

May 16, 2007

**VIA HAND DELIVERY & ELECTRONIC MAIL**

Luly E. Massaro, Commission clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02999

RE: Docket No. 3790 National Grid Gas Energy Efficiency Program Response  
to Record Request issued on May 11, 2007

Dear Ms. Massaro:

Enclosed please find ten (10) copies of National Grid's response to Record Request issued by the Commission on May 11, 2007 in the above docket.

Thank you for your attention to this filing. If you have any questions, please feel free to call me at (401) 574-2309.

Very truly yours,



Peter C. Czokanski  
Principal Analyst

Enc.

cc: Service List

THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID  
R.I.P.U.C. Docket No. 3790  
2007 – 2008 Gas Energy Efficiency Programs  
Response to Commission's Follow-up Record Request  
Issued May 11, 2007

Commission Record Request 2-1

Request:

The response to PUC Record Request 1 is not complete. The record request sought to quantify the amount of lost profits annually to NGrid for successful completion of the gas DSM program utilizing a ROE of 11.25 percent. Specifically, if NGrid annually loses approximately \$508,000 in revenues, then what portion of these revenues would constitute lost profits assuming a 11.25 percent ROE?

Response:

The stated Return on Equity (ROE) of 11.25 percent is irrelevant to determining lost profits from a \$508,000 revenue reduction due to successful completion of the gas energy efficiency programs. The ROE calculation identifies the percentage that net income is to the equity component of rate base and 11.25 percent is the percentage established in the Company's last rate case above which earnings sharing occurs. Net income is total adjusted operating revenues minus operating and maintenance expenses minus other expenses such as depreciation and taxes minus interest on debt. In a net income calculation, an annual loss of distribution revenues totaling \$508,000 would not uniformly impact the other components. The reduction to net income would be calculated as follows:

- Total adjusted operating revenues would be reduced by \$508,000 because those lost revenues do not include any surcharge type revenues with true-up mechanisms.
- Operating and maintenance expenses would not be impacted because the \$508,000 is based just on a reduction of distribution revenues. For example it does not include any Gas Cost Recovery (GCR) revenues which would have had a corresponding reduction in gas costs. In addition, because the reduced revenue is based on a customer's reduction in volumes used, it does not eliminate any administrative expenses such as the need to send out a bill and it does not result in any commensurate reduction in maintenance expenses or operating expenses.
- Other expenses would be reduced but only by the Federal Income Tax (FIT) component because there is no depreciation impact and the distribution revenue calculated by the Company does not include any sales or revenue related taxes like GET. The FIT impact is  $\$508,000 \times 35\% = \$177,800$ .
- Interest on debt is not impacted.
- Total reduction to net income would be  $\$508,000 - \$177,800 = \$330,200$

Had this net income reduction occurred during FY2006, the Company's reported ROE of 4.34% (Docket No. 3760, direct testimony of Sharon Partridge, Attachment SP-1) would have been reduced to 4.04%.

**Docket 3790 – National Grid – Gas Energy Efficiency Programs  
Service List as of 2/28/07**

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