

December 1, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4065 – National Grid Request for Change of Electric Distribution Rates
Response to Record Requests**

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's¹ responses to RR-COMM-12, which was issued by the Commission at the November 4, 2009 evidentiary hearing in the above-referenced proceeding. As stated in the response, the Company is requesting that it have the opportunity to schedule a time when Mr. Michael D. Laflamme could appear before the Commission to present the pro forma illustrative example contained in the response.

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,



Thomas R. Teehan

Enclosures

cc: Docket 4065 Service List

¹ The Narragansett Electric Company d/b/a National Grid ("Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, hand delivered and mailed to the individuals listed below.

/S/
Linda Samuelian

December 1, 2009
Date

**National Grid (NGrid) – Request for Change in Electric Distribution Rates
Docket No. 4065 - Service List as of 10/15/2009**

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Commission Record Request No. 12

Request:

Regarding the Company's proposed RDR Plan, please provide a pro forma illustration of the calculations based on hypothetical numbers. Please provide a scenario in which the reconciliation results in a surcharge to customers and a second scenario in which the reconciliation results in a refund to customers.

Response:

To respond to various requests for an illustrative or pro forma example of the mechanics of the proposed Revenue Decoupling Mechanism and Revenue Decoupling Ratemaking Plan, the Company developed Attachment RR-COMM-12 (A). Specifically, Attachment RR-COMM-12 (A) is a powerpoint presentation that uses data submitted with the Company's initial filing in this case (June 1, 2010) as Schedule NG-RLO-7 to illustrate the calculations that would be made in future filings, should the Commission approve the Company's ratemaking proposals, or a subset thereof. Contained within Attachment RR-COMM-12 (A) are illustrative per unit factors that would apply to customer bills. These factors are presented only as an example and are not intended to represent the actual factor that would result.

A few other items of note are the following:

First, certain of the figures presented in the Company's initial filing in Schedule NG-RLO-7 were modified to account for changes in sales. These modifications were necessary to illustrate the mechanics of the RDR Plan. The simplifying revisions to Schedule NG-RLO-7 are shown in Attachment RR-COMM-12 (B) (pages 1 through 4), which is an updated, illustrative Schedule NG-RLO-7.

Second, although the figures used by the Company are intended to be illustrative in nature and do not represent the actual numbers that will occur in the final result, the Company believes that the assumptions made are well within the bounds of reasonableness in terms of illustrating how the mechanism will work.

Lastly, the Company respectfully requests the opportunity to identify a time when Mr. Laflamme could appear in this docket to walk through the illustrative example and answer any questions about its operation.

Narragansett Electric Company d/b/a National Grid

Revenue Decoupling Pro Forma Example



RIPUC Docket 4065

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Agenda

REVENUE DECOUPLING

- Actual Billed Revenue
- Annual Target Revenue (“ATR”)
- Revenue Decoupling Rate Adjustment Mechanism (“RDM”)

ANNUAL ADJUSTMENTS TO ATR AND ANNUAL COST SIDE RATE ADJUSTMENTS

- Incremental Capital Expenditure Rate Adjustment
 - Historical Capex Adjustment - Reconciliation to actual historical capital investments (“CapEx_h”)
 - Current year rate allowance (“CapEx_{cy}”)
- Net Inflation Adjustment (“Infl”)

Narragansett Electric Company d/b/a National Grid

REVENUE DECOUPLING

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Revenue Decoupling Mechanism (“RDM”)

In simplest form, the Revenue Decoupling Mechanism compares actual billed distribution revenues in a time period against the “Target Revenue” in that same time period. The difference is a total dollar amount: either an over- or under-recovered balance of the Target Revenue. This will be reconciled annually through a RDM adjustment mechanism on the customer’s bill.

Since the reconciliation process in which billed revenues are compared to target revenue is proposed to occur annually, then the annual target revenue must be adjusted to include the reconciliation amount to be billed or credited to customers. The balance is included and billed as part of the ATR in the subsequent year.



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Revenue Decoupling Rate Mechanism (“RDM”)

The RDM adjustment :

- would reconcile actual and target billed revenue
- would be effective January 1, 2011 – a year after new rates are established.
- would be based on an end-of-year filing that would use actual data up through September 30th of each year.
 - The first reconciliation period would be for 9 months (January 2010 through September 2010).
 - Subsequent filings would be for 12 months (October 1st through Sept 30th).
- would be billed on a uniform per-kWh basis to all rate classes.
- would be tracked monthly, and Commission/Division would be notified if annual reconciliation amount is projected to exceed 10% of ATR for possible mid-year calibration.



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Actual Billed Revenue

Actual Billed Revenue equals the Company's billed distribution revenue, including base rates, and adjustments associated with RDM, CapEx_h, CapEx_{cy} and Inflation

- Includes all Customer, Energy and Demand charges billed to all distribution customers
- Base rates:
 - fixed at the level approved in this proceeding
 - absent any adjustment, do not anticipate net recovery of future cost drivers such as capital investment, inflation and Company driven efficiencies

CY2010 Billed Revenue = \$278,809,931

Annual Target Revenue (“ATR”)

ATR equals the Company’s level of annual revenue the Commission deems prudent and appropriate to run the distribution business in Rhode Island

The ATR will change from one year to the next.

The RDM mechanism will true up the actual revenues in a year to the allowed ATR for that same year.



CY2010 ATR = \$278,809,931

Annual Target Revenue (“ATR”)

For CY 2010:

CY2010 ATR = \$278,809,931



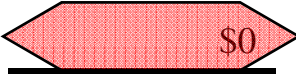
- For CY2010, the ATR equals the approved cost of service in this proceeding. Among other things, that cost of service includes
 - an expected level of Operation and Maintenance expense for CY2010
 - an expected level of capital investment for CY2009 and CY2010
 - recovery “of” (depreciation) and recovery “on” (pre-tax Rate of Return “ROR”) average CY2010 rate base.

For CY 2011 and Beyond:

CY2011 ATR = \$284,449,953

- For CY2011, the ATR equals the approved cost of service with the following adjustments:
 - Any +/- RDR Plan revenue reconciliation for prior year (2010)
 - Cumulative Net Historic Capital Adjustment (CapEx) – *If Approved*
 - Net Historic Inflation Adjustment – *If Approved*

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>
Actual Billed Revenue*	 \$278,809,931
Annual Target Revenue (“ATR”)	 278,809,931
Excess/(Under) Billed Revenue (RDM)	 \$0

* “Revenue Requirement as Approved” would include customer charge revenue, distribution energy charges, distribution demand charges, and streetlight revenue in place of the first line. It does not include commodity charges.

