

**BEFORE THE PUBLIC UTILITIES COMMISSION**

## DIRECT TESTIMONY

JOHN STUTZ

## The Rhode Island Division of Public Utilities and Carriers

**September 19, 2005**

## **TABLE OF CONTENTS**

1. INTRODUCTION AND SUMMARY .....	1
2. DETAILED TESTIMONY.....	4

Exhibit JS-1 Background and Qualifications



1   **Q.    HOW IS YOUR TESTIMONY ORGANIZED?**

2    A.    The remainder of this section provides a summary of my key points and  
3           recommendations. My detailed testimony is presented in the following section.

4

5   **Q.    WHAT ARE THE KEY POINTS OF YOUR TESTIMONY?**

6    A.    My key points are the following:

- 7                   • In light of recent data on gas and oil prices, a Standard Offer  
8                   rate of 9.0 cents per kWh provides a reasonable balance  
9                   between avoidance of substantial deferrals and limitation of  
10                  rate shock.
- 11                  • Narragansett should continue to make “protest payments” as part of its  
12                  effort to preserve the Trans Canada contract. To avoid a substantial  
13                  deferral it should include the cost of these payments in the Standard  
14                  Offer rate.
- 15                  • The size of the Standard Offer rate increase is of particular  
16                  concern for low-income customers. Steps can and should be  
17                  taken to assist them.
- 18                  • Options for offsetting the impact of higher electricity costs  
19                  including greater promotion of conservation as well as broader  
20                  issues of energy policy should be explored.

21

22   **Q.    WHAT ARE YOUR RECOMMENDATIONS?**

1     A.     I recommend that a Standard Offer rate of 9.0 cents per kWh be approved, and  
2           that credits of \$2 million per year be established to help offset the resulting impact  
3           on Rate A-60 customers. I also recommend that the Company be directed to  
4           assess the feasibility of utilizing all options for offsetting the impact of electricity  
5           price increases, to review the reasonableness of the Standard Offer rate by year  
6           end, and to report to the Commission on all of these matters.  
7

## 2. DETAILED TESTIMONY

2

3     **Q.     HOW WAS THE COMPANY’S PROPOSED STANDARD OFFER RATE**  
4     **DEVELOPED?**

A. The proposed Standard Offer rate was developed based on an estimate of the cost of the electricity used to provide Standard Offer service. As shown in Mr. Hager's Exhibit MJH-1, that cost reflects a **Basic Charge** set for each year through 2009 and **Fuel Index Adjustment** based on publicly available gas and oil price indices. Using the gas and oil price data reported in the *Wall Street Journal* on July 25, 26, and 27, 2005, Mr. Hager developed estimates of the Fuel Index Adjustment for the period through December 2006. Using Mr. Hager's estimates, Ms. Lloyd determined that a rate of 8.2 cents per kWh could be expected to cover Standard Offer costs through August 2006. Based on this information, the Company initially proposed a Standard Offer rate of 8.2 cents per kWh. Based on more recent gas and oil prices discussed in the update, the Company has increased its proposed rate to 9.7 cents per kWh.

17

18     **Q.     DO YOU SUPPORT A STANDARD OFFER RATE OF 9.7 CENTS PER**  
19     **KWH?**

20 A. No. Instead I recommend a rate of 9.0 cents per kWh.

21

22 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR POSITION.**

1 A. Setting the Standard Offer rate requires one to balance two competing concerns:  
2 the desire to limit the increase in order to limit “rate shock” and the desire to  
3 avoid substantial deferrals leading to larger increases in the future. Establishing  
4 the balance is difficult because Standard Offer supply costs are sensitive to gas  
5 and oil market prices which are difficult to forecast and have been very volatile of  
6 late.

7 As the data in Ms. Lloyd’s Exhibit JAL-4 show, the Company’s initial  
8 proposal of 8.2 cents per kWh was near the top of the range of Standard Offer  
9 rates suggested by recent gas and oil price data. While it is prudent to increase the  
10 estimate to take into account more recent price data, going all the way to 9.7 cents  
11 would place the Standard Offer rate far above the range—6.9 to 8.5 cents per  
12 kWh—suggested by all but the most recent data provided in the update. Giving  
13 equal weight to avoidance of rate shock and substantial deferrals, I recommend  
14 9.0 cents, roughly the mid-point between 8.2 and 9.7 cents.

