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August 29, 2008

Via Electronic Delivery and Regular Mail

Luly E. Massaro, Commission Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick RI 02889-1046

In Re: National Grid – Request for Change in Gas Distribution Rates
Docket No. 3943

Dear Luly:

On behalf of the Division of Public Utilities and Carriers, I enclose an original and (9) copies of the surrebuttal testimony of Bruce R. Oliver.

Thank you for your attention to this matter. If you have any questions or concerns, please do not hesitate to contact me.

Very truly yours,

Paul J. Roberti
Assistant Attorney General
Chief, Regulatory Unit

PJR/kz
Enclosures

cc: Thomas F. Ahern, Administrator
Service List

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF THE
STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS**

IN THE MATTER OF

**National Grid Request For)
Change Of Gas Distribution)
Rates)**

Docket No. 3943

**SURREBUTTAL TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Division of Public Utilities and Carriers

August 29, 2008

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. DISCUSSION OF ISSUES	2
A. Revenue Decoupling	2
B. Gas Marketing Program	23
C. Rate Structure Issues	28

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER

Docket No. 3943

August 29, 2008

1

I. INTRODUCTION

2

3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.**

4 A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax
5 Station, Virginia, 22039.

6

7 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

8 A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I
9 manage the firm's business and consulting activities, and I direct its preparation and
10 presentation of economic, utility planning, and policy analyses for our clients.

11

12 **Q. ARE YOU THE SAME BRUCE R. OLIVER WHO HAS PREVIOUSLY SUBMITTED**
13 **DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE DIVISION OF**
14 **PUBLIC UTILITIES AND CARRIERS?**

15 A. Yes, I am.

16

17 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

18 A. This surrebuttal testimony responds to portions of the rebuttal testimonies of
19 National Grid witnesses Simpson, Mongan, and Czekanski. More specifically the

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 testimony will address issues relating to Revenue Decoupling, and the development
2 of rates and charges for both Firm and Non-Firm gas service customers.

3
4
5 **II. DISCUSSION OF ISSUES**

6
7 **Q. HOW IS YOUR DISCUSSION OF SURREBUTTAL ISSUES ORGANIZED?**

8 A. My surrebuttal is presented in three sections. Section A responds to comments
9 regarding the Division's positions relating to Revenue Decoupling that are presented
10 in the Rebuttal of National Grid witness Simpson. Section B addresses the Rebuttal
11 arguments of National Grid witness Mongan as they relate to the Company's
12 proposed Gas Marketing Program. Section C addresses rate structure issues,
13 including issues related to the pricing of Non-Firm gas service, that are presented in
14 the Rebuttal Testimony of National Grid witness Czekanski.

15
16 **A. Revenue Decoupling**

17
18 **Q. WHAT IS YOUR GENERAL RESPONSE TO WITNESS SIMPSON'S REBUTTAL**
19 **TESTIMONY REGARDING REVENUE DECOUPLING ISSUES?**

20 A. The Rebuttal of NG witness Simpson with respect to Revenue Decoupling issues
21 attempts to place a negative "spin" on the positions of the Division and other

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 intervenors who challenge the Company's Revenue Decoupling proposals. He does
2 this in part by attributing "themes" to the positions of Opposing Parties that, at least
3 in the case of the Division, do not reasonably or accurately depict the Division's
4 position. In addition, much of witness Simpson's rebuttal is premised on
5 unsupported, generalized assertions that have little or no relationship to the specifics
6 of this proceeding. Further, witness Simpson would like this Commission to jump on
7 a Revenue Decoupling "bandwagon" without a careful examination of the specifics
8 of the Company's proposals, the impacts of those proposals on National Grid
9 finances or on its customers, and the history of ratemaking policy determinations for
10 either Rhode Island or other jurisdictions in which revenue decoupling mechanisms
11 have, or have not, been implemented.

12 It is important that this Commission recognize that energy efficiency will be
13 pursued by National Grid's customers regardless of whether a revenue decoupling
14 mechanism is adopted. Increasingly rigorous building codes and appliance
15 efficiency standards will bring about more efficient energy use even if National Grid
16 takes no action with respect to encouraging energy efficiency. Moreover, individual
17 customers will find substantial incentive to improve their energy use efficiency and
18 reduce gas consumption through rising costs for natural gas service. Thus, the
19 Commission should anticipate that gas use per customer will continue a downward
20 trend regardless of whether National Grid engages in programs to foster greater
21 energy use efficiency among its customers. In this context, the Company's
22 concerns regarding (1) protection of the financial health of the utility in the face of

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 declining individual customer usage of gas, and (2) possible disincentives for the
2 Company to actively encourage energy efficiency and conservation, can be
3 substantially decoupled.

4 It is possible that certain activities of the Company may foster the achieve-
5 ment of greater levels of energy efficiency, but ultimate decisions regarding energy
6 use and energy efficiency investments must remain with the end-user and must not
7 be dictated by a utility monopoly. Forceful advocacy of energy efficiency, in and of
8 itself, will not dramatically alter customers' energy usage and investment decisions,
9 unless it is used to limit customers' economic choices or constrain free trade in non-
10 regulated markets.

11 Finally, I note that many issues that witness Simpson attempts to portray as
12 simply black or white determinations actually involve more complex considerations.
13 Witness Simpson's overly generalized hypothetical examples do not provide a full
14 perspective of the Commission's and the Company's ratemaking considerations.
15 Regulatory decisions regarding revenue decoupling, energy efficiency programs,
16 and other related ratemaking policies must not be guided by generalities, buzz
17 words, and what appears to be popular at the moment.¹ Rather, such determin-
18 ations should be the product of careful examination of the parameters of specific
19 proposals and assessments of the expected impacts of those proposals on the
20 Company, its ratepayers, other stakeholders, and the public interest.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

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Q. AT PAGE 8, LINES 4-6, OF HIS REBUTTAL TESTIMONY, WITNESS SIMPSON SUGGESTS TWO OVERALL THEMES OF OPPOSING PARTY POSITIONS REGARDING REVENUE DECOUPLING. THOSE ARE: “(1) DECOUPLING IS BAD REGULATORY POLICY AND (2) UTILITY-SPONSORED DSM PROGRAMS ARE BAD REGULATORY POLICY.” DO THOSE PURPORTED THEMES REFLECT THE DIVISION’S POSITION IN THIS PROCEEDING?

