

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

IN RE: THE NARRAGANSETT ELECTRIC	:	
COMPANY, d/b/a NATIONAL GRID	:	DOCKET NO. 4065
APPLICATION FOR APPROVAL OF	:	
CHANGE IN ELECTRIC BASE	:	
DISTRIBUTION RATES	:	

ORDER

WHEREAS, On June 1, 2009, the Narragansett Electric Company, d/b/a National Grid (hereinafter “NEC,” “NGrid” or “the Company”) filed an application to increase electric distribution rates to collect additional distribution revenues by thirty-three percent (33%) or \$75.3 million.

WHEREAS, in support of its requested increase, NGrid cited the need to ramp-up capital investment, to maintain and to replace aging infrastructure, and to achieve improvement in safety, reliability and services and increases in the cost of operating and maintaining the system as a result of inflation and the rising costs of goods and services.

WHEREAS, in addition to the requested increase, the Company proposed a series of ratemaking proposals to recover costs that are designed to achieve a level of cost recovery and rate stability for the Company.

WHEREAS, these proposals include a recovery mechanism for the cost of employee pension and post-retirement benefits other than pensions, a recovery mechanism to support the replacement and upgrading of infrastructure through an inspection and maintenance program, a revenue decoupling mechanism which would reconcile and adjust rates in response sales volatility, a recovery mechanism to reconcile

the amount of commodity-related uncollectible accounts expense and commodity associated administrative costs related to Standard Offer Service, an adjustment of base distribution rates for significant changes in delivery-related uncollectible accounts, and a pilot economic development program.

WHEREAS, the impact of the proposal on a typical residential customer using 500 kWh per month would be an increase of approximately 11.2 percent or \$8.95 per month. Commercial and industrial customers would experience annual bill impacts ranging from a decrease of approximately 7 percent to an increase of approximately 10 percent.

WHEREAS, the Commission may approve different rates that may be higher or lower than those proposed by the Company based on the evidence in the record.

WHEREAS, the record in this case is extensive and complex and addresses numerous contested technical and financial issues as well as broad disputes over important issues of public and ratemaking policies.

WHEREAS, in addition to receiving voluminous written testimony and documentation filed by the Company, the Commission received voluminous and detailed pre-filed testimony and exhibits from the Division of Public Utilities and Carriers ("Division").

WHEREAS, in addition to the Division there were a number of intervenors, the United States Navy, the Rhode Island Attorney General ("RIAG"), the George Wiley Center, the Conservation Law Foundation ("CLF"), Environment Northeast ("ENE"), the Energy Council of Rhode Island (TEC-RI), and the Energy Efficiency Resource

Management Council ("EERMC") that provided additional written testimony and exhibits.

WHEREAS, the parties and the intervenors engaged in extensive discovery propounding numerous data requests for information relating to the Company and its affiliates' management, operations and finances to which the Company responded, for the most part, in a timely manner.

WHEREAS, the Commission, the Division and the intervenors also made record requests during the course of the hearing to which the Company provided responses.

WHEREAS, the Division and the parties were afforded great latitude in their discovery and questioning to assure that the Commission was presented with the most comprehensive information so that a full and complete record would be available for the Commission to review prior to its decision.

WHEREAS, the Commission conducted eleven days of evidentiary hearings on the Company's proposal in November and December, 2009.

WHEREAS, numerous exhibits were received into evidence.

WHEREAS, the Company, the Division and the intervenors presented a total of twenty-four witnesses, twenty-two of whom testified during the evidentiary hearings.

WHEREAS, in addition to the evidentiary hearings, the Commission conducted six public comment hearings at various locations around the state. Numerous individuals provided comment during these hearings as well as at the commencement of the evidentiary hearings.

WHEREAS, most of the public comments received were in opposition to the Company's request for a rate increase with expressions of concern about the effect that a

rate increase would have on households and/or businesses, particularly given the extremely poor state of the economy and the high unemployment rate in Rhode Island.

WHEREAS, prior to the submission of post hearing briefs and in response to the Commission's investigation and the positions advanced by the Division and the intervenors, NGrid adjusted the amount of the requested revenue increase downward from \$75.3 million for a total revenue increase of \$62,229,000.

