

April 27, 2012

Luly E. Massaro, Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**Re: Application of The Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I.G.L. §§39-3-10 and 39-3-11**

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a National Grid (“National Grid” or the “Company”), I have enclosed an original and nine (9) copies of the Company’s Application for a Change in Electric and Gas Base Distribution Rates Pursuant to R.I.G.L. §§39-3-10 and 39-3-11.

In this filing, the Company is seeking increases in electric and gas distribution rates to recover the costs it needs to operate safe and reliable electric distribution and gas delivery systems. The requests comprise a base rate increase of approximately \$31.4 million for its electric business and approximately \$20.0 million for its gas business. While the Company is sensitive to the challenging economic environment in which it is submitting this request, recovery of these costs of operating the systems is essential to assure that National Grid can deliver the quality service that our customers expect from their utility. The rate relief being sought is critical for equipping the Company to maintain the energy infrastructure upon which nearly every citizen of Rhode Island relies. The existence of a strong energy infrastructure establishes the foundation for a healthy economy. In turn, a reliable energy infrastructure is essential for Rhode Island’s economy to grow.

This Application also contains specific proposals that relate to the Company’s recovery of costs in several key areas of its Rhode Island operations, including storm response activities, pension and other post-employment benefits, hiring, recovery of uncollectible accounts expense, and needed systems upgrades. Specifically, the filing contains proposals that address:

- Adequate and timely recovery of storm costs associated with Tropical Storm Irene and the October 2011 snow storm, with a plan for replenishment of the storm fund to mitigate rate impacts from other major storms that may occur in the future.
- Recovery of costs associated with the addition of 19 new electrical union jobs in Rhode Island.

- Implementation of a Pension Adjustment Mechanism for Narragansett Electric, which assures the timely recovery of pension and post-retirement health care expenses when costs increase, and likewise assures the return of funds to customers when expenses are lower. This proposal also facilitates contributions to the pension-related funds that assure pension costs will be covered for retirees in a financially responsible manner.
- Approval of a property tax adjustment to allow for alignment of rates with the property taxes charged by local municipalities in Rhode Island.
- Approval of a reconciling mechanism for the recovery of supply-related uncollectible expense to assure the timely recovery of expense when uncollectible accounts increase, and a lower rate to customers when expenses are lower.

The Company believes these elements are very important to maintaining the financial health of the Company and its ability to provide Rhode Island customers with the high level of service that they expect from the Company.

If approved by the Commission as filed, the Company is projecting that the proposed rate increases would result in an increase of 5.1 percent on the total bill for the typical Narragansett Electric residential customer consuming 500 kWh monthly. For Narragansett Gas, the increase on the total bill for the typical residential heating customer consuming 922 therms annually would be 7.6 percent.

#### Effective Date of New Rates

Consistent with the provisions of R.I.G.L. §39-3-11 and §1.3(e) of the Commission's Rules of Practice and Procedure, the enclosed proposed tariffs have an effective date of June 1, 2012. The Company prepared its case with the expectation that the Commission would suspend the effect of the proposed rate changes for a period of eight months so that the rate changes would ultimately take effect on February 1, 2013.

#### Description of Volumes Included with Filing

A separate revenue requirement has been developed for each of the electric and gas operations.<sup>1</sup> In accordance with Commission Rules 2.5(a) and 2.5(b), the Company's complete direct case is hereby submitted in the form of prepared written testimony and schedules, along with the Company's current and proposed tariffs. Also, in accordance with Commission Rule 2.5(e), the Company has included all supporting information and records required under Rules 2.4 through 2.10. Because this a combined base-rate filing, where the testimony covers both electric and gas operations, there is a single witness. Where it is necessary to present a separate analysis for electric and gas operations, there are separate testimonies.

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<sup>1</sup> Where there is a need to refer to the Company's individual electric or gas operations, this filing uses the terms "Narragansett Electric" or "Narragansett Gas," respectively, as appropriate.

