

BEFORE THE
RHODE ISLAND PUBLIC UTILITY COMMISSION

DOCKET NO. 4065

SURREBUTTAL TESTIMONY

OF

RICHARD S. HAHN

INVESTIGATION AS TO THE PROPRIETY OF PROPOSED TARIFF CHANGES FOR
NARRAGANSETT ELECTRIC COMPANY

ON BEHALF OF THE
RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

OCTOBER 27, 2009

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1 **I. INTRODUCTION**

2 **Q. Please identify yourself for the record.**

3 A. My name is Richard S. Hahn. I am a Principal Consultant for La Capra
4 Associates, Inc. (“La Capra Associates”). My business address is La Capra
5 Associates, One Washington Mall, Boston, MA 02108.

6 **Q. On whose behalf are you testifying?**

7 A. The Rhode Island Division of Public Utilities and Carriers (“Division”).

8 **Q. Have you previously testified in this proceeding?**

9 A. On September 15, 2009, I filed direct testimony in the proceeding on behalf of the
10 Division.

11 **Q. What is the purpose of your testimony in this proceeding?**

12 A. La Capra Associates has been retained by the Division to review and comment on
13 the petition submitted by Narragansett Electric Company (“Narragansett” or the
14 “Company”) to the Rhode Island Public Utilities Commission (“Commission”)
15 for approval of their proposed rate increase and cost recovery mechanisms. My
16 surrebuttal testimony responds to the Rebuttal testimony of Mr. Pettigrew. If I do
17 not respond to a particular issue, that lack of a response should not be construed
18 as concurrence with the position taken by the Company in its rebuttal testimony.

19 **II. SUMMARY**

20 **Q. What do you recommend as a result of your review of the Company’s**
21 **rebuttal testimony?**

1 A. In my direct testimony, I made several recommendations regarding the proposed
2 Inspection and Maintenance (“I&M”) Program, the Vegetation Management
3 Program, and the Capital Spending Program. Based upon my review of the
4 Company’s rebuttal testimony, I see no new information that would cause me to
5 alter those recommendations. I repeat those recommendations below.

6 ■ I recommend that the proposal for a separate surcharge for the I&M Program
7 and the Vegetation Management be rejected, primarily because of their small
8 size relative to the overall scale of the Company’ operations, plus the fact that
9 these programs appear to have been implemented several years ago. The
10 scope of the proposed I&M and Vegetation Management plans are well within
11 the purview of the Company’s management. If the Company believes that
12 these plans will improve its operations, then it should implement them.
13 Management does not need pre-approval from the Commission, nor special
14 cost recovery mechanisms, for such activities.

15 ■ The Commission should reject the Company’s suggestion that a large increase
16 in capital spending is driving the need for an adjustment to test year costs and
17 a capex tracking cost recovery mechanism. Given that the Company has not
18 proposed an increase in capital spending over 2008 test year levels, there does
19 not appear to be a specific need for the proposed adjustment to test year costs
20 or the special capex tracking mechanism in the decoupling proposal. I
21 recommend that these requests not be approved.

22 **III. THE COMPANY’S REBUTTAL TESTIMONY**

1 **Q. Please describe the issues raised in the Company’s rebuttal testimony that**
2 **you wish to respond to.**

3 A. The rebuttal testimony of Mr. Pettigrew addresses the issues of the I&M Program,
4 the Vegetation Management Program, and the Capital Spending Program.

5 Regarding the I&M Program, the rebuttal testimony of Mr. Pettigrew admits that
6 the proposed I&M Program involves similar activities as the former Feeder
7 Hardening Program. He states that the nuance associated with the proposed I&M
8 Program is that these activities will be done on a larger scale.¹ Under the
9 proposed I&M Program, it appears that every Company distribution asset will be
10 inspected every five years. Exhibit NG-JP-R-1 purports to provide a more
11 detailed description of the proposed I&M Program. Mr. Pettigrew disagrees with
12 my recommendation that, if the costs associated with an expanded I&M Program
13 are to be recovered via a surcharge, only incremental costs be included.

