THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

INVESTIGATION AS TO THE PROPRIETY
OF PROPOSED TARIFF CHANGES

RIPUC DOCKET NO. 4323

BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

TESTIMONY AND EXHIBITS
OF BRUCE A. GAY

ON BEHALF OF THE

DIVISION OF
PUBLIC UTILITIES AND CARRIERS

AUGUST 30, 2012

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I. Introduction and Qualifications

Q. Please state your full name, business address and title.

A. My name is Bruce A. Gay. My business address is 4209 Buck Creek Court, North Charleston, South Carolina 29420. I am President of Monticello Consulting Group, Limited.

Q. Please describe your educational background and professional experience.

A. I received a Bachelor of Business Administration from the Wharton School, University of Pennsylvania in 1986 and an M.B.A. from Rensselaer Polytechnic Institute in 1990. In 2002, I founded Monticello Consulting Group. Since 2002, I have provided accounts receivable management consulting and advisory services to utility companies, utility commissions, telecoms and other utility industry related companies. Since founding Monticello Consulting, I have developed and managed client relationships with numerous utility companies and utility Commissions in the United States and Canada. My work is related exclusively to credit, collections, recovery and performance improvement in the electric and gas utility industries. Prior to starting Monticello Consulting, I worked at PECO Energy Company (Exelon Corp.) for five years, where I held several positions, primarily in the accounts receivable area.

Q. Have you previously testified before this Commission or any other regulatory agency?

A. Yes. I have provided testimony on behalf of the Division in Docket No. 4065. In addition, I have worked as an expert witness, provided testimony and completed several investigative reports for State Utility Commissions, including the New Hampshire Public Utilities Commission, the Maine Public Utilities Commission and the Rhode Island Division of Public Utilities and Carriers.

Q. What was the nature of your previous testimony for the Division and the work for the other Commissions?

A. My testimony in Docket No. 4065 was based on a review and assessment of Narragansett Electric Company's (d/b/a National Grid) credit and collections practices and performance.[1] In addition, my testimony included a recommendation for an appropriate bad-debt percentage for the Electric Company.[2]

In 2009, I provided a report for the New Hampshire Public Utilities Commission (NHPUC"), which was based on a review and assessment of EnergyNorth Natural Gas Company's (d/b/a National Grid) credit and collections practices and performance. My testimony included a recommendation for an appropriate bad debt percentage for EnergyNorth Natural Gas, Inc. In 2010, I provided testimony on behalf of NHPUC, which was based on a review and assessment of EnergyNorth Natural Gas Company's (d/b/a National Grid) credit and collections practices and performance. My testimony included a recommendation for an appropriate bad debt percentage for EnergyNorth.

In addition, I have worked on behalf of the Maine Public Utilities Commission ("MPUC") on a docket related to the review and assessment of Central Maine Power Company's credit and collections practices and performance.

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to evaluate the Company's historical credit and collections and delinquent customer account management practices and performance. In addition, I will evaluate the direct testimony of Ms. Evelyn Kaye as it relates to the Company's practices and performance and the Company's proposal to recover uncollectible expense. My testimony includes a

[1] Throughout the testimony, when I refer to Narragansett Electric Company, Narragansett Gas Company, or both the Electric Company and the Gas Company, I will use the terms "Electric Company," "Gas Company" or "Company," respectively.
[2] Net annual write-off dollars as a percentage of total annual revenue

recommendation for an appropriate uncollectible percentage rate for both the Electric and Gas Companies.

Q. Is the Company proposing any regulatory or rate change in this proceeding to protect its shareholders from increases in uncollectibles?

A. Yes. The Company has proposed to recover forecasted uncollectible accounts expense associated with its delivery revenues in base distribution rates (Electric Company) and base delivery rates (Gas Company). The Electric Company proposes to recover delivery revenues at a percentage rate of 1.35%, which is its three-year average of net charge-offs to total billed revenue. The Gas Company proposes to recover delivery revenues at a percentage rate of 3.35%, which is its three-year average net charge-offs to total billed revenue. The Company splits uncollectible expense between “delivery” and “commodity.” That portion of uncollectible expense assigned to delivery is included as an element of the distribution cost of service. The portion of uncollectible expense assigned to commodity is added to standard offer cost, as an element of the proposed standard offer administrative cost component. The Company has proposed a fully reconciling mechanism for commodity-related uncollectible expense. The Company has proposed that changes experienced in charge-offs attributed to standard offer service would be reconciled annually and recovered through the annual standard offer reconciliation process. A similar fully reconciling bad-debt proposal has been requested for the gas business, specifically a fully reconciling bad-debt component to the Gas Recovery (GCR) mechanism.

Q. Does your testimony address these proposals?

A. No. Mr. Effron will address the proposal for an approved regulatory process for changing rates resulting from an annual change in the commodity component of uncollectibles based on actual charge-off experience for the year.

III. Uncollectible Accounts Performance

Q. Please summarize the Company's charge-off experience over the past several years?

A. During 2007-2011, the Electric Company's total annual gross charge-offs ranged from $13,048,089 to $19,076,567. During 2007-2011, the Gas Company's total annual gross charge-offs ranged from $12,320,640 to $24,832,830. Schedule MCG-1 shows each Company's 2007-2011 total gross charge-offs.[3]

Q. Why do you show gross charge-offs vs. net charge-offs?

A. Gross charge-offs better reflect the Company's actual performance in a specific period of time. Net charge-offs are gross charge-offs less offsets, including payments, balance transfers, credits, billing adjustments, and accounting journal entries. These offsets to gross charge-offs typically occur weeks, months or even years after the original balance is charged-off. As a result, it is difficult to assess the Company's annual accounts receivable management performance by reviewing net charge-offs. For example, in 2011, the Gas Company offset its gross charge-offs (i.e., $17,700,610) by $1,754,500 worth of customer payments and $1,877,600 worth of balance transfers.[4] Although the gross charge-off occurred in 2011, many of these payments and transfers could have been from accounts which were charged off in previous years.

IV. Factors Affecting Charge-Off Performance

Q. Do you agree with Ms. Kaye's position that increases in gas commodity costs over the last number of years contributed to the escalation of charge-offs?

A. No I do not. Ms. Kaye's testimony, including Schedule EMK-2 suggests a direct correlation between the cost of gas adjustment rates and charge-offs. Although commodity prices experienced volatility over the last decade, there is little evidence that the increased gas adjustment rates caused an increase in the Gas Company's charge-offs. In fact, it is difficult to see any relationship between gas adjustment

[3] Total residential and non-residential charge-offs.
[4] Previously charged-off balances transferred to active accounts of the same responsible party (i.e., customer).

rates and the Gas Company's net charge-offs as depicted in EMK-2. Schedule MCG-2 offers an alternative perspective. Specifically, it compares 2006-2011 monthly gas adjustment rates to the Company's annual gross charge-offs. Schedule MCG-2 shows that Gas adjustment rates have trended down since 2006, while the Company's gross charge-offs have trended up.[5]

The trend in the Company's actual customer bills also shows the lack of a causal relationship between gas adjustment rates and charge-offs. Schedule MCG-3 shows the Company's 2007-2011 average annual bills for residential heat customers. Since 2007, there is a clear downward trend in the average annual bills of residential customers. In contrast, during 2007-2011, there is clear upward trend in the Company's gross charge-offs on residential heat accounts as shown in Schedule MCG-4. In fact, during 2007-2009, the Company's gross annual charge-offs on residential heat accounts increased over 97%.

Q. Did you do the same type of trend analysis on the Gas Company's non-residential customers?

A. Yes. Schedule MCG-3 also shows the Gas Company's 2007-2011 average annual bills for non-residential customers. Since 2007, there is a clear downward trend in the average annual bills of non-residential customers. In contrast, during 2007-2011, there is clear upward trend in the Company's gross charge-offs on non-residential accounts as shown in Schedule MCG-4. In fact, during 2007-2009, the Company's gross annual charge-offs on non-residential accounts increased over 169%. After reviewing these trends on both the residential heat account and the non-residential accounts, it is difficult to understand how the Company equates changes in gas adjustment rates to increases in charge-offs.

Q. Do you agree with Ms. Kaye's position that increases in electric supply prices had an unfavorable impact on electric uncollectibles prior to 2009?

[5] Gross charge-off data from earlier periods is not available.

