

February 16, 2012

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket No. 4065 Remand - Review of Capital Structure
Responses to Commission Data Requests – Set 18**

Dear Ms. Massaro:

Enclosed are ten (10) copies of National Grid's responses to the Commission's Eighteenth Set of Data Requests in the above-captioned proceeding.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,

A handwritten signature in blue ink, appearing to read "T. Teehan", is written over a faint, larger blue ink signature that appears to read "Thomas R. Teehan".

Thomas R. Teehan

Enclosure

cc: Docket 4065 Service List
Steve Scialabba
Leo Wold, Esq.

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4065
Responses to Commission's Eighteenth Set of Data Requests
Issued February 1, 2012

Commission 18-1

Request:

Please provide the actual current capital structure of the Narragansett Electric Company.

Response:

The following is the actual capital structure of The Narragansett Electric Company as of December 31, 2011.

	<u>Amount</u>	<u>Capital Structure</u>
	in \$000	
Long Term Debt	604,339	39.2%
Short Term Debt	168,950	11.0%
Preferred Stock	2,454	0.2%
Total Common Equity	<u>764,415</u>	<u>49.6%</u>
Total Capitalization	<u>1,540,158</u>	<u>100.0%</u>

Common equity excludes goodwill and accumulated other comprehensive income.

Prepared by or under the supervision of:
James Holodak and Mustally Hussain

Commission 18-2

Request:

Please provide an organizational chart including the National Grid parent company and each subsidiary. The chart should contain the following information about each entity:

- a. Name
- b. Location
- c. Ownership percentage
- d. Total capitalization of each entity in US\$
- e. Capitalization (in US\$) of each entity broken down by component (LTD, STD, Preferred Stock, Common Stock)
- f. Cost (%) of each component of capital in (e.) above
- g. Regulated / Non-Regulated

Response:

As noted in the National Grid plc ("National Grid plc") *Annual Report and Accounts 2010/11*, National Grid operates within six reportable segments: (1) Transmission UK; (2) Transmission US; Gas Distribution UK; (4) Gas Distribution US; (5) Electricity Distribution and Generation; and (6) Other activities.¹ Within those six segments, National Grid holds interests, directly or indirectly, in over 290 affiliated companies, with a majority voting interest in approximately 280 of these companies. However, in an effort to provide manageable and relevant data, the Company respectfully submits Attachment 18-2, which contains the consolidated parent capital structure and that of the relevant subsidiaries when analyzing total debt and equity capitalization.

Please note that National Grid plc is a UK incorporated company, historically reported on an IFRS basis at fiscal year end only (March 31), and (as indicated above) includes the operations of both US and UK entities. In the UK, rates are set based on a Regulatory Asset Value ("RAV"), rather than a rate base approach which is based on book value per US GAAP. RAV has no direct relationship to the book value of these businesses and initially derived from a combination of replacement cost and market value. In addition, under the UK regulatory framework, the RAV is increased by inflation every year. Thus, the equity component as determined in accordance with US GAAP must be adjusted to recognize the difference between the RAV and the US GAAP book value of the UK regulated businesses. This is necessary to ensure that National Grid plc's consolidated capital structure reflects the regulatory value of assets in both the US and UK on an equal and consistent basis. Attachment 18-2 provides the consolidated capitalization of National Grid plc, after adjusting for GAAP and RAV adjustments, as of March 31, 2011.

¹ See National Grid plc, *Annual Report and Accounts 2010/11*, at 57.

Commission 18-2 (continued, p2)

Attachment 18-2 shows the total capitalization of the UK and US entities that are National Grid plc's major subsidiaries and have issued public or quasi-public debt, as of March 31, 2011 as these are the most relevant entities when analyzing total debt and equity capitalization.