14
15 Regarding the proposed Vegetation Management Program, Mr. Pettigrew’s
16 rebuttal testimony claims that this program is different from past activities in two
17 ways. The new program utilizes “a formal hazard tree mitigation program, which
18 was built using hazard tree specifications and intensive field training”. And a
19 “new contract strategy method was executed to ensure market value prices for
20 Vegetation Management activities”. Mr. Pettigrew refers to the increase in
21 Vegetation Management activities as “known and measureable” changes. He also

¹ See page 5 of 25 of Mr. Pettigrew’s Rebuttal testimony

1 amends his direct testimony by stating that the Company does not seek a special
2 tracking mechanism for vegetation management costs. The Company continues
3 to seek an upward adjustment in test year costs for these activities.

4
5 Regarding the Capital Spending Program, the rebuttal testimony of Mr. Pettigrew
6 continues to seek an upward adjustment of test year costs for the revenue
7 requirements associated with the proposed increased capital spending. Mr.
8 Pettigrew disagrees with my finding that such an increase in capital spending isn't
9 warranted at this time. He doesn't dispute that reliability in Rhode Island has
10 been very good, but claims that a dramatic increase in capital spending is needed
11 to maintain that reliability. He continues to maintain that age is a useful proxy to
12 indicate which assets will be less able to perform their function.

13 **IV. THE INSPECTION AND MAINTENANCE PROGRAM**

14 **Q. How do you respond to the Company's rebuttal testimony on the issue of the**
15 **proposed I&M Program?**

16 A. I continue to have concerns about the I&M Program as proposed by the Company.
17 The Company does not dispute that its reliability is high in Rhode Island, nor does
18 it dispute that it has previously expended significant funds and implemented
19 programs that have improved the quality and reliability of its distribution assets.
20 For example, the Feeder Hardening program resulted in significant expenditures
21 and an improvement in system reliability. Yet, after having made these
22 improvements, the Company proposes to inspect every distribution asset every

1 five years. This would seem to cover circuits that have been recently upgraded
2 under the Feeder Hardening program and other investments made by the
3 Company. It isn't clear to me why a circuit that has been recently upgraded under
4 the Feeder Hardening program needs to be inspected within the next five years.
5 Electric distribution assets have very long lives, so inspecting a newly refurbished
6 feeder may not be the best use of funds. Similarly, according to page 16 of Mr.
7 Pettigrew's rebuttal testimony, the Company's distribution poles in Rhode Island
8 range in age from 1 year to over 100 years with an average age of 34 years and
9 expected lives of 30 to 50 years². It is equally unclear to me why the Company
10 needs to inspect utility poles that are less than 30 years old, which constitute 57%
11 of the pole asset base. Rather than inspecting every pole every five years, it might
12 more sense to inspect those utility poles that are greater than 50 years old. If age
13 is a proxy for the ability of an asset to perform, as the Company suggests, then a
14 more targeted I&M program based on asset age would seem to be more cost-
15 effective. Such an approach could yield a continuation of high reliability at the
16 same or lower costs than the Company has spent recently.

17
18 In Exhibit NG-JP-R-1, Mr. Pettigrew attempts to provide a more detailed
19 description of the proposed I&M Program. This document is dated September
20 2009, so it appears that it was created after the filing of Mr. Pettigrew's direct

² I note that page 16 of Mr. Pettigrew's rebuttal testimony lists 612,820 poles in Rhode Island, whereas page 6 references 295,000 poles. This discrepancy has not been explained.

1 testimony and my direct testimony. Unfortunately, this document does little more
2 than describe the inspection cycles of three to five years.

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4 In Exhibit RSH-3 of my direct testimony, I provided historic data that showed that
5 the Company's distribution O&M increased by 26% in 2008 compared to 2006 to
6 2007. In spite of this large increase, the Company asserts that it needs to spend
7 more on O&M related activities.

8 **Q. Has the Company demonstrated that it cannot adequately inspect its**
9 **distribution system without the requested test year adjustment and special**
10 **tracking mechanism for its I&M Program?**

11 A. No. the Company has not offered any evidence that suggests that it cannot
12 perform adequate inspections of its assets.