A. No. Nothing asserted by the Division is intended to suggest that all revenue decoupling mechanisms represent “bad regulatory policy.” Nor, does the Division take the position that utility-sponsored DSM programs necessarily represent “bad regulatory policy.” The Division’s focus in this proceeding is on the specifics of the proposals that the Company has offered in this proceeding and the ratemaking and regulatory policy implications of those proposals as they would be implemented in the Company’s Rhode Island gas service territory.

As I explained in my Direct Testimony, the Company’s proposal for revenue decoupling in this proceeding reflects just one of a number of approaches to addressing utility concerns regarding the adequacy of its revenues in the face of declining use per customer.² National Grid’s gas rates in Rhode Island already

¹ Let us not forget the enthusiasm and the assertions of benefits that advocates of electric restructuring, including certain utilities, offered in the late 1990s. The overall evidence today clearly suggests that those states that did not adopt the trend of electric deregulation have lower electric rates.

² Witness Simpson’s rebuttal exhibit, Updated Attachment NG-JDS-3, identifies attributes of a number of decoupling mechanisms proposed or implemented by utilities in other jurisdictions that are not found in National Grid’s revenue decoupling proposal in this proceeding.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 reflect at least three forms of partial revenue decoupling that the Division has
2 supported in the past and continues to support as tools for use in addressing an
3 array of ratemaking policy considerations, including revenue decoupling. Key issues
4 for the Commission to address in this proceeding include:

- 5
- 6 • Is further revenue decoupling necessary and appropriate for
7 National Grid's Rhode Island gas operations at this time?
8
 - 9 • Are the parameters of the Company's revenue decoupling
10 proposal in this proceeding reasonable and appropriate for
11 implementation?
12
 - 13 • Are the impacts of the Company's revenue decoupling pro-
14 posals on individual customers, customer classes, and the
15 Company's finances reflective of sound regulatory policy?
16

17 The Division's assessment of the Company's presentation in this proceeding
18 finds that:

- 19
- 20 1. NG's presentation has failed to develop a compelling case for
21 the implementation of further revenue decoupling measures at
22 this time.
23
 - 24 2. Key parameters of the Company's proposed revenue decou-
25 pling mechanism ("RDM") are not reasonable and should not
26 be implemented.
27
 - 28 3. National Grid's proposed RDM is likely to have adverse
29 impacts on individual customers while unnecessarily and
30 inappropriately enhancing profitability for the Company and its
31 shareholders.
32

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Likewise, I must emphasize that the Division does not advocate a position
2 that characterizes all utility-sponsored energy efficiency programs as “bad regulatory
3 policy.” Rather, the Division recognizes that for utility-sponsored energy efficiency
4 programs to be most effective, they must be designed and operated in a manner
5 that is integrated with, and not positioned to impede, existing market forces.
6 Legislative mandates for the implementation of DSM programs should be perceived
7 as directives for utilities to foster and encourage conservation and energy use
8 efficiency. Such mandates should not serve as rationales for displacing or impeding
9 the activities of competitive providers of energy efficiency equipment and services.
10 Furthermore, given that energy efficiency programs do not necessarily constitute
11 monopoly services and may not be subject to the economic and financial rigors of
12 competitive markets, additional regulatory oversight of such activities may be
13 necessary to ensure their successful and cost-effective implementation.

14
15 **Q. WITNESS SIMPSON’S REBUTTAL TESTIMONY SUGGESTS AT PAGES 22-27,**
16 **THAT TRADITIONAL REGULATION “DOES NOT WORK” WHEN REVENUES**
17 **PER CUSTOMER ARE LESS THAN RATE YEAR LEVELS. DO YOU AGREE?**

18 **A.** No. Traditional regulation has worked, and can continue to work, in the context of
19 declining use per customer. Witness Simpson’s suggestion that traditional
20 ratemaking only works when revenue per customer is *“in-line with rate year levels*
21 *from the utility’s most recent rate case”* is unfounded and not supported by fact or

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 quantitative analysis. Given that the American Gas Association (AGA) indicates that
2 gas use per customer has been on the decline since the early 1980s, I must
3 question whether there have been any periods of significant duration in recent
4 history (i.e., the last 25 years) in which revenue per customer was "in-line" with rate
5 year levels. Furthermore, given the AGA assessment that the natural gas industry
6 has at least a 25 year history of declining use per customer, I can only surmise that
7 witness Simpson does not believe traditional ratemaking has worked at any time in
8 the last 25 years.

9 Yet, in this proceeding we are dealing with a utility that, prior to this case, had
10 not filed for a base rate increase in over seven years.³ Even though the Company
11 was free to make an earlier filing for rate relief, it elected not to do so. Apparently,
12 the impacts of declining use per customer were not sufficiently compelling to force
13 the Company to submit a base rate increase application at its first opportunity.

14 Likewise, over the last decade many LDCs have gone through substantial
15 periods of time without filing for base rate increases. If declining use per customer
16 and/or declining revenue per customer is a major driver of utility needs for rate relief,
17 avoidance of rate increase requests for extended periods of time should not be
18 possible. The very fact that not only National Grid's RI gas operations, but other
19 LDCs have been able to avoid frequent base rate filings in the absence of the type

³ It should be noted that in Docket 3401, the Company filed for a revenue increase of approximately \$8 million, and the case resulted in a settlement which **decreased** the Company's revenue requirement by \$3.9 million.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 of revenue decoupling mechanism that the Company proposes in this proceeding
2 raises considerable doubt regarding the real need for such mechanisms.

3
4 **Q. WOULD YOU PLEASE RESPOND TO WITNESS SIMPSON'S CLAIM AT PAGE**
5 **26, LINES 8-12, OF HIS REBUTTAL THAT INFORMATION UPON WHICH YOU**
6 **HAVE RELIED TO SUPPORT THE EFFECTIVENESS OF TRADITIONAL**
7 **REGULATION ACTUALLY SUGGESTS THAT TRADITIONAL REGULATION**
8 **DOES NOT WORK?**

9 A. Witness Simpson's response to my testimony represents nothing more than his off-
10 handed assessment that a 0.5% increase in revenue over eight years "*could not*
11 *possibly cover the effects of inflation.*" That assessment which is offered without the
12 support of any detailed examination of the Company's costs of service and earned
13 returns warrants little weight in the Commission's assessment of the effectiveness of
14 traditional regulation. Cost inflation is just one of many factors that must be
15 considered in assessments of the adequacy of the Company rates.