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010

	<u>CY 2010</u>
<u>Components of Billed Revenue</u>	
Actual Billed Revenue	<u>\$276,021,832</u>
Prior Year RDR Plan Revenue Reconciliation (RDM)	0
Net Inflation Adjustment (Infl)	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0
Current Year Capital Adjustment	<u>0</u>
Total RDM Plan Revenue (Actual Billed Revenue)	<u>\$276,021,832</u>

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>
<u>Calculation of Annual Target Revenue (ATR)</u>	
Revenue Requirement as Approved	\$278,809,931
Net Inflation Adjustment (Infl)	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	<u>0</u>
Annual Target Revenue (ATR)	<u>\$278,809,931</u>


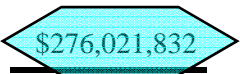
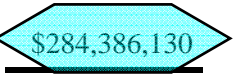
Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>
Actual Billed Revenue	\$276,021,832
Annual Target Revenue (“ATR”)	278,809,931
Excess/(Under) Billed Revenue (RDM)	(\$2,788,099)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010 and a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Components of Billed Revenue</u>		
Actual Billed Revenue	<u>\$276,021,832</u>	<u>\$281,598,030</u>
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	 \$2,788,099
Net Inflation Adjustment (Infl)	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	0
Current Year Capital Adjustment	<u>0</u>	<u>0</u>
Total RDM Plan Revenue (Actual Billed Revenue)	 <u>\$276,021,832</u>	 <u>\$284,386,130</u>

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Calculation of Annual Target Revenue (ATR)</u>		
Revenue Requirement as Approved	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	2,788,099
Cumulative Net Historic Capital Adjustment (CapExh)	<u>0</u>	<u>0</u>
Annual Target Revenue (ATR)	<u>\$278,809,931</u>	<u>\$281,598,030</u>

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>
Actual Billed Revenue	\$276,021,832	\$284,598,030
Annual Target Revenue (“ATR”)	278,809,931	281,598,030
Excess/(Under) Billed Revenue (RDM)	(\$2,788,099)	\$2,788,099

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010,a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>
<u>Components of Billed Revenue</u>			
Actual Billed Revenue	\$276,021,832	\$281,598,030	\$278,809,931
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$2,788,099	(\$2,788,099)
Net Inflation Adjustment (Infl)	0	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	0	0
Current Year Capital Adjustment	0	0	0
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$284,386,130	\$276,021,832

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
<u>Calculation of Annual Target Revenue (ATR)</u>			
Revenue Requirement as Approved	\$278,809,931	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	2,788,099	(\$2,788,099)
Cumulative Net Historic Capital Adjustment (CapExh)	0	0	0
Annual Target Revenue (ATR)	\$278,809,931	\$281,598,030	\$276,021,832

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
Actual Billed Revenue	\$276,021,832	\$284,598,030	\$276,021,832
Annual Target Revenue (“ATR”)	278,809,931	281,598,030	\$276,021,832
Excess/(Under) Billed Revenue (RDM)	(\$2,788,099)	\$2,788,099	\$0

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Narragansett Electric Company d/b/a National Grid

National Grid - Narragansett Electric Company Summary of Rate Adjustment Impacts RDM Adjustment

Rate Class	CY2010		Change from CY2010 Rate	CY2011				Change from CY2010 Rate	Incremental Annual Change	CY2012			
	Billed Rate Distribution	Billed Rate Total		Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total			Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total
A-16/A-60	\$0.04955	\$0.16678	\$0.00037	\$0.04992	\$0.16715	0.74%	0.22%	(\$0.00036)	(\$0.00073)	\$0.04919	\$0.16642	-1.47%	-0.44%
C-06	\$0.05154	\$0.16887	\$0.00037	\$0.05191	\$0.16924	0.71%	0.22%	(\$0.00036)	(\$0.00073)	\$0.05118	\$0.16851	-1.41%	-0.43%
G-02	\$0.02935	\$0.13737	\$0.00037	\$0.02972	\$0.13774	1.25%	0.27%	(\$0.00036)	(\$0.00073)	\$0.02899	\$0.13701	-2.46%	-0.53%
G-32/G-62	\$0.01786	\$0.12484	\$0.00037	\$0.01823	\$0.12521	2.06%	0.29%	(\$0.00036)	(\$0.00073)	\$0.01750	\$0.12448	-4.01%	-0.58%
STL	\$0.20630	n/a	\$0.00037	\$0.20667	n/a	n/a	n/a	(\$0.00036)	(\$0.00073)	\$0.20594	n/a	n/a	n/a
X-01	\$0.01261	n/a	\$0.00037	\$0.01298	n/a	n/a	n/a	(\$0.00036)	(\$0.00073)	\$0.01225	n/a	n/a	n/a

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Narragansett Electric Company d/b/a National Grid

ANNUAL ADJUSTMENTS TO ATR AND ANNUAL COST SIDE RATE ADJUSTMENTS

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Adjustments to ATR and Annual Rate Adjustments

Historical CapEx Adjustment (“CapEx_h”)

- Represents:
 - revenue requirement for incremental increases to Rate Base for historical investments made by the Company in excess of amounts included in current rates
 - first CapEx_h would be effective January 1, 2011 to reconcile actual CY2009 and CY2010 capital investments to amounts included in base rates
- Allocated to individual rate classes based on rate base allocator
- Annual rate adjustment includes return “on” and return “of” actual incremental net post-test year capital investments
 - Net post-test year capital investments = the actual cumulative annual capital investments made by the Company since CY2008, less the annual depreciation expense allowance included in base rates as determined in this proceeding.
 - This net capital investment amount is then adjusted for associated accumulated depreciation and accumulated deferred tax reserves to arrive at incremental Rate Base (“RB_i”).
 - Return “on” net post-test year capital investments = RB_i times the pre-tax rate of return (“ROR”) as determined in this proceeding
 - Return “of” net post-test year capital investments = the annual depreciation expense associated with the cumulative incremental capital investments made by the Company, or incremental depreciation expense (“DEPR_i”)

$$\text{CapEx}_h = (\text{RB}_i \times \text{ROR}) + \text{DEPR}_i$$

Calculation of Adjustments to ATR and Annual Rate Adjustments Historical CapEx Adjustment (“CapEx_h”)

This example shows the amounts that are added to both the annual target revenue and billed revenue to recover or credit the revenue requirements of historical capital expenditures variances from those embedded in base rates.