A. No I do not. Ms. Kaye's testimony, including Schedule EMK-2 suggests a direct correlation between electric supply costs and charge-offs. Although electric supply costs experienced volatility over the last decade, there is little evidence that the increased electric supply costs caused an increase in the Electric Company's charge-offs. In fact, it is difficult to see any relationship between electric supply costs and the Company's net charge-offs as depicted in EMK-3. Schedule MCG-5 offers an alternative perspective. Specifically, it compares 2006-2011 monthly electric supply costs to the Company's annual gross charge-offs. Schedule MCG-5 shows that electric supply costs have trended down since 2006, while the Company's gross charge-offs have trended up.

Schedule MCG-6 shows the Company's 2007-2011 average annual bills for electric residential customers. Overall, since 2007, there is a slight upward trend, but each annual change is either up or down. During 2007-2011, there is an upward trend in the Company's gross charge-offs on residential accounts as shown in Schedule MCG-7. As a result, the trends in residential bill and charge-offs are inconclusive in establishing a relationship between electric supply costs and charge-offs.

Q. Do you think that the up and down trends in the Company's bills are inconclusive because of a time lag between billed revenue and charge-offs?

A. No I do not. First, there is a revenue time lag with charge-offs, but it varies widely. An account is either current (i.e., no arrearage) or delinquent (i.e., current bill plus arrearages) when it closes. In either case, if the balance remains unpaid, the Company charges-off the balance approximately 90 days after the date of disconnection. As a result, a closed account which closes with no arrearage will charge-off (assuming no payment) in about 90 days from the date of disconnection—a time lag of 3 months. A closed account which closes with arrearage, will also charge-off (assuming no payment) in about 90 days from the date of disconnection, but the time lag between billed revenue and charge-offs depends on the age of the arrearage on account. For example, if an account is 180 days past due when it closes, then the charge-off revenue time lag on the oldest revenue will be about 9 months.[6]

As a result, if there is a revenue lag as the Company suggests in Schedule EMK-2, one would expect to see similar up and down annual percentage changes in low and high-balance accounts. Schedule MCG-8 shows the Electric Company's residential charge-offs by low and high-balance accounts.[7] For 2007-2011, the low-balance accounts trend downward, and the high-balance accounts trend upward. In fact, for 2007-2011, the high-balance accounts represent over 53% of the Electric Company's total charge-offs. These trends in charge-off balances suggest that changes in electric supply costs are not a factor in the Company's charge-offs.

Q. Does a similar trend analysis on the Electric Company's non-residential customers provide any additional insight?

A. Yes it does. Schedule MCG-6 also shows the Electric Company's 2007-2011 average annual bills for non-residential customers. Since 2007, there is a clear downward trend in the average annual bills of non-residential customers. In contrast, during 2007-2011, there is clear upward trend in the Company's gross charge-offs on non-residential accounts as shown in Schedule MCG-7. In fact, during 2007-2009, the Company's gross annual charge-offs on non-residential accounts increased over 140%. In the final analysis, after reviewing all of these trends on the different types of accounts and balance ranges, a strong case can be made that there is little or no causal relationship between electric supply costs and charge-offs.

Q. Do you agree with Ms. Kaye's testimony that the Company's uncollectible expense is influenced by external factors such as the economy, weather events, rising gasoline and health-care costs and the regulatory environment?

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[6] At the time of closing, the 180-day past due account has arrearage in the following receivable buckets: current, 31-60, 61-90, 91-120, 121-150 and 151-180. 180 days + 90 days to charge off = 270 days (9 months).

[7] Total residential gross charge-offs with average balances with less than and greater than $500

A. Not to the extent that she suggests. Although the Company is impacted by all of these factors to some degree, the most important factor in minimizing charge-offs is the Company's effective management of its accounts receivable portfolios on active accounts. More specifically, minimizing charge-offs requires effective accounts receivable management by managing customer arrearages before balances reach levels where the customers cannot pay. During 2007-2011, the Company charged-off thousands of accounts with arrearages which were "unmanageable" for customers. For example, in 2009, the Electric Company charged-off 3,908 residential accounts with an average balance of $2,041, totaling $7,974,424. The average balance of $2,041 on these accounts is equivalent to about 1.8 years' worth of arrearage.[8] In 2009, the Gas Company charged-off 7,806 residential heat accounts with an average balance of $1,911, totaling $14,917,925. The average balance of $1,911 on these accounts is equivalent to about 1.2 years' worth of arrearage.[9] In the final analysis, when customer arrearages reach these levels, other external factors such as impacts from unpredictable weather events and competing expenses for necessities have a relatively minor impact on charge-offs.

V. Review of Charge-Off Performance

Q. Please explain what opportunity the Company had to better manage its account receivable and reduce its charge-offs.

A. Over the years, the company had an opportunity to reduce charge-offs by reducing the arrearage on many high-balance accounts before they closed. For example, during 2008-2011, the Electric Company charged-off 2,852 non-residential accounts with an average balance of $4,218, totaling $12,030,445. Of these accounts, the Company disconnected for non-payment 888 accounts with an average balance of $3,394, totaling $3,013,537. The average balances on these disconnected accounts

[8] Average annual bill for an electric residential customer in 2009: $1,087. Therefore, an residential account with a charge-off amount of $2,041/$1,087 = 1.88 years

[9] Average annual bill for a gas residential heat customer in 2009: $1,489. Therefore, an residential account with a charge-off amount of $1,911/$1,489 = 1.28 years

are equivalent to about 4 months' worth of arrearage.[10] The remaining 1,964 accounts which closed voluntarily[11] had an average balance of $4,591 and totaled $9,016,908. The average balances on these disconnected accounts are equivalent to about 6 months' worth of arrearage.[12] As a result, it is difficult to understand why the Company permitted so many non-residential accounts to reach such high levels of arrearage. The Company could have applied collection treatment action much earlier in the delinquency lifecycle of most of these accounts. Clearly, the Company missed an opportunity to reduce the arrearage on many of these accounts before they closed.

Q. Did the Electric Company have an opportunity to reduce charge-offs by reducing the arrearage on residential accounts before they closed?

A. Yes. For example, during 2008-2011, the Electric Company charged-off 29,097 residential accounts with an average balance of $1,335, totaling $38,835,324. Of these accounts, the Company disconnected for non-payment 11,289 accounts with an average balance of $1,424, totaling $16,079,987. The average balances on these disconnected accounts are equivalent to about 15 months' worth of arrearage.[13] The remaining 17,808 accounts which closed voluntarily had an average balance of $1,278 and totaled $22,755,337. The average balances on these accounts are equivalent to about 13 months' worth of arrearage.[14] Again, it is difficult to understand why the Company permitted so many residential accounts to reach such high levels of arrearage. The Company could have applied collection treatment action much earlier in the delinquency lifecycle of many of these accounts. Clearly,

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[10] Average annual bill for an electric non-residential customer in 2009: $7,697. Therefore, an non-residential account with a charge-off amount of $3,394/$7,697 = .44 years or 5.3 months (i.e., current bill + 4 months past due = 5 months)

[11] Closed voluntarily is defined as any account that is closed in any manner other than disconnected for non-payment.

[12] Average annual bill for an electric non-residential customer in 2009: $7,697. Therefore, an non-residential account with a charge-off amount of $4,591/$7,697 = .60 years or 7.2 months (i.e., current bill + 6 months past due = 7 months)

[13] Average annual bill for an electric residential customer in 2009: $1,087. Therefore, a residential account with a charge-off amount of $1,424/$1,087 = 1.31 years or 15.7 months (i.e., current bill + 14 months past due = 15 months)

[14] Average annual bill for an electric residential customer in 2009: $1,087. Therefore, a residential account with a charge-off amount of $1,278/$1,087 = 1.18 years or 14.1 months (i.e., current bill + 13 months past due = 14 months)

the Company missed an opportunity to reduce the arrearage on many of these accounts before they closed.

In addition, during 2007-2011, the Gas Company charged-off 52,930 residential accounts with an average balance of $1,385, totaling $73,312,085.[15] The average balances on these accounts are equivalent to about 15 months' worth of arrearage.[16] Again, it is difficult to understand why the Company permitted so many residential accounts to reach such high levels of arrearage. The Company could have applied collection treatment action much earlier in the delinquency lifecycle of many of these accounts. Clearly, the Company missed an opportunity to reduce the arrearage on many of these accounts before they closed.