16 All other things being equal, a 0.5% increase in revenue over a period of
17 roughly eight years would not appear to be adequate, in and of itself, to offset the
18 effects of inflation. Moreover, such a result eight years after the Company's last
19 base rate case was likely a contributing factor to the Company's ultimate decision to
20 file its pending rate increase application. But, for the Company to have been able to
21 continue its operations for eight years without the need to request a base rate

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 increase should be viewed as demonstrating the strength of the Commission's
2 current ratemaking practices, not an indictment of traditional ratemaking.

3 The more interesting question in the face of what appears to be limited
4 revenue growth is: how was the Company able to operate for so many years without
5 filing for base rate increase? I submit that the answer can be found in other factors
6 that witness Simpson did not attempt to consider. As explained further below,
7 significant components of the Company's costs of service are not subject to inflation.

8 In some instances, key elements of a utility's costs may decline between rate
9 cases. For example, reductions in interest rates and changes in capital structure
10 from rate year levels in the Company's last base rate case may have aided the
11 Company's effective earnings. Furthermore, if financial market conditions suggest
12 that the filing of a base rate case is likely to result in a lowering of the Company's
13 authorized return on equity and overall rate of return, an LDC may face an inherent
14 disincentive for filing a base rate case. Only when the LDC's effective rates of
15 return fall to a level at or below the range of returns it might expect the Commission
16 to approve in a new proceeding will such a disincentive be overcome.

17 Thus, witness Simpson's cursory assessment of the workings of traditional
18 regulation has no merit and should be disregarded.

19
20 **Q. DOES UTILITY RATEMAKING THEORY SUGGEST OR MANDATE THAT**
21 **UTILITY BE ENTITLED TO A FIXED AMOUNT OF REVENUE PER CUSTOMER**

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **BASED ON REGULATORY DETERMINATIONS IN ITS MOST RECENT BASE**
2 **RATE PROCEEDING?**

3 A. No. As explained above, ratemaking involves a large number of revenue and cost
4 considerations, and a simple observation that use per customer has declined offers
5 little insight regarding the adequacy of an LDC's revenues and earned returns.

6

7 **Q. AT PAGE 23-24 OF HIS REBUTTAL WITNESS SIMPSON DISCUSSES A HYPO-**
8 **THETICAL LDC AND SUGGESTS THAT UNDER TRADITIONAL RATEMAKING,**
9 **PRUDENT COST MANAGEMENT MAY ENABLE A COMPANY TO AVOID A**
10 **RATE FILING FOR A SHORT PERIOD OF TIME, BUT IT COULD NOT AVOID A**
11 **RATE CASE FOR VERY LONG. DO YOU HAVE ANY COMMENTS REGARDING**
12 **THIS PORTION OF HIS TESTIMONY?**

13 A. Yes. Witness Simpson's discussion overlooks two salient features of his example.

14 First, prudent cost management is exactly what sound regulatory policies
15 should encourage among LDCs. If the absence of revenue decoupling inspires
16 greater exercise of prudent cost management, then it is accomplishing one of its
17 most important objectives. On the other hand, if the type of revenue decoupling that
18 NG seeks to employ lessens incentives for prudent cost management, then this
19 Commission must conclude that implementation of such a mechanism is incon-
20 sistent with one of the most basic goals of regulation and potentially detrimental to
21 ratepayer interests.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Second, substantial portions of an LDC's costs are not subject to inflation.
2 For example, interest on long-term debt, equity return requirements, depreciation,
3 and taxes do not necessarily increase directly with inflation. In fact, in recent
4 periods, declines in interest rates have yielded decreased interest expense for many
5 LDCs. Thus, the focus the Company's revenue decoupling proposal places on the
6 revenue component of ratemaking does not provide adequate or appropriate
7 consideration of potentially offsetting changes in the Company's overall costs of
8 service.

9 In essence, NG's revenue decoupling proposal in this proceeding represents
10 a form of "single issue ratemaking." The only difference is that the focus is on a
11 single element of revenue generation as opposed to a single element of the utility's
12 costs of providing service. When a filing is made for a revenue decoupling
13 adjustment to rates, the only factors considered are changes in usage and impacts
14 on revenue. Changes in the LDC's financing costs and costs of operation are not
15 considered. A strength of the traditional ratemaking process is that it provides a
16 forum in base rate proceedings for a more holistic review of a utility's costs and
17 revenues.

18
19 **Q. AT PAGE 26 OF HIS REBUTTAL, WITNESS SIMPSON SUGGESTS THAT YOU**
20 **HAVE IGNORED SUBSTANTIAL INCREMENTAL COSTS ASSOCIATED WITH**
21 **NEW SERVICES, RISERS, AND METERS IN YOUR ASSESSMENT OF THE**

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **COMPANY’S NEED FOR PROPORTIONAL INCREASES IN REVENUE AS IT**
2 **ADDS NEW CUSTOMERS. IS HE CORRECT?**

3 A. No. I explicitly considered such incremental investments required for such
4 equipment. However, given the comparative size of the Company’s investment in
5 mains and the Company’s mains-related operating and maintenance expenses that
6 would be avoided, I concluded that even with the incurrence of those incremental
7 investment expenditures, National Grid can profit from the addition of new
8 customers. Once again, the Company’s arguments and rationales fail to reflect the
9 level of investigation and evaluation necessary to properly support its offered
10 conclusions.

11
12 **Q. HAS WITNESS SIMPSON ACCURATELY PORTRAYED THE EXTENT OF THE**
13 **INDUSTRY’S EXPERIENCE WITH THE TYPE OF REVENUE DECOUPLING THAT**
14 **NG PROPOSES IN THIS PROCEEDING?**

15 A. No. At page 4 of his Rebuttal Testimony, witness Simpson asserts that “*decoupling*
16 *mechanisms have been in effect for more than twenty years,*” but the data provided
17 in Updated Attachment NG-JDS-3 does not support that assertion. If his intent was
18 to indicate that mechanisms such as weather normalization adjustments and
19 declining block rate structures have been used for more than twenty years, I would
20 agree. But, the type of revenue decoupling that NG proposes in this proceeding is
21 not a mechanism for which there is substantial history.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Updated Attachment NG-JDS-3 provides decision dates for regulatory
2 approvals of the revenue decoupling mechanisms for each of 21 LDCs. It also
3 identifies eight other LDCs (including National Grid RI) that have proposed revenue
4 decoupling mechanisms pending regulatory commission consideration). Of the 21
5 identified as having approved revenue decoupling mechanisms, only two have
6 decision dates that reach back beyond the year 2002, and none has as much as a
7 20 year history. Later in witness Simpson's Rebuttal he notes that 15 of the LDCs
8 that have implemented decoupling have had them in place for "*at least one year.*"
9 Of those 15, the majority have only 2-3 years of experience with the operation of
10 those mechanisms. Furthermore, six of the 21 LDCs have had revenue decoupling
11 mechanisms in-place for less than one year. These data suggest a much more
12 limited base of experience with such decoupling mechanisms than witness
13 Simpson's claim - that decoupling mechanisms have been in effect for more than
14 twenty years - might have otherwise implied.

