

November 7, 2014

VIA HAND DELIVERY AND 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, 2013**

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. 4323¹, enclosed are ten (10) copies of the final electric earnings report for the twelve-month period ended December 31, 2013 for The Narragansett Electric Company.² The enclosed final earnings report supersedes the preliminary earnings report the Company submitted to the PUC on June 20, 2014.

Thank you for your attention to this transmittal. If you have any questions regarding this filing, please contact me at 781-907-2153.

Very truly yours,



Celia B. O'Brien

Enclosures

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

¹ Prior earnings reports were filed in Docket 3617.

² The Narragansett Electric Company d/b/a National Grid (the Company).

The Narragansett Electric Company
Return on Rate Base
Return on Common Equity
Twelve Months Ended December 31, 2013

Line No.	Twelve Months Ending December 31, 2013	Earned 1/	Earned 2/	Allowed 3/	Ceiling 3/	
1						
2	Return on Distribution Rate Base	5.60%	5.88%	7.18%	7.18%	
3						
4	Return on Distribution Common Equity	6.34%	6.90%	9.53%	9.53%	
5						
6						
7						
8						
9						
10						
11	-----Blended rate - one month per Company/Division Settlement Agreement in Docket 4065 and eleven months per Compliance Filing in Docket 4323 -----					
12			Allowed		Ceiling	
13			Cost	Weighted	Cost	
14		Total	Rate	Cost	Rate	
15					Weighted	
16	Long Term Debt	49.63%	4.99%	2.48%	4.99%	2.48%
17	Short Term Debt	1.11%	0.86%	0.01%	0.86%	0.01%
18	Preferred Stock	0.15%	4.50%	0.01%	4.50%	0.01%
19	Common Equity	49.11%	9.53%	4.68%	9.53%	4.68%
20		100.00%		7.18%		7.18% 4/

1/ Excludes Conservation & Load Management ("C&LM" aka Energy Efficiency) Incentive.
2/ Includes C&LM Incentive.
3/ Allowed Return and Ceiling, presented below.

5-Quarter Average DISTRIBUTION Rate Base as of 12/31/2013	----- EARNED -----	Total	Cost Rate	Weighted Cost	Taxes	Pre-Tax Weighted Cost
\$589,546,233 5/						
29 Long Term Debt	\$292,562,318	49.63%	4.99%	2.48%		2.48%
30 Short Term Debt	\$6,553,789	1.11%	0.86%	0.01%		0.01%
31 Preferred Stock	\$903,971	0.15%	4.50%	0.01%	0.01%	0.02%
32 Common Equity	\$289,526,155	49.11%	6.34%	3.11%	1.68% (b)	4.79%
	\$589,546,233	100.00%		5.61%	1.69%	7.30%

(b) includes adj. for Flowthrough Items

4/ From Page 7 Line 32
5/ From Page 3 Line 29, Column (f)

PREFERRED STOCK EARNINGS, INTEREST EXPENSE,
AND FEDERAL INCOME TAX
CALCULATED USING IMPUTED CAPITAL STRUCTURE

	\$000s
PREF. STOCK:	\$589,546,233 X 0.01% (c) = \$59
INTEREST:	\$589,546,233 X 2.49% (d) = 14,680
FIT:	\$589,546,233 X 1.68% (e) = 9,904
Plus: (Flowthrough Items)/65%-(Flowthrough Items) (f)	24
Total Federal Income Taxes ("FIT")	\$9,928

(c) From Line 31, Column "Weighted Cost"
(d) Sum of Lines 29 and 30, Column "Weighted Cost".
(e) (0.01% + 3.11%) / 65% - (0.01% + 3.11%)
(f) Flowthrough Items

Investment Tax Credit ("ITC") Amortization	(\$284)
ITC Basis Reduction Depreciation	227
AFUDC Equity Depreciation	101

\$45

THE NARRAGANSETT ELECTRIC COMPANY**Return on Equity Calculation****Twelve Months Ended December 31, 2013**

