)	13,412,962

Data 2000-2003 reflects the merged entity comprised of the former legacy companies of Narragansett Electric, Blackstone Valley Electric and Newport Electric. Prior to 2000, the data reflects only the pre-merger Narragansett Electric.

Storm Charges Notes

- (1) Hurricane Gloria charges: October - December 1985
- (2) Hurricane Gloria charges: January - August 1986
- (3) Hurricane Bob charges: August - December 1991
- (4) Hurricane Bob charges totaling \$1,227,779 from January - April 1992 and charges of \$100,619 for the December 1992 storm.
- (5) December 1992 storm charges totaling \$127,496 (January - March 1993); March 1993 storm charges totaling \$58,112 (March - June 1993) and insurance recovery from Hurricane Bob resulting in a credit of \$219,242 in November
- (6) Hurricane Bob insurance recovery resulting in a credit of \$1,110,200 in February 1994.
- (7) December 1994 storm charges recorded on March 1995
- (8) Reflects charges from 4 storms in 1996 all recorded in the month of November as follows: February 1996 storm in the amount of \$19,864, March 1996 storm in the amount of \$34,937, July 1996 storm in the amount of \$107,559 and a September 1996 storm in the amount of \$59,039.
- (9) Reflects charges of \$100,000 from a December 1996 storm recorded in March 1997 as well as charges of \$150,000 from a March 1997 storm and \$169,090 from an April 1997 storm, both recorded in June.
- (10) Hurricane Floyd charges recorded through December of 1999.
- (11) Final reconciliation of Hurricane Floyd charges.

Adjustment Notes

- (1) Accumulated deficit as of Dec 31, 1988 write-off to expense as a result of a 1989 settlement.
- (2) Reflects a credit of \$120,000 from the proceeds of a Fiber Optic lease agreement and an \$8 million transfer from DSM as a result of a December 30, 1996 Commission open meeting decision.
- (3) Reflects net result of (\$1,719,062) adjustment to original DSM transfer as a result of the Commission's January 30, 1997 open meeting decision, and additional Fiber Optic proceeds of \$198,620.
- (4) Transfer of Blackstone Valley and Newport Electric's funds as a result of the merger
- (5) Excess attachment fee revenues.

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Commission Data Request 1-43

Request:

How can any "customer benefit account" be protected from being used for purposes not associated with the purpose for which the account was created?

Response:

In general, Narragansett's "customer benefit accounts," such as the Storm Fund and the environmental response fund, can be applied to other purposes only with the permission of the Commission. As a result, the Commission has the discretion to weigh the resources available for the designated purpose of the fund against the other uses to which the funds might be applied. The Commission then has the discretion to act reasonably based on the record in the case. This flexibility is appropriate and reasonable. For example, the Commission has exercised its discretion at the request of the parties to add funds to the customer benefit accounts to assure adequate resources to meet the needs of the funds, as in the case of the municipal tax settlement approved in Docket 2930 which added to the environmental response fund. However, the Commission has not withdrawn resources from the funds to apply the funds to other purposes.

The only other way that fund balances can be modified is through the action of the legislature. In the case of G.L. s. 42-98-1.1(b), the legislature exercised its prerogative to allow the deployment of a limited portion of the Storm Fund for an alternative purpose. It is the Company's belief that this is the only time the legislature has taken any action to affect the level of funds in customer benefit accounts.

Prepared by or under the supervision of: Legal Department

THE NARRAGANSETT ELECTRIC COMPANY
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Response to Commission's First Set of Data Requests

Commission Data Request 1-44

Request:

Given the fact that the General Assembly has recently required the use of the Storm Fund for non-storm related purposes after the Commission denied the use of the account to the Navy, should the Commission:

- a) eliminate the account altogether;
- b) reduce the account to cover costs from a storm that currently meets the parameters for which Narragansett may expend funds from the account, but which would not be considered overfunded, for example, to \$2 million;
- c) cease funding the account until it is depleted by storm related expenses;
- d) return to allowing a storm factor to be put into place to cover major storm related costs
- e) Please provide rationale to any yes or no answer to a-d