15
16 **Q. DO YOU ACCEPT WITNESS SIMPSON'S REPRESENTATION AT PAGE 11 OF**
17 **HIS REBUTTAL THAT "*IN THE ABSENCE OF DECOUPLING, ... RATE***
18 ***INCREASES WILL RESULT FROM FREQUENT AND EXPENSIVE BASE RATE***
19 ***PROCEEDINGS*"?**

20 **A.** No. Witness Simpson's argument reflects a common but generally unwarranted
21 attack on traditional ratemaking. As I have demonstrated earlier in this testimony,

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 the absence of revenue decoupling mechanisms has not precipitated frequent rate
2 case filings in recent years. Many LDC's, including National Grid RI, have operated
3 for many years without filing for base rate adjustments even though they did not
4 have revenue decoupling mechanisms in-place.

5 More importantly, the suggestion that base rate cases are "expensive" must
6 be placed in perspective. Certainly, significant costs can be incurred to fully litigate
7 a base rate proceeding, but the costs of such proceedings must be considered from
8 a ratepayer perspective. If hypothetically a utility files a request for a \$20 million
9 annual revenue increase but is granted only a \$10 million increase and the costs of
10 litigating the case for all parties total to \$1 million, I would suggest that ratepayers
11 are well served by that \$1 million expenditure. By spending \$1 million, ratepayers in
12 this hypothetical example avoid \$10 million of added utility charges for each year
13 that the resultant rates remain in place. Although the costs of litigating the case may
14 be perceived as large by utilities or outsiders with limited understanding of the rate
15 case process, the litigation of such a case represents a cost-effective expenditure
16 from a ratepayer perspective.

17 Moreover, it is important to dispel the notion that in the absence of base rate
18 filings, costs of regulation disappear. To the contrary, I would suggest that the
19 longer a utility stays out without filing a base rate case, the greater the burden on
20 regulators to maintain appropriate oversight of utility activities.

21

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Q. DOES WITNESS SIMPSON'S REBUTTAL AT PAGES 13-14 PROPERLY
2 CHARACTERIZE THE DIVISION'S LOGIC WITH RESPECT TO REVENUE
3 DECOUPLING, THE COMPANY'S PLANNED RAMP-UP OF GAS EFFICIENCY
4 PROGRAMS, AND THE NEED FOR UTILITY-SPONSORED ENERGY EFFIC-
5 IENCY PROGRAMS?

6 A. No. The logic that witness Simpson attempts to impute to the Division at page 13,
7 lines 18-20, of his Rebuttal, is unfounded and incorrect. The extensive quotations
8 from my Direct Testimony that witness Simpson presents on page 14 of his
9 Rebuttal, as support for his argument, contain:

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1. No suggestion of a tie between the Company's revenue decoupling proposal and its planned ramp-up of gas efficiency programs; and
2. No statement regarding the need for utility sponsored energy efficiency programs.

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Although I observe in the quoted passages that (a) "*encouragement of energy efficiency is NOT a monopoly service*" and (b) achievement of energy efficiency is not "*dependent on utility-administered programs,*" nothing in my presentation is intended to suggest that utilities cannot serve a productive role in facilitating the deployment of energy efficiency technology and systems. Rather, as I stated early in this testimony, "*for utility-sponsored energy efficiency programs to be most effective, they must be designed and operated in a manner that is integrated with, and not positioned to impede, existing market forces.*"

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

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Q. ARE MOST CUSTOMERS SUFFICIENTLY SOPHISTICATED TO BASE THEIR ENERGY EFFICIENCY DECISIONS ON PROJECTED UTILITY BILL SAVINGS THAT FACTOR PERIODIC BASE RATE INCREASES INTO THEIR PROJECTIONS?

A. No. Witness Simpson’s characterization of the sophistication of customers at page 20 of his Rebuttal is inconsistent with anything I have experienced in decades of work with large numbers of gas utility customers covering a substantial range of service requirements and sophistication. In my experience, I have found less than a handful of customers (even considering those that are associated with large firms with nationwide operations) that would even attempt to forecast periodic base rate increases for gas utilities. Most rely on whatever limited guidance they can obtain from their local LDC. Yet, most LDCs provide little advance notice to customers of the anticipated frequency or magnitudes of planned or potential future base rate increase requests. Thus, I find it highly unlikely that any significant number of customers in National Grid’s Rhode Island gas service territory include projections of future base rate increases in their assessments of the economics of energy efficiency investment decisions.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **Q. WITNESS SIMPSON ASSERTS AT PAGE 45 OF HIS REBUTTAL THAT “THE**
2 **COMPANY DOES NOT HAVE A DISINCENTIVE TO PROMOTE ENERGY**
3 **EFFICIENCY TO [NON-FIRM] CUSTOMERS.” DO YOU AGREE?**

4 **A.** No. Although I may disagree with NG regarding the importance of disincentives for
5 the Company to promote energy efficiency for its Firm Service rate classifications, I
6 find NG’s disincentives to promote energy efficiency are clear and compelling. Due
7 to the opportunity that the current value of service pricing provides for NG to
8 participate in margin sharing, the Company unquestionably has a substantial
9 disincentive to encourage reductions in Non-Firm gas use. Unlike its Firm Service
10 for which volumetric use must be considered in the recovery of costs to provide
11 service before profitability is affected, NG’s share of margins associated with Non-
12 Firm customers’ gas use volumes flow directly to the Company’s bottom line and is
13 not considered in calculations relating to its earned return for ratemaking purposes.
14 Thus, I submit that the Division’s proposal to terminate the Company’s participation
15 in the sharing of revenue margins would have the effect of removing the
16 disincentive noted above.