13 **Q. What do you recommend to the Commission?**

14 A. I do not object if the Company wishes to increase spending on its I&M Program.
15 As I stated in my direct testimony, the scope of the proposed I&M plan is well
16 within the purview of the Company's management. If the Company believes that
17 this plan will improve their operations, then they should implement it. Indeed, it
18 can be argued that the Company should have been doing, and has been doing, this
19 type of program all along. Management does not need pre-approval from the
20 Commission, nor special cost recovery mechanisms, for such activities. The
21 Company has not provided adequate justification for the proposed increased in
22 spending on I&M activities. System reliability today is good, so the current test

1 year level of spending seems to be producing good results. The amount that will
2 be spent is somewhat speculative, and does not appear to be the kind of known
3 and measurable change that is normally included as a pro forma adjustment to
4 historic test year data. Given its small size relative to the overall scale of the
5 Company's operations, I recommend that the proposal for a separate surcharge for
6 this program be rejected.

7 **V. THE VEGETATION MANAGEMENT PROGRAM**

8 **Q. Please respond to the Company's rebuttal testimony on the issue of the**
9 **proposed Vegetation Management Program.**

10 A. Mr. Pettigrew's rebuttal testimony claims that this program is different from past
11 activities in two ways. The new program utilizes "a formal hazard tree mitigation
12 program, which was built using hazard tree specifications and intensive field
13 training". And a "new contract strategy method was executed to ensure market
14 value prices for vegetation management activities".

15
16 As I understand these differences, National Grid is proposing to schedule its
17 circuit pruning activities on a circuit-based approach dictated by need, rather than
18 random scheduling on a town-wide basis. They also appear to use a model to
19 estimate which circuits are most vulnerable to hazard trees. I would expect such
20 approaches, if properly implemented, would improve the effectiveness of the
21 existing Vegetation Management budget. Blanketing an entire town with tree
22 crews, whether or not the circuits in that town require pruning, could be less

1 efficient than the circuit-based, needs driven approach. Thus, I would expect the
2 Company's enhanced Vegetation Management Program to perform more effective
3 tree trimming with less or the same cost. The new contracting approach to ensure
4 "market prices" for tree trimming seems to be the same as using competing
5 bidding to obtain the services of external tree crews. I would have hoped and
6 expected the Company to already have been using such competitive solicitations
7 in the past, so it is difficult to see where this is an actual improvement.

8 **Q. Is the Vegetation Management Program a known and measurable change, as**
9 **Mr. Pettigrew asserts?**

10 A. No. The amount spent on Vegetation Management is discretionary each year.

11 For example, on page 5 of the attachment to DIV-14-1-1, it states as follows:

12 *"Secondly, in all four states, the distribution pruning program has been*
13 *subject to variable levels of funding. In the New England states, there*
14 *have been some fairly lean budget years where that amount of funding for*
15 *mileage pruning could only have produced the equivalent of an eight to*
16 *nine year cycle."*

17 This clearly shows that the Company changes the amount spent on Vegetation
18 Management activities each year in response to situations such as lean budgets.

19 The concern here is that, if an upward adjustment is included in the test year cost
20 of service, retail electric delivery rates will be set including that higher spending.

21 If the Company later reduced that spending level, there would be no way for the

1 Commission or other parties to this proceeding to know if such a reduction in
2 spending had occurred.

3 **Q. What do you recommend to the Commission?**

4 A. I do not object if the Company wishes to increase spending on its Vegetation
5 Management Program. As I stated in my direct testimony, the scope of the
6 proposed Vegetation Management plan is well within the purview of the
7 Company's management. As with the I&M Plan, if the Company believes that
8 this plan will improve their operations, then they should implement it. Indeed, it
9 can be argued that the Company should have been and has been doing this type of
10 program all along. Management does not need pre-approval from the
11 Commission for such activities. The Company has not provided adequate
12 justification for the proposed increased in spending on Vegetation Management
13 activities. System reliability today is good, so the current test year level of
14 spending seems to be producing good results. The amount that will be spent is
15 variable and somewhat speculative, and does not appear to be the kind of known
16 and measurable change that is normally included as a pro forma adjustment to
17 historic test year costs.

18 **VI. THE CAPITAL SPENDING PROGRAM**

19 **Q. Has the Company provided any additional information on its proposed**
20 **increase in capital spending and the requested adjustment to test year costs?**

1 A. The Rebuttal testimony of Mr. Pettigrew attempts to justify the Company's
2 request to include \$20.2 million in forecasted capital additions as an adjustment to
3 the test year costs. His testimony lists \$22.9 million in projects.

