

May 1, 2018

**VIA HAND DELIVERY & 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, 2017**

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 10 copies of the electric earnings report for the twelve-month period ended December 31, 2017 for The Narragansett Electric Company.<sup>1</sup>

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: John Bell, Division  
David Efron, Division  
Leo Wold, Esq.

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

**The Narragansett Electric Company**  
**Return on Rate Base**  
**Return on Common Equity**  
**Twelve Months Ended December 31, 2017**

Line No.		Twelve Months Ending December 31, 2017			
		Earned 1/	Earned 2/	Allowed 3/	Ceiling 3/
1					
2	Return on Distribution Rate Base	5.15%	5.74%	7.17%	7.17%
3					
4	Return on Distribution Common Equity	5.41%	6.61%	9.50%	9.50%
5					
6					

1/ Excludes Conservation & Load Management ("C&LM" aka Energy Efficiency) Incentive, LTCER Remuneration Costs, and RE Growth Remuneration Costs  
2/ Includes C&LM Incentive, LTCER Remuneration Costs, and RE Growth Remuneration Costs  
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 12/31/2017		----- EARNED -----		Pre-Tax		
\$698,889,355 4/		Total	Cost Rate	Weighted Cost	Taxes	Weighted Cost
29	Long Term Debt	\$349,095,233	49.95%	4.96%	2.48%	2.48%
30	Short Term Debt	\$5,311,559	0.76%	0.79%	0.01%	0.01%
31	Preferred Stock	\$1,048,334	0.15%	4.50%	0.01%	0.02%
32	Common Equity	\$343,434,229	49.14%	5.41%	2.66%	4.18%
33		<u>\$698,889,355</u>	<u>100.00%</u>	<u>5.16%</u>	<u>1.53%</u>	<u>6.69%</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:	\$698,889,355	X	0.01%	(c)	= \$70
INTEREST:	\$698,889,355	X	2.49%	(d)	= \$17,402
FIT:	\$698,889,355	X	1.44%	(e)	= \$10,048
Plus: (Flowthrough Items)/65%-(Flowthrough Items) (f)					\$620
Total Federal Income Taxes ("FIT")					<u>\$10,668</u>

(c) From Line 31, Column "Weighted Cost"  
(d) Sum of Lines 29 and 30, Column "Weighted Cost".  
(e) (0.01% + 2.66%) / 65% - (0.01% + 2.66%)  
(f) Flowthrough Items

Investment Tax Credit ("ITC") Amortization	(\$48)
ITC Basis Reduction Depreciation	\$74
AFUDC Equity Depreciation	\$127
Unfunded Amortization	\$1,000
	<u>\$1,152</u>

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Return on Equity Calculation**  
**Twelve Months Ended December 31, 2017**

(\$000s)