Line No.	A	(\$000s)		
		Total	Integrated Facilities	Distribution
		Company	Agreement ("IFA")	Amount
	B	C	D	
1	Revenue - Sales of Electricity	\$ 389,186	\$0	\$ 389,186
2	Other Revenue	527,528	-	527,528
3	Total Revenue	\$ 916,714	\$ -	\$ 916,714
4	Operating Expenses:			
5	Purchased Power	\$ 401,598	-	401,598
6	Transmission Wheeling	133,515	-	133,515
7	Genl & Admin. O&M	85,931	-	85,931
8	All Other Operation & Maintenance ("O&M") expense	55,747	2/ 17,827	137,870
9	Company Share of Earned Savings	-	-	3,250
10	Depreciation	56,606	12,775	43,831
11	Amort. - Loss on Reaq. Debt	734	149	585
12	Amortization - Other	(205)	-	(205)
13	Gross Earnings Tax	34,206	-	34,206
14	Municipal Tax	34,818	8,046	26,772
15	Other Non-Income taxes	2,895	45	2,850
16	Current and Deferred Income Taxes	29,015	-	
17	Amortization of ITC	(394)	(110)	(284)
18	Interest on Customer Deposits	671	-	671
19	Donations	750	-	750
20	Total Operating Expenses	\$ 835,886	\$ 38,731	\$ 871,340
21	Net Operating Income	\$ 80,828		
22	Distribution Operating Income Before Taxes			\$ 45,374
23	Adjustments:			
24	Service Quality ("SQ") Penalties Accrued			-
25	C&LM Incentive			(2,510)
26				
27	Adjusted Distribution Operating Income Before Taxes			42,864
28	Interest Charges			14,680
29	Income Taxes @ 35% (net of ITC)			9,781
30	Net Income			18,403
31	Less: Preferred Stock Requirements			59
32	Earnings Available for Common			\$ 18,344
33	Average Common Equity - 5-Quarter Average			289,526
34	Rate of Return on Adjusted Average Common Equity			6.34%

Notes

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

2/ Excludes \$0, for storm related expenses as incurred.

3/ Excludes IFA credit of \$98,617, Membership Dues of \$0 and \$865 of other O&M. Includes 100% of C&LM expenses and an adjustment of \$2198 to normalize uncollectible accounts expense to actual net write-offs.

4/ Pursuant to Docket 4065 Settlement, Company share of Earned Savings equals \$3250 annually, effective January 2010.

5/ Below the line items brought above the line for ratemaking.

6/ Effective Dec. 2005, SQ penalties booked below the line.

7/ Calculated using imputed capital structure and cost rates; see Page 1 at Lines 44, 43 and 32, respectively.

8/ Includes impact of flowthrough items from Page 1 at Line 58.

THE NARRAGANSETT ELECTRIC COMPANY

**Rate Base - Distribution
Five Quarter Average**

Line No.	Description	(a) December 2012	(b) March 2013	(c) June 2013	(d) September 2013	(e) December 2013	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 1,302,311,813	\$ 1,363,069,504	\$ 1,378,196,849	\$ 1,347,750,952	\$ 1,340,738,444	\$ 1,346,413,512
2	Property Held for Future Use	2,484,080	2,484,080	2,484,327	2,484,327	2,484,327	2,484,228
3	Less: Contribution in Aid of Construction	102,762	102,762	102,762	102,762	102,762	102,762
4	Less: Accumulated Depreciation	561,869,566	571,529,130	577,633,286	577,934,052	584,406,234	574,674,454
5							
6							
7	Net Plant in Service	\$ 742,823,565	\$ 793,921,693	\$ 802,945,128	\$ 772,198,465	\$ 758,713,775	\$ 774,120,525
8							
9	Plus:						
10	Materials and Supplies	\$ 5,181,330	\$ 4,960,405	\$ 5,555,784	\$ 4,745,364	\$ 4,447,195	\$ 4,978,016
11	Prepayments	-	735,210	-	-	-	147,042
12	Loss on Reacquired Debt	3,171,513	3,078,123	3,073,421	2,577,100	2,482,465	2,876,524
13	Cash Working Capital	5,851,029	4,975,475	4,975,475	4,975,475	4,975,475	5,150,586
14	Cash Working Capital - Commodity & Gross Receipts Tax	14,299,032	15,413,182	15,413,182	15,413,182	15,413,182	15,190,352
15	Unamortized Interest Rate Lock	3,918,016	3,825,584	3,733,152	3,640,720	3,548,288	3,733,152
16	Unamortized Debt Issuance Costs (\$550M)	1,505,482	1,481,014	1,456,547	1,432,079	1,407,611	1,456,547
17	Unamortized Debt Issuance Costs (\$250M)	1,091,154	1,082,035	1,072,917	1,063,799	1,054,681	1,072,917
18							
19	Subtotal	\$ 35,017,556	\$ 35,551,029	\$ 35,280,478	\$ 33,847,718	\$ 33,328,897	\$ 34,605,136
20							
21	Less:						
22	Accumulated Deferred Federal Income Taxes ("FIT")	\$ 178,563,028	\$ 211,459,640	\$ 230,709,896	\$ 206,241,541	\$ 207,859,669	\$ 206,966,755
23	Accumulated Deferred FIT on Loss for Reacquired Debt	1,110,030	1,077,343	1,075,697	901,985	868,863	1,006,784
24	Customer Deposits	3,328,859	3,645,716	3,793,576	3,623,221	3,966,684	3,671,611
25	Injuries and Damages Reserve - Uninsured Claims	6,342,177	9,303,202	7,633,625	7,120,228	7,272,159	7,534,278
26							
27	Subtotal	\$ 189,344,093	\$ 225,485,901	\$ 243,212,794	\$ 217,886,975	\$ 219,967,375	\$ 219,179,428
28							
29	Rate Base	\$ 588,497,028	\$ 603,986,821	\$ 595,012,812	\$ 588,159,208	\$ 572,075,297	\$ 589,546,233