WHEREAS, NGrid again and prior to the Commission's decision revised its position to include estimated Accumulated Deferred Income Tax and noted a revenue deficiency of \$57,766,000.

WHEREAS, in any rate proceeding, the Company bears the burden of proof to demonstrate that the proposed increase is necessary as mandated in R.I. Gen. Laws §39-3-12.

WHEREAS, subsequent to the conclusion of the evidentiary hearing, the parties submitted briefs summarizing their positions and the evidence supporting those positions.

WHEREAS, in deciding the issues and the utility's request for additional revenues, the Commission is required to balance the interests of the utility and its ratepayers to ensure that the rates allowed are just and reasonable. *Narragansett Electric v. Harsh*, 117 R.I. 395, 368 A.2d 1194 (1977)(citing *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 602-3, 64 S.Ct. 281, 287-288, 88 L.Ed. 333, 344-345 (1944)).

WHEREAS, in balancing those interests, the Commission reviewed hundreds of documents, pages of testimony, data responses and transcripts and listened to multiple days of oral testimony.

WHEREAS, the deliberative process of the three Commissioners was exhaustive, comprehensive, thorough and complete.

WHEREAS, the majority of the Commissioners (hereinafter “the majority”) finds that NGrid did not provide reliable and credible evidence to support its request to increase electric distribution rates to collect additional distribution revenues of \$57,766,125.00.

WHEREAS, the majority determined that the testimony of the Division’s witnesses to be complete and supported by detailed evaluation and analysis in the record, all of which the majority found to be substantially more credible than the testimony of the Company’s witnesses.

WHEREAS, the majority finds many of NGrid’s witnesses to be less persuasive and in some instances, less than forthright and credible with the information presented to the Commission, particularly due to the failure of witnesses to provide updated information and calculations or to provide timely and/or direct responses to the Commission during the discovery period and the hearing process¹.

WHEREAS, the majority finds NGrid witness, Paul R. Moul, not credible in his presentation of information especially regarding capital structure and return on equity because he failed to provide the Commission with an appropriate and acceptable proxy group of companies that were similar to Narragansett Electric and used only companies that had some form of revenue decoupling.

¹ A few examples include but are not limited to Mr. Moul’s failure to update his recommendations and calculations to reflect changes in the financial markets even in response to the Division’s update of information, Mr. Pettigrew’s failure to provide a timely response to Commission Data Request 12-3 which was issued on December 8, 2009 and not completely responded to until the morning of the Commission’s open meeting on February 9, 2010, Ms. Fields’ lack of knowledge of certain specifics necessary for the proposed economic development program and ramifications its denial could have on the Company, and Mr. Stout’s inability to explain the reasoning for statements made in his pre-filed testimony.

WHEREAS, the majority finds that although Mr. Moul acknowledged that he was aware that the Commission has historically expressed a preference for the discounted cash flow methodology (“DCF”), for setting an authorized rate of return on common equity, the Company’s 11.6% proposed ROE was based on a review and averaging of the results of the DCF, the capital pricing method (“CAPM”) and the Risk Premium (“RP”) methodologies for his selected proxy group in contradiction of the Commission’s long standing policy.

WHEREAS, the majority finds that Mr. Moul’s failure to provide updated figures and calculations to the Commission based on the most current information available coupled with his failure to utilize similarly situated companies in his selected proxy group as a direct result of his unnatural confidence and mistaken anticipation of the Commission’s approval of the revenue decoupling proposal, made him an incredible witness.

WHEREAS, because of the finding that Mr. Moul did not provide credible information to the Commission, the majority gives no weight to his testimony.

WHEREAS, the majority finds that Division witness, Matthew Kahal, provided credible data and that his criticisms of Mr. Moul’s testimony were accurate and acceptable to the majority with the exception of certain of his conclusions and calculations that the majority finds were not supported by the data he provided and which are addressed below.

WHEREAS, the majority finds that Mr. Kahal’s proxy groups and his general adherence to Commission return on equity (“ROE”) determination policies make his ROE recommendation more realistic and representative of an adequate return for NGrid

particularly given that the companies comprising his chosen proxy group are more similar to NEC than those presented by Mr. Moul.

