

October 15, 2012

**VIA HAND DELIVERY & ELECTRONIC MAIL**

Luly E. Massaro, Clerk  
Rhode Island Division of Public Utilities & Carriers  
89 Jefferson Boulevard  
Warwick, RI 02888

**RE: Docket D-12-12 - Application of The Narragansett Electric Company d/b/a National Grid  
Regarding Issuance of New Long-Term Debt  
Settlement Agreement**

Dear Ms. Massaro:

Enclosed for filing are five (5) copies of the Settlement Agreement between The Narragansett Electric Company d/b/a National Grid (the "Company") and the Advocacy Section of the Rhode Island Division of Public Utilities and Carriers relative to the Company's application to issue long-term debt.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosure

cc: John Spirito, Esq.  
Leo Wold, Esq., Office of Attorney General  
Thomas Ahern, Administrator, Division of Public Utilities & Carriers  
Steve Scialabba, Division of Public Utilities & Carriers  
Amy D'Alessandro, Esq., Public Utilities Commission

## Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted to the individuals listed below. The Division received hard copies of this transmittal.



\_\_\_\_\_  
Joanne M. Scanlon

October 15, 2012  
Date

**Docket No. D-12-12 - National Grid's Application to Issue Long-Term Debt  
Updated Service List 6/20/12**

<b>Name/Address</b>	<b>E-mail Distribution</b>	<b>Phone</b>
Thomas R. Teehan, Esq. National Grid. 280 Melrose St. Providence, RI 02907	<a href="mailto:Thomas.teehan@us.ngrid.com">Thomas.teehan@us.ngrid.com</a>	401-784-7667
	<a href="mailto:Joanne.scanlon@us.ngrid.com">Joanne.scanlon@us.ngrid.com</a>	
Leo Wold, Esq. (for Division) 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
	<a href="mailto:dmacrae@riag.ri.gov">dmacrae@riag.ri.gov</a>	
	<a href="mailto:Steve.scialabba@ripuc.state.ri.us">Steve.scialabba@ripuc.state.ri.us</a>	
	<a href="mailto:David.stearns@ripuc.state.ri.us">David.stearns@ripuc.state.ri.us</a>	
Matthew Kahal c/o/ Exeter Associates 5565 Sterrett Place, Suite 310 Columbia, MD 21044	<a href="mailto:mkahal@exeterassociates.com">mkahal@exeterassociates.com</a>	410-992-7500
<b>File original &amp; 4 copies w/:</b> Luly E. Massaro, Clerk Division of Public Utilities & Carriers 89 Jefferson Blvd. Warwick, RI 02888	<a href="mailto:Lmassaro@puc.state.ri.us">Lmassaro@puc.state.ri.us</a>	401-780-2107
	<a href="mailto:Jspirito@ripuc.state.ri.us">Jspirito@ripuc.state.ri.us</a>	
	<a href="mailto:Adalessandro@puc.state.ri.us">Adalessandro@puc.state.ri.us</a>	

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
DEPARTMENT OF PUBLIC UTILITIES AND CARRIERS**

<p>Application and Statement by ) The Narragansett Electric Company ) d/b/a National Grid ) Regarding Issue of New ) Long-Term Debt )</p>	<p>Docket No. D-12-12</p>
---	---------------------------

**Settlement Agreement**

This Settlement Agreement is entered into this 15<sup>th</sup> day of October, 2012, between The Narragansett Electric Company d/b/a National Grid (the "Company"), and the Rhode Island Division of Public Utilities and Carriers Staff Advocacy Section (the "Division Advocacy Section") (collectively the "Parties").

**WHEREAS**, on April 26, 2012 the Company filed an Application and Statement with the Division seeking authorization to issue and sell one or more series and/or issues of new long-term debt, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17; and

**WHEREAS**, the Parties engaged in a series of technical and settlement conferences; and

**WHEREAS**, the Parties believe this Settlement Agreement is in the best interests of the people of the State of Rhode Island and the customers of the Company;

**NOW, THEREFORE**, in consideration of the recitals hereto and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

1. The Company shall be authorized to make an initial issuance of new long-term debt in an amount not to exceed an aggregate principal amount of \$250 million outstanding at any one time for any or all of the purposes set forth in the Company's Application dated April 26, 2012, including replenishing internally generated cash funds that were used to fund long-lived capital plant additions and to refund long-term debt, and using those funds to pay dividends and pay down existing short-term debt balances (the "Initial Issuance(s)"). Proceeds from the Initial Issuance(s) will not be used for making investments in unregulated activities or making loans to affiliates.

The foregoing shall not limit the Company from fully participating in the current and in any future National Grid Money Pool arrangements in which regulated affiliates of the Company also participate, including, without limitation, making short-term loans (i.e., for a term not exceeding one year) in connection with such arrangements.

