

March 2, 2012

**VIA HAND DELIVERY & ELECTRONIC MAIL**

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

**RE: Docket No. 4065 Remand - Review of Capital Structure  
Settlement Agreement**

Dear Ms. Massaro:

Pursuant to the Procedural Schedule in this docket, enclosed are ten (10) copies of a Settlement Agreement between National Grid<sup>1</sup> and the Rhode Island Division of Public Utilities and Carriers (“Division”) with respect to the capital structure to be utilized to determine the Company’s revenue requirement in base rates and any other rate mechanism incorporating an approved capital structure.

Under the Settlement Agreement, effective April 23, 2012 and until such time as a new capital structure is approved for the Company by the Rhode Island Public Utilities Commission (“Commission”) in a future electric base rate proceeding, the capital structure utilized to determine the Company’s revenue requirement would be composed of 48.78 percent common equity, 46.05 percent long-term debt, 4.98 percent short-term debt, and 0.19 percent preferred stock. The incremental revenue requirement of \$3.195 million resulting from this revised capital structure would be allocated to the Company’s various rate classes in a manner consistent with the allocations the Commission has approved in this docket.

National Grid and the Division are hereby filing the enclosed Settlement Agreement with the Commission for its review and approval.

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

Enclosure

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

---

<sup>1</sup> The Narragansett Electric Company d/b/a National Grid (“National Grid” or the “Company”).

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND PUBLIC UTILITIES COMMISSION

---

**In Re: The Application of The Narragansett Electric Company d/b/a National Grid  
for Approval of a Change in Electric Base Distribution Rates**

**Docket 4065**

---

This Settlement Agreement (“Agreement”) is entered into this 2nd day of March 2012, between The Narragansett Electric Company d/b/a National Grid (the “Company”) and the Rhode Island Division of Public Utilities and Carriers (“Division”) (collectively the “Parties”).

WHEREAS, On January 23, 2012, the Rhode Island Supreme Court vacated and remanded to the Rhode Island Public Utilities Commission (“Commission”) that part of the Commission’s report and order in this docket that used the capital structure of National Grid plc along with other information to establish the ratemaking capital structure for the Company;

WHEREAS, the Parties have engaged in a series of discussions and negotiations and wish to resolve through settlement the remaining issue in this docket relating to the capital structure to be utilized to determine the Company’s revenue requirement;

NOW THEREFORE, the Parties agree as follows:

1. Effective April 23, 2012 and prospectively only, until a new capital structure is approved, for the Company, by the Commission in a future electric base rate proceeding, the capital structure utilized to determine the Company’s revenue

requirement recovered in base rates and any other rate mechanism incorporating an approved capital structure, shall be composed of 48.78 percent common equity, 46.05 percent long-term debt, 4.98 percent short term debt, and 0.19 percent preferred stock.

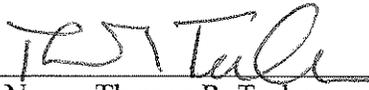
2. Until the completion of the Company's next base rate proceeding, the cost rates for common equity, long-term debt, short term debt and preferred stock to be utilized in determining the Company's weighted average cost of capital will be those approved by the Commission in Docket 4065. Accordingly, the return on common equity will be 9.8 percent. The long-term debt cost rate will be 5.298 percent, the short-term debt cost rate will be 1.600 percent and the preferred stock cost rate will be 4.5 percent.
3. Using the revised capital structure specified in paragraph (1), the resulting weighted average cost of capital becomes 7.31 percent, and the weighted average cost of capital including the income tax gross up factor becomes 9.88 percent. The calculation of these returns is shown on Appendix A to this Settlement Agreement.
4. As shown on Appendix A, the weighted average cost of capital inclusive of the income tax gross up resulting from the Commission's Order in Docket 4065 is 9.30 percent as compared to the 9.88 percent resulting from this Settlement Agreement. This is a difference of 0.58 percent. This return difference of 0.58 percent is multiplied by the rate base of \$550,866,706 approved by the Commission in Docket No. 4065 to obtain the revenue requirement increment of \$3.195 million on an annual basis from the change in capital structure under this Settlement Agreement.
5. The resulting revenue requirement increment of \$3.195 million per year will be allocated to the Company's various rate classes in a manner consistent with the allocations approved in Docket 4065.
6. The parties agree that this Settlement Agreement and the terms and provisions

contained in it shall not endorse or establish any precedent regarding the appropriate method for determining capital structure in any future general base rate or other proceedings, and that this Settlement Agreement does not preclude the Company, Division, or any intervenor from pursuing any theory of determining capital structure in any future general base rate or other proceeding.

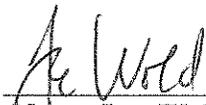
7. The Company will not use the fact of this Settlement Agreement or its terms as a basis for objecting to providing requested information in any future proceeding that pertains to capital structure, including any requested affiliate data.
8. All prior discussions and agreements between the parties with respect to the subject matter hereof are merged in this Settlement Agreement, which alone constitutes the entire agreement between the Parties as to its subject matter. This Agreement may not be amended, modified or terminated except by a written agreement signed by all the Parties.

**[SIGNATURE PAGE FOLLOWS]**

The Narragansett Electric Company  
d/b/a National Grid

By:   
Name: Thomas R. Teehan  
Title: Senior Counsel

Rhode Island Division of Public Utilities  
and Carriers

By:   
Name: Leo Wold  
Title: Assistant Attorney General

