

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

**IN THE MATTER OF**

**Narragansett Electric Company,        )  
d/b/a National Grid, Application        )  
For Approval of a Change in            )  
Electric Distribution Rates             )**

**Docket No. 4065**

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

On Behalf of

**The Division of Public Utilities and Carriers**

*October 27, 2009*

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**I. INTRODUCTION**

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

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

**Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?**

A. My testimony in this proceeding is presented on behalf of the Division of Public Utilities and Carriers (hereinafter "the Division").

**Q. ARE YOU THE SAME BRUCE R. OLIVER WHO HAS PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE DIVISION?**

A. Yes, I am.

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

A. This surrebuttal testimony is intended to respond to elements of the Rebuttal Testimony of National Grid witness Susan F. Tierney relating to the Company's revenue decoupling proposals that was filed on October 6, 2009.

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1 **Q. WAS THIS SURREBUTTAL TESTIMONY PREPARED BY YOU OR UNDER**  
2 **YOUR DIRECT SUPERVISION AND CONTROL?**

3 A. Yes, it was.  
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5 **II. DISCUSSION OF ISSUES**  
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7 **Q. DOES NATIONAL GRID'S REBUTTAL RESPOND TO YOUR CONCERNS**  
8 **REGARDING THE INEQUITY OF THE COMPANY'S PROPOSAL FOR APPLI-**  
9 **CATION OF A SINGLE UNIFORM CENTS-PER-KWH RATE ADJUSTMENT TO**  
10 **ALL CLASSES OF CUSTOMERS?**

11 A. No. The inequities in the treatment of customers across rate classes represents a  
12 major shortcoming of the Company's RDR Plan, and National Grid has done nothing  
13 to challenge the accuracy of my presentation on that point or remedy the problems  
14 that I have identified. The Company has essentially abdicated responsibility for the  
15 interclass and intra-class equity of its proposed revenue reconciliation mechanism.  
16 Instead, the Company's rebuttal appears more focused on promoting the interests of  
17 National Grid shareholders than ensuring equitable treatment of its customers.  
18 Thus, even if this Commission might be inclined to consider the adoption of a  
19 revenue decoupling mechanism, National Grid has failed to provide a fair and  
20 reasonable proposal for implementing the types of rate adjustments that it seeks.  
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1 **Q. DOES NATIONAL GRID'S REBUTTAL DEMONSTRATE THE NEED FOR ADDING**  
2 **ANNUAL REVENUE REQUIREMENT ADJUSTMENTS FOR O&M COSTS AND**  
3 **CAPITAL EXPENDITURES TO ITS PROPOSED REVENUE RECONCILIATION**  
4 **MECHANISM?**

5 A. No. The Company's rebuttal provides a litany of factors that purportedly contribute  
6 to its need for annual revenue requirements adjustments within its revenue recon-  
7 ciliation mechanism.<sup>1</sup> However, nearly all of those factors represent issues that  
8 National Grid and/or its predecessor organizations have faced in the past and do not  
9 warrant the major restructuring of this Commission's current regulatory practices  
10 that National Grid seeks. Even erosion of sales growth due to energy efficiency  
11 improvements has a history that dates back to at least the 1980s. I recognize the  
12 current economic climate both in Rhode Island and nationally is perhaps the worst  
13 encountered in many decades, but I suggest the response to such difficult economic  
14 times should be cost control, not automatic revenue increases.

15 What National Grid labels as a regulatory decoupling ratemaking plan  
16 ("RDR") is in reality an attempt to implement a form of alternative regulation that  
17 limits the Commission's ability to examine the Company's costs from a holistic  
18 perspective. As we have seen in the recent past, increases in certain elements of  
19 the Company's costs may be offset by decreases in other elements of its costs. The

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<sup>1</sup> See the Rebuttal Testimony of National Grid witness Tierney at page 47 of 51 which cites "the combined effects of regulatory lag, increased distribution investment costs, rising operating costs, and diminished opportunity to use sales growth to provide revenue additions to fund increases in operating costs..." In addition, at pages 3 through 4, of witness Tierney's Rebuttal she cites such other factors as dramatically rising commodity prices, macroeconomic conditions, needs to improve the quality of distribution infrastructure, and market conditions that challenge the utility's ability to raise capital.