17

18

19 **Q. AT PAGE 46 OF WITNESS SIMPSON’S REBUTTAL, HE DISCUSSES YOUR**
20 **SUGGESTED APPLICATION OF LIMITS ON THE SIZE OF REVENUE**

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **DECOUPLING RATE ADJUSTMENTS. DOES HIS REBUTTAL ACCURATELY**
2 **PORTRAY THE INTENT OF YOUR PROPOSAL?**

3 A. No, it does not. My direct testimony explicitly states:

4
5 *Under this rate adjustment limitation, any portion of a computed*
6 *revenue adjustment for a class which exceeds the equivalent of 5% of*
7 *the class distribution revenue requirement as determined by the*
8 *Commission in the Company's most recent base rate proceeding*
9 *would be deferred for recovery through the next computed RPC*
10 *adjustment for the applicable rate class.*⁴
11

12 My suggestion that limits be placed on the size of revenue decoupling rate
13 adjustments were intended to result in the deferral of any amounts in excess of the
14 suggested 5% cap for recovery in the subsequent period. It was not intended to
15 limit or impede the Company's ultimate recovery of computed revenue adjustment
16 amounts.

17
18 Q. **AT PAGES 47-48 OF WITNESS SIMPSON'S REBUTTAL, HE SUGGESTS THAT**
19 **"THE COMMISSION SHOULD HAVE THE REGULATORY FLEXIBILITY" TO**
20 **DETERMINE THE NEED FOR A LIMIT ON DECOUPLING-RELATED RATE**
21 **CHANGES AT ANY PARTICULAR POINT IN TIME." DO YOU AGREE?**

22 A. In concept it might be nice for the Commission to retain such flexibility. However,
23 the Company has not suggested a regulatory procedure through which the
24 Commission would be afforded the opportunity to address such issues. The

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Company's proposed Revenue Decoupling Mechanism (RDM) Factor does not
2 provide for the Commission's exercise of such discretion. Rather, that section of the
3 Company's Distribution Adjustment Clause ("DAC") simply provides for the
4 computed RDM factor to be included in full, as calculated in NG's overall DAC
5 charge. For the Commission to be able to exercise the type of discretion that
6 witness Simpson suggests, the Company's proposed tariff language would need to
7 be amended. In addition, the exercise of Commission discretion regarding limits on
8 decoupling rate adjustments on a case-by-case basis could require a different
9 determination for each rate class in each subsequent DAC proceeding. That
10 approach could add substantially to the time and resources required for investigation
11 and litigation of those adjustments within DAC proceedings. Thus, I suggest that, if
12 the Commission should be inclined to allow the Company to implement its proposed
13 RDM (a position that I do not advocate), it would be more efficient for the
14 Commission to make a determination regarding appropriate limits for such
15 adjustments in this proceeding.

16
17 **Q. WITNESS SIMPSON ALSO SUGGESTS THAT THE METHOD YOU PROPOSE**
18 **TO COMPUTE LIMITS ON RDM ADJUSTMENTS IS INAPPROPRIATE. SHOULD**
19 **THE COMMISSION ACCEPT HIS CRITICISMS OF YOUR PROPOSAL?**

⁴ July 25, 2008 Direct Testimony of Division witness Bruce R. Oliver at page 18.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 A. No. Witness Simpson asserts at page 48 of his Rebuttal that, *“if a limit is to be*
2 *established, the calculation of the limit should reflect customer impacts, which are*
3 *based on customers’ total bills, not the distribution portion of their bills.”* I cannot
4 agree. Witness Simpson’s proposal could result in Transportation Service cus-
5 tomers and Sales Service customers within the same rate classification receiving
6 significantly different adjustments, since total bills for Sales Service customers would
7 include gas costs and total bills for Transportation Service customers do not. Under
8 witness Simpson’s approach, a much higher limit would be set for rate adjustments
9 applied to Sales Service customers. Such a result would be neither reasonable nor
10 equitable. The Company’s proposed RDM adjustments are intended only to
11 address concerns regarding the adequacy of NG’s distribution revenue, and in that
12 context it is inappropriate to introduce gas cost considerations in setting limits on the
13 magnitude of RDM rate adjustments.

14

15 **Q. THE LAST PAGE OF WITNESS SIMPSON’S REBUTTAL TESTIMONY (PAGE 51)**
16 **CONTAINS A COMPARISON OF THE POSITIONS OF THE COMPANY, ENE,**
17 **AND TEC-RI WITH RESPECT TO THE DESIGN OF A DECOUPLING MECH-**
18 **ANISM. DO YOU HAVE ANY COMMENTS REGARDING THAT COMPARISON?**

19 A. Yes. I find that the “No” entry on the first line for the Company reflects a substantial
20 flaw in NG’s proposal that, in and of itself, may constitute sufficient grounds for
21 rejection of that proposal. Although the Company may argue that the “No” entry for

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 its proposal on the last line offsets the first line entry, I would disagree. In its efforts
2 to weigh the importance of such differences, the Commission should give greater
3 weight to equitable treatment of existing gas customers already operating in Rhode
4 Island than it gives to either (1) unspecified firms that might relocate to Rhode Island
5 at some undetermined future point in time or; (2) unidentified potential customers
6 located in Rhode Island who need further enticement beyond that already provided
7 by market economics to convert to use of natural gas.

8 It appears that NG's willingness to put the interests of potential new
9 customers ahead of the interests of existing Large and Extra Large C&I customers is
10 indicative of the net financial gains that the Company perceives it will derive under
11 its proposed decoupling mechanism if it expands its numbers of customers in those
12 service classifications.

13
14 **B. Gas Marketing Program**

15
16 **Q. DOES WITNESS MONGAN'S REBUTTAL ANSWER YOUR CONCERNS RE-**
17 **GARDING POTENTIALLY ANTI-COMPETITIVE ASPECTS OF THE COMPANY'S**
18 **GAS MARKETING ACTIVITIES?**

19 **A.** No. If anything, his Rebuttal adds strength to those arguments. His response at
20 pages 22-23 is comprised of:

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

- 1 • A recognition that others have also viewed the Company's marketing
2 activities as potentially anti-competitive;
3
4 • An unsupported assertion that the Company's lead generation
5 program has been of value to contractors in other jurisdictions; and
6
7 • An undocumented and unsupported assertion that its affiliates
8 participate in its lead generation program without any anti-competitive
9 effect or favorable treatment.⁵
10

11 In addition, in witness Mongan's discussion of the Value Plus Installer (VPI)
12 program, he suggests that "*a customer may contact the Company regarding*
13 *replacement of existing hot water or heating equipment.*"⁶ This suggestion that a
14 customer would contact the Company regarding the replacement of equipment when
15 no new or expanded service is required from the utility raises further important
16 questions, such as:

- 17
18 ➤ Is the purported customer contact actually made with a
19 utility representative, a service company employee, or
20 an employee of an appliance marketing or installation
21 affiliate?
22
23 ➤ Does the involvement of National Grid in appliance
24 marketing and/or repair services unduly influence a
25 customer's decision to contact the utility to obtain
26 assistance in the purchase or installation of replacement
27 water heating or space heating equipment?
28

⁵ If it is widely accepted that the Company's affiliates participate without anti-competitive effects, the Commission should question why other parties in all of the Company's other jurisdictions have levied claims of anti-competitive activity.