Response:

- a) No. The Storm Fund provides the resources for storm restoration in a manner that produces stable rates for customers and maintains the financial integrity of the Company. See the response to Commission Data Request 1-42.
- b) Narragansett does not recommend that the Commission reduce the Storm Fund balance to \$2 million. See the response to Commission Data Request 1-42, which provides Narragansett's assessment of the appropriate level of resources in the Storm Fund.
- c) Narragansett does not recommend to cease funding the Storm Fund until the account is depleted by storm related expenses. However, in the event the storm fund continues to build over the fixed rate period in the proposed Settlement, it may be appropriate to consider reducing or suspending funding temporarily.
- d) As the Commission noted in Order No. 15360 (August 19, 1997) in Docket No. 2509, the objective of a Storm Fund is to provide a means for utilities to recover extraordinary storm restoration costs without the need for a surcharge or filing for periodic rate relief, thereby preserving customer rate stability. The Storm Fund is preferable to a factor approach. The fund has worked well in Rhode Island and the other states in which National Grid has implemented a similar arrangement.
- (f) See (a)–(d), above.

Prepared by or under the supervision of: Carlos A. Gavilondo

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Commission Data Request 1-45

Request:

What is the rationale for accruing the attachment fee revenues into the Storm Fund rather than returning the funds annually to ratepayers.

Response:

The attachment fee revenue provision of the Settlement is a continuation of the Current Settlement. Under the provision, all attachment fee revenue up to \$850,000 per year, plus 50% of all amounts over \$850,000, is included as revenue that is to be reflected in earnings that are subject to sharing. These attachment fee revenues, which are charged to third-parties, are considered "other operating revenue," and serve to reduce the costs to be recovered from customer for distribution service. The remaining 50% of all attachment fee amounts over \$850,000 are credited to the Storm Fund, also for the benefit of customers. The crediting of this portion of attachment fee revenue to the Storm Fund is consistent with the Commission's past practice of "look[ing] to available funding sources outside of base rate revenues," which supports the funding of the Storm Fund "without affecting current rates." See Order 15360 (August 19, 1997) in Docket No. 2509, at p. 11.

Prepared by or under the supervision of: Jeanne A. Lloyd

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Commission Data Request 1-46

Request:

What is the Storm Fund threshold for each year 2004 through 2009?

Response:

The Storm Fund threshold changes each year based on the annual percentage change in the Consumer Price Index. Assuming the same percentage change in CPI as was experienced during the period June 2003 through June 2004 of 3.3%, the thresholds for the years 2004 through 2009 would be as follows:

2004	\$659,000
2005	\$681,000
2006	\$703,000
2007	\$726,000
2008	\$750,000
2009	\$775,000

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
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Response to Commission's First Set of Data Requests

Commission Data Request 1-47

Request:

Assume there were no Storm Fund, but the threshold and deductible remain in place. Assume further that a hurricane or blizzard hits in 2004 and causes damage in the amount of \$14,263,000. Using kWh sales for the period July 1, 2003 through June 30, 2004, for purposes of the calculation, what per kWh surcharge would the Company seek to impose to recover expenses related to the storm and over what period of time?

Response:

Under the hypothetical situation posed above, if a severe storm occurred during 2004 and caused the Company to incur \$14,263,000 in damages, the Company had no Storm Fund available for recovery of the damages, and was not otherwise precluded from seeking recovery due to a rate freeze or other similar constraint, the Company would seek to recover \$13,604,000 (total damages less the 2004 deductible of \$659,000).

