

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

Commission Data Request 4-1

Request:

Does the calculation of the 2005 revenues at current rates, as shown in Exhibit 1 include the Settlement Credit of \$2.7 million? (See also Narragansett's Response to COM 1-93).

Response:

The Settlement Credit of \$0.00038 per kWh approved in RIPUC Docket No. 2930 is applicable to all rate classes and is included in the calculation of rate year normalized revenues as shown on Exhibit 1 and Commission Data Request 1-93. Thus, the normalized 2005 rate year revenues reflect that the Settlement Credit is made permanent by rolling it into base distribution rates.

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

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Commission Data Request 4-2

Request:

Does the \$10.243 rate reduction include the following (there seems to be some confusion between page 2 of the Proposed Settlement text and schedules provided in data responses):

- (a) \$5 million customer share of merger savings
- (b) \$2.7 million continuation of 2000 Settlement Credit
- (c) \$2.6 million of per year low income subsidy
- (d) load growth – please quantify the amount of money associated with any reduction relative to load growth

Response:

The proposed \$10.243 million rate reduction would be a reduction from current rates, and does include the customers' share of merger savings of \$5 million. The Settlement Credit is already included in current rates and reflected in normalized revenues under current rates (i.e., the rate year 2005 normalized revenue upon which the \$10.243 rate reduction is based already reflects lower revenues by the amount of the Settlement Credit). The Settlement Credit is authorized to expire under Section 2(c) of Narragansett's initial merger rate settlement in Docket No. 2930 if Narragansett's earnings in 2003 are less than 10.5 percent "on an historic test year basis, as adjusted to reflect established Commission ratemaking principles and to incorporate any other normalizing adjustments as may be appropriate." Because Narragansett's 2003 earnings exceed 10.5 percent when the VERO costs are normalized as provided for in the Settlement in this case, the rate reduction produced by the Settlement Credit continues going forward, and is in addition to the \$10.243 million base rate reduction proposed in the Settlement. The normalized revenues under current rates also reflect the cost of expanding the low income rate eligibility to include LIHEAP customers (i.e., the rate year 2005 normalized revenue upon which the \$10.243 rate reduction is based already reflects lower revenues by the amount of the low income expansion). Thus, the normalized revenues do not reflect any potential increase for recovery of the incremental subsidy associated with the low income expansion that would otherwise be authorized under Narragansett's prior settlement. Accordingly, the proposed \$10.243 million decrease would reduce 2005 revenue that would be generated from current distribution rates, which continue to be reduced by the Settlement Credit and which do not include the increase to recover the low income expansion.

The total benefit of all of these components, the \$10.243 million rate reduction, avoiding an increase in distribution rates from the expiration of the Settlement Credit, and avoiding an increase in distribution rates from the recovery of the increased low income expansion subsidy would be approximately \$15.52 million, as detailed on the attached schedule.

The proposed rate reduction does include an estimated \$5.243 million of assumed load growth. This amount was calculated by comparing the adjusted benchmark cost of service for 2005 of \$225,604,000 to the Company's expected 2005 revenue under current rates of

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Commission Data Request 4-2 (continued)

\$230,847,000. The sum of the customers' share of total savings, \$5 million, and assumed load growth of \$5.243 million, equates to the total proposed rate reduction of \$10.243 million.

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

NARRAGANSETT ELECTRIC COMPANY
CALCULATION OF DISTRIBUTION RATE REDUCTION
(\$000)

<u>Line</u>	<u>Amount</u>	<u>Potential Expiration of Sttlmnt Credit</u>	<u>Potential Low Income Expansion Surcharge</u>	<u>Potential 2005 Forecasted Revenue</u>
1 Forecasted Revenue - 2005	\$230,847	2,700	2,577 (a)	236,124
2 Cost of Service supporting Total Savings to be Shared	\$215,604			215,604
3 Forecasted Benchmark COS 2005	\$225,604			225,604
4 Total Savings to be Shared	\$10,000			\$10,000
5 Customer Share of Total Savings	<u>\$5,000</u>			<u>\$5,000</u>
6 Company Share of Total Savings	\$5,000 See Note			\$5,000
7 Cost of Service Including Shared Savings	\$220,604			\$220,604
8 Distribution Rate Decrease	<u>\$10,243</u>			<u>\$15,520</u>

