

May 1, 2017

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, 2016**

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, 2016 for The Narragansett Electric Company.¹

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: Steve Scialabba, Division
David Efron, Division
Leo Wold, Esq.

¹ 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, 2016

| Line No. | | Twelve Months Ending December 31, 2016 | | | |
|----------|--------------------------------------|---|-----------|------------|------------|
| | | Earned 1/ | Earned 2/ | Allowed 3/ | Ceiling 3/ |
| 1 | | | | | |
| 2 | Return on Distribution Rate Base | 5.36% | 5.83% | 7.17% | 7.17% |
| 3 | | | | | |
| 4 | Return on Distribution Common Equity | 5.84% | 6.79% | 9.50% | 9.50% |

1/ Excludes Conservation & Load Management ("C&LM" aka Energy Efficiency) Incentive.

2/ Includes C&LM Incentive.

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
12/31/2016

| | Total | ----- EARNED ----- | | Taxes | Pre-Tax Weighted Cost |
|----|------------------------------|--------------------|---------------|--------------|--------------------------|
| | | Cost Rate | Weighted Cost | | |
| 27 | <u>\$681,283,839</u> 4/ | | | | |
| 29 | Long Term Debt \$340,301,278 | 49.95% | 4.96% | 2.48% | 2.48% |
| 30 | Short Term Debt \$5,177,757 | 0.76% | 0.79% | 0.01% | 0.01% |
| 31 | Preferred Stock \$1,021,926 | 0.15% | 4.50% | 0.01% | 0.02% |
| 32 | Common Equity \$334,782,879 | 49.14% | 5.84% | 2.87% | 1.64% (b) |
| 33 | <u>\$681,283,839</u> | <u>100.00%</u> | | <u>5.37%</u> | <u>7.02%</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: | \$681,283,839 | X | 0.01% | (c) = | \$68 |
| INTEREST: | \$681,283,839 | X | 2.49% | (d) = | \$16,964 |
| FIT: | \$681,283,839 | X | 1.55% | (e) = | \$10,565 |
| Plus: (Flowthrough Items)/65%-(Flowthrough Items) (f) | | | | | \$675 |
| Total Federal Income Taxes ("FIT") | | | | | <u>\$11,240</u> |

(c) From Line 31, Column "Weighted Cost"

(d) Sum of Lines 29 and 30, Column "Weighted Cost".

(e) (0.01% + 2.87%) / 65% - (0.01% + 2.87%)

(f) Flowthrough Items

| | |
|--|---------|
| Investment Tax Credit ("ITC") Amortization | (\$73) |
| ITC Basis Reduction Depreciation | \$227 |
| AFUDC Equity Depreciation | \$99 |
| Unfunded Amortization | \$1,000 |

\$1,253

THE NARRAGANSETT ELECTRIC COMPANY
Return on Equity Calculation
Twelve Months Ended December 31, 2016