Considering the magnitude of the damages hypothesized above, it is reasonable to assume that the Company could seek to recover this amount over one or more years. This response assumes that the Company would be seeking recovery of these damages outside of a general rate case. Using the kWh deliveries for the period July 1, 2003 through June 30, 2004 of 7,800,085,617 kWh, and assuming no application of interest, the surcharges for the indicated recovery periods are as follows:

12-month recovery—0.174¢ per kWh
24-month recovery—0.087¢ per kWh
36-month recovery—0.058¢ per kWh
48-month recovery—0.043¢ per kWh
60-month recovery—0.034¢ per kWh

Prepared by or under the supervision of: Jeanne A. Lloyd

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
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Response to Commission's First Set of Data Requests

Commission Data Request 1-48

Request:

Regarding Narragansett's sister companies in Massachusetts & New Hampshire:

- (a) What is the relative size of these companies as compared to Narragansett?
- (b) Do each of these companies have storm funds or a storm factor that is put in place after a major storm?
- (c) For any company that has a storm fund, how is it funded and what is the current balance?

Response:

(a) Based on total assets at December 31, 2003, the following represents the relative size of Narragansett's sister companies, Massachusetts Electric Company ("Mass. Electric") in Massachusetts and Granite State Electric Company ("Granite State") in New Hampshire:

	<u>Total Assets</u> (\$ in Millions)	<u>Relative</u> <u>Percentage</u>
Narragansett	\$1,514.9	100%
Mass. Electric	\$3,087.9	204%
Granite State	\$ 97.1	6%

(Source: FERC Form 1 for the year ended December 31, 2003)

(b) Mass. Electric has a storm fund which operates in a similar fashion as the Narragansett Storm Fund. Granite State does not have a storm fund.

(c) The Mass. Electric storm fund is funded with annual base rate recoveries of \$4,300,000. The Mass. Electric storm fund balance at June 30, 2004 was \$14,556,227.

Prepared by or under the supervision of: Michael D. Laflamme

THE NARRAGANSETT ELECTRIC COMPANY
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Response to Commission's First Set of Data Requests

Commission Data Request 1-49

Request:

Provide an updated Environmental Response Fund (ERF) Report, including updated projected completion costs and dates for each Environmental Response Site.

Response:

Attached is the annual Environmental Response Fund Report for the period April 1, 2003 through March 31, 2004. A formal filing of this report will be made under separate cover. Also attached is a listing of preliminary estimated completion costs for each of the sites included in the report.

Prepared by or under the supervision of: Joseph Kwasnik

Narragansett Electric Company
 Environmental Response Fund Sites
 Estimated Costs to Complete
 (\$ in millions)

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<u>SITE</u>	<u>Estimated Cost to Completion</u>	<u>Estimated Year of Completion</u>	
Washington St, Bristol	\$0.3	2008	
Thames St, Bristol	3.2	2009	
Canal St, Westerly	3.7	2013	
Industrial Dr, Westerly	1.6	2008	(b)
Main St, Warren	4.6	2007	(b)
Tidewater, Pawtucket	13.0	2013	
Hamlet Ave, Woonsocket	10.9	2013	
Cumberland (PWSB)	0.5	2005	
Lawn Street Attleboro	Project Complete		
Mendon Rd	Project Complete	(a)	
High St, Central Falls	6.5	2009	(b)
Exchange St, Pawtucket	0.4	2010	(b)
Pond St, Woonsocket	<u>1.0</u>	2011	(b)
Total	<u>\$45.7</u>		

(a) \$5.9 million escrowed pending dispute with the Commonwealth of Massachusetts

(b) Date listed is the year the site will be evaluated and, if necessary, investigated. If environmental response actions are required, completion date will change

"Estimated Year of Completion" dates are contingent upon Regulatory approval of project completion and numerous phases of work prior to request for project closure

The amounts listed for the cost to completion are the reserves the Company has recorded for each of the sites. The reserves were based on either past experience at MGP and other sites, or a report prepared by a consultant evaluating the possible contamination scenarios and the size/location of the site. For the sites that have the "b" note, the Company has not performed any investigations on these sites and the cost differences for these sites reflects the differences between an actual MGP site (e.g., Central Falls and Warren) and remote holders (i.e., a location that did not generate the gas and only stored it in large tanks above ground). The MGP sites have a near certain likelihood of requiring some level of environmental response action in the future, while the remote holders may or may not require additional work and if they do, it is rarely as expensive as a full scale MGP site.