15

16 **Q. WHAT ABOUT THE “PROTEST PAYMENTS”?**

17 A. The Company has included protest payments, that is Fuel Index Adjustment  
18 related payments currently being made to Trans Canada under protest, in its  
19 Standard Offer rate proposals. As Mr. Gerwatowski explains on page 6 of his  
20 testimony, the payments are part of Narragansett’s effort to prevent the  
21 termination of the Trans Canada contract. If the contract remains in force and the  
22 Company prevails in its argument with Trans Canada, it will have a Standard  
23 Offer supply contract without the Fuel Index Adjustment which adds substantially

1 to the cost of Standard Offer supply. The Company could make the payments and  
2 defer the cost. However, this would create a deferral at or above the \$16 million  
3 level the Commission has set as a trigger for a Standard Offer rate filing. Rather  
4 than create a large deferral as Mr. Farley suggests, it would be better to include  
5 the cost of the protest payments on an ongoing basis as Narragansett proposes.

6

7 **Q. SHOULD THE STANDARD OFFER RATE BE SUBJECT TO REVIEW?**

8 A. Yes. In their letter to the Commission, the members of the General Assembly  
9 urged that any increase in the Standard Offer rate be reviewed in November and  
10 again in March. This is reasonable and appropriate given the size of the increase.  
11 The Company should be ordered to file updated Standard Offer cost estimates  
12 and, if appropriate, requests for changes in the Standard Offer rate, by the end of  
13 2005.

14

15 **Q. DOES THE STANDARD OFFER RATE INCREASE RAISE**  
16 **PARTICULAR CONCERN FOR ANY GROUP OF CUSTOMERS?**

17 A. A large increase in the Standard Offer rate is a serious concern for all customers.  
18 However, it raises particular concern for low-income customers served on Rate A-60.

19

20 **Q. WHAT TYPE OF ASSISTANCE SHOULD BE PROVIDED?**

21 A. As Mr. Howat indicates, two types of assistance could be provided: **a credit** to offset the  
22 increase in the Standard Offer rate, and **targeted assistance**, to help those who fall  
23 behind in their electric bills. Based on information provided by Narragansett, there are



1 relatively few A-60 customers who are currently without service. Thus the focus now  
2 should be on affordability. I recommend that credits in the amount of \$2 million per year  
3 be provided.

4  
5 **Q. HOW SHOULD THE CREDITS BE APPLIED?**

6 A. Rate A-60 customers currently receive a discount applicable to distribution  
7 charges on the first 450 kWh of usage. Applying the credit to the first 450 kWh of  
8 usage would be most consistent with that approach. There is about 143 GWH of  
9 usage on the initial block of Rate A-60. Thus, the credit I propose would offset  
10 approximately 1.4 cents of the increase in the Standard Offer rate for usage on the  
11 initial block. Based on my proposed rate of 9 cents per kWh, these credits would  
12 offset over 60 percent of the increase.

13  
14 **Q. HOW SHOULD THE COMMISSION FINANCE YOUR PROPOSED**  
15 **CREDITS FOR THE RATE A-60 CUSTOMER?**

16 A. \$43.9 million has been allocated to Rhode Island as part of the US.Gen New  
17 England Inc. Bankruptcy Settlement. National Grid has proposed, as part of a  
18 separate proceeding, that these funds be used to offset unrecovered costs  
19 associated with the sale of the Company's former generating assets. This will  
20 reduce the Contract Termination Charges (CTCs) of Narragansett Electric,  
21 benefiting all customers. Diversion of funds required to provide credits of \$2  
22 million per year for four years for Rate A-60 customers would allow the  
23 Commission to ensure significant relief for those least able to cope with the

1 increase in Standard Offer rates, while preserving the majority of the settlement  
2 funds for the benefit of all customers. This funding approach is preferable to Mr.  
3 Howat's suggestion of a new, non-bypassable charge because this approach  
4 permits relief to Rate A-60 customers to be provided with no increase to other  
5 customers.