WHEREAS, the Commission asked Mr. Kahal to refine his ROE calculations to reflect the Commission's ROE determinations and methodology utilized in prior cases (Docket No. 2038, Docket No. 2276 and Docket No. 2286), such calculations which resulted in a range of computed ROEs with midpoints of 9.5%, 9.6%, 10.0% and 10.1%.

WHEREAS, the majority finds that Mr. Kahal's calculations contained in the response to Commission's First Data Request to the Division provided more accurate results given the consistency with ROE methodologies utilized by the Commission in prior cases.

WHEREAS, the majority finds that when asked in the Commission's First Data Request to the Division to recalculate the ROE using the methodology approved by the Commission in previous dockets, specifically Docket No. 2038, Order No. 14048 (issued January 3, 1992), Docket No. 2276, Order No. 14834 (issued October 18, 1995) and Docket No. 2286, Order No. 14859 (issued February 16, 1995), Mr. Kahal's calculation of the midpoints for his electric and gas proxy groups using a six-month average yield and an average of six-month and spot yields revealed an average ROE of 9.8% as opposed to the 10.1% he recommended be allowed.

WHEREAS, the majority finds the cost of equity of 9.8% to be fair, reasonable and adequate to attract necessary capital and fully supported by the evidence.

WHEREAS, when the Commission is faced with an inappropriate capital structure from which to set rates, it may either rely on the capital structure of the parent

company, in this case NGrid plc, or a proxy group. *Public Service Commission of State of New York v. FERC*, 813 F.2d 448 (1987).

WHEREAS, the majority finds that based on the evidence presented, NGrid plc's "capital structure as of March 31, 2009, determined in accordance with US GAAP and adjusted for cash assets and RAV is comprised of approximately 38% common equity and 62% debt...[with] [o]nly five percent of...operations ...unregulated."²

WHEREAS, the majority finds that the Commission has the authority to use the capital structure of the parent company to the extent that composite risks of the parent are similar to the subsidiary operations of the Company.

WHEREAS, the Commission finds that the risks of NGrid plc and the Company are almost identical given that NGrid plc's operations are approximately 95% regulated and the subsidiary operations of the Company are 100% regulated and therefore, the Commission finds that the NGrid plc's capital structure should be imputed to that of the subsidiary for ratemaking purposes.

WHEREAS, the Division did adjust its capital structure recommendation to reflect the most recent, available information in the docket, and as a result, provided the Commission with a recommendation that was considerably higher in terms of overall costs to ratepayers than the available alternative of utilizing the capital structure of the Company's parent, NGrid plc.

WHEREAS, the majority finds that in light of the discrepancy of the capital structure of the parent and the Division's recommendation, the midway point between these two end points is reasonable and a capital structure for the Company at 42.75%

² Commission Record Request 44.

equity, 52.08% long term debt, 4.98% short term debt and .19% preferred stock is reasonable and just.

WHEREAS, the majority finds that the Division's recommendations regarding cost of debt to be reflective of the most updated and accurate information and accepts these recommendations for determining the cost of long term debt consistent with the approach agreed upon by NGrid and the Division.

WHEREAS, based upon the foregoing, the majority accepts the Division's recommendation for setting the cost of short term debt at 1.60% and the cost of preferred stock at 4.50%.

WHEREAS, the majority finds that the Commission has previously held in Docket No. 2286, Order No. 14859 (In re: Tariff Filing Made by Providence Gas Company on February 16, 1995), that ratepayers are responsible for that portion of executive compensation that directly benefits them and that shareholders are responsible for that portion that benefits them.

WHEREAS, the majority finds that the Division witness Mr. Effron's downward adjustment to incentive compensation by 50% of NGrid's proposed expense level to be reasonable in that the Company could not establish that the attainment of certain financial goals was for the benefit of ratepayers.

WHEREAS, the majority finds that the Division's recommendation that the pro forma change to include wage costs through the rate year for new hires under its union contract be eliminated from the cost of service to be reasonable and supported by the evidence in the record.

WHEREAS, the majority finds that beyond stating that the contract language required the addition of new employees, NGrid did not present sufficient evidence that this additional cost to ratepayers was just and reasonable or necessary to adequately maintaining the distribution system.

WHEREAS, the Commission finds that based on the evidence, the Storm Fund is sufficiently funded and therefore, funding of the account will be suspended until such time that the balance of the account falls below a threshold of \$20, million at which time funding will be reinstated subject to Commission approval.