Attachment 18-2 provides the cost of each component of capital, where applicable. Attachment 18-2 provides the capital structures of the following National Grid plc subsidiaries:

- National Grid Gas plc (UK, regulated, wholly owned)²
- National Grid Electricity Transmission plc (UK, regulated, wholly owned)³
- National Grid USA Holding Company (US, regulated, wholly owned)
- Nantucket Electric (US, regulated, wholly owned)
- Massachusetts Electric Company (US, regulated, wholly owned)
- New England Power Company (US, regulated, wholly owned)
- Narragansett Electric Company (US, regulated, wholly owned)
- Granite State Electric (US, regulated, wholly owned)
- Niagara Mohawk Power Corporation (US, regulated, wholly owned)
- KeySpan Gas East Corp (US, regulated, wholly owned)
- National Grid Generation LLC (US, regulated, wholly owned)
- Brooklyn Union Gas Company (US, regulated, wholly owned)
- Energy North (US, regulated, wholly owned)
- Boston Gas Company (US, regulated, wholly owned)
- Colonial Gas Company (US, regulated, wholly owned)

While Narragansett Electric Company ("Narragansett" or the "Company") has provided the parent company capital structure in Attachment 18-2, the Company does not believe that such data is relevant in determining the capital structure to be used for ratemaking purposes relating to its Rhode Island operations. In that regard, Narragansett notes that R.I.G.L. §39-1-27.7.1 (b) of the Act Relating to Public Utilities and Carriers – Revenue Decoupling (the "Decoupling Act"), which was signed into law on May 20, 2010, specifically requires that "[a]ctions taken by the commission in the exercise of its ratemaking authority for electric and gas rate cases shall be within the norm of industry standards and recognize the need to maintain the financial health of the distribution company *as a stand-alone entity* in Rhode Island." [Emphasis added] It is the Company's view, therefore, that the National Grid plc capital structure has no bearing on the capital structure to be used in setting Narragansett's rates.

² Results are typically reported on a IFRS basis and are not adjusted for any UK regulated asset value to US book value

³ Results are typically reported on a IFRS basis and are not adjusted for any UK regulated asset value to US book value

Commission 18-2 (continued, p3)

The statutory mandate of a stand-alone capital structure is appropriate because as a practical matter Narragansett does finance its rate base on a stand-alone basis. In fact, as shown on Table 1 (below), Narragansett is a separately rated company, currently carrying Long-Term Issuer, Senior Secured, Senior Unsecured, and Preferred Stock credit ratings from Standard & Poor's, and Moody's Investor Service.

Table 1: Narragansett Electric Company Credit Ratings

Standard & Poor's⁴	Moody's Investor Service⁵
Corporate Credit Rating: A-	Issuer: A3
Senior Secured Debt: A	First Mortgage Bonds: A1
Senior Unsecured Debt: A-	Senior Secured MTNs: (P)A1
Preferred Stock: BBB	Senior Unsecured: A3
	Preferred Stock: Baa2

In addition to the fact that the Company's securities are separately rated, it is important to recognize that it is the nature of the assets underlying utility operations, not the nature of corporate ownership that will determine the supporting capital structure. That is, utilities invest in, and therefore must finance, both long-term assets such as property, plant and equipment, and short term assets in the form of net working capital requirements. A common financing practice, often referred to as "maturity matching" involves matching the lives of the assets being financed with the duration of the securities used to finance those assets. In practice, the weighted average duration of the outstanding long-term capital is matched with the expected life of the underlying assets, such that the income produced by the assets funds the costs of capital. Because utility assets are long-lived, it is common industry practice to fund those assets with long-duration securities.

While utility assets are long-lived, other unregulated operating segments may have entirely different types of assets. As a consequence, the capital used to unregulated operations would differ in type and duration from the nature of capital structures in place at operating utilities. Moreover, while often long, the useful lives of utility assets may vary from operating segment to operating segment, suggesting potential differences in capital structures even across utility segments. Consistent with the Decoupling Act, therefore, it is important to view the ratemaking capital structure on a stand-alone basis, taking into consideration the nature of the utility assets being financed, without respect to the financing associated with unregulated, or unrelated operations.

⁴ Standard & Poor's, *Narragansett Electric Company*, September 26, 2011

⁵ Moody's Investors Service, *Narragansett Electric Company*, June 28, 2011. (P) indicates "Provisional"

Commission 18-2 (continued, p4)

It also is important to recognize that under the stand-alone approach, the cost of capital is determined using the subsidiary's own capital structure and cost of debt and equity; the Cost of Equity is estimated by reference to a proxy group of firms of comparable risk. That is, the stand-alone approach recognizes that the return should be based on the relative risk of the investment being financed, not the source of financing. In that regard, the *Hope* and *Bluefield* doctrines are clear that appropriate considerations in determining cost of capital are the alternatives available to investors and the risks associated with those alternatives. The source of funding and the cost of funds used to finance the investment do not determine the required return; two utilities identical in all respects but their ownership should have the same cost rates.