**THE NARRAGANSETT
ELECTRIC COMPANY**

**ENVIRONMENTAL RESPONSE
COST REPORT
FOR THE PERIOD
APRIL 1, 2003 THROUGH
MARCH 31, 2004**

Docket No. 2930

Submitted to:

**Rhode Island Public Utilities
Commission**

Submitted by:

Narragansett Electric

A National Grid Company



EXECUTIVE SUMMARY

In accordance with Paragraph 12.(C) of the Third Amended Stipulation and Settlement dated March 14, 2000 and approved in Docket 2930 (the "Settlement"), The Narragansett Electric Company ("Narragansett" or "Company") hereby submits its Report of Environmental Response Costs for the period April 1, 2003 through March 31, 2004.

This report is organized in general accordance with the information requirements specified in the Settlement. Section I presents a monthly summary of contributions to the fund and payments from the fund to determine the fund balance for the period April 1, 2003 through March 31, 2004, including interest at the customer deposit rate.

Section II presents a summary of payments by expense type. Subsections IIa through IIo provide a breakdown of payments for each manufactured gas plant ("MGP") site listed in Exhibit 9 of the Settlement. Section III provides additional detail of consultant and contractor costs. Backup data for each MGP site such as invoices, purchase orders and requests for checks are available for review upon request.

RHODE ISLAND PUBLIC UTILITIES COMMISSION
ENVIRONMENTAL RESPONSE COST REPORT
APRIL 1, 2003 THROUGH MARCH 31, 2004

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SECTION I

THE NARRAGANSETT ELECTRIC COMPANY

ENVIRONMENTAL RESPONSE COSTS

APRIL 1, 2003 THROUGH MARCH 31, 2004

ENVIRONMENTAL RESPONSE FUND AND RELATED INTEREST CALCULATION

The Narragansett Electric Company
Environmental Response Fund and Related Interest Calculation

04/01/2003 to 03/31/2004

<u>Period</u>	<u>Beginning Balance</u>	<u>Contributions (1)</u>	<u>Payments</u>	<u>Ending Balance</u>	<u>Interest Base (2)</u>	<u>Interest Rate (3)</u>	<u>Interest</u>	<u>Fund Balance</u>
April 2003	\$2,121,339	\$2,101,451	\$55,748	\$4,167,042	\$3,144,191	4.61%	\$12,079	\$4,167,042
May 2003	\$4,167,042	\$256,500	\$168,900	\$4,254,642	\$4,210,842	4.61%	\$16,177	\$4,254,642
June 2003	\$4,254,642	\$256,500	\$65,100	\$4,446,042	\$4,350,342	4.61%	\$16,713	\$4,446,042
July 2003	\$4,446,042	(\$797,058)	\$55,685	\$3,593,299	\$4,019,671	4.61%	\$15,442	\$3,593,299
August 2003	\$3,593,299	\$256,500	\$44,446	\$3,805,353	\$3,699,326	4.61%	\$14,212	\$3,805,353
September 2003	\$3,805,353	\$256,500	\$61,796	\$4,000,057	\$3,902,705	4.61%	\$14,993	\$4,000,057
October 2003	\$4,000,057	\$256,500	\$186,756	\$4,069,801	\$4,034,929	4.61%	\$15,501	\$4,069,801
November 2003	\$4,069,801	\$410,358	\$38,837	\$4,441,322	\$4,255,562	4.61%	\$16,348	\$4,441,322
December 2003	\$4,441,322	\$277,869	\$311,372	\$4,407,820	\$4,424,571	4.61%	\$16,998	\$4,407,820
January 2004	\$4,407,820	\$645,270	\$70,919	\$4,982,170	\$4,694,995	4.61%	\$18,037	\$4,982,170
February 2004	\$4,982,170	\$256,500	\$41,040	\$5,197,630	\$5,089,900	4.61%	\$19,554	\$5,197,630
March 2004	\$5,197,630	\$256,500	\$378,304	\$5,075,826	\$5,136,728	4.61%	\$19,734	\$5,075,826
		<u>\$4,433,390</u>	<u>\$1,478,903</u>				<u>\$195,788</u>	<u>\$5,271,614</u>
					Fund balance plus current year interest			
					Booked April-June 2003		\$33,000	
					Booked July-September 2003		\$33,000	
					Booked October-December 2003		\$87,485	
					Booked January-March 2004		\$33,569	
					YTD Booked		\$187,054	
					Reduction to Accrual To Be Booked		\$8,734	

