

Granite State Electric Company (d/b/a National Grid)
Docket DG 06-107
Return on Rate Base and Common Equity
For the twelve months ended December 31, 2008

Line No.	Description	Allowed per Docket DG 06-107 Merger Settlement Agreement			Ceiling		Weighted Cost
		% of Total	Cost	Weighted Cost	% of Total	Cost	
1	Common stock equity	50.00%	9.67%	4.84%	50.00%	11.00%	5.50%
2	Preferred stock	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
3	Long-term debt	<u>50.00%</u>	7.54%	<u>3.77%</u>	<u>50.00%</u>	7.54%	<u>3.77%</u>
4							
5		<u>100.00%</u>		<u>8.61%</u>	<u>100.00%</u>		<u>9.27%</u>
6							
7	Five Quarter		Earned				
8	Average						
9	Rate Base						
10							
11	\$31,178,890 Common stock equity	50.00%	3.65%	1.82%		1.12% (a)	2.95%
12	\$0 Preferred stock	0.00%	0.00%	0.00%		0.00%	0.00%
13	<u>\$31,178,890</u> Long-term debt	<u>50.00%</u>	7.54%	<u>3.77%</u>		<u>0.00%</u>	<u>3.77%</u>
14							
15	<u>\$62,357,780</u>	<u>100.00%</u>		<u>5.59%</u>		<u>1.12%</u>	<u>6.72%</u>
16							

(a) includes adjustment for Flowthrough item

Interest Expense and Federal Income Tax
Calculated Using Imputed Capital Structure
Per Docket No. DG 06-107 Merger Settlement Agreement

24						\$(000)	
25	Interest:	\$62,357,780	X	3.77%	=	\$2,351	
26							
27	FIT and NH Business Profits Tax:	\$62,357,780	X	1.02% (b)	=	633	
28							
29		Plus: (Flowthrough Items)/64.22%-(Flowthrough Items) (c)					<u>67</u>
30		Total Federal and State Income Taxes					\$700
31							
32		(b) (1.63%/(1-0.35))/(1-0.012)-1.63%					
33		(c) Flowthrough Items:					
34		ITC Amortization					(\$54)
35		ITC Basis Reduction and AFC Equity Depreciation					298
36		Medicare Act of 2003					<u>(124)</u>
37						<u>\$120</u>	

Granite State Electric Company (d/b/a National Grid)
Docket No. DG 06-107
Annual Earnings Report
For the twelve months ended December 31, 2008

Page 2 of 4

Line No.	<u>Description</u>	<u>Total</u>
1	Operating revenues for 12 months	\$103,787,059
2		
3	Operating expenses for 12 months:	
4	Purchased power expenses	\$68,726,761
5	Production expenses	\$480
6	Distribution expenses	\$5,594,883
7	Transmission expenses	\$10,996,092
8	Customer accounts	\$1,881,616
9	Customer service & information	\$551,261
10	General and administrative	\$4,703,961
11	Less: Merger Costs to Achieve charged in 2008, not yet deferred	(\$12,368) (1)
12	Depreciation	\$4,139,772
13	Amortization of Merger Costs to Achieve	\$262,591
14	Federal and state income taxes	\$0 (2)
15	Property taxes	\$2,329,018
16	Other taxes	\$370,180
17	Amortization ITC	(\$53,915)
18	Interest on customer deposits	\$19,114 (3)
19	Donations	\$52,055 (3)
20		
21	Total operating expenses (Sum of Lines 4 through 19)	\$99,561,501
22		
23	Net Operating Income Before Taxes (Line 1 - Line 21)	\$4,225,558
24	Adjusted for DSM Incentives	(\$224,279)
25	Adjusted Operating Income Before Taxes (Sum of Line 23 and Line 24)	\$4,001,279
26		
27	Interest Charges	\$2,350,888 (4)
28	Flowthrough items (see details on Page 1 of 4)	\$120,043
29	Taxable Income (Line 25 - Line 27 + Line 28)	\$1,770,434
30		
31	Income Taxes	<u>633,461</u> (5)
32		
33	Earnings Available for Common Equity (Line 29-Line 31)	\$1,136,972
34		
35	Average Common Equity 5 Quarter Average (from Page 1 of 4)	\$31,178,890
36		
37	Rate of Return on Adjusted Average Common Equity (Line 33/Line 35)	3.65%

(1) Adjusting entry made in 2009.

(2) Calculated using imputed capital structure as stated in Docket No. DG 06-107, Sec.3C.

(3) Below the line items brought above the line for ratemaking purposes.

(4) Calculation: Rate Base x weighted cost rate for long term debt.