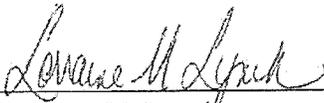
2. The Initial Issuance(s) will be effected in one or more tranches with maturity dates each greater than one year but not to exceed 30 years from the date of issuance.
3. The Division Advocacy Section recognizes that issuing in multiple tranches as opposed to a single larger issuance is a reasonable way to diversify the Company's long-term debt outstanding, but that such an issuance strategy may increase the credit spreads associated with such issuance.
4. The Company may enter into evidence of indebtedness for the new long-term debt through any or all of the instruments set forth in the Company's Application dated April 26, 2012, except that the Initial Issuance(s) will be unsecured fixed interest rate debt.
5. The Company will inform the Division Advocacy Section of its intent to issue in advance of closing. However, such advance notification shall not be a condition precedent to the Company's right to proceed with an issuance otherwise authorized by the Division of Public Utilities and Carriers (the "Division") in this docket.
6. The maximum interest rate for any new debt issued pursuant to an Initial Issuance shall not exceed the U.S. Treasury rate for similar maturities at the time of pricing plus 350 basis points.
7. The Company's use of hedging instruments related to the Initial Issuance(s), while not compulsory, shall be limited to cross currency swaps, interest rate swaps, Treasury locks, forward rate swaps and call provisions. If the Company does make use of a hedging instrument, it will consult with the Division Advocacy Staff before doing so.
8. For accounting purposes, the Company will be permitted to defer and amortize all the reasonable and prudent costs and expenses of the Initial Issuance(s), including debt discount or premium over the life of this new long-term debt. The Division Advocacy Staff recognizes that debt issuance costs, including hedging costs (or credits), should be eligible for rate recovery to the extent such costs are reasonable, prudently-incurred and appropriately allocated to retail gas and electric utility service.

9. The Company's request for a waiver of the Division's Rules of Practice and Procedure 14(1)(ii), (iii) and (iv) shall be granted and the Company shall provide the Division with a statement of the basic terms of each issue within 5 days following the settlement of the Initial Issuances. A copy of the executed debt transaction documents along with a statement of the final actual costs shall be provided to the Division within 45 days following the settlement of each tranche of the Initial Issuances.
10. Any Order by the Division approving this Initial Issuance(s) shall not constitute approval of or the Division's or the Division Advocacy Section's concurrence with:
  - a. The Company's capital spending plan;
  - b. The capital structure proposed by the Company in R.I.P.U.C. Docket No. 4323 or in any future docket;
  - c. The value of any assets, tangible or intangible, owned or to be owned by the Company.
11. An Order by the Division approving this Initial Issuance(s) shall not constitute pre-approval of or concurrence by the Division or the Division Advocacy Section of any specific amount of expenses incurred by the Company for cost recovery or ratemaking purposes.
12. The Company retains an obligation to conduct its Initial Issuance(s) at the lowest reasonable cost for the benefit of its retail customers.
13. This Settlement Agreement shall not affect or limit in any way the position and/or authority of the Division or the Rhode Island Public Utilities Commission with respect to rates, services, financial policies, accounting or any other matter affecting the Company.
14. The Company retains an obligation to use a prudent mix of capital to finance its utility operations and investments.
15. As soon as reasonably practicable following receipt of a final non-appealable order of the Division approving this Settlement Agreement in the form and substance presented herein, the Company shall make reasonable efforts to conduct and close the Initial Issuance(s) in accordance with the terms of this Settlement Agreement and at the lowest reasonable cost for the benefit of its retail customers by December 2012. In any event, the Company's authority to issue up to \$250 million in long term debt under this Settlement does not extend beyond May 31, 2013. Any treasury lock entered into after consultation with the Division Advocacy Staff will be cash settled as close in time as practicable to the pricing of the new debt issue being hedged. The cash settlement amount of hedging instruments will not be considered as part of the maximum interest rate restriction referred to in Paragraph 6 above.

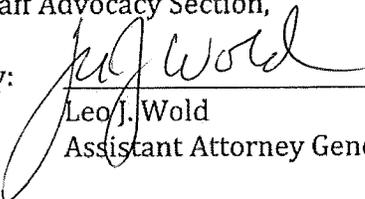
16. All prior discussions and agreements with respect to the subject matter hereof are merged in this Settlement Agreement, which alone constitutes the entire agreement between the Parties as to its subject matter. This Settlement Agreement may not be amended, modified or terminated except by a written agreement signed by both Parties, which specifically references this Settlement Agreement. This Settlement Agreement is submitted on the condition that it be approved in its entirety by the Division after hearing, and on the further condition that if the Division does not approve this Settlement Agreement in its entirety, the settlement shall be deemed withdrawn and shall not constitute a part of the record in this proceeding or be used for any purpose, unless all Parties agree to Division modifications.

17. This Settlement Agreement may be signed in counterparts each of which shall be deemed an original and all of which together shall constitute one in the same document.

The Narragansett Electric Company  
d/b/a National Grid:

By:   
Lorraine M. Lynch  
Assistant Treasurer

The Division of Public Utilities and Carriers  
Staff Advocacy Section,

By:   
Leo J. Wold  
Assistant Attorney General