Rate Base Calculation: Assumes \$55m and \$65m in CY2009 and CY 2010, respectively.

	<u>CY2009</u>	<u>CY2010</u>
Cumulative Incremental Spend	(\$4,688,377)	(\$15,519,404)
Accum Depreciation	83,453	425,975
Deferred Tax Reserve	624,600	720,922
Deferred Tax Reversal on 2008 assets	0	0
Year End Rate Base	(\$3,980,324)	(\$14,372,507)

Revenue Requirement Calculation:

Average Rate Base	(\$1,990,162)	(\$9,176,415)
Pre-Tax ROR	12.10%	12.10%
Return and Taxes	(240,810)	(1,110,346)
Book Depreciation	(83,453)	(342,522)
Annual Revenue Requirement	(\$324,263)	(\$1,452,868)

NOTE: CapEx_h included in current year ATR and billed in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010

	<u>CY 2010</u>
<u>Components of Billed Revenue</u>	
Actual Billed Revenue	<u>\$276,021,832</u>
Prior Year RDR Plan Revenue Reconciliation (RDM)	0
Net Inflation Adjustment (Infl)	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0
Current Year Capital Adjustment	<u>0</u>
Total RDM Plan Revenue (Actual Billed Revenue)	<u>\$276,021,832</u>

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>
<u>Calculation of Annual Target Revenue (ATR)</u>	
Revenue Requirement as Approved	\$278,809,931
Net Inflation Adjustment (Infl)	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0
Cumulative Net Historic Capital Adjustment (CapExh)	<u>(\$1,452,868)</u>
Annual Target Revenue (ATR)	<u>\$277,357,063</u>

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>
Actual Billed Revenue	\$276,021,832
Annual Target Revenue (“ATR”)	\$277,357,063
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Adjustments to ATR and Annual Rate Adjustments Historical CapEx Adjustment (“CapEx_h”)

This example shows the amounts that are added to both the annual target revenue and billed revenue to recover or credit the revenue requirements of historical capital expenditures variances from those embedded in base rates.

Rate Base Calculation: Assumes \$55m and \$65m in CY2009 and CY 2010, respectively and as forecasted for CY2011

	<u>CY2009</u>	<u>CY2010</u>	<u>CY2011</u>
Cumulative Incremental Spend	(\$4,688,377)	(\$15,519,404)	\$24,415,847
Accum Depreciation	83,453	425,975	(218,570)
Deferred Tax Reserve	624,600	720,922	222,276
Deferred Tax Reversal on 2008 assets	0	0	7,444,836
Year End Rate Base	(\$3,980,324)	(\$14,372,507)	\$31,864,389

Revenue Requirement Calculation:

Average Rate Base	(\$1,990,162)	(\$9,176,415)	\$8,745,941
Pre-Tax ROR	12.10%	12.10%	12.10%
Return and Taxes	(240,810)	(1,110,346)	1,058,259
Book Depreciation	(83,453)	(342,522)	644,545
Annual Revenue Requirement	(\$324,263)	(\$1,452,868)	\$1,702,804

NOTE: CapEx_h included in current year ATR and billed in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010, a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Components of Billed Revenue</u>		
Actual Billed Revenue	\$276,021,832	\$281,598,030
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Net Inflation Adjustment (Infl)	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)
Current Year Capital Adjustment	0	0
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$281,480,393

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Calculation of Annual Target Revenue (ATR)</u>		
Revenue Requirement as Approved	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804
Annual Target Revenue (ATR)	\$277,357,063	\$281,847,966

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>
Actual Billed Revenue	\$276,021,832	\$281,480,393
Annual Target Revenue (“ATR”)	\$277,357,063	\$281,847,966
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	(\$367,572)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Adjustments to ATR and Annual Rate Adjustments Historical CapEx Adjustment (“CapEx_h”)

This example shows the amounts that are added to both the annual target revenue and billed revenue to recover or credit the revenue requirements of historical capital expenditures variances from those embedded in base rates.

	<u>CY2009</u>	<u>CY2010</u>	<u>CY2011</u>	<u>CY2012</u>
<u>Rate Base Calculation:</u> Assumes \$55m and \$65m in CY2009 and CY 2010, respectively and as forecasted for CY2011 and CY2012				
Cumulative Incremental Spend	(\$4,688,377)	(\$15,519,404)	\$24,415,847	\$70,577,098
Accum Depreciation	83,453	425,975	(218,570)	(3,294,121)
Deferred Tax Reserve	624,600	720,922	222,276	(1,586,096)
Deferred Tax Reversal on 2008 assets	0	0	7,444,836	11,568,759
Year End Rate Base	(\$3,980,324)	(\$14,372,507)	\$31,864,389	\$77,265,640
<u>Revenue Requirement Calculation:</u>				
Average Rate Base	(\$1,990,162)	(\$9,176,415)	\$8,745,941	\$54,565,015
Pre-Tax ROR	12.10%	12.10%	12.10%	12.10%
Return and Taxes	(240,810)	(1,110,346)	1,058,259	6,602,367
Book Depreciation	(83,453)	(342,522)	644,545	3,075,551
Annual Revenue Requirement	(\$324,263)	(\$1,452,868)	\$1,702,804	\$9,677,918

NOTE: CapEx_h included in current year ATR and billed in subsequent year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010,a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>
<u>Components of Billed Revenue</u>			
Actual Billed Revenue	\$276,021,832	\$281,598,030	\$278,809,931
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	367,572
Net Inflation Adjustment (Infl)	0	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)	1,702,804
Current Year Capital Adjustment	0	0	0
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$281,480,393	\$280,880,307

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
<u>Calculation of Annual Target Revenue (ATR)</u>			
Revenue Requirement as Approved	\$278,809,931	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	\$367,572
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804	\$9,677,917
Annual Target Revenue (ATR)	\$277,357,063	\$281,847,966	\$288,855,421

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
Actual Billed Revenue	\$276,021,832	\$281,480,393	\$280,880,307
Annual Target Revenue (“ATR”)	\$277,357,063	\$281,847,966	\$288,855,421
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	(\$367,572)	(\$7,975,114)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Narragansett Electric Company d/b/a National Grid

National Grid - Narragansett Electric Company Summary of Rate Adjustment Impacts Historical CapEx Adjustment

