

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: NARRAGANSETT ELECTRIC :  
COMPANY d/b/a NATIONAL GRID : DOCKET NO. 4065**

**RESPONSE TO THE  
COMMISSION'S FIRST DATA REQUEST TO THE DIVISION OF PUBLIC  
UTILITIES AND CARRIERS  
[Submitted] November 10, 2009**

1. Please confirm whether or not Mr. Kahal performed his DCF calculations using the same methodology as approved by the Commission in the following Dockets:
  - Docket 2038, Order 14048
  - Docket 2276, Order 14834
  - Docket 2286, Order 14859
2. If the answer to question (1.) above is no, please recalculate Schedule MIK-4 and Schedule MIK-5 using the methodology approved in the above Dockets.

**Response**

Based upon Mr. Kahal's review of the Commission's orders pertaining to cost of equity in these cases, the DCF calculations shown on Schedules MIK-4 and MIK-5, page 1 are similar but not identical to the Commission's ruling. In those cases, the Commission adopted the standard (constant growth) DCF model, as follows:

1. *Historic proxy group dividend yield.* The orders generally do not specify a precise, fixed time period but instead specify that the proxy group dividend yields should be averaged over a period of several months ("we have relied upon several months of current market price").\* While "several months" is not precisely defined in any order, the Commission has accepted six months as a definition of several months based on Division testimony. (Note: The use of a six-month average for the proxy group dividend yield is not in dispute in this case.) There is one exception, however. In the Commission's order in Docket No. 2276, the "several month" dividend yield was averaged with the "spot" yield.

---

\* Docket No. 2286, Order No. 14859, page 19.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: NARRAGANSETT ELECTRIC :  
COMPANY d/b/a NATIONAL GRID : DOCKET NO. 4065**

**RESPONSE TO THE  
COMMISSION'S FIRST DATA REQUEST TO THE DIVISION OF PUBLIC  
UTILITIES AND CARRIERS  
[Submitted] November 10, 2009**

Thus, for purposes of the response to question (2), we present the DCF calculations using *both* the six month average (i.e., Mr. Kahal's six-month average ending August 2009) *and* the average of the six-month average and the August 30, 2009 "spot" dividend yield. Please note that since August 2009, dividend yields have declined for both proxy groups, but our response does not provide that update.

2. *Dividend yield adjustment.* The Commission orders consistently adopt the "0.5g" method of adjustment, which is identical to Mr. Kahal's method.
  
3. *DCF Growth Rate.* The Commission in all three cases used the "earnings retention" method ("b x r") and referenced the testimony of the witnesses for the calculations. There is insufficient information in the Commission orders of these cases to replicate the precise calculations used by the witnesses. However, in the instant Narragansett docket, Mr. Kahal provides earnings retention growth rate calculations (based on Value Line data). In addition, Mr. Moul provides alternative earnings retention calculations for both of Mr. Kahal's proxy groups at page 16 of his Rebuttal Testimony. Thus, in responding to question (2), Mr. Kahal employs both sets of earnings retention growth rate calculations in order to provide a range since this is the available information in the record. In doing so, Mr. Kahal is not in any way endorsing Moul's earnings retention calculations. Using both Mr. Kahal's and Mr. Moul's (rebuttal) earnings retention calculations, the range is 4.83 to 5.98% for the gas utility group and 3.5 to 3.96% for the electric delivery service group.

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: NARRAGANSETT ELECTRIC :  
COMPANY d/b/a NATIONAL GRID : DOCKET NO. 4065**

**RESPONSE TO THE  
COMMISSION'S FIRST DATA REQUEST TO THE DIVISION OF PUBLIC  
UTILITIES AND CARRIERS  
[Submitted] November 10, 2009**

There are other minor factors included or considered in the Commission's final authorized ROE rulings in those dockets, such as a consideration of stock flotation costs, service quality performance or a minor adjustment to provide consistency between two utilities. But these minor factors are unrelated to the rulings on the DCF cost of equity calculation and in any event are not at issue in this case. For example, stock flotation costs are not present or claimed in this case.

