



THE COMMONWEALTH OF MASSACHUSETTS  
OFFICE OF CONSUMER AFFAIRS AND BUSINESS REGULATION

DEPARTMENT OF  
TELECOMMUNICATIONS & ENERGY

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April 3, 2003

RE: Annual Returns

To: Gas and Electric Distribution Companies:

On February 14, 2003, the Department of Telecommunications and Energy ("Department") proposed a formula by which gas and electric distribution companies shall calculate their return on equity. Four distribution companies<sup>1</sup> and the Attorney General of the Commonwealth filed comments on the Department's proposed formula. After review of these comments, the Department provides these clarifications to its formula, which remains as follows: Net Utility Income Available for Common Shareholders divided by Total Utility Common Equity.<sup>2</sup>

For purposes of the calculation of return on equity, "Net Utility Income Available for Common Shareholders" shall be determined as follows:

Electric Companies: Net Utility Operating Income,  
Plus Amortization of Acquisition Premium to the extent included  
in determining Net Utility Operating Income,

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<sup>1</sup> Fitchburg Gas and Electric Light Company, Massachusetts Electric Light Company, Bay State Gas Company, and Keyspan Energy Delivery New England submitted comments.

<sup>2</sup> Total Utility Common Equity shall be based on average equity for the year. That is, it is the sum of equity at the beginning of the year and equity at the end of the year divided by two.

Plus Service Quality Penalties to the extent included in determining Net Utility Operating Income,  
Minus the sum of Net Interest Charges and Dividends Declared-Preferred Stock, which is multiplied by an allocation factor based on the ratio of Total Utility Plant to the sum of Total Utility Plant and Total Other Property and Investments.<sup>3</sup>

Gas Companies: Total Utility Operating Income,  
Plus Amortization of Acquisition Premium to the extent included in determining Total Utility Operating Income,  
Plus Service Quality Penalties to the extent included in determining Total Utility Operating Income,  
Minus the sum of Total Interest Charges and Dividends Declared-Preferred Stock, which is multiplied by an allocation factor based on the ratio of Total Utility Plant to the sum of Total Utility Plant and Total Other Property and Investments.<sup>4</sup>

“Total Utility Common Equity” shall be determined as follows:

Electric Companies: Total Proprietary Capital  
Plus Discount on Capital Stock and/or Capital Stock Expense applicable to preferred stock issuances,  
Minus both Preferred Stock Issued and Unappropriated Undistributed Subsidiary Earnings,  
Minus Unamortized Acquisition Premium, if applicable,

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<sup>3</sup> Restated, Net Utility Operating Income for electric distribution companies shall be as follows: FERC Form No. 1, page 117, line 25; plus any amortization of acquisition premiums included in computing Net Utility Operating Income; plus any Service Quality penalties included in computing Net Utility Operating Income; minus the sum of page 117, line 64 and page 118, line 29, which is multiplied by the ratio of page 110, line 4 to the sum of line 4 and line 22.

<sup>4</sup> Restated, Total Utility Operating Income for gas distribution companies shall be as follows: Annual Return, page 10, line 18; plus any amortization of acquisition premium included in computing Total Utility Operating Income; plus any Service Quality penalties included in computing Total Utility Operating Income; minus the sum of page 10, line 39 and line 48, which is multiplied by the ratio of page 8, line 2 to the sum of line 2 and line 8.

Multiplied by the ratio of Total Utility Plant, which is reduced by any amounts not supported by Total Proprietary Capital, to the sum of Total Gross Utility Plant and Total Other Property and Investments, which is reduced by any amounts not supported by Total Proprietary Capital.<sup>5</sup>

Gas Companies: Total Proprietary Capital,  
 Minus Preferred Stock Issued,  
 Minus Unamortized Acquisition Premium, if applicable,  
 Multiplied by the ratio of Total Utility Plant, which is reduced by any amounts not supported by Total Proprietary Capital, to the sum of Total Gross Utility Plant and Total Other Property and Investments, which is reduced by any amounts not supported by Total Proprietary Capital.<sup>6</sup>

Any amounts not supported by Total Proprietary Capital must be itemized. For example, distribution companies must itemize deductions for capitalized leases and special funds.

In the case of a combination gas and electric distribution company, the Total Utility Common Equity balance shall be determined and allocated to utility operations in the manner described for electric companies above. This revised common equity balance shall be further allocated between the distribution company's gas and electric divisions based on the respective percentages of gross electric plant and gross gas plant in service, as provided on FERC Form No. 1, page 200, line 3, column (b), which is reduced by page 201, column (h), and divided into page 201, column (c) or page 201, column (d), as appropriate.

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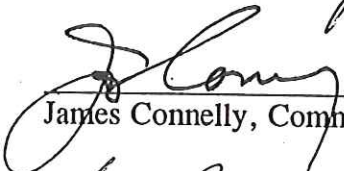
<sup>5</sup> Restated, Total Utility Common Equity for electric distribution companies is as follows: FERC Form No. 1, page 112, line 14; plus any portion of page 112, line 9 and/or line 10 applicable to preferred stock issuances; minus the sum of page 112, lines 3 and 12; minus unamortized acquisition premium, if applicable; multiplied by the ratio of page 110, line 4, reduced by any amounts not supported by Total Proprietary Capital, to the sum of line 4 and line 22, reduced by any amounts not supported by Total Proprietary Capital.

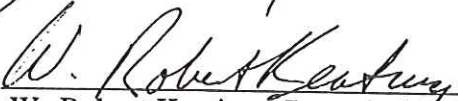
<sup>6</sup> Restated, Total Utility Common Equity for gas distribution companies is as follows: Annual Return, page 9, line 13; minus the sum of page 9, line 4 and any portion of line 6 applicable to preferred stock; minus unamortized acquisition premium, if applicable; multiplied by the ratio of page 110, line 4, reduced by any amounts not supported by Total Proprietary Capital, to the sum of line 4 and line 22, reduced by any amounts not supported by Total Proprietary Capital.


The Department requires that the gas and electric distribution companies shall include the calculation for their average calendar-year return on equity when the distribution companies file their annual returns pursuant to G.L. c. 164, § 83 and 220 C.M.R. § 79.00 et seq. .

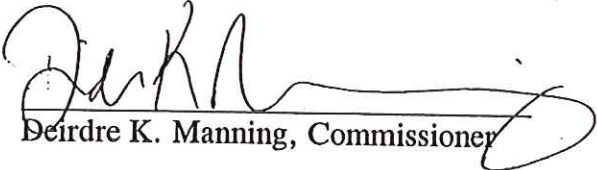
Sincerely,

  
Paul B. Vasington, Chairman

  
James Connelly, Commissioner

  
W. Robert Keating, Commissioner

  
Eugene J. Sullivan, Jr., Commissioner

  
Deirdre K. Manning, Commissioner