Rate Class	CY2010		Change from CY2010 Rate	CY2011				Change from CY2010 Rate	Incremental Annual Change	CY2012			
	Billed Rate Distribution	Billed Rate Total		Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total			Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total
A-16/A-60	\$0.04955	\$0.16678	(\$0.00026)	\$0.04929	\$0.16652	-0.52%	-0.15%	\$0.00030	\$0.00055	\$0.04985	\$0.16708	1.12%	0.33%
C-06	\$0.05154	\$0.16887	(\$0.00027)	\$0.05127	\$0.16860	-0.53%	-0.16%	\$0.00032	\$0.00059	\$0.05186	\$0.16919	1.15%	0.35%
G-02	\$0.02935	\$0.13737	(\$0.00016)	\$0.02919	\$0.13721	-0.53%	-0.11%	\$0.00018	\$0.00034	\$0.02953	\$0.13755	1.16%	0.25%
G-32/G-62	\$0.01786	\$0.12484	(\$0.00009)	\$0.01777	\$0.12475	-0.52%	-0.07%	\$0.00011	\$0.00020	\$0.01797	\$0.12495	1.14%	0.16%
STL	\$0.20630	n/a	(\$0.00113)	\$0.20517	n/a	n/a	n/a	\$0.00131	\$0.00244	\$0.20761	n/a	n/a	n/a
X-01	\$0.01261	n/a	(\$0.00023)	\$0.01238	n/a	n/a	n/a	\$0.00027	\$0.00050	\$0.01288	n/a	n/a	n/a

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Adjustments to ATR and Annual Rate Adjustments

Current Year CapEx Adjustment (“CapEx_{cy}”)

- **Represents:**
 - revenue requirement for increases to Rate Base for incremental investments expected to be made by the Company in the year rates are billed
 - similar to rate year capital investment allowances in rate cases
 - the first CapEx_{cy} would be effective January 1, 2011 for a portion of expected incremental net capital expenditures in CY2011
- **Current year capital expenditures to be included in the CapEx_{cy} are:**
 - limited to 75% of the average of the prior two years' actual capital spending
 - Subject to reconciliation via the annual CapEx_h
- **Annual CapEx_{cy} = 75% of the average of the prior two years actual capital spending less the annual depreciation expense allowance included in base rates as determined in this proceeding and is allocated to individual rate classes based on rate base allocator**
- **Annual rate adjustment includes return “on” and return “of” current year net capital investments. This net capital investment is then adjusted for associated accumulated depreciation and accumulated deferred tax reserves to arrive at incremental current year Rate Base (“RB_{cy}”).**
 - Return “on” current year net capital investments = the average of RB_{cy} times the pre-tax rate of return (“ROR”) as determined in this proceeding
 - Return “of” Current year net capital investments = the annual depreciation expense associated with the cumulative incremental capital investments expected to be made by the Company, or incremental depreciation expense (“DEPR_{cy}”)

$$\text{CapEx}_{cy} = (\text{RB}_{cy} \times \text{ROR}) + \text{DEPR}_{cy}$$

Calculation of Adjustments to ATR and Annual Rate Adjustments Current Year CapEx Adjustment (“CapEx_{cy}”)

This example shows the amounts that are added to both annual target revenue and billed revenue to recover the revenue requirements of current-year capital expenditures beyond those embedded in base rates.

CY2011

Rate Base Calculation:

Cumulative Incremental Spend	\$3,682,251
Accumulated Depreciation	(556,164)
Deferred Tax Reserve	(395,968)
Deferred Tax Reversal on 2008 assets	
Year End Rate Base	<u>\$2,730,119</u>

Revenue Requirement Calculation:

Average Rate Base	\$1,365,060
Pre-Tax ROR	<u>12.10%</u>
Return and Taxes	165,172
Book Depreciation	<u>556,164</u>
Revenue Requirement (CapEx _{cy})	<u>\$721,336</u>

NOTE: CapEx_{cy} billed in current year, trued up for ATR with CapEx_n reconciliation

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010, a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Components of Billed Revenue</u>		
Actual Billed Revenue	\$276,021,832	\$281,598,030
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Net Inflation Adjustment (Infl)	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)
Current Year Capital Adjustment	0	\$721,336
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$282,201,730

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Calculation of Annual Target Revenue (ATR)</u>		
Revenue Requirement as Approved	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804
Annual Target Revenue (ATR)	\$277,357,063	\$281,847,966

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>
Actual Billed Revenue	\$276,021,832	\$282,201,730
Annual Target Revenue (“ATR”)	\$277,357,063	\$281,847,966
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	\$353,764

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Adjustments to ATR and Annual Rate Adjustments Current Year CapEx Adjustment (“CapEx_{cy}”)

This example shows the amounts that are added to both annual target revenue and billed revenue to recover the revenue requirements of current-year capital expenditures beyond those embedded in base rates.

Rate Base Calculation:

	<u>CY2011</u>	<u>CY2012</u>
Cumulative Incremental Spend	\$3,682,251	\$13,527,126
Accumulated Depreciation	(556,164)	(707,205)
Deferred Tax Reserve	(395,968)	(472,317)
Deferred Tax Reversal on 2008 assets		
Year End Rate Base	<u>\$2,730,119</u>	<u>\$12,347,604</u>

Revenue Requirement Calculation:

Average Rate Base	\$1,365,060	\$6,173,802
Pre-Tax ROR	<u>12.10%</u>	<u>12.10%</u>
Return and Taxes	165,172	747,030
Book Depreciation	<u>556,164</u>	<u>707,205</u>
Revenue Requirement (CapEx _{cy})	<u>\$721,336</u>	<u>\$1,454,235</u>

NOTE: CapEx_{cy} billed in current year, trued up for ATR with CapEx_n reconciliation

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010, a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>
<u>Components of Billed Revenue</u>			
Actual Billed Revenue	\$276,021,832	\$281,598,030	\$278,809,931
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	(\$353,764)
Net Inflation Adjustment (Infl)	0	0	0
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)	1,702,804
Current Year Capital Adjustment	0	\$721,336	\$1,454,235
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$282,201,730	\$281,613,206

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
<u>Calculation of Annual Target Revenue (ATR)</u>			
Revenue Requirement as Approved	\$278,809,931	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	0	0
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	(\$353,764)
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804	\$9,677,918
Annual Target Revenue (ATR)	\$277,357,063	\$281,847,966	\$288,134,085

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
Actual Billed Revenue	\$276,021,832	\$282,201,730	\$281,613,206
Annual Target Revenue (“ATR”)	\$277,357,063	\$281,847,966	\$288,134,085
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	\$353,764	(\$6,520,879)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Narragansett Electric Company d/b/a National Grid

