

May 2, 2016

**VIA HAND DELIVERY AND ELECTRONIC MAIL**

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

**RE: Docket 4323 – Electric Earnings Report  
Twelve Months Ended December 31, 2015**

**Docket 4599 – 2016 Electric Retail Rates Filing  
Compliance Filing**

Dear Ms. Massaro:

In accordance with the Amended Settlement Agreement approved by the Rhode Island Public Utilities Commission (PUC) in Order No. 21011 (April 11, 2013) in Docket No. 4323, enclosed are ten (10) copies of the electric earnings report for the twelve-month period ended December 31, 2015 (Report) for The Narragansett Electric Company.<sup>1</sup>

This Report also reflects the revisions to the cash working capital calculation in compliance with the PUC's decision at the March 30, 2016 Open Meeting in Docket No. 4599. The Company will also be submitting revised earnings reports for calendar year 2013 and calendar year 2014 under separate cover.

Thank you for your attention to this transmittal. If you have any questions regarding this filing, please contact me at 401-784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Docket 4599 Service List  
Steve Scialabba, Division  
David Efron, Division  
Leo Wold, Esq.

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<sup>1</sup> The Narragansett Electric Company d/b/a National Grid.

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



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Joanne M. Scanlon

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A U m & z & S %

Date

**National Grid – 2016 Annual Retail Rate Filing - Docket No. 4599  
Service List Updated 3/18/16**

<b>Name/Address</b>	<b>E-mail Distribution</b>	<b>Phone</b>
Jennifer Brooks Hutchinson, Esq. National Grid. 280 Melrose St. Providence, RI 02907	<a href="mailto:Jennifer.hutchinson@nationalgrid.com">Jennifer.hutchinson@nationalgrid.com</a> ;	401-784-7667
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Leo Wold, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	<a href="mailto:lwold@riag.ri.gov">lwold@riag.ri.gov</a> ;	401-222-2424
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Richard Hahn Mary Neal Daymark Energy Advisors	<a href="mailto:rhahn@daymarkea.com">rhahn@daymarkea.com</a> ;	617-778-2467
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<b>File an original &amp; 9 copies w/:</b> Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	<a href="mailto:Luly.massaro@puc.ri.gov">Luly.massaro@puc.ri.gov</a> ;	401-780-2017
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Office of Energy Resources Nicholas Ucci Christopher Kearns	<a href="mailto:Nicholas.ucci@energy.ri.gov">Nicholas.ucci@energy.ri.gov</a> ;	
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**The Narragansett Electric Company**  
**Return on Rate Base**  
**Return on Common Equity**  
**Twelve Months Ended December 31, 2015**

Line No.		Twelve Months Ending December 31, 2015			
		Earned 1/	Earned 2/	Allowed 3/	Ceiling 3/
1					
2	Return on Distribution Rate Base	6.56%	7.03%	7.17%	7.17%
3					
4	Return on Distribution Common Equity	8.28%	9.24%	9.50%	9.50%
5					
6					

1/ Excludes Conservation & Load Management ("C&LM" aka Energy Efficiency) Incentive.

2/ Includes C&LM Incentive.

3/ Allowed Return and Ceiling, presented below.

	Total	Allowed		Ceiling		
		Cost Rate	Weighted Cost	Cost Rate	Weighted Cost	
16	Long Term Debt	49.95%	4.96%	2.48%	4.96%	2.48%
17	Short Term Debt	0.76%	0.79%	0.01%	0.79%	0.01%
18	Preferred Stock	0.15%	4.50%	0.01%	4.50%	0.01%
19	Common Equity	49.14%	9.50%	4.67%	9.50%	4.67%
20		<u>100.00%</u>		<u>7.17%</u>		<u>7.17%</u>

5-Quarter Average  
DISTRIBUTION  
Rate Base

as of  
12/31/2015

\$654,762,082 4/

		----- EARNED -----			Pre-Tax	
		Total	Cost Rate	Weighted Cost	Taxes	Weighted Cost
29	Long Term Debt \$327,053,660	49.95%	4.96%	2.48%		2.48%
30	Short Term Debt \$4,976,192	0.76%	0.79%	0.01%		0.01%
31	Preferred Stock \$982,143	0.15%	4.50%	0.01%	0.01%	0.02%
32	Common Equity \$321,750,087	49.14%	8.28%	4.07%	2.22% (b)	6.29%
33	<u>\$654,762,082</u>	<u>100.00%</u>		<u>6.57%</u>	<u>2.23%</u>	<u>8.80%</u>