(\$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 | \$312,058 | | | \$312,058 |
| 2 Other Revenue | \$596,170 | | | \$596,170 1/ |
| 3 Total Revenue | \$908,228 | | | \$908,228 |
| 4 Operating Expenses: | | | | |
| 5 Purchased Power | \$332,841 | | | \$332,841 |
| 6 Transmission Wheeling | \$164,573 | | | \$164,573 |
| 7 Transmission Wheeling - IFA Credit | (\$132,564) | (\$132,564) | | \$0 |
| 8 Uncollectible Expense | \$8,245 | | \$1,878 | \$10,123 |
| 9 Genl & Admin. O&M | \$106,125 | \$1,189 | | \$104,936 |
| 10 All Other Operation & Maintenance ("O&M") expense | \$145,776 | \$25,483 | (\$1,191) | \$119,102 2/ |
| 11 Company Share of Earned Savings | \$0 | | \$3,250 | \$3,250 3/ |
| 12 Depreciation | \$67,554 | \$18,764 | \$0 | \$48,790 |
| 13 Amort. - Loss on Reaq. Debt | \$485 | \$70 | (\$414) | \$0 |
| 14 Amortization - Other | \$60 | | | \$60 |
| 15 Gross Earnings Tax | \$36,215 | | | \$36,215 |
| 16 Municipal Tax | \$48,909 | \$17,339 | | \$31,570 |
| 17 Other Non-Income taxes | \$3,561 | \$390 | | \$3,171 |
| 18 Current and Deferred Income Taxes | \$26,257 | | (\$26,257) | \$0 6/ |
| 19 Regulatory Debits | \$0 | | | \$0 |
| 20 Accretion Expense | (\$206,755) | | \$206,755 | \$0 |
| 21 Amortization of ITC | (\$116) | (\$43) | | (\$73) |
| 22 Interest on Customer Deposits | \$294 | | | \$294 4/ |
| 23 Donations | \$680 | | | \$680 4/ |
| 24 Total Operating Expenses | \$602,141 | (\$69,370) | \$184,021 | \$855,532 |
| 25 | | | | |
| 26 Net Operating Income | \$306,087 | | | |
| 27 Distribution Operating Income Before Taxes | | | | \$52,696 |
| 28 Adjustments: | | | | |
| 29 Service Quality ("SQ") Penalties Accrued | | | | \$0 5/ |
| 30 C&LM Incentive | | | | (\$4,893) |
| 31 | | | | |
| 32 Adjusted Distribution Operating Income Before Taxes | | | | \$47,802 |
| 33 Interest Charges | | | | \$16,964 6/ |
| 34 Income Taxes @ 35% (net of ITC) | | | | \$11,206 7/ |
| 35 | | | | |
| 36 Net Income | | | | \$19,632 |
| 37 | | | | |
| 38 Less: Preferred Stock Requirements | | | | \$68 6/ |
| 39 Earnings Available for Common | | | | \$19,564 |
| 40 | | | | |
| 41 Average Common Equity - 5-Quarter Average | | | | \$334,783 6/ |
| 42 | | | | |
| 43 Rate of Return on Adjusted Average Common Equity | | | | 5.84% |

Notes

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

2/ Excludes \$0, for storm related expenses as incurred and \$0.472 million in sales expense.

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.

