Amy G. Rabinowitz
Assistant General Counsel

December 15, 2005

Mary L. Cottrell, Secretary ,
Department of Telecommunications and Energy
One South Station
Boston, MA 02110

RE: Nantucket Electric Company 2006 Cable Facilities Surcharge; DTE 05-93

Dear Secretary Cottrell:

I am enclosing the responses of Nantucket Electric Company d/b/a National Grid to the Department's First Set of Information Requests. Thank you very much for your time and attention to this matter.

Very truly yours,

Amy G. Rabinowitz

cc: Joe Rogers, Office of the Attorney General

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Data Request DTE 1-1

Request:

Refer to page four of thirteen of the testimony of Mr. William J. Goguen, lines 1 through 11. The Company proposes to apply the final credit balance for the Siaconsett underground project to the Existing Cable cost of service. Please provide additional detail regarding this overcollection. As part of your response (a) identify the applicable statutes under which the surcharge was assessed, (b) identify the pool of ratepayers to whom the surcharged was assessed and whether this is the same pool of ratepayers to whom the CFS is assessed, and (c) provide an accounting of costs of the project and the surcharges collected.

Response:

The Siasconsett underground project was the final phase of the Company's removal of its existing overhead-served distribution system and its replacement underground in compliance with the Town of Nantucket's (the "Town") passage of a by-law requiring such undergrounding (Article 30 of Nantucket Annual Town Meeting of April 5, 1983), adopted April 5, 1983 by the annual town meeting and approved August 19, 1983 by the Department of the Attorney General. Under this by-law, the area of town defined as the Core District was to have overhead structures removed and replace with underground facilities. In 1994, the Town amended this by-law to include the Village of Siasconset (Article 63 of Nantucket Annual Town Meeting of April 12, 1994).

Pursuant to M.G.L. c. 166, Section 22, a municipality has the right to adopt a by-law or ordinance to require the removal of overhead structures (M.G.L. c. 166, § 22C), which the Town did in 1983 and amended in 1994. As part of this removal of overhead structures, all utilities affected must replace their overhead structures with underground facilities (M.G.L. c. 166, § 22D and § 22H). To compensate the utilities for the cost incurred to perform this work, the utilities have the right to assess their customers in the municipality which passed such a by-law as a form of capital contribution (M.G.L. c. 166, § 22M). At the time of the Siasconsett underground project, Section 22M provided for a 2% surcharge[1] applied to a utility's total billing to each customer in the municipality.

The Company performed all required work after petitioning the Town for the construction of underground facilities and filing a plan for the removal and replacement of its facilities as required by Section 22D. The Company completed its construction in the Siasconsett area in October 2003, thereby completing its compliance with the Town's by-law. The Company incurred costs of approximately $3 million. Beginning one year after the effective date of the by-law, the Company assessed the 2% surcharge in phases, as construction proceeded in phases over the years. Although the Company completed its construction in October 2003,

[1] Section 22 was amended on April 6, 2005 to reflect the difference in how electric utilities bill customers for energy supply in a restructured electricity market. As of April 6, 2005, any new by-law would have the electric utility's customers in the municipality be subject to a 7% surcharge on distribution and transmission charges rather than 2% of the total amount billed. This was to re-establish equity among customers in a municipality, as customers who are billed for their energy supply by a competitive supplier have a smaller total bill from the electric utility than customers who are billed for their energy supply by the electric utility.

Data Request DTE 1-1 (continued)

it still had approximately $204,000 to recover from its customers in the Town as provided for under Section 22M. The Company continually monitored the recovery of the remaining costs during 2004 and was able to cease its assessment of the 2% surcharge beginning with September 2004 billing. On August 13, 2004, the Company notified the Town that it would discontinue the 2% surcharge beginning with September 2004 bills.

The Company's construction of the Siasconsett underground project is complete and no additional work has been required subsequent to the Company discontinuing the 2% surcharge. In the end, the Company collected $29,740 more from the surcharge than it required for the underground project. Thus, the Company has now proposed to close out this account and credit the amount it has overcollected to the Cable Facilities Surcharge account. The Company believes this is an appropriate resolution of this account as all its customers in the Town were assessed the 2% surcharge and all its customers in the Town are subject to the Cable Facilities Surcharge. Although it relates to a different project, the Company is proposing that the credit balance generated from its customers in the Town be applied to a charge that is assessed only to National Grid customers on the Island of Nantucket.

Prepared by or under the supervision of: William J. Goguen

Data Request DTE 1-2

Request:

Refer to page three of thirteen of the testimony of Mr. William J. Goguen, lines 1 through 6. Since the second cable project will be placed into service on December 31, 2005, please explain why the Company will still be accumulating actual installation costs in calendar year 2006.

Response:

As stated in the testimony of William J. Goguen, the Company anticipates that the second cable project will be placed in-service on December 31, 2005. As of the date of this response, work is continuing on the project in order to meet the target in-service date. Even if the second cable is placed in-service on schedule, all of the Company's costs related to the installation of the cable will not have been recorded in its project accounting system or its general ledger. There is typically a lag between the time when the work is done and materials are installed and the time when labor costs are recorded and invoices are received and paid. As of the December 1, 2005 filing date, the Company's books reflected roughly half of the estimated $40.4 million of project costs. The most significant cost associated with this project will be the material cost of the approximately 27 mile submarine cable. The cable itself was still in transit from the manufacturer as of the filing date and therefore the Company had not yet recorded the majority of its cost as it had not yet been received. The Company expects that the actual installed cost of the second cable will continue to be accumulated during calendar year 2006.

Prepared by or under the supervision of: William J. Goguen

Data Request DTE 1-3

Request:

Refer to page eleven of thirteen of the testimony of Mr. William J. Goguen lines 12 through 14. Please discuss more fully the Company's reasoning for delaying implementation of rate recovery for the second cable.

Response:

The Company's proposal is more akin to the deferred recovery of the second cable rather than a delayed recovery. With the Company proposing to carry the 2005 Cable Facilities Surcharge ("CFS") rates into 2006, there will be some small amount of incremental revenue above the 2006 annual revenue requirement for the first cable that will be applied against the estimated 2006 revenue requirement of the second cable. However, the Company's reason for proposing to maintain the 2005 CFS rates into 2006 is based on two primary factors. First, at the time of the December 1, 2005 filing, it was uncertain how much, if any, of the debt for this project would be issued as tax exempt debt. Since the cost of debt is a major factor in calculating an estimated revenue requirement for the project, this uncertainty made it difficult for the Company to accurately estimate a second cable revenue requirement for 2006. Second, based on the Company's best estimate and applying the same methodology the Company has used previously in calculating the CFS rates for the first cable, the estimated 2006 revenue requirement for the combined cable facilities of $5.2 million would have resulted in CFS rates that, when averaged, would result in an average rate of approximately 3.5¢ per kWh, or an average increase of nearly 2¢ over the current average rate. With the sharp increases in electricity supply prices that are currently being experienced by Massachusetts customers, the Company was sensitive to recent volatility in its rates charged to its customers and wanted to provide a form of rate stability through this winter. Rather than propose a significant rate increase for January 2006, the Company believes that its proposal to maintain the current CFS rates into 2006, while deferring the under recovery of the 2006 revenue requirement of the second cable until the project financing is finalized and actual project costs can be accumulated, is in the best interest of its customers. When more complete investment and financing information is available, the Company will be in a better position to evaluate recovery options for both cables. The Company expects to make a proposal in the 2007 CFS filing that will address recovery of both cables.

Prepared by or under the supervision of: William J. Goguen