Q. What was the Gas Company performance on non-residential accounts?

A. The Gas Company appears to be performing well on non-residential accounts. During 2007-2011, the Gas Company charged-off $6,634,541 on non-residential accounts, which is only 7.5% of the total dollars charged-off. In contrast, during 2007-2011, the Electric Company charged-off $14,654,597 on non-residential accounts, which is 18.7% of the total dollars charged-off.

Q. Please describe your evaluation of the Company's collection process as summarized in Ms. Kaye's testimony?

A. Over the last several years, the Company has implemented a number of strategies designed to improve performance of its account receivable management and customer account management, including the behavioral scoring system (i.e., PMP), and enhanced account initiation process. These new strategies and tools deployed by the Company are widely utilized in the utility industry today. While these process improvements are positive, it is puzzling to understand why the Company did not deploy many of the tools and strategies years earlier, especially in light of

[15] Account-level disconnection data was not provided for the Gas Company accounts.
[16] Average annual bill for a gas residential customer in 2009: $1,379. Therefore, a residential account with a charge-off amount of $1,278/$1,379 = .93 years or 11.1 months (i.e., current bill + 10 months past due = 11 months)

the number of high-balance delinquent accounts in its accounts receivable portfolios and given the magnitude of its charge-offs. For example, Ms. Kaye testified at length about the Company's PMP scoring program, yet the Gas Company did not deploy the PMP strategy until January 2012.

In addition, many of the strategies the Company utilizes are designed to work when arrearages are still manageable for the customer. For example, reminder notices and outbound calling campaigns work well with customers who can still afford to pay the arrearage or enter into an alternative plan such as a payment arrangement. The problem for the Company is that many of these strategies are marginally effective on high-balance accounts.

Q. You stated that the Company missed an opportunity to reduce arrearages on many accounts before they closed, how much of a financial impact would it have made on lowering charge offs if the Company had improved its performance earlier?

A. During 2007-2011, the Gas Company could have reduced its charge-offs by $10,637,707 by reducing the arrearage on high-risk, high-balance residential accounts before the accounts closed. Specifically, during 2008-2011, the Gas Company charged-off 2,583 non-heat accounts with average balances of $1,283, totaling $3,312,988; and 38,854 heat accounts with average balances of $1,414, totaling $54,927,100; and 2,993 low-income heat accounts with average balances of $1,602, totaling $4,795,470. As a result, the residential non-heat accounts had charge-off balances greater than 2.5 their actual average annual bill amount. In addition, the residential heat accounts had charge-off balances greater than their actual average annual bill amount. The low-income heat accounts also had charge-off balances greater their actual average annual bill amount.

As a result, the charge-off reduction of $10,637,707 is calculated by assuming the same exact accounts would have charged-off, but with lower balances. Specifically, the calculation assumes that the 2,583 non-heat accounts should have charged-off with balances no greater than 1.5 times their corresponding average annual bill. In addition, the calculation assumes that the 38,854 heat accounts should have charged-off with balances no greater than 10 months' worth of arrearage. Finally, the calculation assumes that the 2,993 low-income heat accounts should have charged-off with balances no greater than their corresponding average annual bill.

During 2007-2011, the Electric Company could have reduced its charge-offs by $11,229,473 by reducing the arrearage on high-risk, high-balance residential and non-residential accounts before the accounts closed. Specifically, during 2008-2011, the Electric Company charged-off 24,186 standard residential accounts with average balances of $1,319, totaling $31,912,365; and 4,886 residential low-income accounts with average balances of $1,410, totaling $6,886,857; and 1,778 non-residential accounts with average balances of $4,389, totaling $7,804,142. As a result, the standard residential accounts had charge-off balances greater than their actual average annual bill amount. In addition, the residential low-income accounts had charge-off balances greater than their actual average annual bill amount. The non-residential accounts had charge-off balances equal to about 6 months' worth of arrearage.

As a result, the charge-off reduction of $11,229,473 is calculated by assuming the same exact accounts would have charged-off, but with lower balances. Specifically, the calculation assumes that the 24,186 standard residential accounts should have charged-off with balances no greater than 10 months' worth of arrearage. In addition, the calculation assumes that the 4,886 residential low-income accounts should have charged-off with balances no greater than their corresponding average annual bill amount. Finally, the calculation assumes that the 1,778 non-residential accounts should have charged-off with balances no greater than 4 months' worth of arrearage.

Q. Is there any other issues related to the Company's charge-offs that are factored into your final recommendation for appropriate uncollectible percentage rate?

A. Yes. There is $1,434,017 worth of non-usage-type (as coded in the Company's system) charge-offs included in the Company's charge-off calculations which do not appear to be applicable or appropriate as charge-offs for utility service. For example, the Company included in its charge-off calculations such items as water heater rental revenue. As a result, the final recommendation for an uncollectible percentage rate removes these types of charges.

VI. Recommendations

Q. Based on your evaluation of the Company's performance, what are your recommendations for charge-off levels and uncollectible percentage rates in this proceeding?

A. The recommendation for the Electric Company is shown in Schedule MCG-9. The Company's Schedule EMK-1 is shown for reference. The recommended charge-off percentage rate for the Electric Company's is 0.92%, which reduces the Electric Company's proposal by 0.43%, based on a charge-off reduction of $11,229,473 that the Company should have achieved over the three-year period.

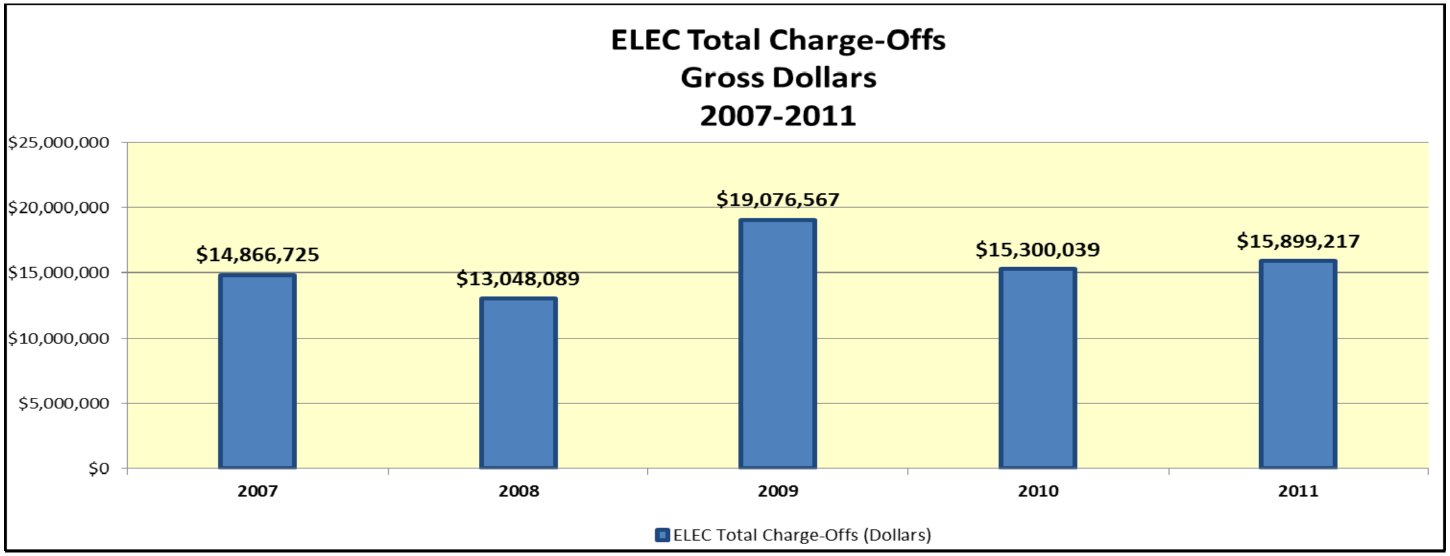
The recommendation for the Gas Company is shown in Schedule MCG-10. The Gas Company's Schedule EMK-1 is shown for reference. The recommended charge-off percentage rate for the Gas Company's is 2.81%, which reduces the Gas Company's proposal by 0.98%, based in part on the removal of $1,434,017 worth of non-usage-type (as coded in the Company's system) charge-offs included in the Company's charge-off calculations which do not appear to be applicable or appropriate as charge-offs for utility service. The larger component of the adjustment to the Gas Company's bad-debt proposal is a charge-off reduction of $10,637,707 based on historical charge-off levels that the Company should have achieved over the three-year period.