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

| Line No. | Description | (a) December 2015 | (b) March 2016 | (c) June 2016 | (d) September 2016 | (e) December 2016 | (f) 5-Quarter Average |
|----------|---|-------------------------|-----------------------|-----------------------|--------------------------|-------------------------|--------------------------|
| 1 | Utility Plant in Service | \$ 1,462,340,324 | \$ 1,472,524,002 | \$ 1,483,904,318 | \$ 1,487,785,788 | \$ 1,490,507,033 | \$ 1,479,412,293 |
| 2 | | | | | | | |
| 3 | Property Held for Future Use | 2,496,289 | 2,496,405 | 2,496,405 | 2,496,405 | 2,496,405 | \$ 2,496,382 |
| 4 | Less: Contribution in Aid of Construction | 2,756 | 2,756 | 2,756 | 2,756 | 2,756 | \$ 2,756 |
| 5 | Less: Accumulated Depreciation | 646,565,954 | 647,598,502 | 656,628,902 | 656,147,751 | 654,105,202 | \$ 652,209,262 |
| 6 | | | | | | | |
| 7 | Net Plant in Service | <u>\$ 818,267,903</u> | <u>\$ 827,419,149</u> | <u>\$ 829,769,065</u> | <u>\$ 834,131,685</u> | <u>\$ 838,895,480</u> | <u>\$ 829,696,657</u> |
| 8 | | | | | | | |
| 9 | Plus: | | | | | | |
| 10 | Materials and Supplies | \$ 4,898,460 | \$ 4,733,283 | \$ 5,204,452 | \$ 4,879,444 | \$ 4,525,831 | \$ 4,848,294 |
| 11 | Prepayments | 218,818 | 1,617,398 | 630,356 | 907,230 | 1,444,668 | \$ 963,694 |
| 12 | Loss on Reacquired Debt | 1,974,565 | 1,928,102 | 1,907,920 | 1,882,220 | 1,854,556 | \$ 1,909,472 |
| 13 | Cash Working Capital | 4,975,475 | 4,975,475 | 4,975,475 | 4,975,475 | 4,975,475 | \$ 4,975,475 |
| 14 | Cash Working Capital - Commodity & Gross Receipts Tax | 37,385,150 | 25,003,318 | 25,003,318 | 25,003,318 | 25,003,318 | \$ 27,479,684 |
| 15 | Unamortized Interest Rate Lock | 2,808,824 | 2,716,391 | 2,623,958 | 2,531,525 | 2,439,092 | \$ 2,623,958 |
| 16 | Unamortized Debt Issuance Costs (\$550M) | 1,211,868 | 1,187,401 | 1,162,933 | 1,138,465 | 1,113,997 | \$ 1,162,933 |
| 17 | Unamortized Debt Issuance Costs (\$250M 2012) | 981,734 | 972,616 | 963,498 | 954,379 | 945,261 | \$ 963,498 |
| 18 | | | | | | | |
| 19 | Subtotal | <u>\$ 54,454,895</u> | <u>\$ 43,133,983</u> | <u>\$ 42,471,909</u> | <u>\$ 42,272,057</u> | <u>\$ 42,302,198</u> | <u>\$ 44,927,008</u> |
| 20 | | | | | | | |
| 21 | Less: | | | | | | |
| 22 | Accumulated Deferred Federal Income Taxes ("FIT") | \$ 174,423,673 | \$ 171,953,160 | \$ 178,348,805 | \$ 193,417,512 | \$ 165,941,844 | \$ 176,816,999 |
| 23 | Accumulated Deferred FIT on Loss for Reacquired Debt | 691,098 | 674,836 | 667,772 | 658,777 | 649,095 | \$ 668,315 |
| 24 | Customer Deposits | 10,671,363 | 10,725,612 | 10,276,171 | 10,375,796 | 10,276,666 | \$ 10,465,122 |
| 25 | Injuries and Damages Reserve - Uninsured Claims | 5,070,863 | 5,012,653 | 5,500,882 | 5,678,546 | 5,684,004 | \$ 5,389,390 |
| 26 | | | | | | | |
| 27 | Subtotal | <u>\$ 190,856,996</u> | <u>\$ 188,366,261</u> | <u>\$ 194,793,630</u> | <u>\$ 210,130,631</u> | <u>\$ 182,551,608</u> | <u>\$ 193,339,825</u> |
| 28 | | | | | | | |
| 29 | Rate Base | <u>\$ 681,865,802</u> | <u>\$ 682,186,871</u> | <u>\$ 677,447,344</u> | <u>\$ 666,273,110</u> | <u>\$ 698,646,070</u> | <u>\$ 681,283,839</u> |

