**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** | **)** | **Docket No. 4065** |
| **Electric Distribution Rates** | **)** | |

# DIRECT TESTIMONY OF WITNESS BRUCE R. OLIVER

On Behalf of

**The Division of Public Utilities and Carriers**

*September 15, 2009*

**TESTIMONY OF BRUCE R. OLIVER**
**Docket No. 4065**
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## I. INTRODUCTION

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

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

**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. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

A. This testimony addresses issues relating to proposals regarding Revenue Decoupling, Economic Development, and Recovery of Commodity-Related Uncollectible Accounts Expense that Narragansett Electric Company, d/b/a/ National Grid (hereinafter “National Grid,” “NG,” or the “Company”) raises in this proceeding.

This testimony reviews and comments on portions of the direct testimony filed on behalf of the Company by witnesses Tierney, Gorman, Fields, and Wynters, including the schedules, workpapers, and data request responses associated with those pre-filed testimonies.

**Q. WHAT EXHIBITS ARE YOU SPONSORING AS PART OF THIS TESTIMONY?**

A. Attached to this testimony are four schedules. They include:

| | |
|---|---|
| Schedule DIV-BRO-1 | Present and Proposed Revenue by Rate Class by Type of Charge |
| Schedule DIV-BRO-2 | Analysis of Uniform Cents-per-kWh Revenue Reconciliation Rate Adjustments for All Rate Classes |
| Schedule DIV-BRO-3 | RIEDC Listing of Business Incentives |

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

A. Yes, it was.

## II. SUMMARY

**Q. PLEASE SUMMARIZE THE KEY FINDINGS OF YOUR DIRECT TESTIMONY.**

A. Key findings of my direct testimony include:[1]

**Revenue Decoupling Plan**

- The Company's proposed Revenue Decoupling Ratemaking Plan (RDR) reaches well beyond standard revenue decoupling considerations to introduce what is essentially a form of alternative ratemaking.

- If all of National Grid's rate adjustment proposals are adopted in this proceeding the Company would have full protection against loss of revenue due to fluctuations in electricity usage, as well as having protection against cost-related risk through annual cost reconciliations for the majority of its annual operating and capital costs.

- The annual adjustments to the target revenue level included in the Company's proposed Revenue Decoupling Mechanism ("RDM") are speculative and inappropriate.

[1] This list of key findings is compiled for summary purposes and may not be inclusive of all findings that may be considered relevant or important to this proceeding. Thus, the omission of any finding presented elsewhere in this testimony from the listing of "key" findings should not be interpreted as necessarily imputing a lesser importance to such a finding.

- The studies and settlements offered in support of the "productivity offset" factor that National Grid proposes to include in its computation of annual inflation adjustments to Operation and Maintenance ("O&M") expenses do not provide a compelling case for the accuracy and reliability of the 0.5% value that witness Tierney recommends.

- The calculations necessary to implement the Company's proposed Net CapEx Adjustment to its Annual Target Revenue ("ATR") are not sufficiently detailed in the Company's proposed tariff to facilitate regulatory oversight and ensure proper computation.

- The Company's RDM does not provide adequate or appropriate consideration of interclass and intra-class rate equity issues.

- The Company's RDR Plan is not an appropriate substitute for base rate proceedings, and the longer it remains in effect without a resetting of class revenue requirements and adjustment of class cost allocations, the more inequitable it is likely to become.

**Economic Development**

- The Company submits that Rhode Island Economic Development Corporation ("RIEDC") has been recognized as a national leader for its

Economic Development efforts. A large number of economic development incentives are already available in Rhode Island for entities that may consider expanding existing operations or establishing new operations in the State.[2]

- This Commission should only be supportive of utility-offered Economic Development programs if they are undertaken within appropriate guidelines and subjected to reasonable regulatory oversight and cost-benefit criteria.

- The Company's proposed Economic Development Program is primarily conceptual in design and lacks adequate specifics regarding: (1) the details of the programs to be implemented in Rhode Island; (2) the manner in which the Company's efforts will interface with those of RIEDC and other organizations already engaged in economic development activities within the State; (3) the costs and benefits of proposed Economic Development Program components.

- The Commission should question the timeliness of the Company's schedule for implementation of its Economic Development Program proposals.

[2] Without challenging National Grid's position regarding RIEDC's accomplishments and leadership, the Division recognizes the April 21, 2009 release of findings and recommendations of the Governor's Economic Development Corporation Review Panel which suggest the need for further improvements in the staffing, structure and operations of RIEDC.

