

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

Commission Data Request 2-1

Request:

Please explain how the reopener provision set forth in Part 4(B) of the Proposed Settlement and in Exhibit 7 will operate.

Response:

The reopener provision sets forth the circumstances under which Narragansett would be allowed to include its portion of the shared savings in the cost of service to set rates. The provision carries forward the terms of the Current Settlement. The Current Settlement and the new Settlement both require Narragansett to maintain rate levels below inflation to be allowed to continue to retain its portion of the shared savings under the agreements.

The operation of the reopener provision is most easily described by looking at the graph on page 1 of Exhibit 7 to the Settlement. For the period prior to 2020, Narragansett has the right to include shared savings equal to the \$4.645 million set forth in the Settlement as long as Narragansett's rates remain below line A, which equals the benchmark cost of service adjusted per section 8.C.1.(a) of the Current Settlement (equal to \$233,047,000 in 2005 as shown on Exhibit 7, page 2, line 22) escalating by the Reopener Index equal to 1.9 percent per year through 2009 and 80 percent of the GDPIPD or Gross Domestic Product Implicit Price Deflator, thereafter.

To the extent that Narragansett's rates exceed Line B, which equals the benchmark cost of service adjusted by the GDPIPD through 2014, or line A thereafter, and this excess is not caused by State Initiated Cost Changes, Federal Initiated Cost Changes or Regulatory Cost Reallocations, Narragansett would not be allowed to include its portion of the shared savings in its Cost of Service. In simple terms, the Settlements assume that these shared savings were not maintained if Narragansett is unable to hold its rates below the level of inflation.

The calculation of the index is shown on the hypothetical example on page 2 of Exhibit 7. Specifically, when the average cents per kilowatt-hour shown for 2005 on line 31 of page 2 of \$0.02972 is multiplied by the megawatt-hour deliveries of 8,507,579 assumed for 2011, the rate year revenue of \$252,845,000 under the Settlement rates shown on line 35 is produced. This revenue is compared in the example to a hypothetical cost of service filing of \$260 million made for that year. Since the increase above the base revenue is only 2.83 percent and the Cumulative Reopener threshold (Line A) is 10.97 percent for that year (shown on line 13 and line 41), Narragansett would be able to continue to include its portion of the shared earnings in the cost of service to set rates. If, however, the proposed increase were more than 10.97 percent on a cumulative basis, Narragansett would have to reprove that its shared savings still existed. Finally, if the cumulative increase exceeded Cumulative GDPIPD Threshold of 19.38 percent for 2005 (Line 13), Narragansett would be precluded from recovering its portion of the shared savings to the extent that it caused the excess.

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