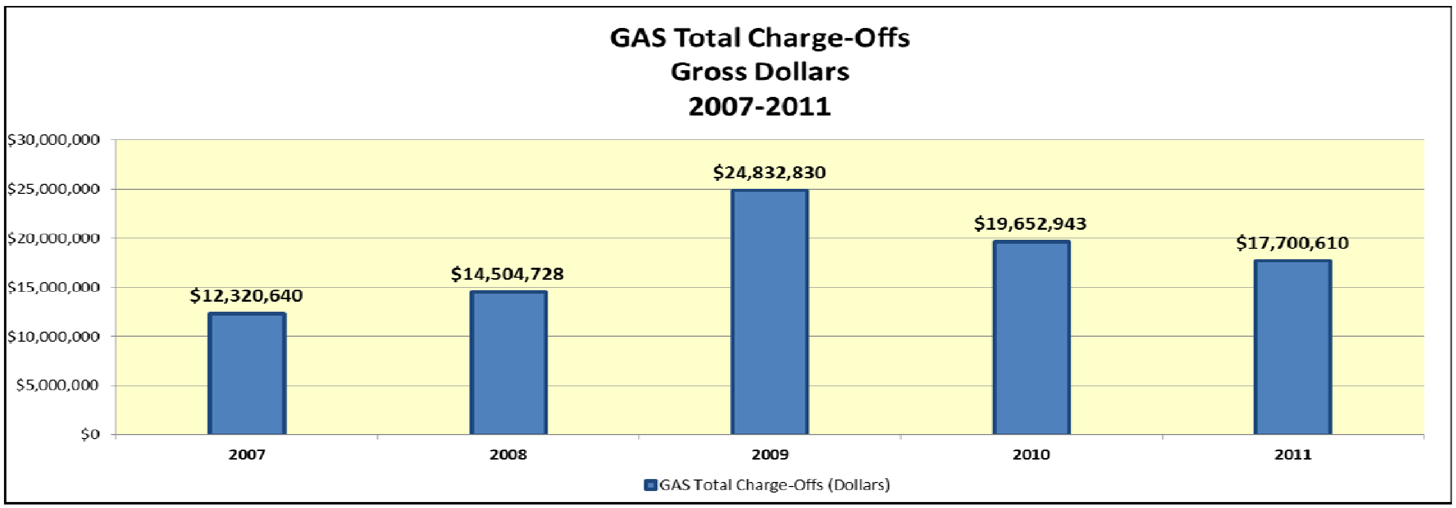
VI. Conclusions

Q. Does that conclude your testimony?

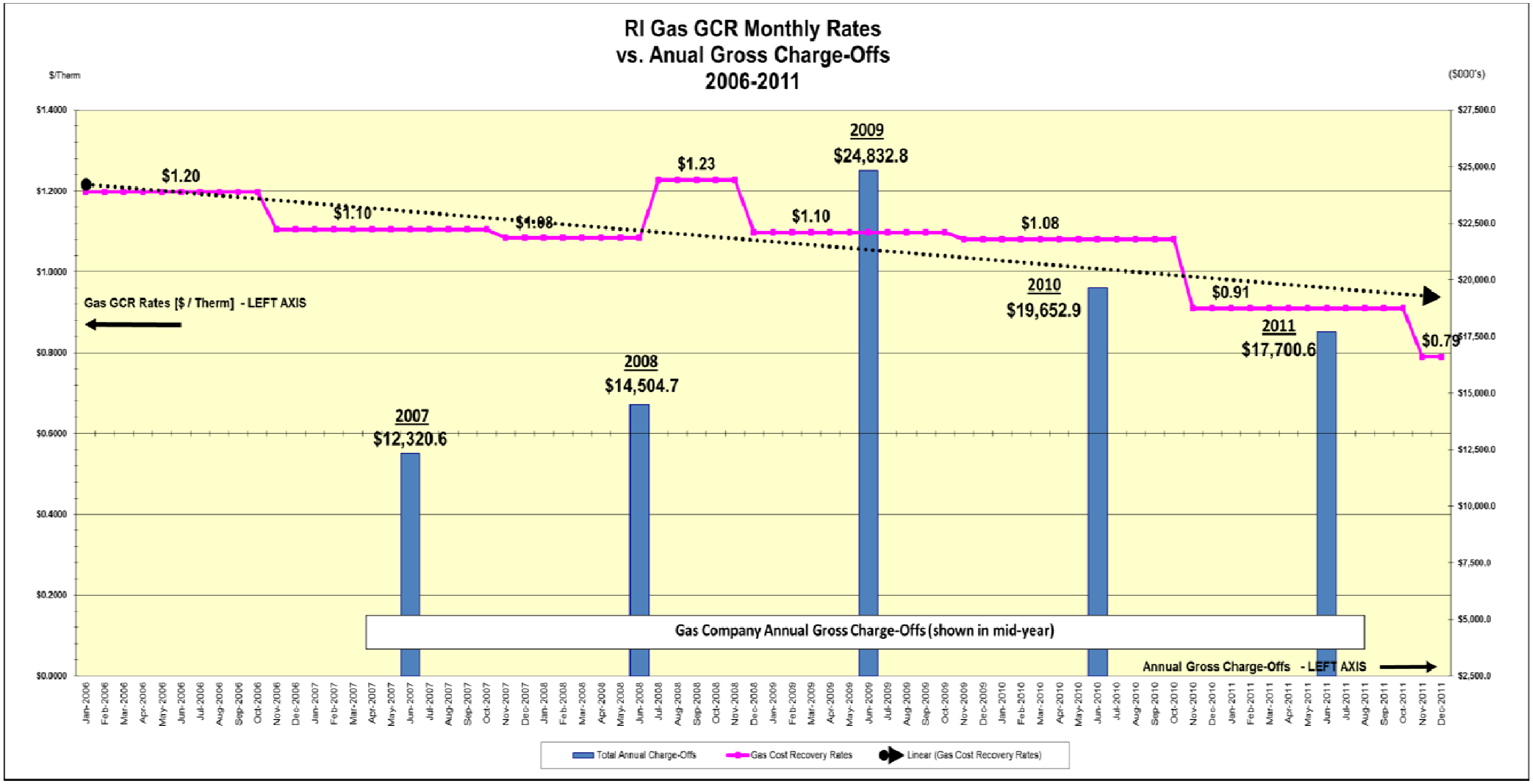
A. Yes it does.

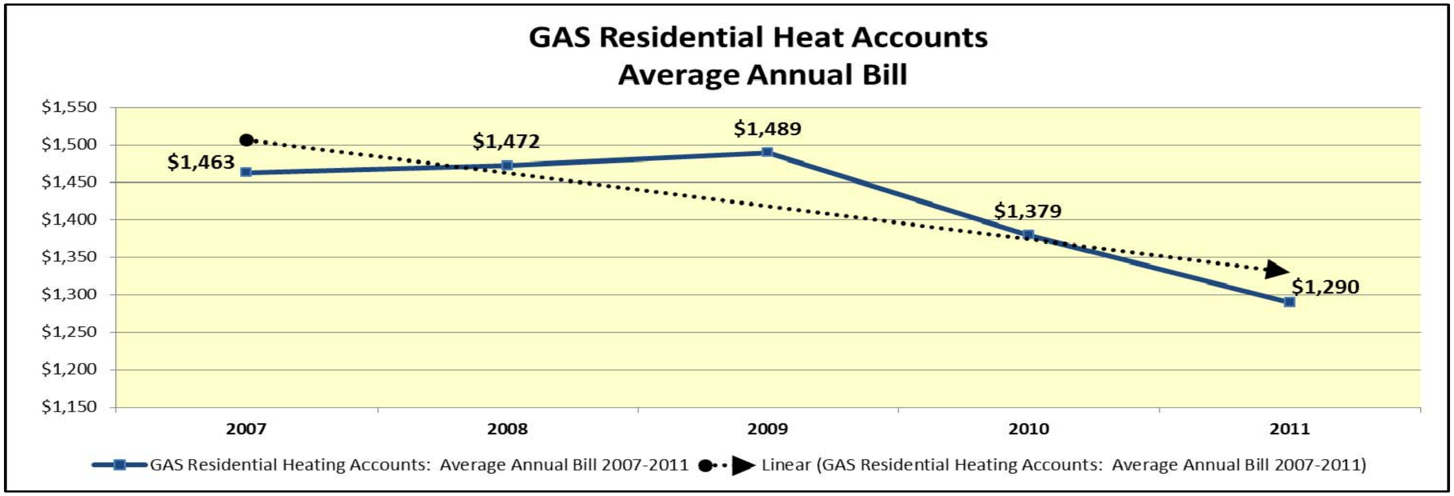
Testimony of Bruce A. Gay
On Behalf of the RI Division of Public Utilities and Carriers
Docket No. 4323
Schedule MCG-1