From the perspective of capital markets, the notion that an asset (in this case, utility company equity) would have a different value depending on how different investors finance their investment would violate the "law of one price", which states that in an efficient market, identical assets would have the same price. That is, the cost of capital depends on the riskiness of the assets being financed and the method by which they are financed, not on the identity or corporate structure of the firm undertaking the project.

Finally, as noted above National Grid plc's financial results are reported on a basis that is substantially different than the book value based method used in Rhode Island, and include subsidiaries beyond those provided in Attachment 18-2. As such, the consolidated risk profile of National Grid plc differs from that of Narragansett Electric. Consequently, the consolidated capitalization is not appropriate for the purposes of establishing the Company's rate making capital structure.

Prepared by or under the supervision of:
James Holodak, Mustally Hussain, and Robert Hevert

Attachment 18-2: Capitalization Tables

	National Grid plc (GAAP Basis, Adjusted for US Book Value)			National Grid Electricity Transmission plc (IFRS Basis, Unadjusted for US Book Value)			National Grid Gas plc (IFRS Basis, Unadjusted for US Book Value)			National Grid USA Holding Company		
	\$m	%	Cost %	\$m	%	Cost %	\$m	%	Cost %	\$000	%	Cost %
Long-Term Debt	17,798	48.9%	5.30%	7,076	80.3%	5.80%	11,439	51.3%	5.20%	666,625	3.9%	1.04%*
Short-term Debt		0.0%	n.a.	93	1.1%	n.a.	667	3.0%	n.a.	1,088,780	6.3%	n.a.
Preferred Stock		0.0%	n.a.		0.0%	n.a.		0.0%	n.a.	0	0.0%	n.a.
Common Equity	18,594	51.1%	n.a.	1,646	18.7%	n.a.	10,188	45.7%	n.a.	15,421,840	89.8%	n.a.
Total Capitalization	36,392	100.0%		8,815	100.0%		22,294	100.0%		17,177,244	100.0%	

	Granite State Electric Company			Niagara Mohawk Power Corp			KeySpan Gas East Corp			National Grid Generation LLC		
	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %
Long-Term Debt	15,000	20.0%	7.55%	2,400,065	47.5%	3.98%	600,000	31.9%	5.80%	273,173	34.7%	4.73%
Short-term Debt	0	0.0%	n.a.	165,804	3.3%	n.a.	228,148	12.1%	n.a.	0	0.0%	n.a.
Preferred Stock	0	0.0%	n.a.	28,985	0.6%	3.62%	0	0.0%	n.a.	0	0.0%	n.a.
Common Equity	59,861	80.0%	n.a.	2,453,822	48.6%	n.a.	1,052,949	56.0%	n.a.	514,657	65.3%	n.a.
Total Capitalization	74,861	100.0%		5,048,676	100.0%		1,881,096	100.0%		787,830	100.0%	

Common equity excludes goodwill and accumulated other comprehensive income
* Reflects cost of EMTN and other Committed Facilities.

Attachment 18-2: Capitalization Tables

	Nantucket Electric Company			Massachusetts Electric			New England Power Company			Narragansett Electric		
	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %
Long-Term Debt	52,575	74.1%	2.14%	820,000	46.1%	5.90%	410,350	35.2%	1.27%	605,673	43.9%	5.44%
Short-term Debt	0	0.0%	n.a.	46,563	2.6%	n.a.	0	0.0%	n.a.	25,334	1.8%	n.a.
Preferred Stock	0	0.0%	n.a.	2,259	0.1%	4.44%	1,112	0.1%	n.a.	2,454	0.2%	4.50%
Common Equity	18,414	25.9%	n.a.	908,636	51.1%	n.a.	752,995	64.7%	n.a.	747,278	54.1%	n.a.
Total Capitalization	70,989	100.0%		1,777,457	100.0%		1,164,457	100.0%		1,380,739	100.0%	

