STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: INVESTIGATION OF NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID'S PROPOSED CHANGES TO ELECTRIC AND GAS BASE DISTRIBUTION RATES

DOCKET NO. 4323

RESPONSE OF THE DIVISION TO THE COMMISSION'S SECOND SET OF DATA REQUESTS
Submitted October 18, 2012

COMM 2-1-ELEC/GAS. Docket 3943, Division Exhibit 31, was a document prepared by Regulatory Research Associates titled Major Rate Case Decisions – January to June 2008. Please provide the most recent update of this document.

Response

Mr. Kahal is not a subscriber to the Regulatory Research Associates (RRA) publication although he believes that National Grid relies on it and can supply it. He has, however, seen a copy of the October 4, 2012 edition covering rate decisions through September 2012. He can report the following survey results for allowed ROEs for the most recent two quarters of 2012.

Electric Utility

	2nd quarter	3rd quarter
Mean	9.92%	9.78%
Median	10.0%	9.80%

Gas Utility

	2nd quarter	3rd quarter
Mean	9.83%	9.75%
Median	9.73%	9.73%

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COMM 2-2-ELEC/GAS. As a follow up to the Division's response to COMM 1-5, please cite specific instances, known by the Division, in which a state commission utilized the principle of gradualism in setting return on equity.

Response

Mr. Kahal has not conducted a review of state commission rate orders to determine the role (if any) that gradualism plays in determining the return on equity award. He does believe that in many instances state commissions exercise judgment in setting the return on equity and consider the range of recommendations from the witnesses rather than basing the award on a purely mechanical calculation. In that context, gradualism may be a consideration in setting the authorized return, directly or indirectly.

Mr. Kahal notes that Company witness Mr. Hevert presented a statistical model showing that ROE awards (on average) change far more slowly than contemporaneous long-term interest rates. Mr. Hevert attempts to interpret that as meaning that the cost of equity does not change to the extent that the cost of debt changes. Mr. Kahal believes that Mr. Hevert's conclusion is, at best, only partially correct. Rather, another interpretation is that there is a lagged and perhaps partial response in some cases by state commissions to large and persistent changes in the actual cost of equity. In part, this may be due to considerations of gradualism in making changes to the ROE award.