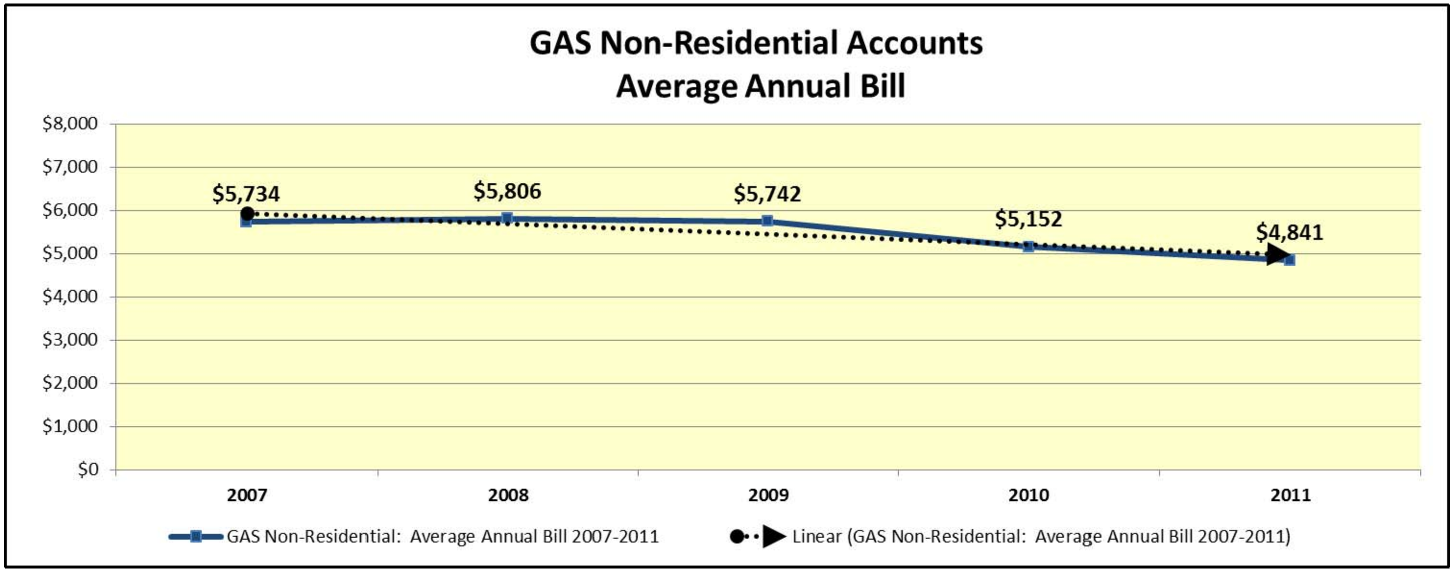


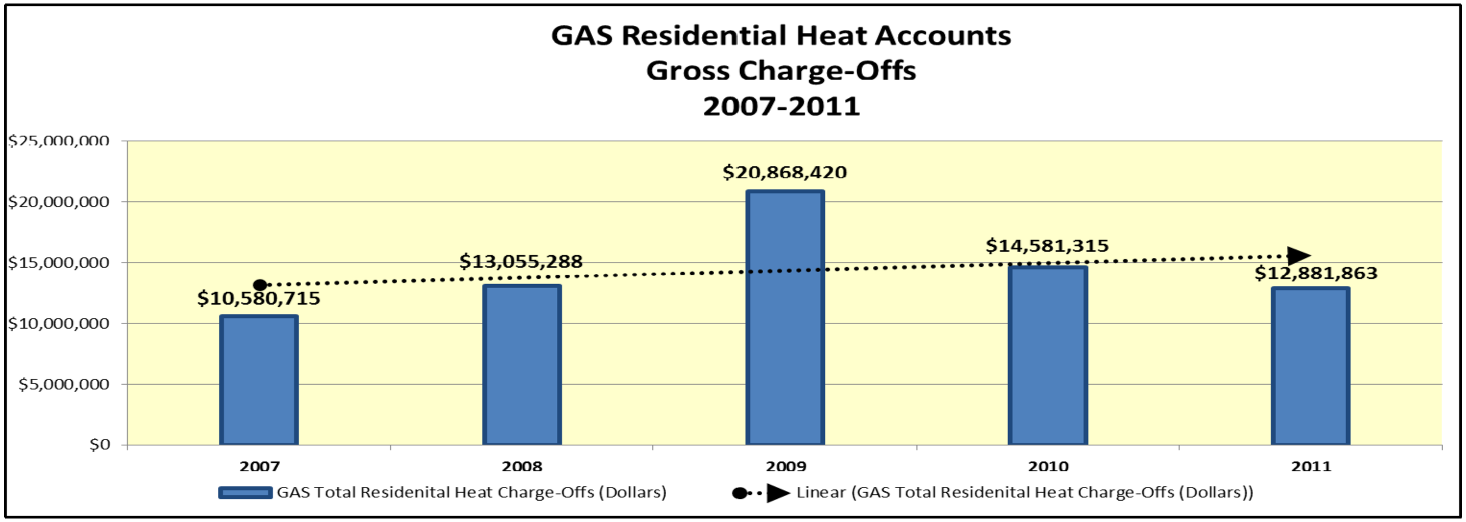


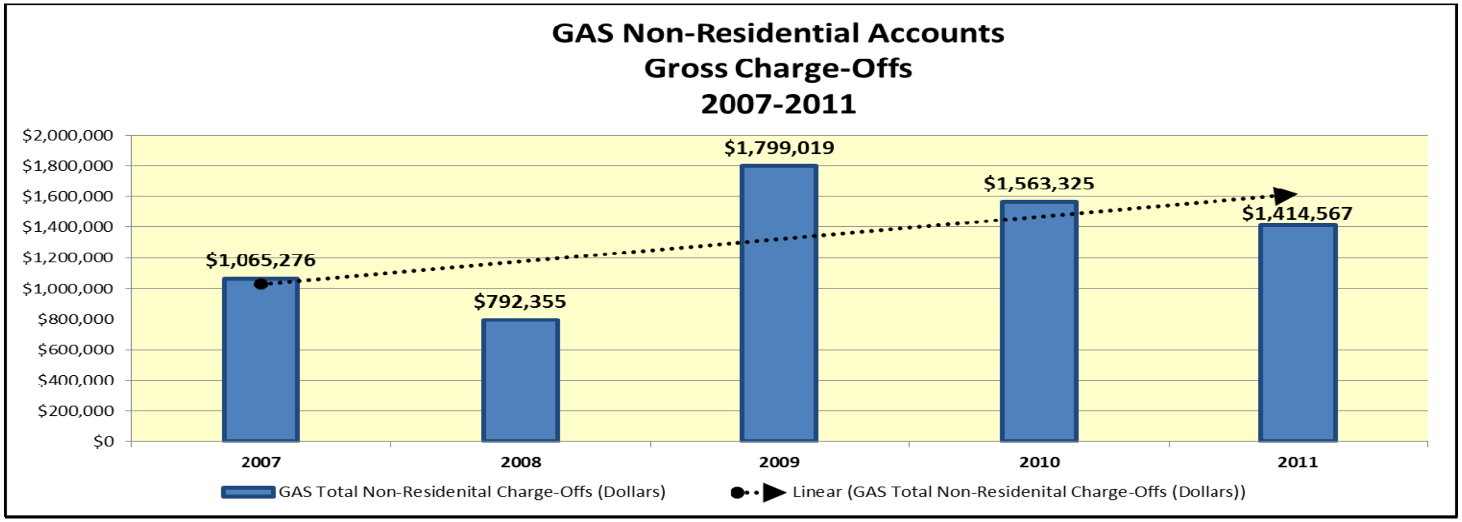
Testimony of Bruce A. Gay
On Behalf of the RI Division of Public Utilities and Carriers
Docket No. 4323
Schedule MCG-2