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 2012	(b) March 2013	(c) June 2013	(d) September 2013	(e) December 2013	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 486,729,573	\$ 494,854,708	\$ 573,731,343	\$ 607,550,748	\$ 626,161,702	\$ 557,805,615
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	90,948,004	92,626,872	92,814,014	82,058,103	87,465,932	89,182,585
6							
7	Net Plant in Service	\$ 408,313,472	\$ 414,759,739	\$ 493,449,232	\$ 538,024,548	\$ 551,227,673	\$ 481,154,933
8							
9	Plus:						
10	Materials and Supplies	1,616,374	1,462,760	1,435,886	2,141,642	2,166,273	1,764,587
11	Prepayments	-	233,064	-	-	-	46,613
12	Loss on Reacquired Debt	1,015,626	975,654	846,993	1,254,406	1,209,233	1,060,382
13	Cash Working Capital	1,241,865	2,518,467	4,792,766	910,969	1,302,473	2,153,308
14	Unamortized Interest Rate Lock	2,424,787	2,367,582	2,310,378	2,253,173	2,195,969	2,310,378
15	Unamortized Debt Issuance Costs (\$550M)	931,714	916,572	901,429	886,286	871,144	901,429
16	Unamortized Debt Issuance Costs (\$250M)	675,294	669,651	664,008	658,365	652,722	664,008
17							
18	Subtotal	\$ 7,905,661	\$ 9,143,750	\$ 10,951,460	\$ 8,104,842	\$ 8,397,814	\$ 8,900,705
19							
20	Less:						
21	Accumulated Deferred FIT	46,167,431	71,569,806	57,986,637	91,851,163	97,479,591	73,010,926
22	Accumulated Deferred FIT on Loss on Required Debt	355,469	341,479	296,448	439,042	423,232	371,134
23	Customer Deposits	-	-	-	-	-	-
24	Injuries and Damages Reserve - Uninsured Claims	-	-	-	-	-	-
25							
26	Subtotal	\$ 46,522,900	\$ 71,911,285	\$ 58,283,085	\$ 92,290,205	\$ 97,902,823	\$ 73,382,059
27							
28	Rate Base	\$ 369,696,233	\$ 351,992,204	\$ 446,117,608	\$ 453,839,184	\$ 461,722,664	\$ 416,673,579

Line Notes

28 Line 7 + Line 18 - Line 26

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

Line No.	Description	(a) December 2012	(b) March 2013	(c) June 2013	(d) September 2013	(e) December 2013	(f) 5-Quarter Average
1	Utility Plant in Service	\$ 1,789,041,386	\$ 1,857,924,212	\$ 1,951,928,192	\$ 1,955,301,700	\$ 1,966,900,146	\$ 1,904,219,127
2							
3	Property Held for Future Use	15,015,983	15,015,983	15,016,230	15,016,230	15,016,230	15,016,131
4	Less: Contribution in Aid of Construction	102,762	102,762	102,762	102,762	102,762	102,762
5	Less: Accumulated Depreciation	652,817,570	664,156,002	670,447,300	659,992,155	671,872,166	663,857,039
6							
7	Net Plant in Service	\$ 1,151,137,037	\$ 1,208,681,432	\$ 1,296,394,360	\$ 1,310,223,013	\$ 1,309,941,448	\$ 1,255,275,458
8							
9	Plus:						
10	Materials and Supplies	\$ 6,797,704	\$ 6,423,165	\$ 6,991,670	\$ 6,887,006	\$ 6,613,468	\$ 6,742,603
11	Prepayments	-	968,274	-	-	-	193,655
12	Loss on Reacquired Debt	4,187,139	4,053,777	3,920,414	3,831,506	3,691,698	3,936,907
13							
14	Cash Working Capital	7,092,894	7,493,942	9,768,241	5,886,444	6,277,948	7,303,894
15	Cash Working Capital - Commodity	14,299,032	15,413,182	15,413,182	15,413,182	15,413,182	15,190,352
16	Unamortized Interest Rate Lock	6,342,803	6,193,166	6,043,530	5,893,893	5,744,257	6,043,530
17	Unamortized Debt Issuance Costs (\$550M)	2,437,197	2,397,586	2,357,976	2,318,365	2,278,755	2,357,976
18	Unamortized Debt Issuance Costs (\$250M)	1,766,448	1,751,687	1,736,925	1,722,164	1,707,402	1,736,925
19							
20	Subtotal	\$ 42,923,217	\$ 44,694,779	\$ 46,231,938	\$ 41,952,560	\$ 41,726,710	\$ 43,305,841
21							
22	Less:						
23	Accumulated Deferred FIT	\$ 224,730,459	\$ 283,029,446	\$ 288,696,533	\$ 298,092,704	\$ 305,339,260	\$ 279,977,680
24	Accumulated Deferred FIT on Loss for Reacquired Debt	1,465,499	1,418,822	1,372,145	1,341,027	1,292,094	1,377,917
25	Customer deposits	3,328,859	3,645,716	3,793,576	3,623,221	3,966,684	3,671,611
26	Injuries and Damages Reserve - Uninsured Claims	6,342,177	9,303,202	7,633,625	7,120,228	7,272,159	7,534,278
27							
28	Subtotal	\$ 235,866,993	\$ 297,397,186	\$ 301,495,879	\$ 310,177,181	\$ 317,870,197	\$ 292,561,487
29							
30	Rate Base	\$ 958,193,261	\$ 955,979,024	\$ 1,041,130,420	\$ 1,041,998,393	\$ 1,033,797,961	\$ 1,006,219,812