⁶ Rebuttal Testimony of NG witness Mongan at page 24.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **Q. DOES NATIONAL GRID REBUT YOUR POSITION REGARDING THE INAPPRO-**
2 **PRIATENESS OF THE COMPANY'S PLANS FOR RATEPAYER BACKED**
3 **SATISFACTION GUARANTEES FOR CUSTOMERS WHO CONVERT THEIR**
4 **HEATING SYSTEMS FROM HEATING OIL TO NATURAL GAS?**

5 A. No. It does not.

6

7 **Q. AT PAGES 20-21 OF WITNESS MONGAN'S REBUTTAL TESTIMONY, HE**
8 **ASSERTS THAT ACTUAL SPENDING BY THE NATIONAL OILHEAT INSTITUTE**
9 **("NORA") AND THE OILHEAT INSTITUTE OF RHODE ISLAND ("OIR") IN**
10 **SUPPORT OF OIL DEALERS MARKETING EFFORTS "*FAR EXCEEDS THE***
11 ***\$148,000 REFERENCED BY THE DIVISION.*" DO YOU WISH TO RESPOND?**

12 A. Yes. Although the Company suggests that NORA and OIR spending exceeds the
13 amount referenced by the Division, NG fails to provide any evidence of the total
14 amount of expenditures that has been incurred or can be expected by those
15 organizations for Rhode Island markets on an annual basis. The Company also
16 offers no recognition of the value of essentially free advertising that it has received
17 through recent media articles regarding recent customer conversions from heating
18 oil to natural gas.⁷

19

⁷ See for example the Providence Journal August 21, 2008 article titled, "Making The Switch: Home Heating Oil Versus Natural Gas."

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **Q. WOULD YOU PLEASE COMMENT ON THE CONTENT OF WITNESS MONGAN'S**
2 **ATTACHMENT NG-SPM-REBUTTAL-2?**

3 **A. The data provided in witness Mongan's Attachment NG-SPM-Rebuttal-2 is of little**
4 **relevance to this proceeding.**

5 The pricing data included in that attachment reflects average prices for New
6 England, not Rhode Island specific data. This is particularly important with respect
7 to natural gas pricing since the Company's Gas Procurement Plan has generally
8 maintained natural gas costs for Rhode Island consumers at levels below those for
9 most of the LDCs in neighboring states. As a result, use of New England data for
10 natural gas prices will generally overstate the natural gas prices that Rhode Island
11 consumers actually face.

12 The use of New England data, as opposed to data for Rhode Island also
13 appears to understate the applicable residential heating oil price. Weekly retail
14 residential heating oil data published by U.S. Energy Information Administration
15 ("EIA") reflects residential heating oil prices for Rhode Island that are generally
16 somewhat above New England average prices for residential heating oil.

17 Also, it should be noted that the most recent actual data available from the
18 EIA only covers the period through March 2008. Thus, all of the energy price
19 developments over the last few months are not reflected. The data graphed in
20 Attachment NG-SPM-Rebuttal-2 for months subsequent to March 2008 reflect
21 projections, not actual experience.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Witness Mongan's attachment also purports to convert natural gas prices to
2 dollars per gallon equivalent prices but uses an incorrect Btu value for an Mcf of gas
3 in making that conversion. The footnote at the bottom of the attachment indicates
4 that a Mcf of gas was assumed to have 1,000,000 Btus. But that is the heat content
5 of a dekatherm of natural gas. Based on the Company's most recent BTU Factor
6 Filing, dated March 13, 2008, a Mcf of gas delivered in Rhode Island has an average
7 heat value of 1,026,000 Btus. This alone causes the natural gas prices presented
8 in Attachment NG-SPM-Rebuttal-2 to be overstated by about 2.5%.

9
10 **Q. DO YOU HAVE ANY FURTHER CONCERNS REGARDING INFORMATION**
11 **PRESENTED IN ATTACHMENT NG-SPM-REBUTTAL-2?**

12 **A.** Yes. Although that attachment purports to present "delivered" prices for natural gas,
13 heating oil, and propane, "delivered" prices do not reflect the full end-use cost to the
14 consumer for heating oil. A natural gas customer receives gas as needed by
15 pipeline and pays for it under billing and payment terms that lag after well after
16 consumption of the fuel. A heating oil customer must procure oil supplies in
17 advance of consumption, store supplies until needed, incur effective carrying costs
18 on the fuel maintained in storage tanks, and incur added costs for periodic
19 inspection and maintenance of storage tanks. Furthermore, use of heating oil, at
20 least in commercial operations, often requires the user to incur added operation and
21 boiler maintenance costs. These factors, which add to the effective costs of heating

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 oil use, are not considered in the comparisons presented in Attachment NG-SPM-
2 Rebuttal-2.

3

4 **Q. HAVE NYMEX FUTURES PRICES FOR NATURAL GAS AND HEATING OIL**
5 **CHANGED SINCE YOU PREPARED YOUR DIRECT TESTIMONY FOR THIS**
6 **PROCEEDING?**

7 A. Yes. After a sharp run-up in energy prices in late June and early July of this year,
8 both natural gas and heating oil prices have experienced an equally precipitous
9 decline. However, while NYMEX heating oil prices for the coming winter months
10 have declined on average by about 25%, NYMEX natural gas prices for the same
11 months have fallen by more than 35%. Thus, the difference in the relative costs of
12 natural gas and heating oil has grown even as overall prices have declined.

13 I recognize that NYMEX futures prices do not translate directly into retail
14 prices for either heating oil or natural gas, but expansion of differentials between
15 those prices in NYMEX markets does tend to influence the price differentials
16 observed in retail markets. Given the general trend toward growth in the NYMEX
17 price differentials between natural gas and heating oil, oil dealers are likely to find
18 increasing competition from natural gas, and oil heat customers are likely to find the
19 economics of conversion to natural gas increasingly attractive.