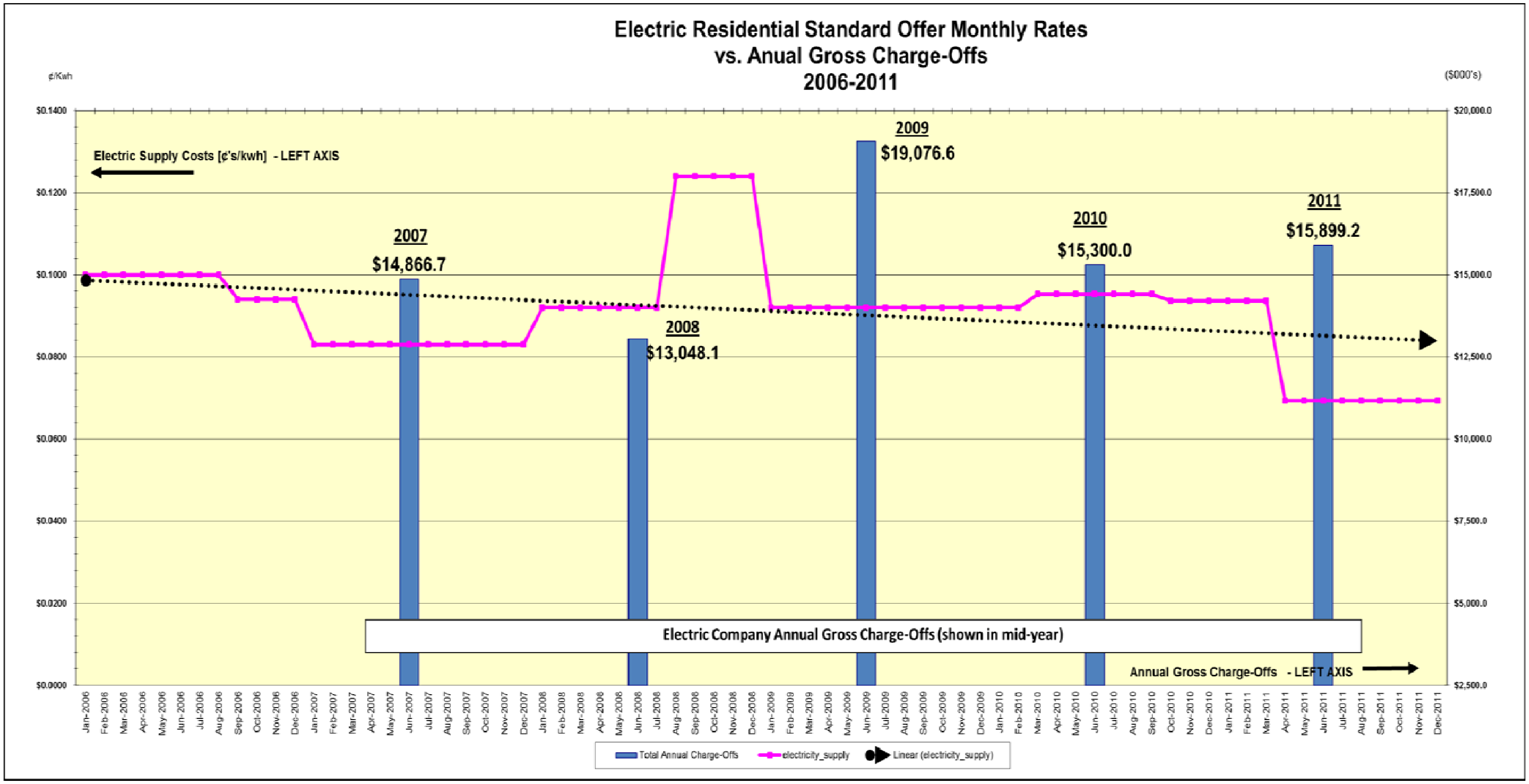


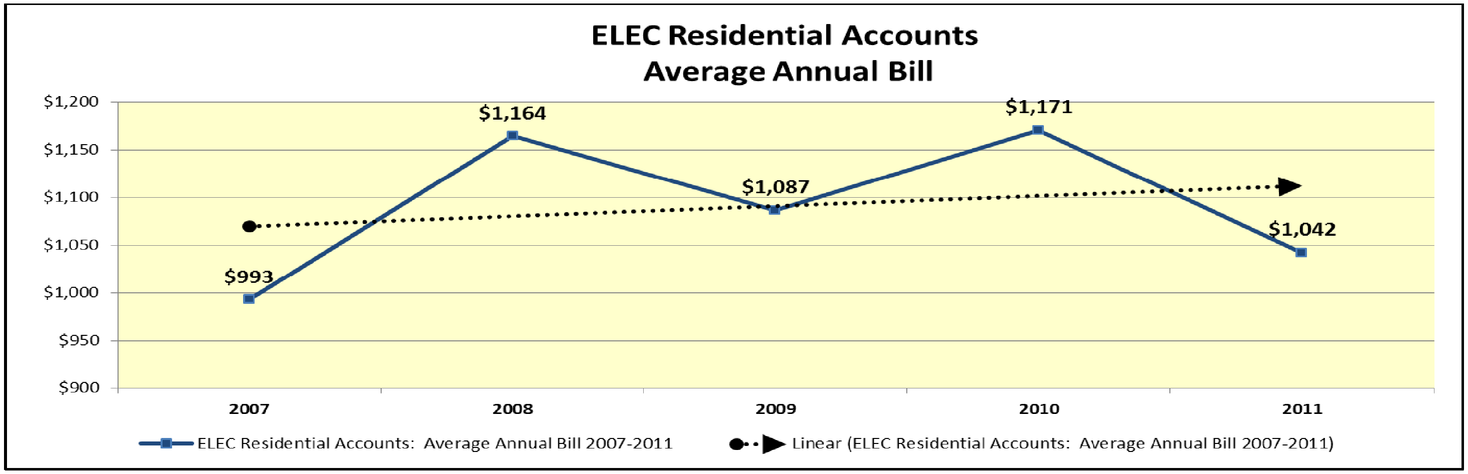

GAS Residential Heat Accounts
Average Annual Bill
$1,550
$1,500
$1,450
$1,400
$1,350
$1,300
$1,250
$1,200
$1,150
$1,463
$1,472
$1,489
$1,379
$1,290
2007
2008
2009
2010
2011
GAS Residential Heating Accounts: Average Annual Bill 2007-2011
Linear (GAS Residential Heating Accounts: Average Annual Bill 2007-2011)

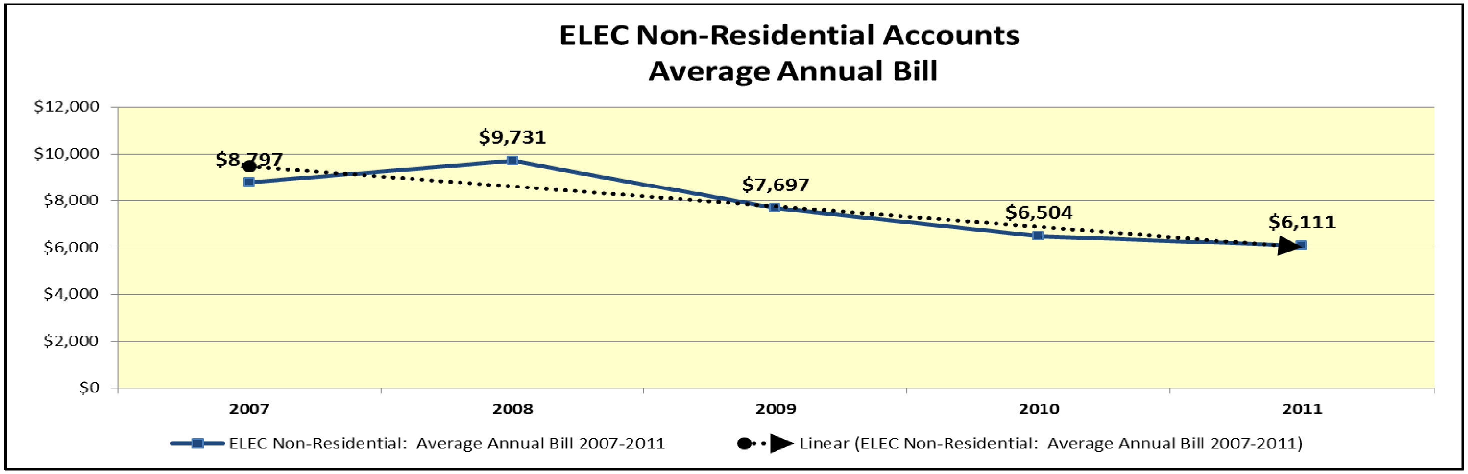

GAS Non-Residential Accounts
Average Annual Bill
$8,000
$7,000
$6,000
$5,000
$4,000
$3,000
$2,000
$1,000
$0
$5,734
$5,806
$5,742
$5,152
$4,841
2007
2008
2009
2010
2011
GAS Non-Residential: Average Annual Bill 2007-2011
Linear (GAS Non-Residential: Average Annual Bill 2007-2011)