Please see the attachments to this response, pages 1-4, for revised DCF results using the Commission's methodology in Docket Nos. 2038, 2276 and 2286.

**NARRAGANSETT ELECTRIC COMPANY**

DCF Summary for  
Gas Distribution Proxy Group  
(Based on Six-Month Average Yield)

1. Dividend Yield (March– August 2009)	4.57% <sup>(1)</sup>
2. Adjusted Yield ((1) x 1.0275)	4.7%
3. Long-Term Growth Rate	4.83 - 5.98 <sup>(2)</sup>
4. Total Return ((2) + (3))	9.5 - 10.7%
5. Flotation Adjustment	0.00%
6. Cost of Equity ((4) + (5))	9.5 - 10.7%
7. Midpoint	10.1%
<b>Recommendation</b>	<b>10.1%</b>

---

<sup>1</sup> Schedule MIK-4, page 2 of 4.

<sup>2</sup> Schedule MIK-4, page 4 of 4 and Moul Rebuttal Testimony page 16. .

**NARRAGANSETT ELECTRIC COMPANY**

DCF Summary for  
Gas Distribution Proxy Group  
(Based on Six-Month Average Yield and “Spot” Yields)

1. Dividend Yield (March– August 2009)	4.44% <sup>(1)</sup>
2. Adjusted Yield ((1) x 1.0275)	4.6%
3. Long-Term Growth Rate	4.83 - 5.98 <sup>(2)</sup>
4. Total Return ((2) + (3))	9.4 - 10.6%
5. Flotation Adjustment	0.00%
6. Cost of Equity ((4) + (5))	9.4 - 10.6%
7. Midpoint	10.0%
<b>Recommendation</b>	<b>10.1%</b>

---

<sup>1</sup> Schedule MIK-4, page 2 of 4. (Average of 4.57% six-month average and 4.31% August 30, 2009 “spot” yield)

<sup>2</sup> Schedule MIK-4, page 4 of 4 and Mr. Moul Rebuttal Testimony page 16.

**NARRAGANSETT ELECTRIC COMPANY**

DCF Summary for  
Electric Distribution Utility Proxy Group  
(Based on Six-Month Average Yield)

1. Dividend Yield (March – August 2009)	5.81% <sup>(1)</sup>
2. Adjusted Yield ((1) x 1.02)	5.9%
3. Long-Term Growth Rate	3.50 - 3.96 <sup>(2)</sup>
4. Total Return ((2) + (3))	9.4 - 9.9%
5. Flotation Adjustment	0.00%
6. Cost of Equity ((4) + (5))	9.4 - 9.9%
7. Midpoint	9.6%
<b>Recommendation</b>	<b>10.1%</b>

---

<sup>1</sup> Schedule MIK-5, page 2 of 4.

<sup>2</sup> Schedule MIK-5, page 4 of 4 and Mr. Moul Rebuttal Testimony page 16.

**NARRAGANSETT ELECTRIC COMPANY**

DCF Summary for  
Electric Distribution Utility Proxy Group  
(Based on Average of Six-Month and "Spot" Yields)

1. Dividend Yield (March – August 2009)	5.62% <sup>(1)</sup>
2. Adjusted Yield ((1) x 1.02)	5.7%
3. Long-Term Growth Rate	3.5 - 3.96 <sup>(2)</sup>
4. Total Return ((2) + (3))	9.2 - 9.7%
5. Flotation Adjustment	0.00%
6. Cost of Equity ((4) + (5))	9.2 - 9.7%
7. Midpoint	9.5%
<b>Recommendation</b>	<b>10.1%</b>

---

<sup>1</sup> Schedule MIK-5, page 2 of 4. (Based on 5.81% six-month average and 5.43% "spot" yield at August 30, 2009)

<sup>2</sup> Schedule MIK-5, page 4 of 4 and Mr. Moul Rebuttal Testimony, page 16.