Line notes:

- 1 Proforma distribution revenues under current rates with elimination of hold harmless provisions.
- 2 Distribution Cost of Service to support \$10 million of total savings from adjusted benchmark Cost of Service for 2005.
- 3 See Exhibit 1, Page 2.
- 4 Line 3 minus Line 2
- 5 Line 4 times 50%
- 6 Line 4 minus Line 5
- 7 Line 2 plus Line 6
- 8 Line 1 minus Line 7

(a) Low Income Expansion for 2004. See Exhibit 8, Page 2.

Note:

The Company's 50% share of total savings has been reduced to \$4.645 million to reflect the elimination of 100% of the incremental pension income reflected in First Savings Proof Filing, Docket 2930, as adjusted in the response to Commission Post-Hearing Data Request 1-2. The \$5 million amount indicated on Line 6 above is reflected only for the purpose of illustrating the calculation of the distribution rate decrease. Refer to Exhibit 1, Page 3 for the calculation of the Company's share of savings.

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Commission Data Request 4-3

Request:

If the responses to 2-2(b)-(c) are in the affirmative, what is the actual rate reduction to customers? If the responses to 2-2(b)-(c) are in the negative, what are the major components of the rate reduction (reference back to Settlement Exhibit 1 did not satisfy the Commission the first time this question was asked – See Narragansett's Response to COM 1-1)?

Response:

The major components of the proposed \$10.243 million rate reduction are savings attributable to a reduced cost of service established by the Settlement and assumed load growth. Based on the settled cost of service of \$215,604,000 and an adjusted benchmark cost of service for 2005 of \$225,604,000, total merger savings equal \$10 million, 50% or \$5 million of which would represent customers' share.. Load growth, valued based on the difference in 2005 pro forma revenues under current rates, \$230,847,000, and the adjusted benchmark cost of service for 2005, \$225,604,000, amounts to \$5.243 million. The sum of these two major components comprises the total proposed rate reduction of \$10.243 million.

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Commission Data Request 4-4

Request:

Using the per kWh rate reduction proposed in the Proposed Settlement, please calculate what the total dollar amount of the rate reduction would be based on the most recent twelve-month period of actual kWh deliveries (i.e. proposed kWh rate reduction x most previous 12-month period of kWh deliveries).

Response:

By way of background, the Company's proposed revenue requirement, normalized revenue and resulting distribution rates reflected in the Settlement are based on an historic test year of twelve months of actual data for calendar year 2003 and a forecasted rate year which represents the first year that the rates are proposed to be in effect. The procedures for test year and rate year filing are described in the Rhode Island Public Utilities Commission's Rules of Practice and Procedure, Section 2.6. The Company's methodology used in this filing for determining the proposed rate reduction is consistent with the Commission's rules as well as with the methodology used in past rate filings. Because, as described in the previous response, \$5.243 million of the decrease is based on projected load growth through the rate year, mathematical consistency would also require that the rate year's units be used to design the rates.

The average per kWh rate reduction in the Settlement is based on forecasted billing units for calendar year 2005. This average reduction, when applied to billing determinants for a different time period, will produce a different revenue reduction. However, the specific calculation requested, i.e., the proposed kWh rate reduction times the most previous 12-month period of kWh deliveries, is as follows:

Settlement per kWh rate reduction:		\$0.00131 ¹
kWh deliveries for September 2003 through August 2004:	x	<u>7,752,782,962</u>
Calculated revenue reduction		\$10,156,146

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

¹ \$10,243,000 ÷ 7,840,716,771 kWh