GAS Residential Heat Accounts
Gross Charge-Offs
2007-2011
$25,000,000
$20,000,000
$15,000,000
$10,000,000
$5,000,000
$0
$10,580,715
$13,055,288
$20,868,420
$14,581,315
$12,881,863
2007
2008
2009
2010
2011
GAS Total Residenital Heat Charge-Offs (Dollars)
Linear (GAS Total Residenital Heat Charge-Offs (Dollars))

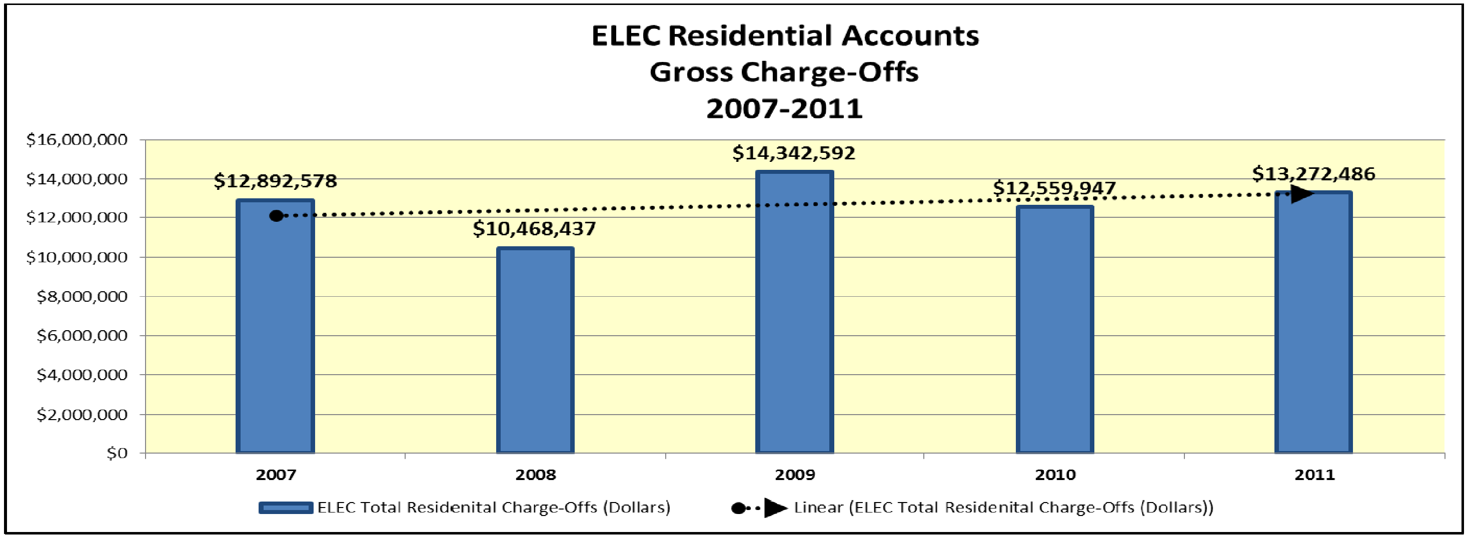

GAS Non-Residential Accounts
Gross Charge-Offs
2007-2011
$2,000,000
$1,800,000
$1,600,000
$1,400,000
$1,200,000
$1,000,000
$800,000
$600,000
$400,000
$200,000
$0
$1,065,276
$792,355
$1,799,019
$1,563,325
$1,414,567
2007
2008
2009
2010
2011
GAS Total Non-Residenital Charge-Offs (Dollars)
Linear (GAS Total Non-Residenital Charge-Offs (Dollars))

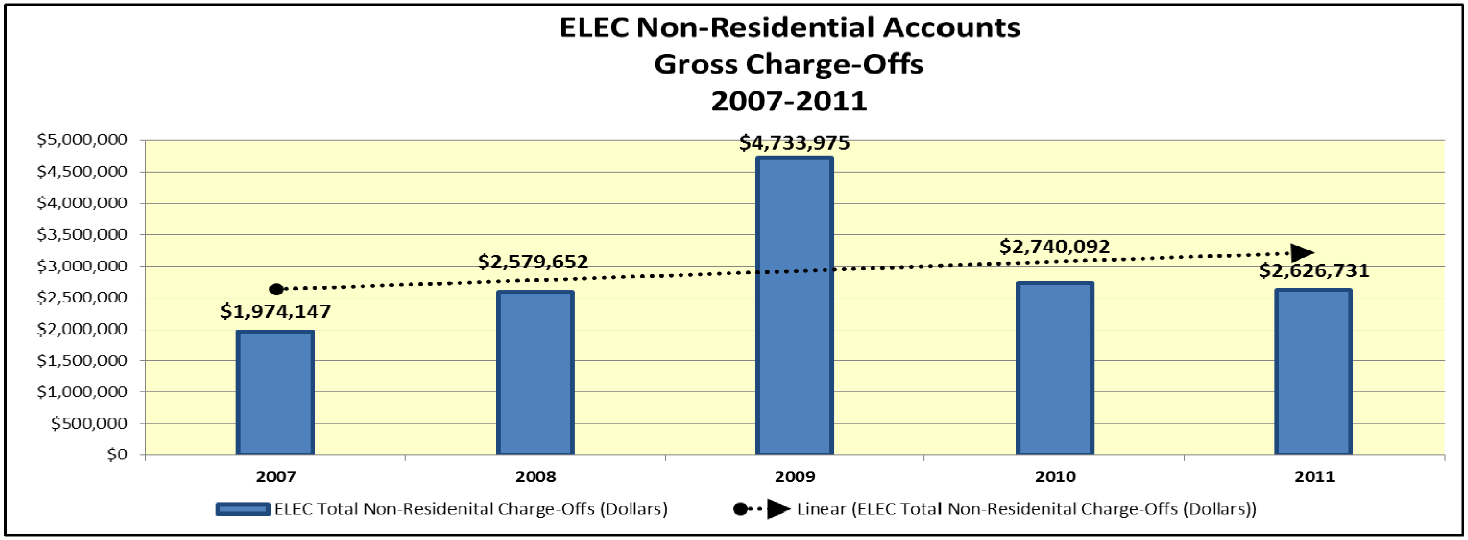

Electric Residential Standard Offer Monthly Rates
vs. Anual Gross Charge-Offs
2006-2011
¢/Kwh
($000's)
Electric Supply Costs [¢'s/kwh] - LEFT AXIS
2007
$14,866.7
2008
$13,048.1
2009
$19,076.6
2010
$15,300.0
2011
$15,899.2
Electric Company Annual Gross Charge-Offs (shown in mid-year)
Annual Gross Charge-Offs - LEFT AXIS
Total Annual Charge-Offs
electricity_supply
Linear (electricity_supply)