(b) includes adj. for Flowthrough Items

4/ From Page 3 Line 29, Column (f)

**PREFERRED STOCK EARNINGS, INTEREST EXPENSE,  
AND FEDERAL INCOME TAX  
CALCULATED USING IMPUTED CAPITAL STRUCTURE**

				\$000s
PREF. STOCK:	\$654,762,082	X	0.01% (c) =	\$65
INTEREST:	\$654,762,082	X	2.49% (d) =	16,304
FIT:	\$654,762,082	X	2.20% (e) =	14,385
Plus: (Flowthrough Items)/65%-(Flowthrough Items) (f)				158
Total Federal Income Taxes ("FIT")				<u>\$14,543</u>

(c) From Line 31, Column "Weighted Cost"

(d) Sum of Lines 29 and 30, Column "Weighted Cost".

(e) (0.01% + 4.07%) / 65% - (0.01% + 4.07%)

(f) Flowthrough Items

Investment Tax Credit ("ITC") Amortization	(\$104)
ITC Basis Reduction Depreciation	227
AFUDC Equity Depreciation	171

\$293

**THE NARRAGANSETT ELECTRIC COMPANY****Return on Equity Calculation****Twelve Months Ended December 31, 2015**

(\$000s)

Line No.	A	Total	Less: Integrated Facilities Agreement ("IFA") Amount Billed to NEP	Other Adjustments	Electric Distribution Amount
		Electric Business			Per Schedules
		B	C	D	E=B-C+D
1	Revenue - Sales of Electricity	\$451,169			\$451,169
2	Other Revenue	\$574,549			\$574,549 1/
3	Total Revenue	\$1,025,718			\$1,025,718
4	Operating Expenses:				
5	Purchased Power	\$448,898			\$448,898
6	Transmission Wheeling	\$160,059			\$160,059
7	Transmission Wheeling - IFA Credit	(\$129,495)		\$129,495	\$0
8	Uncollectible Expense	\$9,134		\$3,973	\$13,107
9	Genl & Admin. O&M	\$90,146	\$1,034		\$89,112
10	All Other Operation & Maintenance ("O&M") expense	\$151,854	\$24,210	(\$1,191)	\$126,453 2/
11	Company Share of Earned Savings	\$0		\$3,250	\$3,250 3/
12	Depreciation	\$62,519	\$15,050	(\$2)	\$47,467
13	Amort. - Loss on Reaq. Debt	\$529	\$86	(\$443)	\$0
14	Amortization - Other	(\$2)			(\$2)
15	Gross Earnings Tax	\$39,052			\$39,052
16	Municipal Tax	\$45,661	\$14,596		\$31,065
17	Other Non-Income taxes	\$6,071	(\$9)		\$6,080
18	Current and Deferred Income Taxes	\$39,830		(\$39,830)	\$0 6/
19	Regulatory Debits	(\$1,650)			(\$1,650)
20	Accretion Expense	\$28		(\$28)	\$0
21	Amortization of ITC	(\$155)	(\$51)		(\$104)
22	Interest on Customer Deposits	\$293			\$293 4/
23	Donations	\$371			\$371 4/
24	Total Operating Expenses	\$923,143	\$54,915	\$95,224	\$963,452
25	Net Operating Income	\$102,575	\$0		
26	Distribution Operating Income Before Taxes				\$62,266
27	Adjustments:				
28	Service Quality ("SQ") Penalties Accrued				- 5/
29	C&LM Incentive				(4,797)
30					
31	Adjusted Distribution Operating Income Before Taxes				57,469
32	Interest Charges				16,304 6/
33	Income Taxes @ 35% (net of ITC)				14,474 7/
34	Net Income				26,691
35	Less: Preferred Stock Requirements				65 6/
36	Earnings Available for Common				\$ 26,626
37	Average Common Equity - 5-Quarter Average				321,750 6/
38	Rate of Return on Adjusted Average Common Equity				8.28%

**Notes**

1/ Excludes excess earnings accrual of \$0 for the 12 month period.

2/ Excludes \$0, for storm related expenses as incurred and \$0.731 million in sales expense.