National Grid - Narragansett Electric Company
Summary of Rate Adjustment Impacts
Current Year CapEx Adjustment

Rate Class	CY2010		Change from CY2010 Rate	CY2011				Change from CY2010 Rate	Incremental Annual Change	CY2012			
	Billed Rate Distribution	Billed Rate Total		Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total			Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total
A-16/A-60	\$0.04955	\$0.16678	\$0.00013	\$0.04968	\$0.16691	0.26%	0.08%	\$0.00025	\$0.00013	\$0.04980	\$0.16703	0.25%	0.08%
C-06	\$0.05154	\$0.16887	\$0.00013	\$0.05167	\$0.16900	0.26%	0.08%	\$0.00027	\$0.00013	\$0.05181	\$0.16914	0.26%	0.08%
G-02	\$0.02935	\$0.13737	\$0.00008	\$0.02943	\$0.13745	0.26%	0.06%	\$0.00015	\$0.00008	\$0.02950	\$0.13752	0.26%	0.06%
G-32/G-62	\$0.01786	\$0.12484	\$0.00005	\$0.01791	\$0.12489	0.26%	0.04%	\$0.00009	\$0.00005	\$0.01795	\$0.12493	0.26%	0.04%
STL	\$0.20630	n/a	\$0.00056	\$0.20686	n/a	n/a	n/a	\$0.00112	\$0.00056	\$0.20742	n/a	n/a	n/a
X-01	\$0.01261	n/a	\$0.00011	\$0.01272	n/a	n/a	n/a	\$0.00023	\$0.00011	\$0.01284	n/a	n/a	n/a

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Adjustments to ATR and Annual Rate Adjustments Net Inflation Adjustment (“Infl”)

- Recognizes impacts of inflation on Company costs for periods after the rate year
- The first Infl would be effective January 1, 2011
- Annual Infl is allocated to individual rate classes based on expense allocator
- Annual inflation rate as measured by “GDP” through the mid year of the year prior to the effective date of the rate adjustment (for example, for the January 1, 2011 adjustment, the actual rate of inflation for the period July 1, 2009 through June 30, 2010 would be utilized)
- Assumes a productivity offset to inflation of 0.5%
- The actual GDP is applied to a fixed amount of inflation-prone operation and maintenance expenses as determined in this proceeding (“O&M”). As proposed by the Company, this fixed amount of O&M equals \$143,985,723

$$\text{INFL} = \text{O\&M} \times (\text{GDP} - 0.5\%)$$

Calculation of Adjustments to ATR and Annual Rate Adjustments Net Inflation Adjustment (“Infl”)

This example shows the numbers that are added to both the annual target revenue and billed revenue recover revenues to reflect the effect of inflation (net of productivity offset) beyond the amounts embedded in base rates.

	<u>Approved CY2010</u>	<u>CY2011</u>
Four Quarter Average Annual Change - GPD PI		1.69%
Productivity Offset		-0.50%
Net Inflation Allowance		1.19%
Net Operating Expenses Subject to Inflation	\$143,985,723	\$143,985,723
Net Inflation Adjustment		1,713,430
Net Operating Expenses Subject to Inflation		145,699,153
Cumulative Net Inflation Adjustment (Infl)		<u>\$1,713,430</u>

NOTE: Infl billed and included in ATR in current year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010,a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Components of Billed Revenue</u>		
Actual Billed Revenue	\$276,021,832	\$281,598,030
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Net Inflation Adjustment (Infl)	0	\$1,713,430
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)
Current Year Capital Adjustment	0	721,336
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$283,915,160

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>
<u>Calculation of Annual Target Revenue (ATR)</u>		
Revenue Requirement as Approved	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	\$1,713,430
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804
Annual Target Revenue (ATR)	\$277,357,063	\$283,561,396

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>
Actual Billed Revenue	\$276,021,832	\$283,915,160
Annual Target Revenue (“ATR”)	\$277,357,063	\$283,561,396
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	\$353,764

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Calculation of Adjustments to ATR and Annual Rate Adjustments Net Inflation Adjustment (“Infl”)

This example shows the numbers that are added to both the annual target revenue and billed revenue recover revenues to reflect the effect of inflation (net of productivity offset) beyond the amounts embedded in base rates.

	<u>Approved CY2010</u>	<u>CY2011</u>	<u>CY2012</u>
Four Quarter Average Annual Change - GPD PI		1.69%	2.19%
Productivity Offset		-0.50%	-0.50%
Net Inflation Allowance		1.19%	1.69%
Net Operating Expenses Subject to Inflation	\$143,985,723	\$143,985,723	\$145,699,153
Net Inflation Adjustment		1,713,430	2,462,316
Net Operating Expenses Subject to Inflation		145,699,153	148,161,469
Cumulative Net Inflation Adjustment (Infl)		\$1,713,430	\$4,175,746

NOTE: Infl billed and included in ATR in current year

Calculation of Actual Billed Revenue

Note Assumes a 1% decrease in billed revenue in CY2010, a 1% increase in billed revenue in CY2011

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY 2012</u>
<u>Components of Billed Revenue</u>			
Actual Billed Revenue	\$276,021,832	\$281,598,030	\$278,809,931
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	(\$353,764)
Net Inflation Adjustment (Infl)	0	\$1,713,430	\$4,175,746
Cumulative Net Historic Capital Adjustment (CapEx _h)	0	(\$1,452,868)	1,702,804
Current Year Capital Adjustment	0	\$721,336	\$1,454,235
Total RDM Plan Revenue (Actual Billed Revenue)	\$276,021,832	\$283,915,160	\$285,788,952

Calculation of Annual Target Revenue (“ATR”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
<u>Calculation of Annual Target Revenue (ATR)</u>			
Revenue Requirement as Approved	\$278,809,931	\$278,809,931	\$278,809,931
Net Inflation Adjustment (Infl)	0	\$1,713,430	\$4,175,746
Prior Year RDR Plan Revenue Reconciliation (RDM)	0	\$1,335,231	(\$353,764)
Cumulative Net Historic Capital Adjustment (CapExh)	(\$1,452,868)	1,702,804	\$9,677,918
Annual Target Revenue (ATR)	\$277,357,063	\$283,561,396	\$292,309,831

Calculation of Revenue Decoupling Mechanism (“RDM”)

	<u>CY 2010</u>	<u>CY 2011</u>	<u>CY2012</u>
Actual Billed Revenue	\$276,021,832	\$283,915,160	\$285,788,952
Annual Target Revenue (“ATR”)	\$277,357,063	\$283,561,396	\$292,309,831
Excess/(Under) Billed Revenue (RDM)	(\$1,335,231)	\$353,764	(\$6,520,879)