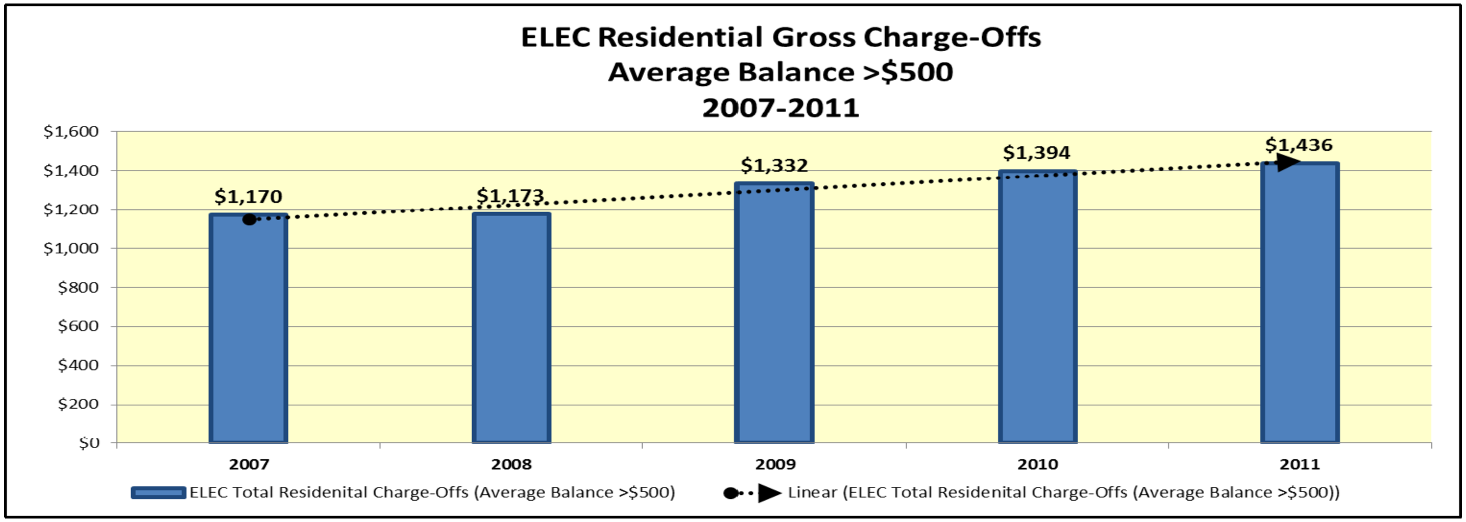

ELEC Residential Accounts
Average Annual Bill
$1,200
$1,150
$1,100
$1,050
$1,000
$950
$900
$993
$1,164
$1,087
$1,171
$1,042
2007
2008
2009
2010
2011
ELEC Residential Accounts: Average Annual Bill 2007-2011
Linear (ELEC Residential Accounts: Average Annual Bill 2007-2011)

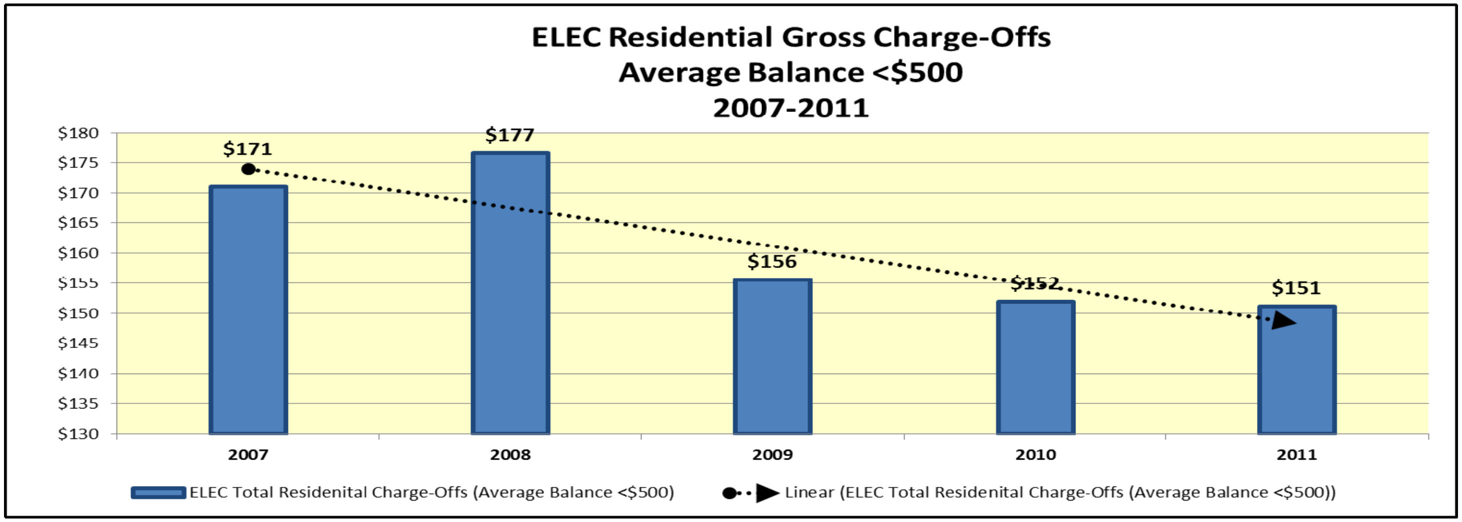

ELEC Non-Residential Accounts
Average Annual Bill
$12,000
$10,000
$8,000
$6,000
$4,000
$2,000
$0
$8,797
$9,731
$7,697
$6,504
$6,111
2007
2008
2009
2010
2011
ELEC Non-Residential: Average Annual Bill 2007-2011
Linear (ELEC Non-Residential: Average Annual Bill 2007-2011)

Testimony of Bruce A. Gay
On Behalf of the RI Division of Public Utilities and Carriers
Docket No. 4323
Schedule MCG-7






ELEC Residential Gross Charge-Offs
Average Balance >$500
2007-2011
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
$1,170
$1,173
$1,332
$1,394
$1,436
2007
2008
2009
2010
2011
ELEC Total Residenital Charge-Offs (Average Balance >$500)
Linear (ELEC Total Residenital Charge-Offs (Average Balance >$500))


ELEC Residential Gross Charge-Offs
Average Balance <$500
2007-2011
$180
$175
$170
$165
$160
$155
$150
$145
$140
$135
$130
$171
$177
$156
$152
$151
2007
2008
2009
2010
2011
ELEC Total Residenital Charge-Offs (Average Balance <$500)
Linear (ELEC Total Residenital Charge-Offs (Average Balance <$500))

Narragansett Electric Company
Recommended Net Charge-Offs as a Percentage of Revenues
For the Twelve Months Ended December 31
(As shown in EMK-1)

Year	Net Charge-Offs	Total Revenues	CO Rate
2009	$13,701,691	$906,112,250	1.51%
2010	$10,698,705	$879,874,473	1.22%
2011	$10,618,527	$802,881,950	1.32%
Three Year Average	$35,018,923	$2,588,868,673	1.35%

Narragansett Electric Company
Recommended Net Charge-Offs as a Percentage of Revenues
For the Twelve Months Ended December 31
(Recommendation)

Year	Net Charge-Offs (EMK-1)	**CO Reduction (Performance)[1]**	**Net Charge-Offs (Recommendation)**	Total Revenues (EMK-1)	**CO Rate (Recommendation)**
2009	$13,701,691	**($3,752,214)**	**$9,949,477**	$906,112,250	**1.10%**
2010	$10,698,705	**($3,123,128)**	**$7,575,577**	$879,874,473	**0.86%**
2011	$10,618,527	**($4,354,131)**	**$6,264,396**	$802,881,950	**0.78%**
Three Year Average	$35,018,923	**($11,229,473)**	**$23,789,450**	$2,588,868,673	**0.92%**

Notes:
1. Charge-off reduction based on performance improvement opportunity

Narragansett Electric Company--Gas Division
Recommended Net Charge-Offs as a Percentage of Revenues
For the Twelve Months Ended December 31
(As shown in EMK-1)

Year	Net Charge-Offs	Total Revenues	CO Rate
2009	$19,431,198	$447,952,657	4.34%
2010	$15,515,379	$401,863,767	3.86%
2011	$11,623,740	$378,977,027	3.07%
Three Year Average	$46,570,317	$1,228,793,451	3.79%

Narragansett Electric Company--Gas Division
Recommended Net Charge-Offs as a Percentage of Revenues
For the Twelve Months Ended December 31
(Recommendation)

Year	Net Charge-Offs (EMK-1)	**Non Usage COs (NA to rate case)[1]**	**CO Reduction (Performance)[2]**	**Net Charge-Offs (Recommendation)**	Total Revenues (EMK-1)	**CO Rate (Recommendation)**
2009	$19,431,198	**($568,170)**	**($3,109,023)**	**$15,754,005**	$447,952,657	**3.52%**
2010	$15,515,379	**($389,357)**	**($3,360,072)**	**$11,765,950**	$401,863,767	**2.93%**
2011	$11,623,740	**($476,490)**	**($4,168,612)**	**$6,978,638**	$378,977,027	**1.84%**
Three Year Average	$46,570,317	**($1,434,017)**	**($10,637,707)**	**$34,498,593**	$1,228,793,451	**2.81%**

Notes:
1. Non-usage related charge-offs which were included in Company's charge-off totals
2. Charge-off reduction based on performance improvement opportunity