Line Notes

29 Line 7 + Line 19 - Line 27

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

| Line No. | Description | (a) December 2015 | (b) March 2016 | (c) June 2016 | (d) September 2016 | (e) December 2016 | (f) 5-Quarter Average |
|----------|---|-------------------------|----------------------|---------------------|--------------------------|-------------------------|--------------------------|
| 1 | Utility Plant in Service | \$ 820,879,778 | \$ 831,350,682 | \$ 837,858,278 | \$ 837,980,360 | \$ 925,389,760 | \$ 850,691,772 |
| 2 | | | | | | | |
| 3 | Property Held for Future Use | 12,531,903 | 12,531,903 | 12,531,903 | 12,531,903 | 12,531,903 | \$ 12,531,903 |
| 4 | Less: Contribution in Aid of Construction | | | | | | |
| 5 | Less: Accumulated Depreciation | 92,286,179 | 94,645,565 | 98,171,448 | 97,433,163 | 96,405,529 | \$ 95,788,377 |
| 6 | | | | | | | |
| 7 | Net Plant in Service | \$ 741,125,502 | \$ 749,237,020 | \$ 752,218,732 | \$ 753,079,101 | \$ 841,516,133 | \$ 767,435,298 |
| 8 | | | | | | | |
| 9 | Plus: | | | | | | |
| 10 | Materials and Supplies | \$ 2,832,221 | \$ 2,894,581 | \$ 3,099,585 | \$ 2,868,780 | \$ 2,720,358 | \$ 2,883,105 |
| 11 | Prepayments | 126,818 | 955,015 | 367,547 | 526,333 | 836,202 | \$ 562,383 |
| 12 | Loss on Reacquired Debt | 1,144,369 | 1,138,474 | 1,112,467 | 1,091,978 | 1,073,453 | \$ 1,112,148 |
| 13 | Cash Working Capital | 2,385,773 | 3,596,368 | 2,870,239 | 3,789,549 | 2,681,655 | \$ 3,064,717 |
| 14 | Unamortized Interest Rate Lock | 1,738,336 | 1,681,132 | 1,623,928 | 1,566,724 | 1,509,520 | \$ 1,623,928 |
| 15 | Unamortized Debt Issuance Costs (\$550M) | 750,002 | 734,860 | 719,717 | 704,574 | 689,432 | \$ 719,717 |
| 16 | Unamortized Debt Issuance Costs (\$250M 2012) | 607,577 | 601,934 | 596,291 | 590,648 | 585,004 | \$ 596,291 |
| 17 | | | | | | | |
| 18 | Subtotal | \$ 9,585,096 | \$ 11,602,363 | \$ 10,389,774 | \$ 11,138,587 | \$ 10,095,624 | \$ 10,562,289 |
| 19 | | | | | | | |
| 20 | Less: | | | | | | |
| 21 | Accumulated Deferred FIT | \$ 144,563,221 | \$ 152,843,087 | \$ 154,416,255 | \$ 156,079,291 | \$ 158,841,895 | \$ 153,348,750 |
| 22 | Accumulated Deferred FIT on Loss on Required Debt | 400,529 | 398,466 | 389,363 | 382,192 | 375,709 | \$ 389,252 |
| 23 | Customer Deposits | - | - | - | - | - | \$ - |
| 24 | Injuries and Damages Reserve - Uninsured Claims | - | - | - | - | - | \$ - |
| 25 | | | | | | | |
| 26 | Subtotal | \$ 144,963,750 | \$ 153,241,553 | \$ 154,805,618 | \$ 156,461,483 | \$ 159,217,604 | \$ 153,738,002 |
| 27 | | | | | | | |
| 28 | Rate Base | \$ 605,746,848 | \$ 607,597,830 | \$ 607,802,888 | \$ 607,756,205 | \$ 692,394,153 | \$ 624,259,585 |