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1           piecemeal approach to regulation that National Grid proposes would limit the scope  
2           of the Commission's annual reviews in a manner that avoids proper consideration of  
3           the potential that changes have taken place in other elements of the Company's  
4           costs and revenue. As a result, factors for which annual adjustments are not  
5           provided under the National Grid RDR plan are ignored even though changes in  
6           such other costs and revenues might serve to offset some or all of the need for  
7           upward rate adjustments if viewed in the context of more traditional base rate  
8           proceedings. Furthermore, the Company offers no consideration of the burdens that  
9           the myriad of annual rate adjustment mechanisms and associated filings can be  
10          expected to place on the resources of the Commission and the Division.

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12   **Q.    NATIONAL GRID'S REBUTTAL TESTIMONY SUGGESTS THAT YOUR**  
13   **PROPOSAL FOR PLACING A CAP ON REVENUE DECOUPLING ADJUST-**  
14   **MENTS TO DISTRIBUTION CHARGES UNDER THE COMPANY'S RDR PLAN**  
15   **WOULD "CONSTITUTE A DENIAL OF REVENUES." IS THAT CORRECT?**

16   A.    No. My recommendation for a 10% cap on such adjustments was explicitly linked to  
17   a provision that the Company would be provided interest on any revenue balance  
18   that might be deferred for future recovery. With the recommended provision of  
19   interest on deferred balances there would be no denial of revenues under my  
20   proposal.

21           Importantly, the cap on rate adjustments is necessary and appropriate to  
22   protect customers from the potential for even larger bill impacts. Although National

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1           Grid's presentations in this proceeding have focused heavily on protecting the  
2           Company from adverse financial impacts, little sensitivity to impacts on customers'  
3           finances has been exhibited. The Maryland Public Service Commission has  
4           adopted a similar 10% cap on revenue decoupling rate adjustments for utilities  
5           under its jurisdiction.<sup>2</sup>

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7   **Q.    NATIONAL GRID'S REBUTTAL ALSO INDICATES THAT THE COMPANY'S**  
8   **WITNESS IS NOT AWARE OF ANY OTHER UTILITY THAT HAS A REVENUE**  
9   **RECONCILIATION MECHANISM THAT MAKES ADJUSTMENTS FOR MAJOR**  
10 **ELECTRICAL OUTAGES. WOULD YOU PLEASE RESPOND.**

11 A.    The Division's response to National Grid Data Request 1-14 provides explicit  
12       reference to an order issued by the District of Columbia Public Service Commission  
13       which adopts a utility-sponsored proposal for implementation of a revenue  
14       reconciliation mechanism which explicitly alters the dollar amount of revenue  
15       adjustments to reflect the impacts of major electrical outages.<sup>3</sup>

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19 **Q.    PLEASE RESPOND TO THE SUGGESTION IN NATIONAL GRID'S REBUTTAL**  
20 **THAT THE TRADITIONAL RATEMAKING PRACTICES OF THIS COMMISSION**

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<sup>2</sup> The Pepco mechanism in Maryland only reconciles actual revenue with approved test year revenue. It does not include any provision for annual adjustments to test year revenue requirement.

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**1 ARE INCAPABLE OF PROVIDING THE COMPANY REASONABLE COMPEN-  
2 SATION IN THE FACE OF THE POTENTIAL FOR REDUCED SALES AS IT  
3 PURSUES ENERGY EFFICIENCY PROGRAMS.**

4 A. Weather fluctuations and changes in economic conditions have had greater impacts  
5 on variations in annual sales than any impact of energy efficiency programs to date.

