

NON-CONFIDENTIAL

1 **Request IR-1:**

2

3 **With respect to Page 1, direct evidence. Please provide a table showing all of the data**
4 **referred to in footnote 1 as well as the computations supporting the results shown in Figure**
5 **2.1.**

6

7 Response IR-1:

8

9 Please refer to Liberty IR-37.

10

REDACTED

1 **Request IR-2:**

2

3 **With respect to Page 25, direct evidence, Lines 8 – 10**

4

5 a) **Please provide the Company’s best estimate of the referenced “fuel cost savings.”**

6

7 b) **Provide supporting materials showing the development of the estimate and any**
8 **assumptions that it rests upon.**

9

10 Response IR-2:

11

12 a) The estimated fuel cost savings directly attributed to the long term natural gas contract as
13 reflected in the 2009 forecast is [REDACTED].

14

15 b) The supporting calculations are provided in Confidential Attachment 1.

16

NON-CONFIDENTIAL

1 **Request IR-3:**

2

3 **With respect to Page 61, direct evidence, Lines 24 – 28. Please provide Mr. Crook’s best**
4 **estimate of the change in price for gas that might occur if NSPI had to purchase the gas it**
5 **now receives under contract in the “Northeast gas market.”**

6

7 Response IR-3:

8

9 Please refer to Tellus IR–2.

10

NON-CONFIDENTIAL

1 **Request IR-4:**

2

3 **With respect to Page 75, direct evidence, Lines 26 – 27. Please provide a computation of**
4 **the effect of the reduction in Return on Equity on the Company's required revenues.**
5 **Include any tax or other relevant effects. Provide an explanation of the calculation.**

6

7 Response IR-4:

8

9 The reduction in revenue requirement is \$3.5 million. The calculation is shown and explained
10 below.

11

Description	Calculation	Explanation
Average equity	\$1,081.3 million	Refer to FOR -10, line 10, column 3
ROE reduction	0.2 %	Difference between 9.55% and 9.35%
Reduction in net earnings	\$2.2 million	\$1,081.3 million * 0.2%
Tax effect	\$1.3 million	\$2.2 million * (1-tax rate)
Change in revenue requirement	\$3.5 million	Reduction in net earnings plus Tax effect

12

NON-CONFIDENTIAL

1 **Request IR-5:**

2

3 **With respect to Page 86, direct evidence, Lines 21 – 22**

4

5 a) **Please explain why it is appropriate to recover the \$12.9 million in DSM expenses**
6 **over 3 years, rather than some other period. As part of the response, please include**
7 **the Company's best estimate of the useful life of the DSM measures covered by the**
8 **\$12.9 million.**

9

10 b) **Please explain any tax or other effects that bear on the revenue impact of the**
11 **proposed DSM cost recovery.**

12

13 **Response IR-5:**

14

15 a) Please refer to Multeese IR-6.

16

17 b) Similar to other amortizations, the Demand Side Management deferred cost recovery are
18 tax effected to demonstrate the full revenue requirement.

NON-CONFIDENTIAL

1 **Request IR-6:**

2

3 **With respect to Page 90, direct evidence, Lines 13 – 15**

4

5 a) **Please provide a calculation of the revenue impact of the “third year phase-in,”**
6 **showing both the direct effect and any tax or other related effects.**

7 b) **Please provide an explanation of the calculation.**

8

9 Response IR-6:

10

11 a) Depreciation expenses from DE-03-04, page 88, line 23 of the Application have
12 increased \$6.2 million. The revenue requirement of \$9.5 million is calculated as follows:

13

14 $\$6.2 \text{ million} / (1 - \text{tax rate}) = \9.5 million

15

16 Tax rate for 2009 is 35 percent.

17

18 b) Accounting depreciation is not a tax deductible expense, therefore, it is grossed up for
19 revenue requirement calculation purposes.

20

NON-CONFIDENTIAL

1 **Request IR-7:**

2

3 **With respect to Page 133, direct evidence, Lines 26 – 27**

4

5 **a) Please explain how the conclusions and estimates provided by Ms. McShane would**
6 **change if a FAM were not to be adopted for the 2009 test year.**

7 **b) Explain the basis for the response including any data relied upon or assumptions**
8 **made.**

9

10 Response IR-7:

11

12 a-b) It is Ms. McShane's judgment that the cost of equity for NSPI would be significantly
13 higher without a FAM. The increased regulatory risk would suggest an Return on
14 Equity (ROE) at the high end of her range. NSPI has not requested Ms. McShane to
15 assess the regulatory risk associated with the FAM being delayed or not adopted at this
16 late stage.

17

18 The absence of the FAM in the 2009 test year would have at least two effects on the cost
19 of equity. The first is purely related to the potential short-fall from the allowed return
20 due to higher than forecast fuel costs, which make up close to 45 percent of the forecast
21 2009 revenue requirement. The second is the impact on regulatory risk. A key regulatory
22 risk factor for investors (both debt and equity) in public utilities is the predictability and
23 consistency of the regulatory framework. In this context, a failure to adopt a FAM for
24 NSPI, given its conditional approval by the Board and the progress on implementation in
25 2008, would be viewed negatively by investors.