20

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 C. Rate Structure Issues

2

3 **Q. DO YOU ACCEPT THE COMPANY'S PROPOSAL OF NG WITNESS CZEKANSKI**
4 **AT PAGE 3 OF HIS REBUTTAL THAT THE COMMISSION SHOULD LIMIT THE**
5 **SCOPE OF THE NON-FIRM PRICING ISSUES THAT IT WILL ADDRESS IN THIS**
6 **PROCEEDING TO A SINGLE POLICY ISSUE AND REQUIRE THE PARTIES TO**
7 **WORK COLLABORATIVELY TO FINALIZE THE SPECIFICS OF NON-FIRM**
8 **TARIFF PROVISIONS AND PROCEDURES FOR COMMISSION CONSIDERA-**
9 **TION IN A LATER PROCEEDING?**

10 **A. No. I cannot support that proposal for several reasons.**

11 First, the Company had substantial forewarning that non-firm pricing issues
12 would be a topic of considerable focus in this proceeding.

13 Second, a decision to address only the policy issue regarding the recom-
14 mended discontinuation of value-of-service pricing at this time would deny Non-Firm
15 customers a timely consideration of their appeals for relief from a pricing system that
16 has many such customers paying charges for Non-Firm Service that are well in
17 excess of charges for otherwise applicable Firm Service alternatives. That, in turn,
18 may further complicate efforts to resolve the "details" of the remaining Non-Firm
19 Service issues, by encouraging further migration of Non-Firm customers and service
20 volumes to Firm Service rates and creating added uncertainty regarding the
21 composition of the Non-Firm Service class.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 Third, numerous determinations in this proceeding are intertwined with the
2 Commission's determinations regarding the pricing of non-firm services. As a result,
3 a decision to address only the value-of-service pricing policy issue in this proceeding
4 may substantially encumber the parties' ability to address and resolve key elements
5 of Non-Firm Service issues either through a collaborative process or through non-
6 base rate case litigation.

7 Fourth, if the Commission defers consideration of all Non-Firm Service issues
8 other than the value-of-service pricing policy issue, the Company will be a primary
9 beneficiary of that decision since it would allow NG to continue its unnecessary and
10 unjustifiable retention of substantial Non-Firm revenue margins for the below-the-
11 line benefit of its shareholders.

12 Thus, I recommend that any decision to create such a bifurcation of Non-Firm
13 Service issues and limit the scope of the Non-Firm Service issues to be addressed
14 in this proceeding should be accompanied by a directive for NG to immediately
15 terminate its participation in the sharing of Non-Firm revenue margins. I also
16 suggest that, if the Non-firm issues in this case are bifurcated, the Commission
17 should facilitate the subsequent resolution of the remaining Non-Firm Service issues
18 by only authorizing temporary rates at the conclusion of this phase of the
19 proceeding, with permanent rates to follow only after the Commission has
20 addressed and resolved all presently pending Non-Firm Service issues.

21

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 **Q. DO YOU AGREE WITH WITNESS CZEKANSKI'S ASSESSMENT THAT THE**
2 **COMPANY'S ACTUAL COST OF PROVIDING NON-FIRM SERVICE IS MINIMAL?**

3 **A.** No, I do not. The rationales that witness Czekanski offers in support of that
4 assessment are inconsistent with the manner in which the Company has allocated
5 distribution mains costs in its class cost of service analyses for this proceeding.
6 Moreover, as I explained in my Direct Testimony in this proceeding, I find substantial
7 reason to conclude that NG's filed cost of service study most likely understates the
8 cost responsibilities for the types of Large and Extra Large C&I customers that
9 comprise the Non-Firm Service class.

10

11 **Q. WOULD YOU PLEASE RESPOND TO WITNESS CZEKANSKI'S DISCUSSION**
12 **OF THE RATIONALES FOR VALUE OF SERVICE PRICING AT PAGE 16-17 OF**
13 **HIS REBUTTAL?**

14 **A.** Witness Czekanski's discussion fails to present a well-developed explanation of the
15 origins of value-of-service pricing and factors that led to its application to non-firm
16 gas service customers. He also demonstrates a lack of appreciation of the
17 significance of the market changes that have been experienced over the last quarter
18 of a century.

19 Utilities and regulators did not simply decide that they wanted to maximize the
20 value extracted from non-firm service customers. Rather, their efforts to maximize

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 the value derived from service provided to non-firm customers reflected a response
2 to market conditions which threatened utilities' earnings at the time.

3 Prior to the movement toward value-of-service pricing in the 1980s, gas
4 utilities generally had fixed rates for non-firm services that were based on the results
5 of the same cost allocation studies relied upon in the establishment of revenue
6 requirements and design rates for firm service rate classes. In the base rate cases,
7 a portion of the utility's overall revenue requirement was assigned to non-firm
8 service classifications, and utilities were generally not free to redistribute those
9 revenue requirements among classes outside of a base rate case.

10 Value-of-service pricing mechanisms were implemented for a number of gas
11 utilities in the early to mid-1980s to address concerns regarding growing competition
12 from declining fuel oil prices. In an environment where utility gas supply options
13 were limited (i.e., there was no open access to interstate pipelines or wellhead gas
14 supplies) and bundled prices for natural gas service were being maintained at
15 artificially high levels as the result of "take-or-pay contracts" to which their interstate
16 pipeline suppliers had committed, LDC's were faced with significant uncertainties
17 regarding the service volumes and revenues that gas utilities could expect to derive
18 from non-firm service customers with dual fuel capabilities.⁸ In other words, faced
19 with a growing competitive disadvantage associated with the pricing of gas supplies
20 and the potential loss of significant non-firm service volumes, LDCs could no longer

⁸ In fact, during the late 1970s many gas utilities that were faced with growing demands and limited gas supplies, actually encourage significant numbers of firm customers to install alternate fuel capability.

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 rely on sales of non-firm service to meet their regulated revenue requirements. In
2 that context, value-of-service pricing was deemed to be a workable alternative.
3 However, those conditions no longer prevail. Utility services for most large firm and
4 non-firm customers have been unbundled, there are well-established competitive
5 markets for natural gas supply services, and the perceived historic tendency toward
6 parity between prices for natural gas and fuel oil on a cost per Btu basis has been
7 broken.

8
9 **Q. DO YOU HAVE ANY COMMENTS REGARDING WITNESS CZEKANSKI'S**
10 **SUGGESTION AT PAGES 19-20 OF HIS REBUTTAL THAT THE SYSTEM IS**
11 **BETTER SERVED WHEN CUSTOMERS TAKE FIRM SERVICE THAN NON-FIRM**
12 **SERVICE?**

13 **A.** Yes. Witness Czekanski's testimony effectively re-invents the definition of non-firm
14 service. Non-firm service has traditionally been viewed as a tool for increasing
15 system utilization throughout the year while providing a means for controlling system
16 loads during periods of peak requirements. However, witness Czekanski sees non-
17 firm customers as little more than an instrument for the Company to obtain
18 increased revenue margins, with little if any benefit attributed to the reduction of
19 loads during periods of peak demand. His statement also inappropriately presumes
20 that (1) the system has excess capacity in its mains and other distribution facilities;

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 (2) excess firm gas supply capability during periods of peak demand; and (3) that
2 little or no value is gained from curtailing service to non-firm customers during peak
3 periods.