Note: RDM reconciliation amount billed and included in ATR in subsequent year

Narragansett Electric Company d/b/a National Grid

National Grid - Narragansett Electric Company Summary of Rate Adjustment Impacts Inflation Adjustment

Rate Class	CY2010		Change from CY2010 Rate	CY2011				Change from CY2010 Rate	Incremental Annual Change	CY2012			
	Billed Rate Distribution	Billed Rate Total		Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total			Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total
A-16/A-60	\$0.04955	\$0.16678	\$0.00031	\$0.04986	\$0.16709	0.62%	0.19%	\$0.00075	\$0.00044	\$0.05030	\$0.16753	0.88%	0.26%
C-06	\$0.05154	\$0.16887	\$0.00032	\$0.05186	\$0.16919	0.61%	0.19%	\$0.00076	\$0.00045	\$0.05230	\$0.16963	0.86%	0.26%
G-02	\$0.02935	\$0.13737	\$0.00018	\$0.02953	\$0.13755	0.61%	0.13%	\$0.00043	\$0.00025	\$0.02978	\$0.13780	0.86%	0.19%
G-32/G-62	\$0.01786	\$0.12484	\$0.00011	\$0.01797	\$0.12495	0.59%	0.08%	\$0.00026	\$0.00015	\$0.01812	\$0.12510	0.83%	0.12%
STL	\$0.20630	n/a	\$0.00129	\$0.20759	n/a	n/a	n/a	\$0.00311	\$0.00182	\$0.20941	n/a	n/a	n/a
X-01	\$0.01261	n/a	\$0.00023	\$0.01284	n/a	n/a	n/a	\$0.00056	\$0.00033	\$0.01317	n/a	n/a	n/a

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Narragansett Electric Company d/b/a National Grid

National Grid - Narragansett Electric Company Summary of Rate Adjustment Impacts All Adjustments

Rate Class	CY2010		Change from CY2010 Rate	CY2011				Change from CY2010 Rate	Incremental Annual Change	CY2012			
	Billed Rate Distribution	Billed Rate Total		Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total			Billed Rate Distribution	Billed Rate Total	% Change Distribution	% Change Total
A-16/A-60	\$0.04955	\$0.16678	\$0.00036	\$0.04991	\$0.16714	0.72%	0.21%	\$0.00125	\$0.00089	\$0.05080	\$0.16803	1.79%	0.53%
C-06	\$0.05154	\$0.16887	\$0.00036	\$0.05190	\$0.16923	0.69%	0.21%	\$0.00130	\$0.00095	\$0.05284	\$0.17017	1.82%	0.56%
G-02	\$0.02935	\$0.13737	\$0.00028	\$0.02963	\$0.13765	0.95%	0.20%	\$0.00072	\$0.00045	\$0.03007	\$0.13809	1.51%	0.33%
G-32/G-62	\$0.01786	\$0.12484	\$0.00023	\$0.01809	\$0.12507	1.32%	0.19%	\$0.00041	\$0.00018	\$0.01827	\$0.12525	0.97%	0.14%
STL	\$0.20630	n/a	\$0.00090	\$0.20720	n/a	n/a	n/a	\$0.00550	\$0.00460	\$0.21180	n/a	n/a	n/a
X-01	\$0.01261	n/a	\$0.00029	\$0.01290	n/a	n/a	n/a	\$0.00101	\$0.00072	\$0.01362	n/a	n/a	n/a

NOTE: Amounts contained in this presentation are illustrative and would be replaced with final approved values and actual amounts where appropriate

Allocation of CapEx and Net Inflation ATR and Rate Adjustments

Rate Class		Rate Base	Expense
		Allocator	Allocator
Residential	A-16/A-60	52.89%	54.20%
Small C&I	C-06	10.23%	10.11%
General C&I	G-02	14.61%	14.28%
Large C&I	G-32/G-62	16.59%	15.95%
Lighting	S	5.27%	5.10%
Propulsion	X-01	0.41%	0.35%
Total		100.00%	100.00%

Note: See Commission 6-19(f)

National Grid - Narragansett Electric Company
Illustrative Revenue Decoupling Mechanism
Computation of RDM Revenue Adjustments

Line		(A) CY 2010	(B) CY 2011	(C) CY 2012
<u>Calculation of Annual Target Revenue (ATR)</u>				
1	Revenue Requirement Docket No. 4065	\$278,809,931	\$278,809,931	\$278,809,931
2	Net Inflation Adjustment		1,713,430	4,175,746
3	Prior Year RDR Plan Revenue Reconciliation		1,335,231	(353,764)
4	Cumulative Net Historic Capital Adjustment	(1,452,868)	1,702,804	9,677,918
5	Annual Target Revenue	<u>\$277,357,063</u>	<u>\$283,561,396</u>	<u>\$292,309,831</u>
 <u>Components of Billed Revenue</u>				
		Rates for CY 2010	Rates for CY 2011	Rates for CY 2012
6	Revenue Requirement Docket No. 4065	\$276,021,832	\$281,598,030	\$278,809,931
7	Prior Year RDR Plan Revenue Reconciliation		1,335,231	(353,764)
8	Net Inflation Adjustment		1,713,430	4,175,746
9	Cumulative Net Historic Capital Adjustment - Prior Year		(1,452,868)	1,702,804
10	Current Year Capital Adjustment		721,336	1,454,235
11	Cumulative RDR Plan Adjustment Factor Revenue	-	2,317,130	6,979,021
12	Total RDM Plan Revenue	<u>\$276,021,832</u>	<u>\$283,915,160</u>	<u>\$285,788,952</u>
13	Incremental RDR Plan Adjustment Factor Revenue	<u>\$0</u>	<u>\$2,317,130</u>	<u>\$4,661,891</u>
<u>Calculation of Annual RDM Reconciliation</u>				
14	Actual Billed Revenue	\$276,021,832	\$283,915,160	\$285,788,952
15	Annual Target Revenue	<u>277,357,063</u>	<u>283,561,396</u>	<u>292,309,831</u>
16	Excess/(Under) billed Revenue	<u>(\$1,335,231)</u>	<u>\$353,764</u>	<u>(\$6,520,879)</u>