26

NON-CONFIDENTIAL

1 Response IR-7: (cont'd)

2

3 In terms of quantifying the impact on the ROE if the FAM were not adopted for the 2009
4 test year, it is largely a matter of informed judgment. The majority of firms that Ms.
5 McShane employed as comparators either have FAMs or do not require FAMs because
6 they are purely “wires” or “pipes” utilities. It is not possible to identify a large enough
7 sample of relatively pure play (no significant unregulated operations) publicly traded
8 integrated electric utilities with no FAM from which the impact of the lack of a FAM
9 could be isolated.

10

11 The focus of Ms. McShane’s evidence was the assessment of the reasonableness of a
12 Return on Equity (ROE) of 9.35 percent, as envisioned in the framework agreement for
13 the establishment of a FAM that was signed by a number of stakeholders. Ms.
14 McShane’s conclusions were that an ROE of 9.35 percent in conjunction with the FAM
15 was low for the reasons summarized on pages 134 and 135 of NSPI’s Rate Application.
16 Ms. McShane concluded at page 150 that the analysis conducted supported an ROE of no
17 less than 10.25 percent to 10.50 percent for NSPI with a FAM, and that an explicit
18 recognition of NSPI’s financial risk would support an ROE of at least 11.25 percent.

NON-CONFIDENTIAL

1 **Request IR-8:**

2

3 **With respect to Pages 188 and 189, direct evidence**

4

5 **a) Please indicate the extent to which the non-firm rates provide more or less reduction**
6 **in peak demand than is needed to meet the 20 percent reserve in 2009 and**
7 **thereafter.**

8 **b) Provide copies of any data or analyses relied upon to support the response provided.**

9

10 **Response IR-8:**

11

12 a-b) Please refer to Attachment 1.

(All Values in MW)

	A	B	C	D	E	F
Year	Installed Capacity	Allowable Firm Peak Based on 20% Reserve Margin (A / 1.2)	Forecast Total Net System Peak (with DSM Effects)	Minimum Non-Firm Peak Required to Reduce Total Peak to Allowable Firm Peak (C - B)	Forecast Non-Firm Peak	More/Less (+/-) Reduction from Non-Firm Peak than is Required (E - D)
2009	2338	1948	2261	313	361	48
2010	2426	2022	2276	254	361	107
2011	2486	2071	2274	203	357	154
2012	2520	2100	2268	168	351	183
2013	2558	2132	2257	125	345	220
2014	2574	2145	2243	98	339	241
2015	2590	2159	2226	68	331	264
2016	2590	2159	2204	46	323	278
2017	2606	2172	2183	11	315	304
2018	2606	2172	2165	-7	307	307

- 2009 installed capacity based on 2009 GRA filing (OP-06 Attachment 1)
- Beyond 2010 installed capacity based on IRP preferred plan (with Tufts Cove 6 in-service June/2010)
- Forecast Peaks based on 2009 Load Forecast

NON-CONFIDENTIAL

1 **Request IR-9:**

2
 3 **With respect to Page 200, direct evidence. Please provide a version of Figure 11.1 which**
 4 **shows the costs used to compute the R/C ratio.**

5
 6 Response IR-9:

7
 8 The version requested is provided below.

9
 10 **Figure 11.1**

	R/C Ratio	% Revenue Increase	Costs in \$M	Proposed Revenue \$M
<i>ABOVE-THE-LINE CLASSES</i>				
Residential	88.3%	0.0%	\$561.8	\$496.3
Commercial				
Small General	91.5%	0.0%	\$33.6	\$30.7
General	95.8%	0.0%	\$263.9	\$252.8
Large General	<u>88.2%</u>	<u>0.0%</u>	<u>\$39.4</u>	<u>\$34.8</u>
Total Commercial	94.5%	0.0%	\$336.9	\$318.3
Industrial				
Small Industrial	91.2%	0.0%	\$26.2	\$23.9
Medium Industrial	90.1%	0.0%	\$53.9	\$48.6
Large Industrial	87.0%	0.0%	\$74.6	\$65.0
ELI 2P-RTP	<u>81.1%</u>	<u>0.0%</u>	<u>\$147.0</u>	<u>\$119.2</u>
Total Industrial	85.0%	0.0%	\$301.7	\$256.6
Other				
Municipal	89.3%	0.0%	\$18.0	\$16.1
Unmetered	<u>94.0%</u>	<u>0.0%</u>	<u>\$25.5</u>	<u>\$24.0</u>
Total Other	92.0%	0.0%	\$43.6	\$40.1
Total Above-the-line classes	<u>89.3%</u>	<u>0.0%</u>	<u>\$1,244.0</u>	<u>\$1,111.3</u>
Below-the-line		0.0%		\$21.2
Exports		0.0%		\$4.6
Miscellaneous		0.0%		<u>\$14.2</u>
Total Revenue		<u>0.0%</u>		<u>\$1,151.3</u>
Revenue Requirement		<u>0.0%</u>		<u>\$1,285.8</u>
Revenue Shortfall				<u>-\$134.5</u>