3/ Pursuant to Docket 4065 Settlement, and as continued in the Docket 4323 settlement, Company share of Earned Savings equals \$3250 annually, effective January 2010.

4/ Below the line items brought above the line for ratemaking.

5/ Effective Dec. 2005, SQ penalties booked below the line.

6/ Calculated using imputed capital structure and cost rates; see Page 1 at Lines 44, 43 and 32, respectively.

7/ Includes impact of flowthrough items from Page 1 at Line 58.

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Rate Base - Electric Distribution**  
**Five Quarter Average**

Line No.	Description	(a) December 2014	(b) March 2015	(c) June 2015	(d) September 2015	(e) December 2015	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 1,409,331,247 1/	\$ 1,424,240,793	\$ 1,430,863,517	\$ 1,444,678,707	\$ 1,462,340,324	\$ 1,434,290,918
2							
3	Property Held for Future Use	2,484,574	2,484,574	2,496,289	2,496,289	2,496,289	\$ 2,491,603
4	Less: Contribution in Aid of Construction	(10)	-	-	-	2,756	\$ 549
5	Less: Accumulated Depreciation	639,257,716	637,231,173	645,596,667	647,344,181	646,565,954	\$ 643,199,138
6							
7	Net Plant in Service	<u>\$ 772,558,115</u>	<u>\$ 789,494,194</u>	<u>\$ 787,763,139</u>	<u>\$ 799,830,815</u>	<u>\$ 818,267,902</u>	<u>\$ 793,582,833</u>
8							
9	Plus:						
10	Materials and Supplies	\$ 4,860,082 1/	\$ 4,165,624	\$ 3,849,156	\$ 4,491,540	\$ 4,898,460	\$ 4,452,972
11	Prepayments	1,569,345	709,986	164,634	791,185	218,819	\$ 690,794
12	Loss on Reacquired Debt	2,285,609	2,230,391	2,180,923	2,134,169	1,974,565	\$ 2,161,131
13	Cash Working Capital	4,975,475	4,975,475	4,975,475	4,975,475	4,975,475	\$ 4,975,475
14	Cash Working Capital - Commodity & Gross Receipts Tax	26,949,604 2/	37,385,150	37,385,150	37,385,150	37,385,150	\$ 35,298,041
15	Unamortized Interest Rate Lock	3,178,556	3,086,123	2,993,690	2,901,257	2,808,824	\$ 2,993,690
16	Unamortized Debt Issuance Costs (\$550M)	1,309,740	1,285,272	1,260,804	1,236,336	1,211,868	\$ 1,260,804
17	Unamortized Debt Issuance Costs (\$250M)	1,018,207	1,009,089	999,971	990,852	981,734	\$ 999,971
18							
19	Subtotal	<u>\$ 46,146,618</u>	<u>\$ 54,847,110</u>	<u>\$ 53,809,802</u>	<u>\$ 54,905,965</u>	<u>\$ 54,454,895</u>	<u>\$ 52,832,878</u>
20							
21	Less:						
22	Accumulated Deferred Federal Income Taxes ("FIT")	\$ 181,708,778	\$ 178,869,615	\$ 169,922,372	\$ 172,069,546	\$ 174,423,672	\$ 175,398,797
23	Accumulated Deferred FIT on Loss for Reacquired Debt	799,963	780,637	763,323	746,959	691,098	\$ 756,396
24	Customer Deposits	8,360,179 3/	10,520,557	10,440,122	10,563,286	10,671,363	\$ 10,111,101
25	Injuries and Damages Reserve - Uninsured Claims	5,516,035	5,739,742	5,452,368	5,157,668	5,070,863	\$ 5,387,335
26							
27	Subtotal	<u>\$ 196,384,956</u>	<u>\$ 195,910,551</u>	<u>\$ 186,578,185</u>	<u>\$ 188,537,460</u>	<u>\$ 190,856,996</u>	<u>\$ 191,653,629</u>
28							
29	Rate Base	<u>\$ 622,319,778</u>	<u>\$ 648,430,753</u>	<u>\$ 654,994,756</u>	<u>\$ 666,199,320</u>	<u>\$ 681,865,802</u>	<u>\$ 654,762,082</u>

**Line Notes**

29 Line 7 + Line 19 - Line 27

**Notes**

1/ Revised per resubmitted calendar year 2014 FERC Form 1.

