

Memorandum

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PUBLIC UTILITIES COMMISSION

To: L. Massaro

Commission Clerk

From: D. R. Stearns

Stephen Scialabba

Division of Public Utilities & Carriers

Date: 2/08/2010

Re: Narragansett Electric Retail Rate Filing: Docket 4140

On January 11, 2010 the Narragansett Electric Company d/b/a National Grid ("Narragansett", or "Company") submitted to the Commission an Electric Retail Rate Filing ("Filing").

The proposed rates, based on reconciliations as of December 31, 2009 and certain forecast amounts, would be in effect for thirteen months, from March 1, 2010 through March 31, 2011. The March 1 implementation date coincides with distribution rate changes pending in Docket 4065.

On February 2 Narragansett informed the Division of revisions being made to the filing, specifically changes in the calculation of the proposed transmission rate. The Company explained that transmission provider New England Power ("NEP") had decided to take advantage of certain federal tax opportunities in order to reduce NEP's tax liability. The changes result in a decrease in transmission costs billed Narragansett by NEP.

At a February 3, 2010 public hearing held at Commission headquarters to address the filing, Company witnesses attempted to explain the revisions filed the previous day.

David Stearns, acting in the capacity of Division witness during the proceeding, made certain changes in a memorandum (Exhibit Division-1) that had been filed on January 28 with the Commission on behalf of the Division. The changes were made in order that the memorandum would reflect the transmission rate changes proposed by the Company.

Commission staff offered, and the Division accepted, the opportunity to further review the changes being proposed by the Company and to submit this memorandum stating the Division's position regarding the revised proposed transmission rate.

Subsequent to the hearing the Division participated in a conference call with representatives of Narragansett as well as with David Effron, the Division's consultant to discuss the tax accounting change being implemented by Narragansett and NEP, as it affects both the distribution and transmission business of National Grid. Members of the Division have also reviewed the responses to record requests submitted by National Grid. Based on this further review, it is the Division's position that the changes made by NEP to its transmission rate are appropriate for billing beginning March 1, 2010.

National Grid points out that its income tax accounting method may be challenged by the IRS through the audit process, but National Grid disclosed to the Division that it was setting up a reasonable level of reserve to

account for the potential for a future tax disallowance. Further, the transmission costs are fully reconcilable and are based on estimates of projected costs.

Another reason given for the revised rates Grid filed on February 2 pertains to National grid's interpretation of the treatment of long-term debt on pollution control bonds whereby Grid excludes the debt from these bonds in its long-term debt component. While this provides a benefit to NEP's wholesale customers (and to Narragansett's retail customers), we are in the process of examining this issue further to ensure this treatment is reasonable and appropriate and in the best interest of customers in the long run. This issue is one which pertains to the wholesale company and is FERC jurisdictional and we are not proposing any adjustment in the revised retail transmission rate at this time.

The Division recommends approval of the rates proposed in the Company's revised filing dated February 2, 2010, with an effective date of March 1, 2010 billed for usage on and after March 1.

Cc: Thomas Ahern

Administrator, Division of Public Utilities and Carriers