WHEREAS, the Commission finds that because the cost of the Storm Damage Expense Account fluctuates considerably on an annual basis, it is reasonable to use a historical average to determine the amount by which to fund that account for future years.

WHEREAS, the majority finds Mr. Effron's recommendation to use a five year average to determine the appropriate amount by which to fund the Storm Damage Expense Account to be reasonable and acceptable.

WHEREAS, the majority finds that \$2.5 million should be eliminated from the injury and damage expense account as NGrid did not prove that this expense was recurring.

WHEREAS, the majority finds that a five year amortization of NGrid's rate case expense as recommended by the Division is reasonable and appropriate.

WHEREAS, the majority finds that in light of the fluctuation of outside legal fees over the last four year period, due in part to the substantial and non-recurring expenses associated with litigation concerning the interpretation of Standard Offer Supply contracts with Constellation Energy, a four-year average of this expense after elimination

of the expense of the Constellation litigation expenses is appropriate to be included in the revenue requirement.

WHEREAS, the majority finds NGrid witness John Pettigrew's testimony lacked credibility in that it failed to establish the need for the significant ramp-up in vegetation management, inspection and maintenance and capital expenses in light of the Company's stated reliability performance statistics.

WHEREAS, the majority finds that in light of the Company's reliability performance statistics and the other evidence presented, the substantial ramp-up of capital expenditures is excessive and unwarranted in maintaining the distribution system and for maintaining safe and reliable service.

WHEREAS, the majority finds that NGrid's case did not establish sufficient evidence to demonstrate that management is engaging in cost control measures similar to other business enterprises that the Commission finds to be necessary in light the current economic climate.

WHEREAS, the majority finds that the vegetation management expense proposed by the Company is excessive and unnecessary to maintaining the distribution system based on NGrid's testimony that its System Average Interruption Duration Index ("SAIDI") and System Average Interruption Frequency Index ("SAIFI") reliability measurements are in the top quartile of reliability performance statistics for the past three years, and finds that a five year average of the expense is a fair and appropriate amount to be included in the revenue requirement in that such a level will be adequate to maintain safe and reliable service..

WHEREAS, the majority finds that the increase proposed for inspection and maintenance to be significantly higher than historical levels.

WHEREAS, the majority finds that based on NGrid's testimony that its SAIDI and SAIFI reliability measurements are in the top quartile of reliability performance statistics for the past three years, the proposed maintenance and inspection expense is excessive and unnecessary to maintaining the distribution system and a four year historical average of this expense is reasonable for determining the amount to be included in the revenue requirement.

WHEREAS, the majority finds that a reconciling mechanism for inspection and maintenance expense to be unnecessary and inconsistent with good ratemaking principles in that these costs are not large, volatile or outside of the control of the Company and such a mechanism will diminish the Commission's ability to fully investigate the propriety of those costs.

WHEREAS, the majority finds that the Division's argument to deny one half of the Company's request for "transformation" expense is reasonable in that NGrid did not establish with certainty any future benefit to ratepayers.

WHEREAS, the Commission finds that there are no costs in the rate year associated with the GIS system survey.

WHEREAS, the Commission finds that the costs associated with the proposed underground GIS system have not been sufficiently established by NGrid to enhance service or safety to warrant inclusion of this expense in the revenue requirement.

WHEREAS, the Commission finds that the additional cost requested for customer contact activities to be unnecessary to the operation of the electric distribution system.

WHEREAS, the majority finds that in the aftermath of recent mergers and acquisitions, the Company has become burdened with higher costs due to increasing service company allocations of costs.

WHEREAS, the majority finds that the Division's recommendation to reduce the merger related costs to achieve by \$1,176,000 to be reasonable and supported by the evidence.

WHEREAS, the Commission finds that the duties of the two new customer advocacy positions that NGrid proposes to be duplicative of the duties of employees at the various CAP agencies and the Office of Energy Resources and not necessary to the operation of the electric distribution system.

WHEREAS, the Commission finds that the testimony of Company witness Carmen Fields lacked detail and was vague and insufficient to support NGrid's proposed economic development program.

WHEREAS, the Commission finds the proposed economic development program to be duplicative of the mission of the Rhode Island Economic Development Corporation ("RIEDC") and unnecessary to the operation of the electric distribution company.