(1) Reflects the annual contributions of \$3,078 million pursuant to Commission Order 17354, issued January 29, 2003, in Docket 2930. In April 2003, fourth and final check received from Travelers Insurance in the amount of \$1.8M pertaining to April 19, 2000 settlement was credited to the Environmental Response Cost Fund of which \$1,053,558 was incorrectly allocated to Narragansett and subsequently reversed in July 2003. Also in April 2003, payment in the amount of \$61,222 was received from CityGeneral for claims made against them under its Scheme of Arrangement. In November 2003, December 2003 and January 2004, checks for \$153,858, \$21,369 and \$388,770, respectively, were received from Andrew Weir Ins. Co. for claims made against them under its Scheme of Arrangement.

(2) Interest base reflects a simple average of the beginning and ending balances.

(3) The interest rate and associated interest calculation are based upon the methodology for calculating interest on customer deposits. Interest is compounded annually and is credited only in months with a positive fund balance.

SECTION II

THE NARRAGANSETT ELECTRIC COMPANY

ENVIRONMENTAL RESPONSE COSTS

APRIL 1, 2003 THROUGH MARCH 31, 2004

MGP SITE COST SUMMARY

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

SUMMARY OF COSTS FOR ALL SITES

	Payments During this Period	Payments to date
1 Consulting Costs	\$87,210	\$1,567,691
2 Construction/Disposal/Removal Costs	\$9,379	\$354,364
3 DEM/EPA Oversight Costs	\$3,088	\$3,088
4 Property Purchases/Settlements	\$0	\$0
5 Other Costs	\$98,867	\$159,022
6 Litigation/Legal Costs	\$1,280,361	\$3,756,425
EUA Balance Prior to NGRID/EUA Merger		\$2,817,674
Total	\$1,478,905	\$8,658,264

	Payments During this period	Payments to date
A. Washington Street, Bristol	\$7,642	\$463,711
B. Thames Street, Bristol	\$30,854	\$888,363
C. Main Street, Warren	\$643	\$22,030
D. Canal Street, Westerly	\$26,666	\$415,518
E. Industrial Drive, Westerly	\$0	\$0
F. Tidewater Street, Pawtucket	\$9,668	\$162,969
G. Exchange Street, Pawtucket	\$0	\$2,641
H. High Street, Central Falls	\$0	\$2,766
I. Hamlet Ave., Woonsocket	\$44,555	\$171,105
J. Pond Street, Woonsocket	\$0	\$2,641
K. Cumberland	\$1,842	\$22,836
L. Lawn Street, Attleboro, MA	\$0	\$1,642,909
M. Mendon Road, Attleboro, MA	\$0	\$670,893
N. Miscellaneous	\$76,674	\$106,623
O. Litigation/Legal Costs	\$1,280,361	\$4,083,257
Total	\$1,478,904	\$8,658,264

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

A. Washington Street, Bristol

Former manufactured gas plant site at the corner of Hope and Washington Street in Bristol, RI. The plant was constructed in 1855 and operated until approximately 1903 before moving operations to a plant on Thames Street in Bristol. The site is approximately 4 acres and is now the front lawn of the Guiteras Middle School. A portion of the site has been capped and is monitored annually.