NON-CONFIDENTIAL

1 **Request IR-10:**

2

3 **With respect to Page 202, direct evidence, Figure 11.2**

4

5 **a) Please provide a version of Figure 11.2 in which all the ATL rates including**
6 **Unmetered receive the average 11.9 percent increase.**

7 **b) Please explain the basis for the special treatment of unmetered.**

8 **c) If there is a requirement to set that rate at cost, please explain it.**

9

10 Response IR-10:

11

12 a) An increase of 12.0 percent, rather than 11.9 percent, is necessary at the allocation step
13 which requires an across-the-board increase to all the Above the Line (ALT) classes. The
14 requested revision to Figure 11.2 is provided below.

15

16 An increase in the revenue responsibility for the Unmetered class reduces the revenue
17 responsibility for other ATL classes, including the Large Industrial class, which results in
18 reduced revenue from the Mersey Additional Energy. Mersey Additional Energy is a
19 Below the Line (BTL) rate which can be priced at either the Generation Replacement and
20 Load Following (GRLF) rate or the Interruptible Rider of the Large Industrial rate. It is
21 currently priced at the Interruptible Rider.

22

23 The revenue from BTL classes is subtracted from the total revenue requirement in order
24 to determine the revenue required from ATL classes. In this revision, a reduced rate
25 increase to the Large Industrial class results in lower BTL revenues and therefore a
26 higher overall increase to ATL classes. Please refer to DE-03-04, page 194 of NSPI's
27 Direct Evidence.

NON-CONFIDENTIAL

1 Response IR-10: (cont'd)

2

	R/C Ratio	% Revenue Increase	Costs in \$M	Proposed Revenue \$M
Figure 11.2				
<i>ABOVE-THE-LINE CLASSES</i>				
Residential	98.9%	12.0%	\$561.8	\$555.8
Commercial				
Small General	102.4%	12.0%	\$33.6	\$34.4
General	107.3%	12.0%	\$263.9	\$283.2
Large General	<u>98.8%</u>	<u>12.0%</u>	<u>\$39.4</u>	<u>\$38.9</u>
Total Commercial	105.8%	12.0%	\$336.9	\$356.5
Industrial				
Small Industrial	102.1%	12.0%	\$26.2	\$26.7
Medium Industrial	100.9%	12.0%	\$53.9	\$54.4
Large Industrial	97.5%	12.0%	\$74.7	\$72.8
ELI 2P-RTP	<u>90.8%</u>	<u>12.0%</u>	<u>\$147.0</u>	<u>\$133.4</u>
Total Industrial	95.2%	12.0%	\$301.7	\$287.4
Other				
Municipal	100.0%	12.0%	\$18.0	\$18.0
Unmetered	<u>105.2%</u>	<u>12.0%</u>	<u>\$25.5</u>	<u>\$26.9</u>
Total Other	103.1%	12.0%	\$43.6	\$44.9
Total Above-the-line classes	<u>100.0%</u>	<u>12.0%</u>	<u>\$1,244.1</u>	<u>\$1,244.6</u>
Below-the-line Exports		5.8%		\$22.4
Miscellaneous		0.0%		\$4.6
Total Revenue		<u>11.7%</u>		<u>\$1,285.8</u>
Revenue Requirement		<u>0.0%</u>		<u>\$1,285.8</u>
Revenue Shortfall				<u>\$0.0</u>

3

4

5 b) Unmetered rates are unique in that they apply to end use equipment. Ownership and
 6 maintenance of this equipment is a consideration that is not required in other rates. As a
 7 result, these rates include specific capital and maintenance cost components in addition to
 8 the usual costs included in rates.

NON-CONFIDENTIAL

1 Response IR-10: (cont'd)

2

3 In 2006, NSPI updated the capital and maintenance costs associated with the various
4 unmetered services, calculated the power and energy revenue by applying the
5 Miscellaneous Small Loads rate, and included these updates in its 2007 General Rate
6 Application.¹ At that time, the R/C ratio for this class was approximately 100 percent.²

7

8 There are approximately 300 individual rates which may apply to the various types of
9 unmetered services currently in use. In this Application, given the complexities and
10 uncertainties of calculating the revenues from this large group of diverse rates, NSPI
11 proposes to set the rates maintaining a 100 percent Revenue to Cost (R/C) ratio so that
12 the overall revenue to be collected from the class provides recovery of the Cost of
13 Service Study defined costs of serving the class.

14

15 c) There is no regulatory requirement to set rates for this class using a 100 percent R/C
16 ratio. Please refer to part b.

17

¹ NSPI 2007 Rate Case, NSPI Direct Evidence, NSUARB - NSPI – P-886, November 20, 2006, pages 160-161.

² NSPI 2007 Rate Case, NSPI Direct Evidence, NSUARB - NSPI – P-886, November 20, 2006, page 168.