



State of Rhode Island and Providence Plantations

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December 8, 2005

***VIA ELECTRONIC FILING AND HAND DELIVERY***

Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888

**Re: National Grid Standard Offer Rate Adjustment  
And 2006 Retail Rate Filing;  
Docket No. 3706**

**National Grid Dispensation of Settlement Proceeds;  
Docket No. 3710**

Dear Ms. Massaro:

Enclosed for filing in connection with the above-referenced matter are an original and nine (9) copies of the Direct Testimony of John Stutz on behalf of the Division of Public Utilities and Carriers.

Thank you for your attention to this matter.

Very truly yours,

Paul Roberti  
Chief, Regulatory Unit

Enclosures

cc: Service List  
Thomas F. Ahern, Administrator

**STATE OF RHODE ISLAND AND  
PROVIDENCE PLANTATIONS**

**BEFORE THE PUBLIC UTILITIES COMMISSION**

IN RE: TARIFF FILINGS BY NATIONAL GRID TO MODIFY :  
THE STANDARD OFFER SERVICE RATE, TRANSMISSION :  
SERVICE COST ADJUSTMENT FACTOR AND :  
TRANSITION SERVICE COST ADJUSTMENT CHARGE : DOCKET NO. 3706

NATIONAL GRID'S REQUEST FOR APPROVAL OF :  
DISPENSATION OF SETTLEMENT PROCEEDS : DOCKET NO. 3710

**DIRECT TESTIMONY**

**OF**

**JOHN STUTZ**

**On behalf of:**

**The Rhode Island Division of Public Utilities and Carriers**

**December 8, 2005**

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Exhibit JS-1 Background and Qualifications

1 **1. INTRODUCTION AND SUMMARY**

2

3 **Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.**

4 A. My name is John K. Stutz. My business address is the Tellus Institute (Tellus), 11  
5 Arlington Street, Boston, Massachusetts 02116-3411. I am a vice president at  
6 Tellus.

7

8 **Q. HAVE YOU PREPARED A SUMMARY OF YOUR EDUCATION,  
9 EMPLOYMENT, AND PROFESSIONAL QUALIFICATIONS?**

10 A. Yes, it is provided in Exhibit JS-1.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose is to respond to the testimony included in the following filings made  
14 by the Narragansett Electric Company (“Narragansett” or “the Company”): the  
15 Company’s October 31, 2005 Standard Offer Rate filing and the November 30,  
16 2005 update to that filing, the November 15 Request for Approval of  
17 Dispensation of Settlement Proceeds and the November 15 filing of the  
18 Company’s January 2006 Retail Rate Adjustments.

19

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

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

23

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

2 A. My key points are the following:

- 3 • The Standard Offer Rate should strike a balance between two  
4 goals: avoidance of substantial deferrals, and limitation of rate  
5 shock.
- 6 • Narragansett should continue to make “protest payments” as part of its  
7 effort to preserve the Trans Canada contract. To avoid a substantial  
8 deferral it should include the cost of these payments in the Standard  
9 Offer Rate.
- 10 • The size of the Standard Offer Rate increase is of particular  
11 concern for low-income customers. Steps can and should be  
12 taken to assist them.
- 13 • A modest reduction in the Company’s proposed Standard Offer  
14 Rate can fully offset the net effect of the proposed adjustments  
15 to the Transition Charge, Transmission Service Adjustment  
16 Factor and discontinuation of the Customer Credit.

17  
18 **Q. WHAT ARE YOUR RECOMMENDATIONS?**

19 A. My recommendations are the following:

- 20 • A Standard Offer Rate of 9.8 cents per kWh should be  
21 approved for the period January to August 2006. This rate  
22 should only be reconsidered if deferrals climb above \$22.9  
23 million.

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7

- As Narragansett proposes, credits totaling \$2 million per year should be established to help offset the impact of the Standard Offer Rate increase on Rate A-60 customers.
- The Company's proposed adjustments to the Transition Charge and Transmission Service Adjustment Factor should be approved.

1  
2  
3                                   **2. DETAILED TESTIMONY**

4   **Q. PLEASE BRIEFLY DESCRIBE THE COMPANY’S STANDARD OFFER**  
5           **RATE PROPOSAL.**

6   A. The Standard Offer Rate is developed based on an estimate of the cost of the  
7       electricity used to provide Standard Offer service. As shown in Mr. Hager’s  
8       Exhibit MJH-1 in the October 31 filing, that cost reflects a **Basic Charge** set for  
9       each year through 2009 and **Fuel Index Adjustment** based on publicly available  
10      gas and oil price indices.

