

December 15, 2011

VIA HAND DELIVERY & ELECTRONIC MAIL

Mr. Thomas F. Ahern
Administrator
Rhode Island Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, Rhode Island 02888

**RE: Docket 4269 – Distribution Adjustment Clause
Pension Funding Levels**

Dear Mr. Ahern:

In Docket No. 4269, Narragansett Electric Company's (the Company) Gas Distribution Adjustment Clause (DAC), the Rhode Island Division of Public Utilities and Carriers (Division) raised concerns about the Company's level of funding of its pension and postretirement benefits other than pensions (PBOP) plans. One of the concerns raised by the Division was that the Company was not funding the capitalized pension and PBOP costs. After consideration of the Division's concerns, the Company communicated in a telephone conversation with the Division that it agreed with the Division's position and that it will begin funding both the amount of recovered Pension and PBOP expense and the amount of capitalized Pension and PBOP costs, although the funding of capitalized pension and PBOP costs had not been explicitly addressed in Docket No. 3943 when the reconciliation mechanism was established. The Division also expressed concern about the timing of the funding of these plans and was seeking commitment from the Company regarding ongoing funding of the benefit plans. This letter documents the Company's commitment and describes the process it will follow.

As discussed with the Division, the Company has calculated a cumulative incremental benefit plan funding of \$10.4 million from the start of its Pension and PBOP reconciliation mechanism on November 1, 2008 to October 31, 2011. This amount is shown as the Adjusted Cumulative Excess/(Shortfall) on Attachment A, Line 34. This attachment follows a format similar to Exhibit DJE-1 that was submitted by the Division in Docket No. 4269.

The Company proposes to fund the cumulative incremental funding requirement of \$10.4 million before the end of December 2011. The Company commits to a regular ongoing quarterly funding schedule to contribute each quarter's funding requirement (rate allowance plus amounts charged to capital) by no later than the end of the subsequent quarter. Therefore, the quarterly funding requirement for the quarter ended December 31, 2011, excluding October's funding

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requirement which will be funded before the end of December, will be funded no later than March 31, 2012. This process will be followed for all subsequent quarters.

Please feel free to contact me at 781-907-1889 with any questions on this matter.

Sincerely,



Michael D. Laflamme

Cc: RI Public Utilities Commission
Docket 4269 Service List
Leo Wold, Esq.
Steve Scialabba, Division

<u>Line #</u>		<u>Pension</u>	<u>PBOP</u>	<u>Total</u>
		(a)	(b)	(c)
1	8 Months Ended June 30, 2009			
	Notes			
2	Expense Recovery	(A) 3,368	3,045	6,413
3	Funding	(A) (2,741)	(4,600)	(7,341)
4	Funding (Excess)/Shortfall	627	(1,555)	(928)
5				
6	12 Months Ended June 30, 2010			
7	Expense Recovery	(A) 5,424	5,371	10,795
8	Capitalized Cost	(B) 1,759	827	2,586
9	Funding	(A) (5,020)	(1,891)	(6,911)
10	Funding (Excess)/Shortfall	2,163	4,307	6,470
11				
12	12 Months Ended June 30, 2011			
13	Expense Recovery	(A) 6,970	5,140	12,110
14	Capitalized Cost	(C) 1,990	1,473	3,463
15	Funding	(A) (4,635)	(2,672)	(7,307)
16	Funding (Excess)/Shortfall	4,325	3,941	8,266
17				
18	Cumulative (Excess)/Shortfall Per DJE-1	7,115	6,693	13,808
19				
20	Adjustments			
21	Capitalized Cost--8 Months Ended June 30, 2009	893	957	1,850
22	5/12ths of April 2008 Funding--8 Months Ended June 30, 2009	(D) (2,867)	(1,431)	(4,298)
23	Additional Capitalized Cost--12 Months Ended June 30, 2010	(F) 781	722	1,503
24	Deferral Recovery Timing Adjustment	(G) (639)	(191)	(830)
25				
26	Cumulative (Excess)/Shortfall as of June 30, 2011	5,283	6,750	12,033
27				
28	5 Months Ended October 31, 2011			
29	Expense Recovery	2,323	1,714	4,037
30	Capitalized Cost	1,113	542	1,655
31	Funding	(E) (6,464)	(846)	(7,310)
32	Funding (Excess)/Shortfall	(3,028)	1,410	(1,618)
33				
34	Adjusted Cumulative (Excess)/Shortfall	2,255	8,160	10,415

(A) Attachment WRR-1, Page 6, as filed in Docket 4269.

(B) Response to Division 1-5, Docket 4196

(C) Response to Division 1-1

(D) Funding during National Grid's Fiscal Year Ending March 31, 2009 was made for the entire year in April 2008. The contribution for the pension plan was \$6,881,000 and \$3,434,000 for PBOPs. Five Twelfths (5/12ths) were prorated for November 1, 2008 through March 31, 2009 period.

(E) Includes additional \$2,100,000 of underfunding that the Company described in response to Division 3-8\

(F) During the preparation of this analysis, it was determined that the amount of capitalized pension & PBOP costs reported in response to Division 1-5 in Docket 4196 was understated and is being adjusted here.

(G) Adjustment to reflect actual timing of the recovery of pension and PBOP deferred amounts from November to October each year.