Line No.	Total Electric Business	Less: Integrated Facilities Agreement ("IFA") Amount Billed to NEP	Other Adjustments	Electric Distribution Amount Per Schedules
A	B	C	D	E=B-C+D
1 Revenue - Sales of Electricity	\$295,321			\$295,321
2 Other Revenue	\$699,597			\$699,597 1/
3 Total Revenue	\$994,918			\$994,918
4 Operating Expenses:				
5 Purchased Power	\$337,430			\$337,430
6 Transmission Wheeling	\$219,356			\$219,356
7 Transmission Wheeling - IFA Credit	(\$160,108)	(\$160,108)		\$0
8 Uncollectible Expense	\$9,416		\$1,109	\$10,525
9 Genl & Admin. O&M	\$118,556	\$2,070		\$116,486
10 All Other Operation & Maintenance ("O&M") expense	\$166,459	\$32,982	(\$1,671)	\$131,806 2/
11 Company Share of Earned Savings	\$0		\$3,250	\$3,250 3/
12 Depreciation	\$70,506	\$19,324	\$0	\$51,182
13 Amort. - Loss on Reaq. Debt	\$487	\$68	(\$419)	(\$0)
14 Amortization - Other	\$63			\$63
15 Gross Earnings Tax	\$35,991			\$35,991
16 Municipal Tax	\$49,717	\$19,152		\$30,565
17 Other Non-Income taxes	\$4,728	\$519		\$4,209
18 Current and Deferred Income Taxes	\$4,926		(\$4,926)	\$0 6/
19 Regulatory Debits	\$8			\$8
20 Accretion Expense	(\$146)		\$146	\$0
21 Amortization of ITC	(\$76)	(\$28)		(\$48)
22 Interest on Customer Deposits	\$278			\$278 4/
23 Donations	\$782			\$782 4/
24 Total Operating Expenses	\$858,373	(\$86,021)	(\$2,512)	\$941,882
25				
26 Net Operating Income	\$136,546			
27 Distribution Operating Income Before Taxes				\$53,036
28 Adjustments:				
29 Service Quality ("SQ") Penalties Accrued				\$0 5/
30 C&LM Incentive				(\$4,696)
31 RE Growth Remuneration				(\$24) 9/
32 LTCER Remuneration Costs				(\$1,651) 8/
33				
34 Adjusted Distribution Operating Income Before Taxes				\$46,665
35 Interest Charges				\$17,402 6/
36 Income Taxes @ 35% (net of ITC)				\$10,628 7/
37				
38 Net Income				\$18,634
39				
40 Less: Preferred Stock Requirements				\$70 6/
41 Earnings Available for Common				\$18,564
42				
43 Average Common Equity - 5-Quarter Average				\$343,434 6/
44				
45 Rate of Return on Adjusted Average Common Equity				5.41%

**Notes**

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

2/ Excludes \$0, for storm related expenses as incurred \$0.987 million of sales expense was excluded

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 59.

8/ Docket 4805 Schedule ASC-18 Pg 4 Col H

9/ Docket 4707 RE Growth Factor Filing Schedule ASC-3 Page 3 Line 14

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

Line No.	Description	(a) December 2016	(b) March 2017	(c) June 2017	(d) September 2017	(e) December 2017	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 1,490,507,033	\$ 1,525,211,443	\$ 1,529,038,072	\$ 1,538,982,120	\$ 1,540,193,364	\$ 1,524,786,406