	Brooklyn Union Gas Co			EnergyNorth Natural Gas, Inc			Boston Gas Company			Colonial Consolidated		
	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %	\$000	%	Cost %
Long-Term Debt	1,040,500	44.1%	4.97%	80,000	39.9%	5.80%	644,388	46.6%	5.41%	124,000	45.6%	6.58%
Short-term Debt	15,031	0.6%	n.a.	29,489	14.7%	n.a.	59,928	4.3%	n.a.	14,449	5.3%	n.a.
Preferred Stock	0	0.0%	n.a.	0	0.0%	n.a.	0	0.0%	n.a.	0	0.0%	n.a.
Common Equity	1,304,672	55.3%	n.a.	90,931	45.4%	n.a.	679,724	49.1%	n.a.	133,692	49.1%	n.a.
Total Capitalization	2,360,203	100.0%		200,421	100.0%		1,384,040	100.0%		272,141	100.0%	

Common equity excludes goodwill and accumulated other comprehensive income

* Reflects cost of EMTN and other Committed Facilities.

The Narragansett Electric Company
d/b/a National Grid
R.I.P.U.C. Docket No. 4065
Responses to Commission's Eighteenth Set of Data Requests
Issued February 1, 2012

Commission 18-3

Request:

With regard to the debt on the books of the Narragansett Electric Company, please provide the following:

- a. Date of issuance
- b. Amount of debt
- c. Cost of debt
- d. Term of debt
- e. Use of debt proceeds

Response:

The table below shows the information requested for (a) through (d)

	Date of Issuance	Amount Outstanding in \$000	Interest Rate	Term of Debt (No of Years)
Unsecured notes:				
Senior Note	March 15, 2010	\$250,000	4.534%	10
Senior Note	March 15, 2010	300,000	5.638%	30
First mortgage bonds				
FMB Series N	June 1, 1990	10,000	9.630%	30
FMB Series O	September 1, 1992	12,500	8.460%	30
FMB Series P	September 1, 1992	6,875	8.090%	30
FMB Series R	December 1, 1995	10,500	7.500%	30
FMB Series S	April 1, 1998	14,464	6.820%	20

The debt was issued to support company's operations and asset investments.

Prepared by or under the supervision of:
James Holodak and Mustally Hussain

Commission 18-4

Request:

With regard to the debt on the books of the Narragansett Electric Company, what assets are collateral for the debt (RI Electric operation assets? RI Gas operation assets? other?).

Response:

Narragansett Electric has several outstanding First Mortgage Bonds ("FMBs") from its merger with the gas assets of New England Gas Company. Gas assets were pledged as collateral on these FMBs with maturities ranging from 2018 to 2025.

Narragansett Electric issued \$250 million of 10-year Senior Notes at an interest rate of 4.534% and \$300 million of 30-Year Senior Notes at an interest rate of 5.638% on March 15, 2010. No assets are pledged as collateral for these bonds.

Prepared by or under the supervision of:
James Holodak and Mustally Hussain

Commission 18-5

Request:

Does the Narragansett Electric Company have a governing body (Board of Directors) separate and apart from the governing body of National Grid PLC?

Response:

Yes. The Narragansett Electric Company has a Board of Directors, which is separate and apart from the Board of Directors of National Grid plc.

Prepared by or under the supervision of:
Legal Department

Commission 18-6

Request:

Who in the company has ultimate authority when it comes to major decisions impacting the operations of the Narragansett Electric Company?

Response:

Timothy Horan is currently the President of The Narragansett Electric Company ("Narragansett"). In this position, he leads the Rhode Island organization and is responsible for meeting operational and financial performance objectives with the goal of providing safe and reliable service to our customers. His team is supported by the wider organization with dedicated functional leads in all key areas such as network strategy, finance, and electric operations. Mr. Horan would bring major decisions impacting the operations of Narragansett to the Narragansett Board of Directors or to a committee designated by such Board. As a matter of corporate law or of internal controls, certain proposals may be referred to Boards, or committees authorized by such Boards, at a holding company level for further review and approval.

Prepared by or under the supervision of:
Legal Department

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

February 16, 2012

Date

**National Grid (NGrid) – Request for Change in Electric Distribution Rates
Docket No. 4065 – Updated Service List 2/1/12**

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