\$62,357,780 x 3.77% = \$2,350,888; (3.77%= 50% x 7.54%)

(5) Calculation: Taxable Income x Federal income and State unitary income tax rates of 35% and 1.20%, respectively.

\$1,770,434 x 35.78% = \$633,461; (35.78% = ((100% - 1.20% x 35%) + 1.20%)

Docket DG 06-107

Rate Base Calculation for Annual Earnings Report
For the twelve months ended December 31, 2008

Line No.	Description	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08	5-Quarter Average
1	Utility plant in service	\$112,953,813	\$114,549,664	\$116,126,897	\$116,739,962	\$117,894,318	\$115,652,931
2	Accumulated depreciation	(\$44,457,003)	(\$44,620,482)	(\$45,371,073)	(\$45,985,052)	(\$46,817,385)	(\$45,450,199)
3	Materials and supplies	\$392,083	\$432,921	\$424,278	\$353,983	\$297,876	\$380,228
4	Cash working capital requirement (1)	\$2,414,620	\$2,769,124	\$2,739,211	\$2,778,418	\$2,923,881	\$2,725,051
5	Prepayments (2)	\$16,059	\$7,313	(\$0)	\$23,862	\$15,107	\$12,468
6	Customer deposits	(\$217,865)	(\$270,033)	(\$302,545)	(\$335,384)	(\$335,228)	(\$292,211)
7	Customer advances for construction	\$0	\$0	\$0	\$0	\$0	\$0
8	Unamortized debt expense	\$42,495	\$41,840	\$41,185	\$40,530	\$39,875	\$41,185
9	Net deferred income tax reserve (3)	(\$9,531,610)	(\$10,338,760)	(\$10,983,681)	(\$11,232,366)	(\$11,471,951)	(\$10,711,673)
10							
11		<u>\$61,612,592</u>	<u>\$62,571,587</u>	<u>\$62,674,272</u>	<u>\$62,383,953</u>	<u>\$62,546,493</u>	<u>\$62,357,780</u>
12							
13	Notes:						
14	(1) Represents 45/365 days of non-purchase power O&M expenses for the period.						
15	(2) Excludes adjustment to federal tax reserves for prior periods.						
16	(3) Deferred income tax reserve calculation:						
17	Accumulated deferred income taxes in Ferc 282	(\$10,926,287)	(\$11,641,333)	(\$12,272,178)	(\$12,506,787)	(\$12,732,296)	
18	Less: Fas 109 in Ferc 282	\$48,288	(\$224,780)	(\$224,780)	(\$224,780)	(\$224,780)	
19	Add: Deferred tax asset-CIAC in Ferc 190	\$1,442,670	\$1,077,598	\$1,063,522	\$1,049,446	\$1,035,370	
20	Add: Deferred tax asset-M&S in Ferc 190	\$295	\$195	\$195	\$195	\$195	
21	Total	(\$9,531,610)	(\$10,338,760)	(\$10,983,681)	(\$11,232,366)	(\$11,471,951)	

Granite State Electric Company (d/b/a National Grid)
Calculation of Interim Accumulated Earnings at December 31, 2008
(\$000)

Line

1	Actual Earnings Available for Common - CY 2008	\$1,137 (a)		
2	Estimated Earnings Available for Common - CY 2009	n/a		
3	Estimated Earnings Available for Common - CY 2010	n/a		
4	Estimated Earnings Available for Common - CY 2011	n/a		
5	Estimated Earnings Available for Common - CY 2012	n/a		
6				
7	One Year Average		\$1,137	
8				
9	Actual Average Common Equity - 2008	\$31,179 (a)		
10	Estimated Average Common Equity - 2009	n/a		
11	Estimated Average Common Equity - 2010	n/a		
12	Estimated Average Common Equity - 2011	n/a		
13	Estimated Average Common Equity - 2012	n/a		
14				
15	One Year Average		<u>\$31,179</u>	
16				
17	Average Annual Return		<u>3.65%</u>	<u>Customer Share</u>
18				
19	ROE >11.00% shared 50% with customers		0.00% * 50.00% =	0.00%
20				
21				
22	Total Customer ROE Sharing			0.00%
23	Annual Average Equity			<u>\$31,179</u>
24				
25	Average Annual Customer Shared Earnings			\$0
26	Tax Gross-up			<u>/ 64.22%</u>
27				
28	Average Annual Customer Shared Earnings - Pre-tax			-
29	Number of Years			<u>x 1</u>
30				
31	Total Customer Shared Earnings 1/1/2008 - 12/31/2012			<u>\$ -</u>

(a) December 31, 2008 Earnings Report - submitted May 1, 2009