2	IFA allocated Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
3	Block Island Transmission System (BITS) Assets	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Total Distribution Plant	<u>\$ 1,490,507,033</u>	<u>\$ 1,525,211,443</u>	<u>\$ 1,529,038,072</u>	<u>\$ 1,538,982,120</u>	<u>\$ 1,540,193,364</u>	<u>\$ 1,524,786,406</u>
5							
6	Property Held for Future Use	2,496,405	2,496,405	2,496,405	2,496,405	2,496,405	\$ 2,496,405
7	Less: Contribution in Aid of Construction	2,756	(518,630)	2,756	2,756	(222,216)	\$ (146,515)
8	Less: Accumulated Depreciation	654,105,202	662,588,139	652,283,601	671,251,623	666,908,851	\$ 661,427,483
9	Plus: IFA allocated Depreciation	-	-	-	-	-	\$ -
10	Plus: Block Island Transmission System (BITS) Depreciation	-	-	-	-	-	\$ -
11							
12	Net Plant in Service	<u>\$ 838,895,480</u>	<u>\$ 865,638,338</u>	<u>\$ 879,248,120</u>	<u>\$ 870,224,147</u>	<u>\$ 876,003,134</u>	<u>\$ 866,001,844</u>
13							
14	Plus:						
15	Materials and Supplies	\$ 4,525,831	\$ 5,510,606	\$ 3,632,412	\$ 3,182,470	\$ 3,695,981	\$ 4,109,460
16	Prepayments	1,444,668	1,054,315	(324,171)	1,245,274	1,522,484	\$ 988,514
17	Loss on Reacquired Debt	1,854,556	2,318,694	1,709,381	1,785,599	1,752,405	\$ 1,884,127
18	Cash Working Capital	4,975,475	4,975,475	4,975,475	4,975,475	4,975,475	\$ 4,975,475
19	Cash Working Capital - Commodity & Gross Receipts Tax	25,003,318	23,686,328	23,686,328	23,686,328	23,686,328	\$ 23,949,726
20	Unamortized Interest Rate Lock	2,439,092	2,346,659	2,254,226	2,161,793	2,069,360	\$ 2,254,226
21	Unamortized Debt Issuance Costs (\$550M)	1,113,997	1,089,529	1,065,062	1,040,594	1,016,126	\$ 1,065,062
22	Unamortized Debt Issuance Costs (\$250M 2012)	945,261	\$936,143	\$927,024	\$917,906	\$908,788	\$ 927,024
23							
24	Subtotal	<u>\$ 42,302,198</u>	<u>\$ 41,917,749</u>	<u>\$ 37,925,736</u>	<u>\$ 38,995,438</u>	<u>\$ 39,626,947</u>	<u>\$ 40,153,614</u>
25							
26	Less:						
27	Accumulated Deferred Federal Income Taxes ("FIT")	\$ 165,941,844	\$ 184,975,771	\$ 196,614,471	\$ 197,535,435	\$ 215,503,710	\$ 192,114,246
28	Accumulated Deferred FIT on Loss for Reacquired Debt	649,095	811,543	598,283	624,960	613,342	\$ 659,444
29	Customer Deposits	10,276,666	10,154,831	8,699,858	8,743,046	8,961,553	\$ 9,367,191
30	Injuries and Damages Reserve - Uninsured Claims	5,691,599	5,771,305	4,570,193	4,658,649	4,934,361	\$ 5,125,221
31							
32	Subtotal	<u>\$ 182,559,203</u>	<u>\$ 201,713,450</u>	<u>\$ 210,482,805</u>	<u>\$ 211,562,090</u>	<u>\$ 230,012,966</u>	<u>\$ 207,266,103</u>
33							
34	Rate Base	<u><u>\$ 698,638,476</u></u>	<u><u>\$ 705,842,638</u></u>	<u><u>\$ 706,691,051</u></u>	<u><u>\$ 697,657,495</u></u>	<u><u>\$ 685,617,114</u></u>	<u><u>\$ 698,889,355</u></u>