WHEREAS, the majority finds the Division's position regarding forecasted capital additions and its recommendation to reduce projected plant in service by \$31,877,000 to be reasonable and credible based on the evidence.

WHEREAS, the Commission accepts the Division's recommendation regarding the appropriate methodology for calculating accumulated depreciation as the approach relies on the most updated information and finds it reasonable based on the evidence.

WHEREAS, the Commission finds the Division's recommendation to calculate accumulated deferred income taxes ("ADIT") through June 30, 2010 reasonable, noting also that NGrid is in agreement with the Division's position.

WHEREAS, the majority finds that NGrid failed to demonstrate that a pension tracker will provide any benefit to ratepayers.

WHEREAS, the majority finds that the pension and other post employment benefits expense is a business risk and should be managed by the Company like any other business risk facing a business enterprise.

WHEREAS, the majority finds that even though the pension and other post employment benefits expense is a large expense subject to fluctuations, it is not totally outside the control of the Company and can be controlled by Company management decisions.

WHEREAS, the Commission finds the Division's recommendation to eliminate the contract termination charge from cash working capital to be reasonable and supported by the evidence.

WHEREAS, the Commission finds the Division's recommendation to reduce the amount of cash working capital associated with municipal taxes based on the calendar period to be reasonable and supported by the evidence.

WHEREAS, the majority finds that NGrid did not present sufficient evidence that revenue decoupling will produce energy conservation beyond what is already being achieved under the existing demand-side management ("DSM") programs.

WHEREAS, the majority finds that NGrid did not present any evidence that it is not capable of maintaining its commitment to comply with its statutory mandate to implement cost-effective DSM programs.

WHEREAS, the majority finds that NGrid did not present any evidence that ratepayers will not engage in energy efficiency absent revenue decoupling or that decoupling will produce more energy efficiency.

WHEREAS, the majority finds that NGrid did not present any evidence that energy efficiency has prevented the Company from obtaining revenues sufficient to operate the electric distribution system.

WHEREAS, the majority finds that NGrid did not present any evidence that traditional ratemaking is insufficient to allow it to operate its electric distribution system in order to provide safe and adequate service to customers.

WHEREAS, the majority finds that NGrid's decoupling proposal shifts risk from the Company and its shareholders to the ratepayers without providing a commensurate benefit or compensation to ratepayers for assuming this risk.

WHEREAS, the majority finds NGrid failed to provide sufficient evidence that its revenue decoupling proposal is in the best interest of ratepayers.

WHEREAS, the majority finds that NGrid did not present sufficient evidence to support its proposal for a Capital Expenditure Tracker ("CAPEX") to annually reconcile capital expenses.

WHEREAS, the majority finds that NGrid did not present any evidence that safety and/or environmental concerns require a CAPEX mechanism.

WHEREAS, the majority finds that NGrid did not present any evidence that the distribution system is in immediate need of repair of which cannot be funded absent a CAPEX mechanism.

WHEREAS, the majority finds that NGrid's reliability performance is in the top quartile of electric distribution companies operating in the northeastern United States.

WHEREAS, the majority finds that the costs associated with the capital expenditures are not large, volatile and outside of the control of the Company to warrant implementation of a CAPEX mechanism.

WHEREAS, the Commission finds that both the Company and the Division presented valid, competing arguments in support of their delivery-related bad-debt ratio recommendations and that utilization of a five-year average for this expense or 0.94% which is approximately the midpoint between the Company's and the Division's, two competing recommendations, represents a reasonable expense level for purposes of calculating the revenue requirement.

WHEREAS, the Commission finds that the Company's request for a reconciling mechanism to allow for future adjustment to delivery-related bad debt under pre-established circumstances is not in the best interest of ratepayers and that the Company has the ability to modify its collection practices to reduce this expense.

WHEREAS, the Commission finds that the standard offer related uncollectible expense should be recovered through commodity rates using the mechanism approved by the Commission in Docket No. 3943 and using 0.94% for the bad debt ratio.

WHEREAS, the Commission finds that the transmission-related uncollectible expense should be recovered through transmission retail rates.