Line Notes

30 Line 7 + Line 20 - Line 28

THE NARRAGANSETT ELECTRIC COMPANY
Calculation of Excess Earnings for Twelve months ended December 31, 2013
(\$000)

Line

1	Actual Distribution Earnings Available for Common	\$18,344 (a)		
2				
3				
4	Actual Average Common Equity	\$289,526 (a)		
5				
6				Customer
7	Average Annual Return		<u>6.34%</u> (b)	<u>Share</u>
8				
9	ROE in 50%/50% Bandwith (>9.53%, <10.53%)		0.00% * 50.00%	= 0.00%
10	ROE in 75%/25% Bandwith (>10.53%)		0.00% * 75.00%	= <u>0.00%</u>
11				
12	Total Customer ROE Sharing			0.00%
13	Actual Average Common Equity			<u>\$289,526</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, 2013			<u>\$ -</u>

Notes

(a) From Page 2 of 7

(b) Line 1 divided by Line 4 ; equals Page 2 of 7 at Line 29

The Narragansett Electric Company
Calculation of Return on Rate Base
Twelve Months Ended December 31, 2013

----- Per Company/Division Settlement Agreement in Docket 4065 -----						
		Allowed		Ceiling		
		Cost	Weighted	Cost	Weighted	
	<u>Total</u>	<u>Rate</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	
6	Long Term Debt	46.05%	5.298%	2.44%	5.298%	2.44%
7	Short Term Debt	4.98%	1.600%	0.08%	1.600%	0.08%
8	Preferred Stock	0.19%	4.500%	0.01%	4.500%	0.01%
9	Common Equity	48.78%	9.800%	4.78%	9.800%	4.78%
10		<u>100.00%</u>	<u>7.31%</u>	<u>7.31%</u>	<u>7.31%</u>	<u>7.31%</u>
----- Per Company/Division Settlement Agreement in Docket 4323 -----						
		Allowed		Ceiling		
		Cost	Weighted	Cost	Weighted	
	<u>Ratio</u>	<u>Rate</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	
16	Long Term Debt	49.95%	4.960%	2.48%	4.960%	2.48%
17	Short Term Debt	0.76%	0.790%	0.01%	0.790%	0.01%
18	Preferred Stock	0.15%	4.500%	0.01%	4.500%	0.01%
19	Common Equity	49.14%	9.500%	4.67%	9.500%	4.67%
20		<u>100.00%</u>	<u>7.17%</u>	<u>7.17%</u>	<u>7.17%</u>	<u>7.17%</u>
----- Blended Rate 1 month Docket 4065 and 11 months Docket 4323 -----						
		Allowed		Ceiling		
		Cost	Weighted	Cost	Weighted	
	<u>Total</u>	<u>Rate</u>	<u>Cost</u>	<u>Rate</u>	<u>Cost</u>	
28	Long Term Debt	49.63%	4.988%	2.48%	4.988%	2.48%
29	Short Term Debt	1.11%	0.858%	0.01%	0.858%	0.01%
30	Preferred Stock	0.15%	4.500%	0.01%	4.500%	0.01%
31	Common Equity	49.11%	9.525%	4.68%	9.525%	4.68%
32		<u>100.00%</u>	<u>7.18%</u>	<u>7.18%</u>	<u>7.18%</u>	<u>7.18%</u>

Line Notes

28	Line 6 * 1/12 plus Line 16 * 11/12
29	Line 7 * 1/12 plus Line 17 * 11/12
30	Line 8 * 1/12 plus Line 18 * 11/12
31	Line 9 * 1/12 plus Line 19 * 11/12