**Line Notes**

34 Line 12 + Line 24 - Line 32

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

Line No.	Description	(a) December 2016	(b) March 2017	(c) June 2017	(d) September 2017	(e) December 2017	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 827,089,826	\$ 835,451,297	\$ 837,552,450	\$ 835,369,555	\$ 840,536,616	\$ 835,199,949
2	IFA allocated Plant	\$ 8,992,857	\$ 7,414,569	\$ 7,628,415	\$ 5,393,094	\$ 5,484,673	\$ 6,982,722
3	Block Island Transmission System (BITS) Assets	\$ 89,307,077	\$ 100,770,097	\$ 103,499,792	\$ 111,357,580	\$ 111,730,437	\$ 103,332,997
4	Total Transmission Plant	<u>\$ 925,389,760</u>	<u>\$ 943,635,963</u>	<u>\$ 948,680,657</u>	<u>\$ 952,120,229</u>	<u>\$ 957,751,726</u>	<u>\$ 945,515,667</u>
5							
6							
7	Property Held for Future Use	12,531,903	12,531,903	12,531,903	12,531,903	12,531,903	\$ 12,531,903
8	Less: Contribution in Aid of Construction						
9	Less: Accumulated Depreciation	92,361,272	97,279,994	100,336,957	104,198,259	106,968,106	\$ 100,228,918
10	Plus: IFA allocated Depreciation	4,005,114	1,702,947	2,370,742	1,686,009	1,722,878	\$ 2,297,538
11	Plus: Block Island Transmission System (BITS) Depreciation	39,143	181,531	191,906	207,312	208,038	\$ 165,586
12	Total Accumulated Depreciation	<u>96,405,529</u>	<u>99,164,472</u>	<u>102,899,605</u>	<u>106,091,579</u>	<u>108,899,022</u>	<u>\$ 102,692,042</u>
13							
14	Net Plant in Service	<u>\$ 841,516,133</u>	<u>\$ 857,003,394</u>	<u>\$ 858,312,955</u>	<u>\$ 858,560,552</u>	<u>\$ 861,384,607</u>	<u>\$ 855,355,528</u>
15							
16	Plus:						
17	Materials and Supplies	\$ 2,720,358	\$ 1,338,323	\$ 2,684,191	\$ 2,183,945	\$ 2,708,039	\$ 2,326,971
18	Prepayments	836,202	256,054	475,210	700,079	860,846	\$ 625,678
19	Loss on Reacquired Debt	1,073,453	563,126	1,126,251	1,003,844	990,849	\$ 951,504
20	Cash Working Capital	2,681,655	3,194,316	2,514,043	1,879,414	3,161,077	\$ 2,686,101
21	Unamortized Interest Rate Lock	1,509,520	1,452,316	1,395,112	1,337,908	1,280,704	\$ 1,395,112
22	Unamortized Debt Issuance Costs (\$550M)	785,818	674,289	659,146	698,225	677,568	\$ 699,009
23	Unamortized Debt Issuance Costs (\$250M 2012)	630,149	579,361	573,718	568,075	562,432	\$ 582,747
24							
25	Subtotal	<u>\$ 10,237,155</u>	<u>\$ 8,057,785</u>	<u>\$ 9,427,672</u>	<u>\$ 8,371,489</u>	<u>\$ 10,241,514</u>	<u>\$ 9,267,123</u>
26							
27	Less:						
28	Accumulated Deferred FIT	\$ 158,841,895	\$ 168,039,168	\$ 159,376,348	\$ 163,124,188	\$ 139,364,226	\$ 157,749,165
29	Accumulated Deferred FIT on Loss on Reacquired Debt	375,709	197,094	394,188	351,345	346,797	\$ 333,027
30	Customer Deposits	-	-	-	-	-	\$ -
31	Injuries and Damages Reserve - Uninsured Claims	-	-	-	-	-	\$ -
32							
33	Subtotal	<u>\$ 159,217,604</u>	<u>\$ 168,236,262</u>	<u>\$ 159,770,536</u>	<u>\$ 163,475,534</u>	<u>\$ 139,711,023</u>	<u>\$ 158,082,192</u>
34							
35	Rate Base	<u>\$ 692,535,685</u>	<u>\$ 696,824,918</u>	<u>\$ 707,970,090</u>	<u>\$ 703,456,508</u>	<u>\$ 731,915,098</u>	<u>\$ 706,540,460</u>