- 4 ▪ Load Relief Projects (17% of 2010 budget)
 - 5 Substation Capacity Projects \$5.8 million
 - 6 Distribution Line Transformers \$1.2 million
 - 7 Distribution Line Re-Conductoring \$1.7 million
- 8 ▪ Asset Replacement Projects (22% of 2010 budget)
 - 9 Projects identified by I&M \$6.1 million
 - 10 Substation Asset Replacement \$6.2 million
 - 11 Conductor / Cable Replacements \$0.6 million
 - 12 Duct & Manhole Replacements \$1.3 million
- 13 ▪ Regulatory / Mandatory Programs (22+% of budget)
 - 14 Dollar amount unspecified

15 **Q. How do you respond to the proposed Capital Spending Program?**

16 A. I have no doubt that some future work should be performed on the projects listed
17 above. It is reasonable for the Company to replace equipment that is unreliable or
18 has inadequate capacity. I am sure that the Company has expended funds on
19 these capital projects in every year prior to and including 2008. Thus, the issue at
20 hand is how much more to spend. The following table, a portion of which was
21 provided in my direct testimony, shows capital additions for Narragansett Electric
22 Company from 2006 to 2008.

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Table 1
Narragansett Electric Company
Capital Additions 2006 - 2008

Year	Transmission	Distribution	Total T&D	% change
2006	\$638,517	\$46,988,796	\$47,627,313	
2007	\$8,503,766	\$47,892,648	\$56,396,414	18%
2008	\$31,788,587	\$67,688,304	\$99,476,891	76%
Adj TY	\$31,788,587	\$88,588,304	\$120,376,891	113%

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As shown in this table, 2008 distribution additions were \$67.7 million, or nearing \$20 million or 41% higher than 2007 additions of \$47.9 million. Transmission additions in 2008 were \$31.8 million, or \$23.3 million or 274% higher than in 2007. Total capital additions in 2008 were \$99.5 million, or \$43.1 million or 76% higher than in 2007. Test year costs already support capital additions of \$99.5 million per year. The assessments performed by PowerServices that I referenced in my direct testimony indicate that the Company's system is in good shape, based upon past investments and initiatives. The FERC data I presented in my direct testimony indicates that the Company's capital spending through 2008 has been similar to or exceeds the level of spending by comparable utilities. Therefore, it remains uncertain if an additional significant increase in capital spending is warranted.

The Company's capital budgets for 2009 and 2010 are \$60 million and \$76 million, respectively. These planned expenditures are well below what unadjusted test year data supports. Thus, even if it is necessary for the Company

1 to further increase its capital spending by approximately \$20 million per year, it
2 appears that this level can be supported by unadjusted test year data. If the \$20.9
3 million in projects requested by the Company is included as a test year
4 adjustment, test year capital spending on distribution assets would increase to
5 \$88.6 million per year, and total capital additions would increase to \$120.4
6 million. Such levels seem excessive compared to the Company's proposed capital
7 budgets. The projects listed in Mr. Pettigrew's rebuttal testimony appear to be
8 mostly distribution related. It is uncertain from the Company's filing if there are
9 additional significant investments in transmission assets, but if none are planned,
10 this would allow the unadjusted test year data to support a higher level of
11 spending on distribution assets.

12 **Q. If the Company does in fact need to make additional capital additions, has**
13 **the Company provided any evidence to demonstrate that it cannot make**
14 **these investments without the proposed test year cost adjustment or the**
15 **special tracking mechanism?**

16 A. No such demonstration has been provided by the Company.

17 **Q. What do you recommend to the Commission regarding the Capital Spending**
18 **Program?**

19 A. The Commission should reject the Company's suggestion that a large increase in
20 capital spending is driving the need for an adjustment to test year costs and a
21 capex tracking cost recovery mechanism. Given that the Company has not
22 proposed an increase in capital spending over 2008 test year levels, there does not

1 appear to be a specific need for the proposed adjustment to test year costs or the
2 special capex tracking mechanism in the decoupling proposal. I recommend that
3 these requests not be approved.

4 **VII. CONCLUSION**

5 **Q. Does that conclude your testimony?**

6 A. At this time, yes. Should additional information become available via the
7 discovery process, I will update this testimony as appropriate.