6 If the Company was more certain of future sales reductions, those reductions could  
7 be recognized in the development of new rates through the Company's sales  
8 forecast (including its forecasts of energy efficiency program impacts). However,  
9 the Company's sales forecast in this proceeding does not project a decline in sales,  
10 and even the slowing of growth that it does foresee appears to be more related to  
11 the downturn in the economy than its energy efficiency programs. Furthermore,  
12 National Grid does not provide any significant insight regarding the sales impacts of  
13 future energy efficiency program plans. Rather, all asserted future energy efficiency  
14 reductions in sales are entirely hypothetical at this point. Even the Company's  
15 assessments of the expected impacts of its existing DSM/energy efficiency pro-  
16 grams are not based on measurement of actual results of those programs to date.  
17 To the contrary, they reflect only conceptual estimates of the impacts that the  
18 Company believes those programs might be expected to have. The Company also  
19 does not address the influence that tightened consumer budgets, reduced business  
20 profitability, and limits on access to credit might have on customers' ability to  
21 undertake further energy efficiency measures.

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<sup>3</sup> See Order No. 15556 issued by the District of Columbia Public Service Commission in Formal Case

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2 **Q. ARE THERE ANY OTHER ELEMENTS OF THE COMPANY'S REBUTTAL**  
3 **REGARDING REVENUE DECOUPLING ISSUES TO WHICH YOU WOULD LIKE**  
4 **TO RESPOND?**

5 A. Yes.

6 First, National Grid's rebuttal makes repeated reference to the need for  
7 reliable, efficient, and high quality service. Those are fundamental characteristics of  
8 electric utility service upon which I believe we generally agree. However, there is  
9 another fundamental characteristic of electric service to which the Company  
10 provides much less attention. That is the affordability of electric service. The  
11 provision of reliable, efficient, and high quality service is of little value to Rhode  
12 Island consumers if such service is unaffordable.

13 The Company cites the current macroeconomic conditions (i.e., the most  
14 dramatic economic recession since the Great Depression and continuing financial  
15 market challenges) as part of the reason for its need for a revenue decoupling  
16 mechanism that includes annual adjustments to revenue requirements. But, in the  
17 face of such difficult circumstances, it might be expected that National Grid would  
18 prioritize its expenditures and trim its budgets, as many of its residential,  
19 commercial, industrial, and governmental customers have been forced to do.  
20 Instead, the Company implies that the safety and reliability of its service (i.e., the  
21 most essential elements of its responsibilities as a franchised monopoly provider of

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No. 1053, Phase II, on September 2, 2009.

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1 utility services) might be sacrificed if it is not provided automatic annual revenue  
2 requirement adjustments.

3 Second, National Grid's rebuttal makes several references to a purported  
4 alignment of shareholder and ratepayer interests. However, it fails to explain  
5 satisfactorily how such an alignment of interests can be achieved when significant  
6 risk is effectively shifted from shareholders to ratepayers without a significant  
7 adjustment to shareholders' earnings expectations.

8 Third, National Grid attempts to portray the revenue decoupling mechanism  
9 (with assumed annual adjustments for cost increases), as being superior to  
10 traditional ratemaking. That may be true from a shareholder perspective, but not  
11 from a ratepayer perspective. From a ratepayer perspective, the piecemeal  
12 examination of the Company's revenue requirements that would result is  
13 inappropriate and unjustified, and inappropriately assumes that costs embedded in  
14 the Company's base rates only move upward over time.

15 Fourth, as the Commission considers the proposed CapEx component of  
16 the Company's RDM, it may also need to consider what constitutes a "prudent  
17 expenditure." Are assessments of "prudence" to be limited to whether the prices  
18 paid for facilities, equipment, supplies, and/or services are reasonably reflective of  
19 market-based price determinations? Or, does the definition of "prudent expenditure"  
20 encompass issues associated with the need for, and economic justification of, such  
21 expenditures? Without addressing the latter considerations, a utility may be free to

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1 spend without particular sensitivity to the affordability of the resulting charges for  
2 service that its customers must bear.

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4 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

5 A. Yes, it does.

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