WHEREAS, the Commission finds that neither the Navy nor TEC-RI proved that a minimum system study is necessary at this time and further, that relying on one would result in considerable cost transfers among classes that have not been fully vetted or proven as viable.

WHEREAS, the Commission finds that transformer costs should be allocated based on the average percentage of class responsibilities for the non-coincident peak at primary and secondary voltages as recommended by the Division and based on Dr. Swan's analysis in the record.

WHEREAS, the Commission finds the allocation of delivery-related uncollectible expenses should be allocated to all classes on the basis of rate year delivery revenue based on the Division's testimony.

WHEREAS, the Commission finds that commodity related uncollectible expenses should be allocated to all classes based on total commodity revenue for the rate year based on the Division's testimony.

WHEREAS, the Commission finds that Standard Offer Service ("SOS") administrative costs, except for cash working capital, should be allocated through SOS on the basis of SOS-delivered energy based on the testimony presented by the Division.

WHEREAS, the Commission finds that cash working capital shall be allocated based on commodity revenue.

WHEREAS, the Commission finds that customer service and information expenses should be allocated based on energy use at the meter based on the evidence presented by the Division.

WHEREAS, the Commission's denial of the Economic Development proposal makes the associated expense allocation a moot issue.

WHEREAS, the Commission finds that the allocation of the low income subsidy should be recovered from all customer rate classes and notes that the Company agreed with this position on rebuttal.

WHEREAS, the majority finds that an additional low income credit of \$0.9 million shall be continued to be recovered from all customers and incorporated into rates based on rate stability considerations and the comments and filings of the George Wiley Center.

WHEREAS, the Commission finds that the allocation of transmission costs be based on the coincident peak is reasonable and further that the allocation of this cost be calculated annually as part of the Company's annual retail rate filing.

WHEREAS, the Commission finds that the Division's proposal to mitigate the impact of the redesign of transmission rates by fifty percent by reducing or increasing each classes' revenue requirement by half of the resulting increase or decrease in transmission revenues that will result from the proposed reallocation of costs is reasonable based on the evidence.

WHEREAS, the Commission finds that it does not have sufficient evidence to justify elimination of existing the back-up rates but will separately open a docket to further investigate the propriety of such elimination.

WHEREAS, the Commission finds that NGrid did not present sufficient evidence to justify its proposal to eliminate Rates G-62 and B-62 and transfer those customers to

existing classes under Rates G-32 and Rate B-32 or to convince the Commission that such elimination would result in fair treatment of those affected customers.

WHEREAS, the Commission finds that the distribution rate increase for customers with demands greater than 8 MW should be limited to 150% of the average overall rate increase approved by the Commission in this case.

WHEREAS, the Commission finds that the Lighting class should be capped at two times the total Company percentage increase.

WHEREAS, the Commission finds that the Propulsion class should be moved halfway to its actual cost of service given the on-going, substantial cross-subsidy by other rate classes.

WHEREAS, the Commission finds that the shortfall arising from the cap on the Lighting & Propulsion classes should be allocated to all customer classes.

WHEREAS, the Commission finds that it is not reasonable to first bring the C&I Large Demand Class to its cost of service before allocating adjustments to other rate classes.

WHEREAS, the Commission finds that that the Division's recommendation regarding the customer charge for the Rate A-16 and Rate C-06 is reasonable and consistent with the principles of gradualism.

ACCORDINGLY, it is

(19965) ORDERED:

1. The Narragansett Electric Company d/b/a National Grid's request to collect an additional \$57,766,125³ is denied. National Grid is

³ This amount is exclusive of the commodity cost tracker and transmission-related uncollectibles.

authorized to collect an additional \$16,409,000 in revenues on usage on and after March 1, 2010.

2. The Narragansett Electric Company d/b/a National Grid is authorized to collect total distribution revenues of \$246,748,967 consisting of:

Base Distribution Revenue	\$231,952,274
Commodity Costs Tracker	\$ 6,059,653
Transmission Related Uncollectible	\$ 1,057,855
Other Revenue	\$ 7,679,155

3. The Narragansett Electric Company d/b/a National Grid is allowed a rate year rate base of \$550,870,432.
4. The Narragansett Electric Company d/b/a National Grid is allowed an overall rate of return of 7.2%.
5. The Narragansett Electric Company d/b/a National Grid's proposed capital structure is denied. The capital structure approved for ratemaking purposes shall be comprised of 42.75% equity, 52.08% long term debt, 4.98% short term debt and 0.19% preferred stock.
6. The Narragansett Electric Company d/b/a National Grid's proposed cost of capital is denied. The costs of common equity shall be 9.8%, long term debt shall be established by the mechanism agreed to between NGrid and the Division, short term debt shall be 1.60% and preferred stock shall be 4.50%.