Line Notes

- 1 Distribution Revenue Requirement per Docket No. 4065
- 2 From Page 2 of 4, Line 22
- 3 Prior year Line 16 x (-1)
- 4 From Page 3 of 4 Line 52 for Current Year
- 5 Sum of Lines 1 through 4
- 6 From Line 1
- 7 Prior year Line 15 x (-1) - Amount to be allocated over total forecasted kWh's
- 8 From Line 2 - Amount to be allocated to each class based on class O&M allocator
- 9 Prior Year Line 4 - Amount to be allocated to each class based on class rate base allocator
- 10 From Page 4 Line 37 for Current Year - Amount to be allocated to each class based on class rate base allocator
- 11 Sum of Lines 7 through 10
- 12 Line 6 + Line 11
- 13 Current Year Line 11 - Prior Year Line 11
- 14 From Line 12
- 15 From Line 5
- 16 Line 14 - Line 15

National Grid - Narragansett Electric Company
Illustrative Revenue Decoupling Mechanism
Computation Of Net Inflation Adjustment

	(A) As Approved Dkt 4065	(B) CY 2011	(C) CY 2012	(D) CY 2013
1 Four Quarter Average Annual Change - GPD PI		1.69%	2.19%	2.20%
2 Productivity Offset		-0.50%	-0.50%	-0.50%
3 Net Inflation Allowance		1.19%	1.69%	1.70%
4				
5 Total Operating Expenses	\$220,459,642			
6 Less:				
7 Pension / OPEB expense	(14,243,640)			
8 Commodity Costs Tracker	(9,751,787)			
9 Loss on Reacquired Debt	(686,219)			
10 Depreciation	(41,456,526)			
11 Economic Development Program	(1,000,000)			
12 Net Synergy Expense Adjustments	(850,000)			
13 Environmental and Storm fund collections	(4,119,000)			
14 Inspection & Maintenance Program	(4,366,748)			
15				
16 Net Operating Expenses Subject to Inflation	\$143,985,723	\$143,985,723	\$145,699,153	\$148,161,469
17				
18 Net Inflation Adjustment		1,713,430	2,462,316	2,518,745
19				
20 Net Operating Expenses Subject to Inflation		\$145,699,153	\$148,161,469	\$150,680,213
21				
22 Cumulative Net Inflation Adjustment		\$1,713,430	\$4,175,746	\$6,694,491

Line Notes

- 1 Illustrative to be replaced with actual mid-year to mid year inflation rate in report file in November of current year.
- 2 Productivity offset rate as established in this proceeding, Docket No.4065
- 3 Line 1 + Line 2
- 5 Total non-income tax operating expenses as approved in this proceeding Docket No. 4065
- 7 - 14 As approved in Docket No.4065
- 16 Sum of Lines 5 through 14 for Column (A). All other Years, Prior Year Line 20
- 18 Line 3 x Line 16
- 20 Line 16 + Line 18

59688377 75831027 81253000

**National Grid - Narragansett Electric Company
Illustrative Revenue Decoupling Mechanism
Illustrative Computation of Historic Capital Adjustment**

Line No.			(A)	(B)	(C)	(D)
			CY	CY	CY	CY
			2009	2010	2011	2012
<u>Depreciable Net Plan Additions</u>						
1	Actual Capital Spend - Illustrative to be replaced with Actual when known		\$55,000,000	\$65,000,000	\$81,253,000	\$87,479,000
2	Beginning of Year CWIP - Actual Dec 31, 2008 amount		23,263,057	23,263,057	23,263,057	23,263,057
3	End of Year CWIP - Actual Year end amounts when known		23,263,057	23,263,057	23,263,057	23,263,057
4	Plant Additions (Line 1 + Line 2 - Line 3)		55,000,000	65,000,000	81,253,000	87,479,000
5	Plant Additions included in base Rates (Sch NG-RLO-2, Page 28, Line 11)		59,688,377	75,831,027		
6	Plant Additions not in base rates (Line 4 - Line 5)		(4,688,377)	(10,831,027)	81,253,000	87,479,000
7						
8	Actual Retirements	1/	7,981,729	10,140,378	12,187,950	13,121,850
9	Retirements reflected in base rates (Sch NG-RLO-2, Page 28, Line 22)		7,981,729	10,140,378		
10	Retirements not in base rates (Line 8 - Line 9)		-	-	12,187,950	13,121,850
11						
12	Net Depreciable Additions (Line 6 - Line 10)		(4,688,377)	(10,831,027)	69,065,050	74,357,150
13	Cumulative Net Depreciable Additions (Prior Year Line 13 + Cur Year Line 12)		(4,688,377)	(15,519,404)	53,545,646	127,902,796
14						
<u>Change in Net Plant</u>						
16	Plant Additions (From Line 6)		(\$4,688,377)	(\$10,831,027)	\$81,253,000	\$87,479,000
17	Depreciation Expense - from Dkt No. 4065				41,317,749	41,317,749
18	Incremental Depreciable Amount (Line 10 - Line 11)		(4,688,377)	(10,831,027)	39,935,251	46,161,251
19	Cumulative Depreciable Amount (Prior Year Line 13 + Cur Year Line 12)		(\$4,688,377)	(\$15,519,404)	\$24,415,847	\$70,577,098
20						
<u>Deferred Tax Calculation:</u>						
22	Composite Book Depreciation Rate - as approved in this proceeding, Dkt No. 4065		3.56%	3.39%	3.39%	3.39%
23	20 YR MACRS Tax Depreciation Rates		3.75%	7.22%	6.68%	6.18%
24	20 YR MACRS Tax Depreciation Rates - 50% Bonus Depreciation		51.88%	3.61%	3.34%	3.09%
25	Vintage Year Tax Depreciation:					
26		2009 Spend 2/	(1,868,025)	(211,563)	(195,740)	(181,089)
27		2010 Spend		(406,164)	(782,000)	(723,513)
28		2011 Spend			3,046,988	5,866,467
29		2012 Spend				3,280,463
30	Annual Tax Depreciation (Sum of Lines 26 through 29)		(1,868,025)	(617,727)	2,069,248	8,242,328
31	Cumulative Tax Depreciation (Prior Year Line 31 + Cur Year Line 30)		(1,868,025)	(2,485,752)	(416,504)	7,825,824
32						
33	Book Depreciation (Prior Line 13 x Line 22 +Cur. Line 12 x Line 22 x 50%)		(83,453)	(342,522)	644,545	3,075,551
34	Cumulative Book Depreciation (Prior Year Line 34 + Cur Year Line 33)		(83,453)	(425,975)	218,570	3,294,121
35						
36	Cumulative Book / Tax Timer (Line 31 - Line 34)		(1,784,572)	(2,059,777)	(635,074)	4,531,703
37	Effective Tax Rate		35.000%	35.000%	35.000%	35.000%
38	Deferred Tax Reserve (Line 36 * Line 37)		(\$624,600)	(\$720,922)	(\$222,276)	\$1,586,096
39						
<u>Rate Base Calculation:</u>						
41	Cumulative Incremental Spend (Line 19)		(\$4,688,377)	(\$15,519,404)	\$24,415,847	\$70,577,098
42	Accum Depreciation (Line 34 x (-1))		83,453	425,975	(218,570)	(3,294,121)
43	Deferred Tax Reserve (Line 38 x (-1))		624,600	720,922	222,276	(1,586,096)
44	Deferred Tax Reversal on 2008 assets		-	-	7,444,836	11,568,759
45	Year End Rate Base (Sum of Lines 41 through 44)		(\$3,980,324)	(\$14,372,507)	\$31,864,389	\$77,265,640
46						
<u>Revenue Requirement Calculation:</u>						
48	Average Rate Base ((Prior Line 45 + Cur Year Line 45) / 2)		(\$1,990,162)	(\$9,176,415)	\$8,745,941	\$54,565,015
49	Pre-Tax ROR	3/	12.10%	12.10%	12.10%	12.10%
50	Return and Taxes (Line 48 x Line 49)		(240,810)	(1,110,346)	1,058,259	6,602,367
51	Book Depreciation (Line 33)		(83,453)	(342,522)	644,545	3,075,551
52	Annual Revenue Requirement (Line 50 + Line 51)		(\$324,263)	(\$1,452,868)	\$1,702,804	\$9,677,918

