

Memorandum

To: L. Massaro
Commission Clerk

From: D. R. Stearns
A. Contente
Division of Public Utilities & Carriers

Date: 8/25/2006

Re: Narragansett Electric d/b/a National Grid - Line Extension Policy
Docket 3716

On August 1, 2006 the Division recommended, and the Commission approved (Order number 18536, February 27, 2006), suspension of implementation of revised rates proposed by Narragansett Electric d/b/a National Grid in this docket to allow the Division time to conduct further investigation by way of formal and/or informal discovery. The Division has completed that investigation process.

The Company has provided an updated analysis of the cost for line extensions. The analysis sets the cost at \$15.03 and \$22.68 for overhead and underground installations, respectively. This equates to an increase of \$6.23, or 71% for overhead, and \$10.20, or 82% for underground installations. Attached is a worksheet detailing the current and updated costs and the level of increase for each type of installation.

Also presented on the worksheet is a calculation assuming the increases were phased in over a three -year period. Doing so would, of course, reduce the “rate shock” effect of such a large one-time increase.

As shown on the worksheet, increases to overhead line extension costs would equal \$2.08 per year, or 24%, 19%, and 16% for 2007, 2008 and 2009 respectively. Increases in the costs of underground extensions would be \$3.40 per year, or 27%, 21% and 18%, for the same 3 years.

In summary, the Division recommends that the Commission instruct the Company to increase the charges to customers for overhead and underground line extensions over a three-year period as described above, the first increase effective January 1, 2007, the remaining increases at January 1 of 2008 and 2009.

This will result in the line extension charges being adjusted to 2006 level of costs at January 1, 2009. The Division also recommends the Commission instruct the Company to submit to the Commission an updated cost estimate for both overhead and underground line extensions during 2009, with the possibility of again adjusting line extension charges at that time. This would make costs and charges even more synchronous, thereby reducing cross-subsidization of costs between customers.

The Division is in the process of preparing a comparison of Narragansett's proposed line extension rates with those of other companies. Information will be submitted to the Commission on Monday, August 28, 2006.

Cc: Thomas Ahern,

Administrator, Division of Public Utilities and Carriers

NARRAGANSETT ELECTRIC CO. D/B/A NATIONAL GRID
LINE EXTENSION POLICY CHANGES

3-YEAR PHASE-IN SCHEDULE

	<u>Overhead</u>	<u>Differential</u>	<u>Underground</u>	<u>Differential</u>
Update CLF Costs	\$ 15.03		\$ 22.68	
Current CLF Costs	<u>\$ 8.80</u>		<u>\$ 12.48</u>	
Increase	<u>\$ 6.23</u>	71%	<u>\$ 10.20</u>	82%

Options for 3-Year Phase-in of Updated Costs:

2007		<u>% Increase</u>		<u>% Increase</u>
Phase-in Percentage	33.3%		33.3%	
Phase-in \$ Increase	\$ 2.08		\$ 3.40	
January 1, 2007 CLF Costs	\$ 10.88	24%	\$ 15.88	27%
2008		<u>% Increase</u>		<u>% Increase</u>
Phase-in Percentage	33.3%		33.3%	
Phase-in \$ Increase	\$ 2.08		\$ 3.40	
January 1, 2008 CLF Costs	\$ 12.95	19%	\$ 19.28	21%
2009		<u>% Increase</u>		<u>% Increase</u>
Phase-in Percentage	33.3%		33.3%	
Phase-in \$ Increase	\$ 2.08		\$ 3.40	
January 1, 2009 CLF Costs	\$ 15.03	16%	\$ 22.68	18%