7. The Narragansett Electric Company d/b/a National Grid's request for a \$2,409,195 adjustment to incentive compensation shall be reduced to \$1,204,000.
8. The Narragansett Electric Company d/b/a NGrid's request for a pro forma change to wage costs is denied.
9. The Narragansett Electric Company d/b/a NGrid's request to maintain \$1,041,000 of annual funding of the Storm Fund is denied and is suspended until such time that the balance of the account falls below a threshold of \$20 million at which time funding will be reinstated, subject to Commission approval.
10. The Narragansett Electric Company d/b/a National Grid's request to include the test year amount of Storm Damage Expense in the revenue requirement is denied and the Company shall normalize Storm Damage Expense by using a five year average from 2004 through 2008 thereby reducing test year Storm Damage Expense by \$1,395,000.
11. The Narragansett Electric Company d/b/a National Grid shall reduce its injury and damage expense by \$2.5 million.
12. The Narragansett Electric Company d/b/a National Grid's total rate case expense is approved and the Company shall be allowed to recover this expense amortized over a five year period.
13. The Narragansett Electric Company d/b/a National Grid's four year total of outside legal counsel expense shall be reduced by

\$593,795 to reflect the elimination of three years of Constellation litigation expense and the revenue requirement shall be based on a four year average of the remaining legal expense for the years 2005 through 2008.

14. The Narragansett Electric Company d/b/a National Grid shall use a five year historical average of vegetation management expense to determine the amount of vegetation management expense to be included in its revenue requirement.
15. The Narragansett Electric Company d/b/a National Grid shall use a four year average of inspection and maintenance expense to determine the amount of inspection and maintenance expense to be included in its revenue requirement.
16. The Narragansett Electric Company d/b/a National Grid's request for a reconciling mechanism for inspection and maintenance expense is denied.
17. The Narragansett Electric Company d/b/a National Grid is authorized to collect \$800,000 in transformation expense.
18. The Narragansett Electric Company d/b/a National Grid's request to collect \$2.3 million of GIS costs allocated from the Service Company is denied.
19. The Narragansett Electric Company d/b/a National Grid's request for a pro forma adjustment of \$376,000 for increased collection activities is denied.

20. The Narragansett Electric Company d/b/a National Grid shall reduce merger related costs to achieve by \$1,176,000 and may establish a regulatory asset for the remaining amount allowed in rates.
21. The Narragansett Electric Company d/b/a National Grid's request for a pro forma adjustment of \$182,000 to fund two new customer advocacy positions is denied.
22. The Narragansett Electric Company d/b/a National Grid's request for \$1 million to fund an economic development program is denied.
23. The Narragansett Electric Company d/b/a National Grid shall reduce projected plant in service by \$31,877,000 for a reduction in average rate year plant balance of \$19,953,000.
24. The Narragansett Electric Company d/b/a National Grid's request for a CAPEX tracker is denied.
25. The Narragansett Electric Company d/b/a National Grid shall calculate accumulated depreciation by using the actual accumulated depreciation balance as of June 30, 2009 and projecting the same net change in accumulated depreciation for the July through December 2009 period. For 2010, plant additions shall be estimated and accumulated depreciation shall be calculated by applying the actual historical relationship between plant retirements and the cost of removal.