In support of the Application, I am enclosing eleven volumes of supporting materials as follows:

Volume 1

- a. Testimony of Timothy F. Horan, President, Rhode Island/New Hampshire for National Grid USA regarding organizational changes and accomplishments made by the Company since the last base-rate proceedings for Narragansett Electric (2009) and Narragansett Gas (2008) and the background on the business environment and operating factors motivating the Company's proposals in this rate filing;
- b. Testimony and schedules of Robert B. Hevert, Managing Partner, Sussex Economic Advisors, LLC and Executive Advisor to Concentric Energy Advisors, Inc. in support of the Company's proposed rate of return and capital structure; and
- c. Testimony and schedules of Maureen P. Heaphy, Vice President, U.S. Compensation, Benefits and Pensions, providing supporting analysis and documentation for the recovery of employee compensation, benefit and pension costs.

Volume 2

- a. Testimony and schedules of Steven F. Doucette of Aon Hewitt presenting an analysis of pension and OPEB expense and supporting the establishment for Narragansett Electric of the Pension Adjustment Mechanism;
- b. Testimony and schedules of Evelyn M. Kaye, Vice President, Transactions Delivery Center, describing how the Company manages its uncollectible accounts expense, its proposal for recovery of the associated expense and its related proposals associated with low-income program initiatives;
- c. Testimony and schedules of Michael R. Hrycin, Director, Overhead Lines, Rhode Island, providing support for the inclusion of costs associated with 19 new electrical workers in the cost of service for the electric distribution operations;
- d. Testimony and schedules of Jeffrey P. Martin, Director, Billing Operations, describing the gas billing system conversion and the proposal to establish a billing credit for the paperless billing program;

- e. Testimony and schedules of Alfred P. Morrissey, Lead Analyst, Electric Load Forecasting, presenting Narragansett Electric's sales forecast, customer counts and megawatt demand; and
- f. Testimony and schedules of A. Leo Silvestrini, Manager, Gas Load Forecasting and Analysis, providing historical and forecast customer count and customer demand data relative to Narragansett Gas.

Volumes 3-6

Testimony and schedules of Michael D. Laflamme, Vice President, Regulation and Pricing, New England, describing the Company's proposed revenue requirements for Narragansett Electric and Narragansett Gas.

Volume 7

- a. Testimony and schedules of Howard S. Gorman, Principal Consultant with Black & Veatch Corporation, presenting the allocated cost of service study for Narragansett Electric; and
- b. Testimony and schedules of Jeanne A. Lloyd, Manager, Electric Pricing, New England, supporting the proposed revenue allocation and rate design for electric service rates and presenting Narragansett Electric's proposed electric service tariffs.

Volume 8

Proposed tariffs for Narragansett Electric.

Volume 9

- a. Testimony and schedules of Paul M. Normand, Principal of Management Applications Consulting, Inc., describing the Company's proposed allocated cost of service study for Narragansett Gas, along with the proposed class revenue allocation and rate design and proposed changes to retail delivery service tariffs; and
- b. Testimony and schedules of Ann E. Leary, Manager, Gas Pricing, explaining and describing the adjustments to the test year revenues and several proposed tariff changes for Narragansett Gas.

Volume 10

Proposed tariffs for Narragansett Gas.

Volume 11

Rate Design Workpapers.

Enclosed is a Formal Application for Rate Change pursuant to Rules 1.5(a) and 1.9 of the Commission's Rules on Practice and Procedure. Also enclosed is the Attestation of the Company's Chief Financial Officer pursuant to Rule 2.7 of the Commission's Rules of Practice and Procedure. The Company would like to note that, in order to conform to the provisions of R.I.G.L. §39-3-11, which was amended in 2009 to allow a suspension period of eight months, and to the requirement of Commission Rule 2.6 that the rate year be the twelve-month period for which new rates are designed to recover the proposed cost of service, the Company's filing includes a Rate Year consisting of the twelve-month period beginning February 1, 2013. The Company notes that Rule 2.6 has not yet been updated to reflect the changed legislative suspension provisions and respectfully requests a waiver of so much of that rule as continues to reflect the prior statutory suspension period of six months. Lastly, the Company has included for Commission approval a proposed notice of the filing for publication in the *The Providence Journal* pursuant to the requirement of Rule 2.4.

Thank you very much for your time and attention to this matter.

Very truly yours,



Thomas R. Teehan, Esq.

cc: Thomas Ahern, Administrator, Division of Public Utilities & Carriers  
Steve Scialabba, Division of Public Utilities & Carriers  
Peter F. Kilmartin, Rhode Island Attorney General  
Leo Wold, Esq., Office of the Attorney General