2/ Revised to reflect corrected calendar year 2014 Commodity and GRT-related cash working capital , per Docket RIPUC 4599.

3/ Revised to correct Company error in calendar year 2014 Electric earnings report as filed May 1, 2015.

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Rate Base - Integrated Facilities Agreement (IFA)**  
**Five Quarter Average**

Line No.	Description	(a) December 2014	(b) March 2015	(c) June 2015	(d) September 2015	(e) December 2015	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 652,033,837	\$ 670,639,790	\$ 680,840,207	\$ 688,119,085	\$ 820,879,778	\$ 702,502,539
2							
3	Property Held for Future Use	12,531,903	12,531,903	12,531,903	12,531,903	12,531,903	\$ 12,531,903
4	Less: Contribution in Aid of Construction						
5	Less: Accumulated Depreciation	80,415,546	86,361,411	87,714,568	90,576,527	92,286,179	\$ 87,470,846
6							
7	Net Plant in Service	\$ 584,150,194	\$ 596,810,282	\$ 605,657,542	\$ 610,074,461	\$ 741,125,503	\$ 627,563,596
8							
9	Plus:						
10	Materials and Supplies	\$ 2,317,280	\$ 2,268,651	\$ 2,165,387	\$ 2,426,424	\$ 2,832,221	\$ 2,401,993
11	Prepayments	497,486	344,627	80,576	389,059	126,818	\$ 287,713
12	Loss on Reacquired Debt	1,092,111	1,082,632	1,067,404	1,049,461	1,144,369	\$ 1,087,195
13	Cash Working Capital	3,009,204	3,448,847	2,279,043	2,561,898	2,385,773	\$ 2,736,953
14	Unamortized Interest Rate Lock	1,967,152	1,909,948	1,852,744	1,795,540	1,738,336	\$ 1,852,744
15	Unamortized Debt Issuance Costs (\$550M)	810,573	795,430	780,288	765,145	750,002	\$ 780,288
16	Unamortized Debt Issuance Costs (\$250M)	630,149	624,506	618,863	613,220	607,577	\$ 618,863
17							
18	Subtotal	\$ 10,323,955	\$ 10,474,642	\$ 8,844,305	\$ 9,600,747	\$ 9,585,095	\$ 9,765,749
19							
20	Less:						
21	Accumulated Deferred FIT	\$ 111,821,313	\$ 115,425,537	\$ 119,991,507	\$ 123,485,297	\$ 144,563,221	\$ 123,057,375
22	Accumulated Deferred FIT on Loss on Required Debt	382,239	378,921	373,591	367,311	400,529	\$ 380,518
23	Customer Deposits	-	-	-	-	-	\$ -
24	Injuries and Damages Reserve - Uninsured Claims	-	-	-	-	-	\$ -
25							
26	Subtotal	\$ 112,203,552	\$ 115,804,458	\$ 120,365,099	\$ 123,852,608	\$ 144,963,750	\$ 123,437,893
27							
28	Rate Base	\$ 482,270,598	\$ 491,480,465	\$ 494,136,749	\$ 495,822,600	\$ 605,746,847	\$ 513,891,452

**Line Notes**

28 Line 7 + Line 18 - Line 26

**Notes**

1/ Revised per resubmitted calendar year 2014 FERC Form 1.

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Rate Base - Electric Total Distribution and IFA**  
**Five Quarter Average**