4 The Company's characterization of non-firm service (as explained by witness
5 Czekanski) places primary focus on a customer's dual-fuel capabilities, regardless of
6 whether their alternative fuels are competitively priced. In doing so, the Company
7 actually does much to highlight the manner in which the Company uses its non-firm
8 customers, not to manage system loads, but to maximize its non-firm margin sharing
9 potential. In concept a customer could be served on a non-firm basis if the
10 customer has the capability to curtail its load upon request regardless of whether it
11 maintains dual fuel capability. But, National Grid focuses first on non-firm
12 customers' alternate fuel capabilities and only secondarily on their load reduction
13 capabilities.

14 Finally, I find that witness Czekanski's rationales for assessing the
15 Company's costs of providing non-firm service are inconsistent with those NG has
16 relied upon in the development of its filed class cost of service study in this
17 proceeding. As a result, his conclusions are flawed and misleading. In particular,
18 the RSUM methodology that NG uses to allocate mains costs among rate classes
19 apportions mains-related costs (i.e., the largest components of the Company's rate
20 base and operating expenses) to classes based on a weighting of their gas use by
21 month. Under that methodology, all classes bear a portion of mains-related costs
22 regardless of whether they have usage during peak periods. Witness Czekanski's

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 rationales, on the other hand, are premised on the notion that the cost of such
2 facilities and associated operating expenses must be borne by peak users.

3
4 **Q. AT PAGE 10 OF WITNESS CZEKANSKI'S REBUTTAL, HE RAISES CONCERNS**
5 **THAT DUAL FUEL CUSTOMERS MIGHT BYPASS THE COMPANY'S SYSTEM.**
6 **DO YOU SHARE THOSE CONCERNS?**

7 **A. No. Witness Czekanski has offered no evidence of actual or threatened by-pass to**
8 **support his arguments.**

9
10 **Q. DO YOU AGREE WITH WITNESS CZEKANSKI THAT THE COMPANY IS**
11 **ENTITLED TO RECOVER ALL REASONABLE AND PRUDENDLY INCURRED**
12 **COSTS FROM CUSTOMERS THROUGH RATES?**

13 **A. In general, I do. However, in this instance witness Czekanski fails to address the**
14 **interrelated nature of the proposed Low Income Discount rates and the reason-**
15 **ableness of NG's claimed uncollectible accounts expense. With the introduction of**
16 **Low Income rate discounts, NG's expected uncollectible accounts expense will be**
17 **reduced from otherwise expected levels, and that reduction warrants a cost-based**
18 **adjustment to the Company's rate year revenue requirement. The methodology that**
19 **the Division proposes for recognizing this key change in NG's uncollectible expense**
20 **is reasonable and appropriate, and assuming the Low Income Discount is approved,**
21 **it will reflect a known change in the structure of NG's rate year costs.**

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 In this context, I must emphasize that it is the Company that has chosen to
2 propose Low Income rate discounts in this proceeding, and the Company will be a
3 primary beneficiary of reductions in uncollectible accounts expenses that will result
4 from that offering. Further, the Commission must recognize that the offered rate
5 discounts are targeted at the portion of the Company's customer base that tends to
6 have the highest incidence of uncollectible accounts. Thus, unlike programs that are
7 offered generally to all customers, the proposed Low Income Discount Rates can be
8 expected to directly impact the Company's uncollectible expenses.

9
10 **Q. PLEASE RESPOND TO WITNESS CZEKANSKI'S TESTIMONY AT PAGES 22-23**
11 **OF HIS REBUTTAL THAT ADDRESSES YOUR RECOMMENDATION THAT THE**
12 **COMMISSION SHOULD DISALLOW COSTS ASSOCIATED WITH THE**
13 **COMPANY'S GAS MARKETING PROGRAM.**

14 **A.** Witness Czekanski suggests that if the Commission does not allow the Company's
15 proposed Gas Marketing Program Costs, it should also remove the Company's
16 projected load growth. The implication of witness Czekanski's testimony is that
17 without customer outreach and education the projected load growth will not
18 materialize. Yet, the media is filled with both reports of customers converting from
19 oil heat to gas heat and the advertisements from vendors that tout the substantial
20 economic advantages that can be gained from such conversions. As I noted in my
21 Direct Testimony, the differential between oil prices and natural gas prices has

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 grown sharply in recent years such that the economic advantages of converting to
2 natural gas heating are, in and of themselves, providing substantial incentive for
3 customers to invest in conversions. In that context, it does not require a substantial
4 marketing effort to acquire new customers. Moreover, witness Czekanski's claims
5 that the Company's projected load growth is dependent upon its marketing program
6 are, at best, overstated and premised on flawed rationales.

7
8 **Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE COMPANY'S**
9 **PRICING OF NON-FIRM SERVICE?**

10 A. Yes, information contained in the recently provided updates to the Company's
11 responses to Division Data Requests DIV 6-24 and 6-25 indicate that over the past
12 two winters there has been rather frequent unauthorized use of gas by Non-Firm
13 Service customers during periods of service curtailments. Over 60 such incidents
14 have occurred. Having examined similar information regarding non-compliance with
15 curtailment requests for non-firm customers served by other gas utilities, I find the
16 reported frequency of non-compliance events to be unusually high.

17 The frequency of such incidents of non-compliance with curtailment requests
18 suggests that the Commission may need to investigate the factors that are
19 contributing to the level of non-compliance that the Company has experienced over
20 the past two winters. Although the current penalties for unauthorized gas use that
21 are set forth in the Company's tariff provide for such unauthorized gas use to be

SURREBUTTAL TESTIMONY OF BRUCE R. OLIVER
Docket No. 3943
August 29, 2008

1 billed at “5 times the Daily Index rate”, it is possible that changes in the pricing of
2 natural gas and alternate fuels in recent years have rendered that penalty
3 ineffective. If the concept of non-firm service is to be meaningfully and effectively
4 employed, frequent non-compliance with curtailment requests must be eliminated.
5 Moreover, it is somewhat troubling that the Company has not acted on its own
6 initiative to bring this problem to the Commission’s attention.

7

8 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

9 **A.** Yes, it does.