11                 Based on oil and gas price data reported on October 25, 26 and 27 of  
12      2005, the Company initially proposed a rate of 10.2 cents per kWh effective  
13      December 1, 2005 through August 30, 2006. Based on fuel price estimates  
14      reported on November 21, 22, and 23, 2005, the Company is now proposing a  
15      Standard Offer Service rate of 10 cents per kWh, effective January 1, 2006  
16      through September 30, 2006.

17   **Q. DO YOU SUPPORT THE COMPANY’S REVISED PROPOSAL?**

18   A. No. Instead I recommend a rate of 9.8 cents per kWh to be effective January 1,  
19      2006 through September 30, 2006.

20  
21   **Q. PLEASE EXPLAIN THE BASIS FOR YOUR PROPOSAL.**

22   A. Setting the Standard Offer Rate requires one to balance competing concerns,  
23      limiting the increase in order to reduce “rate shock” while avoiding substantial

1           deferrals leading to larger increases in the future. A rate of 9.8 cents provides a  
2           better balance than the Company's proposal.

3                     The Standard Offer Rate was recently increased from 6.7 to 8.2 cents per  
4           kWh. The Company has proposed a rate of 10.0 cents per kWh, an increase of 1.8  
5           cents on the current rate. My proposal would hold the increase to 1.6 cents, a  
6           reduction of 11 percent. For a residential customer using 500 kWh per month, the  
7           savings from my proposal is \$1.04 per month.

8                     Exhibit JAL-3 attached to Ms. Lloyd's testimony in the November 30  
9           filing shows that a Standard Offer Rate of 10 cents would result in a deficit of  
10          \$12.3 million at September 30, 2006. Reducing the rate to 9.8 cents would  
11          increase the deficit to \$22.9 million. This is a bit higher than the \$16 million level  
12          the Commission has set as a trigger for a Standard Offer Rate filing. However,  
13          were this level of deferral to materialize, its amortization would require an  
14          increase in the Standard Offer Rate of only about .32 cents per kWh over the  
15          following year.

16

17   **Q.    IS THERE REASON TO THINK THAT THE DEFERRAL MIGHT BE**  
18   **LESS THAN \$22.9 MILLION?**

19   A.    Yes. The size of the deferral depends on future gas and oil prices. As Figure 1 in  
20   the Company's November 2005 Market Assessment shows, there has been a sharp  
21   recent spike in gas prices. As Figure 1 also shows, past spikes have been followed  
22   by rapid drops. Were such a drop to occur in this case, the deferral might be  
23   reduced.



1

2 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS ON THE STANDARD**  
3 **OFFER RATE?**

4 A. Yes, I do. Both the Company's revised proposal and my proposal are designed to  
5 be effective for only 9 months. A 9-month timeframe provides less rate stability  
6 than the 12-month timeframe used by the Company in its previous Standard Offer  
7 Rate designs. The Commission's goal, stated on page 17 of the Report and Order  
8 in Docket No. 3648, is to ensure rates remaining as stable as possible. Consistent  
9 with this goal, I would urge the Commission not to accept a rate which is  
10 designed to be effective for less than 9 months. I would also urge the Commission  
11 to use \$22.9 rather than \$16 million as a threshold for changes in the Standard  
12 Offer Rate, at least for the next 9 months.

13

14 **Q. PLEASE ADDRESS THE ISSUE OF "PROTEST PAYMENTS."**

15 A. The Company has included the cost of protest payments, that is Fuel Index  
16 Adjustment related payments currently being made to Trans Canada under  
17 protest, in its Standard Offer Rate proposals. These payments are part of  
18 Narragansett's effort to prevent the termination of the Trans Canada contract. If  
19 the contract remains in force and the Company prevails in its argument with Trans  
20 Canada, it will have a Standard Offer supply contract without the Fuel Index  
21 Adjustment which adds substantially to the cost of Standard Offer supply.

22 The Company could make the protest payments and defer the cost.

23 However, this would increase the deferral beyond the \$22.9 million resulting from

1 my proposed 9.8 cent per kWh Standard Offer Rate. Rather than increase the  
2 deferral, it would be better to recover the cost of the protest payments on an  
3 ongoing basis through the Standard Offer Rate as Narragansett has proposed.

4

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

7 A. A large increase in the Standard Offer Rate is a serious concern for all customers.  
8 However, it is of particular concern for the low-income customers served on Rate A-60.