Line No.	Description	(a) December 2014	(b) March 2015	(c) June 2015	(d) September 2015	(e) December 2015	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 2,061,365,084	1/ \$ 2,094,880,583	\$ 2,111,703,724	\$ 2,132,797,792	\$ 2,283,220,102	\$ 2,136,793,457
2							
3	Property Held for Future Use	15,016,477	15,016,477	15,028,192	15,028,192	15,028,192	\$ 15,023,506
4	Less: Contribution in Aid of Construction	(10)	-	-	-	2,756	\$ 549
5	Less: Accumulated Depreciation	719,673,262	723,592,584	733,311,235	737,920,708	738,852,133	\$ 730,669,984
6							
7	Net Plant in Service	<u>\$ 1,356,708,309</u>	<u>\$ 1,386,304,476</u>	<u>\$ 1,393,420,681</u>	<u>\$ 1,409,905,276</u>	<u>\$ 1,559,393,405</u>	<u>\$ 1,421,146,429</u>
8							
9	Plus:						
10	Materials and Supplies	\$ 7,177,362	1/ \$ 6,434,275	\$ 6,014,543	\$ 6,917,965	\$ 7,730,681	\$ 6,854,965
11	Prepayments	2,066,831	1,054,613	245,210	1,180,244	345,636	978,507
12	Loss on Reacquired Debt	3,377,720	3,313,023	3,248,327	3,183,630	3,118,934	3,248,327
13							
14	Cash Working Capital	7,984,679	8,424,322	7,254,518	7,537,373	7,361,248	7,712,428
15	Cash Working Capital - Commodity & Gross Receipts Tax	26,949,604	2/ 37,385,150	37,385,150	37,385,150	37,385,150	35,298,041
16	Unamortized Interest Rate Lock	5,145,708	4,996,071	4,846,434	4,696,797	4,547,160	4,846,434
17	Unamortized Debt Issuance Costs (\$550M)	2,120,313	2,080,702	2,041,092	2,001,481	1,961,871	2,041,092
18	Unamortized Debt Issuance Costs (\$250M)	1,648,357	1,633,595	1,618,834	1,604,073	1,589,311	1,618,834
19							
20	Subtotal	<u>\$ 56,470,574</u>	<u>\$ 65,321,752</u>	<u>\$ 62,654,107</u>	<u>\$ 64,506,712</u>	<u>\$ 64,039,990</u>	<u>\$ 62,598,627</u>
21							
22	Less:						
23	Accumulated Deferred FIT	\$ 293,530,091	\$ 294,295,153	\$ 289,913,879	\$ 295,554,843	\$ 318,986,894	\$ 298,456,172
24	Accumulated Deferred FIT on Loss for Reacquired Debt	1,182,202	1,159,558	1,136,914	1,114,271	1,091,627	\$ 1,136,914
25	Customer deposits	8,360,179	3/ \$10,520,557	\$10,440,122	\$10,563,286	\$10,671,363	\$ 10,111,101
26	Injuries and Damages Reserve - Uninsured Claims	5,516,035	\$5,739,742	\$5,452,368	\$5,157,668	\$5,070,863	\$ 5,387,335
27							
28	Subtotal	<u>\$ 308,588,507</u>	<u>\$ 311,715,010</u>	<u>\$ 306,943,283</u>	<u>\$ 312,390,068</u>	<u>\$ 335,820,746</u>	<u>\$ 315,091,523</u>
29							
30	Rate Base	<u>\$ 1,104,590,375</u>	<u>\$ 1,139,911,218</u>	<u>\$ 1,149,131,505</u>	<u>\$ 1,162,021,921</u>	<u>\$ 1,287,612,649</u>	<u>\$ 1,168,653,534</u>

**Line Notes**

30 Line 7 + Line 20 - Line 28

**Notes**

- 1/ Revised per resubmitted calendar year 2014 FERC Form 1.  
2/ Revised to reflect corrected calendar year 2014 Commodity and GRT-related cash working capital , per Docket RIPUC 4599.  
3/ Revised to correct Company error in calendar year 2014 Electric earnings report as filed May 1, 2015.

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Calculation of Excess Earnings for Twelve months ended December 31, 2015**  
(\$000)

Line

1	Actual Distribution Earnings Available for Common	\$26,626 (a)		
2				
3				
4	Actual Average Common Equity	\$321,750 (a)		
5				
6				
7	Average Annual Return		<u>8.28%</u> (b)	<u>Customer Share</u>
8				
9	ROE in 50%/50% Bandwith (>9.53%, <10.53%)		0.00% * 50.00%	= 0.00%
10	ROE in 75%/25% Bandwith (>10.53%)		0.00% * 75.00%	= <u>0.00%</u>
11				
12	Total Customer ROE Sharing			0.00%
13	Actual Average Common Equity			<u>\$321,750</u>
14				
15	Actual Annual Customer Shared Earnings			\$0
16	Tax Gross-up			<u>/ 65.00%</u>
17				
18	Annual Customer Shared Earnings - Pre-tax			-
19				
20	Total Customer Shared Earnings for the twelve months ending December 31, 2015			<u>\$ -</u>

Notes

(a) From Page 2 of 6

(b) Line 1 divided by Line 4 ; equals Page 2 of 6 at Line 38.