		Payments During this Period	Payments to date
1	Consulting Costs	\$3,447	\$192,400
2	Construction/Disposal/Removal Costs	\$376	\$259,917
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other		
	project management	\$2,992	\$7,328
	water bill for 15 Bay St.	\$828	\$2,065
	Permit Application Fees	\$0	\$1,750
	Miscellaneous	\$0	\$251
	Total	\$7,642	\$463,711

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

B. Thames Street, Bristol

Former manufactured gas plant located at 345 Thames Street in Bristol, RI. The plant was constructed in the late 1800's. The site is comprised of 7 contiguous parcels totaling 3.97 acres. The majority of the former gas plant is now a parking area for the former textile mill that once operated on the site. The parking lot is now a part of an on-going condominium development by others.

		Payments During this Period	Payments to date
1	Consulting Costs	\$23,916	\$850,594
2	Construction/Disposal/Removal Costs	\$0	\$19,308
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs		
	shellfish transplant	\$0	\$858
	project management	\$3,354	\$13,981
	miscellaneous	\$0	\$38
	RI General Treasurer reimbursement	\$3,584	\$3,584
	Total	\$30,854	\$888,363

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

C. Main Street, Warren

This is the site of a former manufactured gas plant which began operation in the early 1930's. The property consists of approximately 1.38 acres which is currently the site of a Narragansett Electric Company service center building. Site investigations have not been conducted at this site.

		Payments During this Period	Payments to date
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs	\$0	\$0
	Fence Installation	\$0	\$21,387
	Project management	\$643	\$643
	Total	\$643	\$22,030

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

D. Canal Street, Westerly

This property is a former manufactured gas plant which ceased operation in the 1950's or early 1960's. The property continues to be used as a propane storage and natural gas distribution facility. A site investigation is currently being conducted at the site.

	Payments During this Period	Payments to date
1 Consulting Costs	\$24,418	\$393,556
2 Construction/Disposal/Removal Costs	\$0	\$63,631
3 DEM/EPA Oversight Costs	\$0	\$0
4 Property Purchases/Settlements	\$0	\$0
5 Other Costs (Proj Mgmt)		
Project Management	\$2,248	\$11,421
Lab Analysis		\$150
PGC Reimbursement		-\$53,239
Total	\$26,666	\$415,518

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

E. Industrial Drive, Westerly

This property was previously utilized as the location of an above-ground gas storage holder for gas produced at the Canal Street manufactured gas plant. The property is currently utilized as an automobile storage yard. No environmental investigations have been done on the property.

		Payments During this Period	Payments to date
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs	\$0	\$0
	Total	\$0	\$0

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

F. Tidewater, Pawtucket

Former manufactured gas plant is located along the western banks of the Seekonk River in Pawtucket, RI. The site is approximately 28 acres and includes a former electrical generating station, former manufactured gas plant and 2 on-site landfill areas. One of the larger MGP's in RI, the plant operated from approximately 1881 to 1954. After 1954, the plant produced oil gas for peak shaving purposes until 1968 when it was decommissioned. Limited environmental site investigations have been conducted on this property.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$147,637
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$2,320
3	DEM/EPA Oversight Costs	\$217	\$217
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs (Preliminary Cost Est./Proj Mgnt)	\$9,451	\$12,796
Total		\$9,668	\$162,969

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

. G. Exchange Street, Pawtucket

This approximately 2.5 acre site was used for remote gas storage sometime before 1902 until sometime between 1923 and 1949. The property is currently paved and used as a parking lot. Site investigations have not been conducted at this time.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$0
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs (Preliminary Cost Est.)	\$0	\$2,641
Total		\$0	\$2,641

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

H. High Street, Central Falls

This is the site of a former manufactured gas plant that operated from 1850 until 1887. Site investigations have not been conducted at this site. The property is currently utilized as a beverage distribution center.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$0
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs (Preliminary Cost Est./Sanborn Maps)	\$0	\$2,766
Total		\$0	\$2,766

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

I. Hamlet Ave., Woonsocket

The site is located in a primarily commercial/industrial area of Woonsocket, RI. The site consists of five parcels based on historical and current site usage. The first area contains former industrial buildings/power plant which are partially rented for light industrial use; the second and third areas are vacant; and the fourth and fifth areas are used in conjunction with an electrical substation. A Site Investigation Report for the power plant parcel has been submitted to RIDEM for review and approval. This parcel was separated from the others (with approval from RIDEM) to facilitate a Brownfield Redevelopment and this parcel is being developed by others.

	Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger		\$52,372
1 Consulting Costs	\$31,923	\$97,283
2 Construction/Disposal/Removal Costs	\$9,003	\$13,064
3 DEM/EPA Oversight Costs	\$2,871	\$2,871
4 Property Purchases/Settlements	\$0	\$0
5 Other Costs (Preliminary Cost Est.)	\$757	\$5,515
Total	\$44,555	\$171,105

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

J. Pond Street, Woonsocket

This site was used for remote gas storage from 1865 until sometime between 1911 and 1950. Site investigations have not been conducted at this time. The property is currently in use as a housing authority office.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$0
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs*	\$0	\$0
	Preliminary Cost Estimate	\$0	\$2,641
	Total	\$0	\$2,641

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

K. PWSB Site, Cumberland (remote disposal location)

This property is currently owned by the Pawtucket Water Supply Board. During the 1930s and 1940s, the Blackstone Valley Gas Company transported oxide box waste from the Tidewater manufactured gas plant site to an area located within this property. The Rhode Island Department of Environmental Management excavated and disposed of the box wastes from this site in the late 1980's. Recent activities have included an assessment at the area that was remediated in the 1980's in an effort to close the site.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$0
1	Consulting Costs	\$1,842	\$20,195
2	Construction/Disposal/Removal Costs	\$0	\$0
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs	\$0	\$0
	Preliminary Cost Estimate	\$0	\$2,641
	Total	\$1,842	\$22,836

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

L. Lawn Street, Attleboro, MA (remote disposal location)

This site has been identified as a remote disposal site for purifier box waste. The box waste has been removed and a Response Action Outcome Statement has been filed. Ongoing work involves conveying the property to the Town.

		Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger			\$1,619,940
1	Consulting Costs	\$0	\$0
2	Construction/Disposal/Removal Costs	\$0	\$22,936
3	DEM/EPA Oversight Costs	\$0	\$0
4	Property Purchases/Settlements	\$0	\$0
5	Other Costs	\$0	\$34
Total		\$0	\$1,642,909

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

M. Mendon Road, Attleboro, MA (remote disposal location)

This site is approximately 5 acres in size and is comprised of two parcels of land located on Mendon Road In Attleboro, MA. This site was formerly utilized as a sand and gravel excavation and processing area from 1932 until the early 1960's. During that time, purifier box waste from the Blackstone Valley Gas and Electric Company's Tidewater manufactured gas plant in Pawtucket, RI was disposed of on the property. The waste was excavated and disposed of by the Massachusetts Department of Environmental Quality Engineering in the mid-1980's.

	Payments During this Period	Payments to date
Balance Prior to NGRID/EUA Merger		\$670,893
1 Consulting Costs	\$0	\$0
2 Construction/Disposal/Removal Costs	\$0	\$0
3 DEM/EPA Oversight Costs	\$0	\$0
4 Property Purchases/Settlements	\$0	\$0
5 Other Costs	\$0	\$0
Total	\$0	\$670,893

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

N. Miscellaneous

	Payments During this Period	Payments to date
1 Consulting Costs		
NON Strategy	\$1,664	\$13,664
2 Construction/Disposal/Removal Costs	\$0	\$0
3 DEM/EPA Oversight Costs	\$0	\$0
4 Property Purchases/Settlements	\$0	\$0
5 Other Costs/Project Management	\$16,348	\$34,297
6 Keyspan Insurance Recovery Payment	\$58,662	\$58,662
Total	\$76,674	\$106,623