9

10 **Q. HAS NARRAGANSETT PROPOSED ANY ADDITIONAL ASSISTANCE FOR**  
11 **THESE CUSTOMERS?**

12 A. Yes, in its November 15 filing the Company has proposed that Rate A-60  
13 customers receive an additional credit totaling \$2 million per year, applicable to  
14 the first 450 kWh of usage. This credit would offset 1.24 cents of any increase in  
15 the Standard Offer Rate for usage on the initial block. Based on my proposed rate  
16 of 9.8 cents per kWh, the proposed credit would offset about 78 percent of the  
17 increase.

18

19 **Q. HOW HAS NARRAGANSETT PROPOSED FINANCING THE CREDITS**  
20 **FOR THE RATE A-60 CUSTOMERS?**

21 A. As a result of the State Settlement Agreement described in Mr. Gerwatowski's  
22 testimony in Docket 3710, Narragansett Electric has \$16.5 million available to  
23 use for the benefit of customers. Narragansett has proposed that \$8 million of

1 these funds be used to finance the credit for the low-income customers. The  
2 balance, \$8.5 million, would be returned to all customers through a reduction in  
3 the Narragansett transition charge in 2006.

4  
5 **Q. IS THIS THE SAME FUNDING SOURCE YOU IDENTIFIED IN**  
6 **DOCKET NO. 3689?**

7 A. No. In that docket I noted that \$43.9 million has been allocated to Rhode Island as  
8 part of the US.Gen New England Inc. Bankruptcy Settlement. National Grid has  
9 proposed, as part of a separate proceeding, that these funds be used to offset  
10 unrecovered costs associated with the sale of the Company's former generating  
11 assets. The effect of the use of these funds in this manner is ultimately to lower  
12 the Narragansett transition charge for all customers.

13  
14 **Q. IS THE USE OF \$8 MILLION TO BENEFIT THE A-60 CUSTOMERS**  
15 **REASONABLE?**

16 A. Yes. These low-income customers have already absorbed an increase from 6.7  
17 cents to 8.2 cents in the Standard Offer Rate without any additional assistance.  
18 Recognition of the use of the \$43.9 million to benefit all customers reinforces the  
19 point that I make in Docket No. 3689: diversion of funds required to provide  
20 credits of \$2 million per year for Rate A-60 customers would allow the  
21 Commission to ensure significant relief for those least able to cope with the  
22 increase in Standard Offer Rates, while preserving the majority of the funds

1 received recently (i.e., 87 percent of the combined \$16.5 plus \$43.9 million) for  
2 the benefit of all customers.

3

4 **Q. FINALLY, PLEASE DESCRIBE THE CHANGES IN TRANSITION**  
5 **CHARGES AND TRANSMISSION ALLOCATIONS PROPOSED BY THE**  
6 **COMPANY.**

7 A. In the January 2006 Retail Rate Filing Narragansett has proposed to decrease its  
8 Transition Charge for 2006 from the present level of 0.845 cents per kWh to  
9 0.575 cents per kWh. The Company is also proposing to increase its  
10 Transmission Service Adjustment Factor for 2006 from 0.239 cents per kWh to  
11 0.371 cents per kWh. When taken together with the proposed reduction to the  
12 non-bypassable transition charge contained in the Dispensation of Settlement  
13 Proceeds filing and the scheduled termination of the Customer Credit residential  
14 customers using 500 kWh per month would see only a net monthly increase of  
15 \$0.99, or 1.4 percent.

16

17 **Q. DO YOU SUPPORT THESE CHANGES?**

18 A. Yes, I do. I would note that the increase which is the net result of these changes  
19 discussed in my prior answer is fully offset by the decrease in the Standard Offer  
20 Rate I have proposed.

21

22 **Q. DOES THIS COMPLETE YOUR TESTIMONY?**

23 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 193 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 134 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>Rate-making</u> | <u>Planning</u> |                | <u>Rate-making</u> | <u>Planning</u> |
| Alabama              | 1                  |                 | Minnesota      | 2                  |                 |
| Arizona              | 5                  |                 | Mississippi    | 1                  |                 |
| Arkansas             | 1                  |                 | Nevada         | 4                  | 3               |
| Canada               | 12                 |                 | 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   | 27                 | 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                  |                 |
|                      |                    |                 |                | <u>Total</u>       | <u>Total</u>    |
|                      |                    |                 |                | <u>Rate-making</u> | <u>Planning</u> |
|                      |                    |                 |                | 134                | 59              |