26. The Narragansett Electric Company d/b/a National Grid shall calculate accumulated deferred income tax in the manner recommended by the Division.
27. The Narragansett Electric Company d/b/a National Grid's proposal to recover pension and other post employment benefits through a reconciling factor is denied.
28. The Narragansett Electric Company d/b/a National Grid shall eliminate the \$371,000 of contract termination charge from cash working capital and shall reduce cash working capital associated with municipal taxes by \$9,893,000 and the payment lag for municipal taxes shall be based on the calendar period.
29. The Narragansett Electric Company d/b/a National Grid's proposal for revenue decoupling and a plan and adjustment mechanism for such is denied in total.
30. The Narragansett Electric Company d/b/a National Grid is authorized a bad debt ratio of 0.94% to calculate the amount of delivery-related bad debt in base rates.
31. The Narragansett Electric Company d/b/a National Grid's request for a reconciling mechanism to allow for the future adjustment to delivery-related bad debt is denied.
32. The Narragansett Electric Company d/b/a National Grid shall recover a standard offer related uncollectible expense through commodity rates using a bad-debt percentage of 0.94% and the

same mechanism approved in Docket No. 3943 for National Grid's gas business.

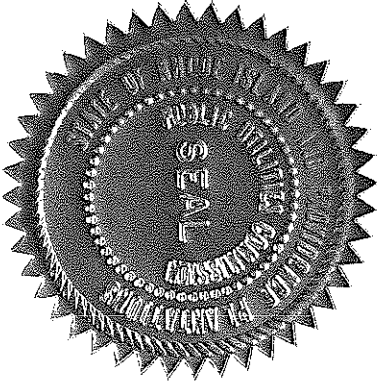
33. The Narragansett Electric Company d/b/a National Grid's request to recover transmission-related uncollectible expense through transmission retail rates is approved.
34. The Commission will not require a minimum system study in the next base rate case.
35. The Narragansett Electric Company d/b/a National Grid shall allocate transformer costs based on the average percentage of class responsibilities for the non-coincident peak at primary and secondary voltages.
36. The Narragansett Electric Company d/b/a National Grid shall allocate delivery-related uncollectible expense to all classes on the basis of rate year delivery.
37. The Narragansett Electric Company d/b/a National Grid shall allocate commodity-related uncollectible expense base on total commodity revenue for the rate year.
38. The Narragansett Electric Company d/b/a National Grid shall allocate Standard Offer Service administrative costs, except for cash working capital, on the basis of Standard Offer Service delivered energy. Cash working capital shall be allocated on the basis of commodity revenue.

39. The Narragansett Electric Company d/b/a National Grid shall allocate customer service and information expenses based on energy use at the meter.
40. The Narragansett Electric Company d/b/a National Grid shall allocate the low income subsidy to all customer rate classes.
41. The Narragansett Electric Company d/b/a National Grid shall continue a low income credit of \$0.9 million to be recovered from all customers and incorporated into rates.
42. The Narragansett Electric Company d/b/a National Grid shall allocate transmission costs based on the coincident peak.
43. The Narragansett Electric Company d/b/a National Grid shall mitigate the impact of the redesign of transmission rates by fifty percent in the manner set forth above.
44. The Energy Council of Rhode Island's request to eliminate back-up rates is denied.
45. The Narragansett Electric Company d/b/a National Grid's proposal to eliminate the demand Rate G-62 and Rate B-62 and transfer the customers in those classes to Rate G-32 and Rate B-32 is denied.
46. The Narragansett Electric Company d/b/a National Grid shall limit the distribution rate increase for customers with demands greater than 8 MW to 150% of the average overall rate increase in this matter.

47. The Narragansett Electric Company d/b/a National Grid shall cap the increase to the Lighting class at two times the total company percentage increase and shall move the Propulsion class to halfway to its actual cost of service and any resulting shortfall shall be allocated to all customer classes.
48. The Navy's and The Energy Counsel of Rhode Island's proposal to bring the Large C&I Demand Class to its cost of service before allocating adjustments to other rate classes is denied.
49. The Narragansett Electric Company d/b/a National Grid shall limit the increase on the customer charge to the Rate A-16 to \$3.75/month and Rate C-06 to \$2.00/month.
50. The Parties shall act in accordance with all other findings and instructions contained in this Order. A final and comprehensive report and order will follow.

EFFECTIVE AT WARWICK, RHODE ISLAND ON MARCH 1, 2010,
PURSUANT TO AN OPEN MEETING DECISION ON FEBRUARY 9, 2010.
WRITTEN ORDER ISSUED APRIL 14, 2010.

PUBLIC UTILITIES COMMISSION



Elia Germani, Chairman*

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner

*Chairman Germani was not in the majority and dissented to every finding identified as being a finding of the majority. His dissenting opinion will be attached to the Commission's final report and order.