**Environmental Response Costs
for the Period
April 1, 2003 through March 31, 2004**

O. Litigation/Legal

	Payments Made this Period	Payments made to date
Litigation Costs Prior to May 2000		
EUA Companies		\$326,832
NEES Companies		\$123,607
Litigation/Legal Costs	\$1,280,361	\$3,632,818
Total	\$1,280,361	\$4,083,257

SECTION III
ATTACHMENTS TO
THE NARRAGANSETT ELECTRIC COMPANY
ENVIRONMENTAL RESPONSE COST REPORT
FOR THE PERIOD
APRIL 1, 2003 THROUGH MARCH 31, 2004

**Attachment 1 to Environmental Response Cost Report
 Contractor/Disposal
 For the Period
 April 1, 2003 through March 31, 2004**

Site	Contractor Name	Physical activities taken to clean-up or remediate contaminated soil or contaminated debris	Costs
Washington St., Bristol	Clean Harbors	Disposal of investigation derived wastes	\$375.55
Thames St., Bristol	N/A	N/A	\$0
Main St., Warren	N/A	N/A	\$0
Canal St., Westerly	N/A	N/A	\$0
Industrial Dr., Westerly	N/A	N/A	\$0
Tidewater St., Pawtucket	N/A	N/A	\$0
Exchange St., Pawtucket	N/A	N/A	\$0
High St., Central Falls	N/A	N/A	\$0
Hamlet Ave., Woonsocket	T Ford Environmental Soil management, Inc.	Soil Loadout	\$375.55
Pond St., Woonsocket	N/A	Soil Treatment & Transportation	\$7,669.44
Cumberland	N/A	N/A	\$0
Lawn St., Attleboro, MA	N/A	N/A	\$0
Mendon Rd., Attleboro, MA	N/A	N/A	\$0

Attachment 2 to Environmental Response Cost Report
Consulting Costs
For the Period
April 1, 2003 through March 31, 2004

Site	Consultant Name	Purpose of Consultant Costs	Costs
Washington St., Bristol	VHB	Groundwater monitoring, groundwater reclassification, project management	\$3,446.71
Thames St., Bristol	Hart Crowser	Risk assessment, feasibility study, sediment remediation scenarios	\$15,205.65
Main St., Warren	VHB	Site Investigation//Project Management	\$8,711.56
Canal St., Westerly	N/A	N/A	\$0
Industrial Dr., Westerly	VHB	Site Investigation/project management, groundwater sampling, monitoring, data report	\$24,417.57
Tidewater St., Pawtucket	N/A	N/A	\$0
Exchange St., Pawtucket	N/A	N/A	\$0
High St., Central Falls	N/A	N/A	\$0
Hamlet Ave., Woonsocket	GEI	Groundwater & soil sampling & analysis, project management, Site Investigation Report, UST removal activities	\$31,922.83
Pond St., Woonsocket	N/A	N/A	\$0
Cumberland	VHB	Test pitting, groundwater investigation, site investigation report, project management	\$1,841.80
Lawn St., Attleboro, MA	N/A	N/A	\$0
Mendon Rd., Attleboro, MA	N/A	N/A	\$0
Miscellaneous	EECS, Inc.	NON Strategy	\$1,663.98

THE NARRAGANSETT ELECTRIC COMPANY
R.I.P.U.C. Docket No. 3617
Distribution Rate Plan Stipulation & Settlement
Response to Commission's First Set of Data Requests

Commission Data Request 1-50

Request:

Part 8(D) has a counterpart in the 2000 Settlement. Has there been any formal review of Narragansett's ERF expenditures since 2000?

Response:

On April 7, 2003, the Company submitted responses to data requests issued to the Company by the Division related to the Company's Environmental Response Fund Report filed on February 27, 2003. The February 27th report covered the period May 1, 2000 through December 31, 2001. The Company is not aware of any other formal review of the Environmental Response Fund annual report filed September 18, 2003, which covered the period of January 1, 2002 through March 31, 2003.

Prepared by or under supervision of: Joseph Kwasnik