Line Notes

28 Line 7 + Line 18 - Line 26

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

| Line No. | Description | (a) December 2015 | (b) March 2016 | (c) June 2016 | (d) September 2016 | (e) December 2016 | (f) 5-Quarter Average |
|----------|---|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| 1 | Utility Plant in Service | \$ 2,283,220,102 | \$ 2,303,874,684 | \$ 2,321,762,596 | \$ 2,325,766,148 | \$ 2,415,896,793 | \$ 2,330,104,065 |
| 2 | | | | | | | |
| 3 | Property Held for Future Use | 15,028,192 | 15,028,308 | 15,028,308 | 15,028,308 | 15,028,308 | \$ 15,028,285 |
| 4 | Less: Contribution in Aid of Construction | 2,756 | 2,756 | 2,756 | 2,756 | 2,756 | \$ 2,756 |
| 5 | Less: Accumulated Depreciation | 738,852,133 | 742,244,067 | 754,800,350 | 753,580,914 | 750,510,731 | \$ 747,997,639 |
| 6 | | | | | | | |
| 7 | Net Plant in Service | <u>\$ 1,559,393,405</u> | <u>\$ 1,576,656,169</u> | <u>\$ 1,581,987,798</u> | <u>\$ 1,587,210,786</u> | <u>\$ 1,680,411,614</u> | <u>\$ 1,597,131,954</u> |
| 8 | | | | | | | |
| 9 | Plus: | | | | | | |
| 10 | Materials and Supplies | \$ 7,730,681 | \$ 7,627,864 | \$ 8,304,037 | \$ 7,748,224 | \$ 7,246,188 | \$ 7,731,399 |
| 11 | Prepayments | 345,636 | 2,572,413 | 997,903 | 1,433,564 | 2,280,870 | 1,526,077 |
| 12 | Loss on Reacquired Debt | 3,118,934 | 3,066,576 | 3,020,387 | 2,974,198 | 2,928,009 | 3,021,621 |
| 13 | | | | | | | |
| 14 | Cash Working Capital | 7,361,248 | 8,571,843 | 7,845,714 | 8,765,024 | 7,657,130 | 8,040,192 |
| 15 | Cash Working Capital - Commodity & Gross Receipts Tax | 37,385,150 | 25,003,318 | 25,003,318 | 25,003,318 | 25,003,318 | 27,479,684 |
| 16 | Unamortized Interest Rate Lock | 4,547,160 | 4,397,523 | 4,247,886 | 4,098,249 | 3,948,612 | 4,247,886 |
| 17 | Unamortized Debt Issuance Costs (\$550M) | 1,961,871 | 1,922,260 | 1,882,650 | 1,843,039 | 1,803,429 | 1,882,650 |
| 18 | Unamortized Debt Issuance Costs (\$250M 2012) | 1,589,311 | 1,574,550 | 1,559,788 | 1,545,027 | 1,530,266 | 1,559,788 |
| 19 | | | | | | | |
| 20 | Subtotal | <u>\$ 64,039,990</u> | <u>\$ 54,736,346</u> | <u>\$ 52,861,683</u> | <u>\$ 53,410,643</u> | <u>\$ 52,397,821</u> | <u>\$ 55,489,297</u> |
| 21 | | | | | | | |
| 22 | Less: | | | | | | |
| 23 | Accumulated Deferred FIT | \$ 318,986,894 | \$ 324,796,247 | \$ 332,765,060 | \$ 349,496,803 | \$ 324,783,739 | \$ 330,165,749 |
| 24 | Accumulated Deferred FIT on Loss for Reacquired Debt | 1,091,627 | 1,073,302 | 1,057,135 | 1,040,969 | 1,024,803 | \$ 1,057,567 |
| 25 | Customer deposits | 10,671,363 | \$10,725,612 | \$10,276,171 | \$10,375,796 | \$10,276,666 | \$ 10,465,122 |
| 26 | Injuries and Damages Reserve - Uninsured Claims | 5,070,863 | \$5,012,653 | \$5,500,882 | \$5,678,546 | \$5,684,004 | \$ 5,389,390 |
| 27 | | | | | | | |
| 28 | Subtotal | <u>\$ 335,820,746</u> | <u>\$ 341,607,814</u> | <u>\$ 349,599,249</u> | <u>\$ 366,592,114</u> | <u>\$ 341,769,212</u> | <u>\$ 347,077,827</u> |
| 29 | | | | | | | |
| 30 | Rate Base | <u><u>\$ 1,287,612,649</u></u> | <u><u>\$ 1,289,784,701</u></u> | <u><u>\$ 1,285,250,233</u></u> | <u><u>\$ 1,274,029,315</u></u> | <u><u>\$ 1,391,040,223</u></u> | <u><u>\$ 1,305,543,424</u></u> |

Line Notes

30 Line 7 + Line 20 - Line 28

THE NARRAGANSETT ELECTRIC COMPANY
Calculation of Excess Earnings for Twelve months ended December 31, 2016
(\$000)

Line

| | | | | |
|----|---|------------------|---|------------------|
| 1 | Actual Distribution Earnings Available for Common | \$19,564 (a) | | |
| 2 | | | | |
| 3 | | | | |
| 4 | Actual Average Common Equity | \$334,783 (a) | | |
| 5 | | | | |
| 6 | | | | Customer |
| 7 | Average Annual Return | <u>5.84%</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>\$334,783</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, 2016 | | | <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.