1/ Assumes 15% of Capital Spend to be replaced with actual retirements

2/ Assumes 75% of CY 2009 capital spending qualifies for 50% bonus depreciation deduction

3/ Weighted Average Cost of Capital as approved in this Proceeding Docket No. 4065

	Ratio	Rate	Weighted Rate	Taxes	Pre-tax Return
Long Term Debt	44.80%	6.79%	3.04%		3.04%
Short Term Debt	5.00%	2.50%	0.13%		0.13%
Preferred Stock	0.20%	4.50%	0.01%		0.01%
Common Equity	50.00%	11.60%	5.80%	3.12%	8.92%
	100.00%		8.98%	3.12%	12.10%

National Grid - Narragansett Electric Company
Illustrative Revenue Decoupling Mechanism
Computation of Current Capital Adjustment

Line No.		2009 Actual Capital Spend	2010 Actual Capital Spend	2 Year Average Actual Spend	Company /Cust Sharing Adj.	(A) CY 2011	2010 Actual Capital Spend	2011 Capital Spend	2 Year Average Actual Spend	Company /Cust Sharing Adj.	CY 2012
	<u>Depreciable Net Plan Additions</u>										
1	Actual Capital Spend - Illustrative to be replaced with Actual when known										
2	Actual Capital Spend - Illustrative to be replaced with Actual when known	\$55,000,000	\$65,000,000	\$60,000,000	75.00%	\$45,000,000	\$65,000,000	\$81,253,000	\$73,126,500	75.00%	\$54,844,875
3	Beginning of Year CWIP - Actual Dec 31, 2008 amount, then prior year Line 4					23,263,057					23,263,057
4	End of Year CWIP - Actual Year end amounts when known					<u>23,263,057</u>					<u>23,263,057</u>
5	Plant Additions (Line 1 + Line 2 - Line 3)					45,000,000					54,844,875
6	Retirements				1/	<u>12,187,950</u>					<u>13,121,850</u>
7	Net Depreciable Additions (Line 5 - Line 6)					<u>\$32,812,050</u>					<u>41,723,025</u>
8											
9	<u>Net Rate Base Change</u>										
10	Plant Additions (From Line 4)					\$45,000,000					\$54,844,875
11	Depreciation Expense - actual 2009 then from Dkt No. 4065					<u>41,317,749</u>					<u>41,317,749</u>
12	Incremental Depreciable Amount (Line 10 - Line 11)					<u>\$3,682,251</u>					<u>\$13,527,126</u>
13											
14	Composite Book Depreciation Rate - as approved in this proceeding, Dkt No. 4065					3.39%					3.39%
15	20 YR MACRS Tax Depreciation Rates					3.75%					3.75%
16											
17	Tax Depreciation: (Line 5 x Line 15)					\$1,687,500					\$2,056,683
18											
19	Book Depreciation (Line 7 x Line 14 x 50%)					556,164					707,205
20											
21	Book / Tax Timer (Line 17 - Line 19)					1,131,336					1,349,478
22	Effective Tax Rate					<u>35.000%</u>					<u>35.000%</u>
23	Deferred Tax Reserve (Line 21 x Line 22)					<u>\$395,968</u>					<u>\$472,317</u>
24											
25	<u>Rate Base Calculation:</u>										
26	Cumulative Incremental Spend (Line 12)					\$3,682,251					\$13,527,126
27	Accum Depreciation (Line 19 x (-1))					(556,164)					(707,205)
28	Deferred Tax Reserve (Line 23 x (-1))					(395,968)					(472,317)
29	Deferred Tax Reversal on 2008 assets										
30	Year End Rate Base (Sum of Lines 26 through 29)					<u>\$2,730,119</u>					<u>\$12,347,604</u>
31											
32	<u>Revenue Requirement Calculation:</u>										
33	Average Rate Base (Line 30/2)					\$1,365,060					\$6,173,802
34	Pre-Tax ROR				2/	<u>12.10%</u>					<u>12.10%</u>
35	Return and Taxes (Line 33 x Line 34)					165,172					747,030
36	Book Depreciation (Line 19)					556,164					707,205
37	Annual Revenue Requirement (Line 36 + Line 37)					<u>\$721,336</u>					<u>\$1,454,235</u>

1/ Assumes 15% of Capital Spend to be replaced with actual retirements

2/ Weighted Average Cost of Capital as approved in this Proceeding Docket No. 4065

	Ratio	Rate	Weighted Rate	Taxes	Pre-tax Return
Long Term Debt	44.80%	6.79%	3.04%		3.04%
Short Term Debt	5.00%	2.50%	0.13%		0.13%
Preferred Stock	0.20%	4.50%	0.01%		0.01%
Common Equity	50.00%	11.60%	5.80%	3.12%	8.92%
	<u>100.00%</u>		<u>8.98%</u>	<u>3.12%</u>	<u>12.10%</u>