6  
7 **Q. SHOULD ALL OPTIONS TO PROVIDE RELIEF FROM RISING**  
8 **STANDARD OFFER COSTS BE EXPLORED?**

9 A. Yes. The Company should be directed to explore Mr. Farley's suggestions,  
10 possibilities for promoting additional conservation, as well as any other options it  
11 can identify, and then provide a report on its findings within six weeks of the  
12 Commission's order. During the same six-week period, parties including the  
13 Company should be afforded the opportunity to provide submissions to the  
14 Commission concerning development of a comprehensive Rhode Island energy  
15 policy to help address, balance and manage the state's energy needs. Upon receipt  
16 of these materials, the Commission can decide how best to move forward in  
17 addressing the narrow issue of Standard Offer costs and the broader issue of  
18 energy policy.

19  
20 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

21 A, Yes, it does.

## **BACKGROUND AND QUALIFICATIONS**

### **Education and Employment**

Dr. Stutz received a B.S. from the State University of New York at Stonybrook in 1965 and a Ph.D. from Princeton University in 1969. Both degrees are in mathematics. After completing his Ph.D., he taught and did research at the Massachusetts Institute of Technology, the State University of New York at Albany where he received tenure, and Fordham University where he held the position of associate professor of mathematics and was co-director of the program in mathematics and economics. He left Fordham to help found Tellus where he has been employed since 1976.

Tellus is a non-profit institute. It provides research and consulting services to clients in the public and private sectors in the areas of energy, environmental policy, solid waste management, water resource planning, and sustainable development.

### **Professional Qualifications**

Dr. Stutz has extensive experience in the utility industry, particularly as an expert witness. Since 1977 he has appeared before the Federal Energy Regulatory Commission (FERC) as well as Public Utility Commissions in 39 states, the District of Columbia, and three provinces in Canada. In total, he has appeared in 191 proceedings as shown in the attached table. Most of his appearances have been in electric utility proceedings. However, he has also testified on gas and telecommunications matters. Much of Dr. Stutz's testimony has addressed ratemaking issues. Since 1979, he has appeared as a witness on ratemaking in 132 proceedings. His testimony has addressed a variety of topics, including marginal costs, embedded cost-of-service studies, service quality standards, and numerous aspects of rate design.

Since the early 1980s Dr. Stutz has testified regularly on behalf of the Staff of the Rhode Island Division of Public Utilities and Carriers. Most of this testimony has addressed electric utility rates and regulation.

Dr. Stutz's articles and comments on utility-related subjects have appeared in the *Public Utilities Fortnightly*, *The Electricity Journal*, and elsewhere. His paper with Thomas Austin is cited, in the second edition of Bonbright's *Principles of Public Utility Rates*, as a source of information on electric ratemaking in general and COSS in particular. He was the lead author of *Aligning Rate Design Policies with Integrated Resource Planning*, a report commissioned and published by the National Association of Regulatory Utility Commissioners (NARUC). As NARUC's preface states, Tellus was selected to prepare this report largely because of Dr. Stutz's expertise. In 2004 Dr. Stutz was an invited speaker on electricity markets at the annual CAMPUT conference, the Canadian equivalent of the annual NARUC meeting, and at the Delaware PSC Conference on Standard Offer Supply.

In addition to his utility-related activities, since 1988 Dr. Stutz has worked for the United States Environmental Protection Agency, the Organisation for Economic Cooperation and Development, and various state and local agencies, on issues related to solid waste management and its impact on the environment.

**Dr. Stutz's Testimony Before Regulatory Commissions**

STATE	APPEARANCES		STATE	APPEARANCES	
	<u>Ratemaking</u>	<u>Planning</u>		<u>Ratemaking</u>	<u>Planning</u>
Alabama	1		Minnesota	2	
Arizona	5		Mississippi	1	
Arkansas	1		Nevada	4	3
Canada	11		New Jersey	8	
Colorado	6	4	New York		5
Connecticut	3	3	New Mexico	6	
Delaware	2		New Hampshire	2	
District of Columbia	1		North Carolina	3	
FERC		3	Ohio	5	1
Florida	1	3	Oregon	1	
Georgia		1	Pennsylvania	2	4
Hawaii		1	Rhode Island	26	3
Illinois	1	3	South Carolina	1	
Iowa	1		Tennessee	1	
Kansas	1		Texas	7	1
Kentucky	1		Utah	2	
Louisiana	2		Vermont	3	1
Maine	11	5	Virginia	1	
Maryland	2		Washington		1
Massachusetts	1	5	West Virginia	3	
Michigan	2	12	Wisconsin	1	
				Total <u>Ratemaking</u>	Total <u>Planning</u>
				132	59