**Line Notes**

35 Line 14 + Line 24 - Line 33

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

Line No.	Description	(a) December 2016	(b) March 2017	(c) June 2017	(d) September 2017	(e) December 2017	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 2,317,596,859	\$ 2,360,662,739	\$ 2,366,590,522	\$ 2,374,351,675	\$ 2,380,729,980	\$ 2,359,986,355
2	IFA allocated Plant	\$ 8,992,857	\$ 7,414,569	\$ 7,628,415	\$ 5,393,094	\$ 5,484,673	\$ 6,982,722
3	Block Island Transmission Assets (BITS)	\$ 89,307,077	\$ 100,770,097	\$ 103,499,792	\$ 111,357,580	\$ 111,730,437	\$ 103,332,997
4	Total Utility Plant in Service	<u>\$ 2,415,896,793</u>	<u>\$ 2,468,847,406</u>	<u>\$ 2,477,718,729</u>	<u>\$ 2,491,102,349</u>	<u>\$ 2,497,945,090</u>	<u>\$ 2,470,302,073</u>
5							
6							
7	Property Held for Future Use	15,028,308	15,028,308	15,028,308	15,028,308	15,028,308	\$ 15,028,308
8	Less: Contribution in Aid of Construction	2,756	(518,630)	2,756	2,756	(222,216)	\$ (146,515)
9	Less: Accumulated Depreciation	746,466,474	759,868,133	752,620,557	775,449,882	773,876,957	\$ 761,656,401
10	Less: IFA allocated Depreciation	4,005,114	1,702,947	2,370,742	1,686,009	1,722,878	\$ 2,297,538
11	Less: Block Island Transmission System (BITS) Depreciation	39,143	181,531	191,906	207,312	208,038	\$ 165,586
12	Net Plant in Service	<u>\$ 1,680,411,614</u>	<u>\$ 1,722,641,733</u>	<u>\$ 1,737,561,075</u>	<u>\$ 1,728,784,699</u>	<u>\$ 1,737,387,741</u>	<u>\$ 1,721,357,372</u>
13							
14	Plus:						
15	Materials and Supplies	\$ 7,246,188	\$ 6,848,929	\$ 6,316,603	\$ 5,366,415	\$ 6,404,020	\$ 6,436,431
16	Prepayments	2,280,870	1,310,370	151,039	1,945,353	2,383,330	1,614,192
17	Loss on Reacquired Debt	2,928,009	2,881,820	2,835,632	2,789,443	2,743,254	2,835,632
18							
19	Cash Working Capital	7,657,130	8,169,791	7,489,518	6,854,889	8,136,552	7,661,576
20	Cash Working Capital - Commodity & Gross Receipts Tax	25,003,318	23,686,328	23,686,328	23,686,328	23,686,328	23,949,726
21	Unamortized Interest Rate Lock	3,948,612	3,798,975	3,649,338	3,499,701	3,350,064	3,649,338
22	Unamortized Debt Issuance Costs (\$550M)	1,899,815	1,763,818	1,724,208	1,738,818	1,693,694	1,764,071
23	Unamortized Debt Issuance Costs (\$250M 2012)	1,575,410	1,515,504	1,500,743	1,485,981	1,471,220	1,509,772
24							
25	Subtotal	<u>\$ 52,539,353</u>	<u>\$ 49,975,534</u>	<u>\$ 47,353,408</u>	<u>\$ 47,366,927</u>	<u>\$ 49,868,461</u>	<u>\$ 49,420,737</u>
26							
27	Less:						
28	Accumulated Deferred FIT	\$ 324,783,739	\$ 353,014,939	\$ 355,990,819	\$ 360,659,623	\$ 354,867,936	\$ 349,863,411
29	Accumulated Deferred FIT on Loss for Reacquired Debt	1,024,803	1,008,637	992,471	976,305	960,139	\$ 992,471
30	Customer deposits	\$10,276,666	\$10,154,831	\$8,699,858	\$8,743,046	\$8,961,553	\$ 9,367,191
31	Injuries and Damages Reserve - Uninsured Claims	\$5,691,599	\$5,771,305	\$4,570,193	\$4,658,649	\$4,934,361	\$ 5,125,221
32							
33	Subtotal	<u>\$ 341,776,807</u>	<u>\$ 369,949,711</u>	<u>\$ 370,253,341</u>	<u>\$ 375,037,623</u>	<u>\$ 369,723,989</u>	<u>\$ 365,348,294</u>
34							
35	Rate Base	<u>\$ 1,391,174,160</u>	<u>\$ 1,402,667,556</u>	<u>\$ 1,414,661,141</u>	<u>\$ 1,401,114,003</u>	<u>\$ 1,417,532,213</u>	<u>\$ 1,405,429,814</u>

**Line Notes**

35 Line 12 + Line 25 - Line 33

**THE NARRAGANSETT ELECTRIC COMPANY**  
**Calculation of Excess Earnings for Twelve months ended December 31, 2017**  
(\$000)

Line

1	Actual Distribution Earnings Available for Common	\$18,564 (a)		
2				
3				
4	Actual Average Common Equity	\$343,434 (a)		
5				
6				Customer
7	Average Annual Return		<u>5.41%</u> (b)	<u>Share</u>
8				
9	ROE in 50%/50% Bandwith (>9.50%, <10.50%)		0.00% * 50.00%	= 0.00%
10	ROE in 75%/25% Bandwith (>10.50%)		0.00% * 75.00%	= <u>0.00%</u>
11				
12	Total Customer ROE Sharing			0.00%
13	Actual Average Common Equity			<u>\$343,434</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, 2017			<u>\$ -</u>

Notes

- (a) From Page 2 of 6, Line 39 and Line 41.  
(b) Line 1 divided by Line 4 ; equals Page 2 of 6 at Line 43.