- The Company has not identified any specific sites for potential economic development or any specific situations in which existing electrical infrastructure serves as an impediment to economic development.

- National Grid has no established plan at this time for assessing the cost and benefits of its proposed economic development initiatives.

- The Company's funding request appears to only address the costs of grants to be provided to economic development program participants and appears not to provide for the costs of developing, implementing, and administering its economic development program which, based on the Company's experience in New York State, could be significant.

- The Company has not developed budgets for either (a) the collaborative process it intends to pursue or (b) the implementation of administration of its economic development program proposals.

- The Company's plan to offer economic development grants does not provide reasonable assurance of benefits to the system or the State. It also does not offer reasonable assurance of positive net benefits for the ratepayers who would provide the funding for such grants.

**Uncollectible Accounts Expense Recovery**

- Recognition of commodity-related uncollectible accounts expense within the Standard Offer rate is reasonable if it is accomplished in an appropriate, consistent, and administratively efficient manner.

- The Company's specific proposal for recovery of commodity-related uncollectible accounts expense would add unnecessary and inappropriate additional volatility to the Company's rates for Standard Offer service.

- The regulatory treatment of commodity-related uncollectible accounts expense sought by the Company is inconsistent with the treatment recently approved for National Grid's Gas Division.

- Under the Company's proposal for recovery of commodity-related uncollectible accounts expense, there is a risk that an increasing level of bad debt cost would be shifted from the Company to its ratepayers since the Company would be protected from any deficiencies in its management of accounts receivable. (The Company's management of accounts receivable is discussed further in the testimony of Division witness Bruce Gay).

**Q. BASED ON YOUR PRESENTATION IN THIS TESTIMONY, WHAT ARE YOUR PRIMARY RECOMMENDATIONS FOR THE COMMISSION?**

A. The primary recommendations that this testimony offers the Commission are as follows:

**Revenue Decoupling Plan**

1. The Commission should reject both National Grid's proposed RDR plan and RDM, finding that those proposals represent inappropriate, inequitable, and unjustified departures from traditional ratemaking practices and principles.

2. If contrary to the Division's recommendation the Commission should elect to pursue a revenue decoupling mechanism for National Grid's Rhode Island operations, such mechanism should:

   a. Be limited to annual reconciliation of actual and approved base rate revenue;

   b. Specifically bar speculative adjustments to the Company's revenue requirements based on broad cost indices and/or questionable estimates of possible productivity improvements.

   c. Limit annual rate impacts from such adjustments to not more than 10% of the Company's base rate revenue requirement for each rate

class with a provision that any amount in excess of that limit would be deferred with interest for recovery/refund in future periods.

3. If the Commission approves a revenue decoupling mechanism for National Grid, the awarded return on common equity - should be lowered to reflect the impacts of such a mechanism on the Company's risk profile and return requirements, as recommended by Division witness Kahal.

4. If the Commission finds that an annual Capital Expenditures ("CapEx") adjustment to rates is appropriate for National Grid, it can implement such adjustments through modification of the Company's existing Distribution Adjustment Provision ("DAP").

**Economic Development**

5. The Commission should reject National Grid's economic development proposal in this proceeding.

6. If ratepayer funding of Economic Development Programs is approved, it should be limited to activities that involve the alteration or expansion of the Company's existing electric facilities.

7. If ratepayer funding of Economic Development Programs is approved, the Commission should require National Grid to make explicit reference to the ratepayer-funded nature of such programs in all communications relating to those programs.

**Uncollectible Accounts Expense Recovery**

8. The Commission should allow recovery of commodity-related uncollectible accounts expense through the Company's Standard Offer rate as long as that is accomplished in a manner that is consistent with the treatment of bad debt for the Company's Gas Division.

9. The Commission should allow an adjustment to the Standard Offer rate for the uncollectible accounts percentage factor approved by the Commission in this docket.

## III. DISCUSSION OF ISSUES

**Q. HOW IS YOUR DISCUSSION OF ISSUES RELATING TO THE COMPANY'S FILING IN THIS PROCEEDING ORGANIZED?**

A. This discussion is presented in three sections. Section A discusses National Grid's revenue decoupling proposal and associated rate adjustments. Section B examines the Company's proposed Economic Development Program. Section C addresses the assignment of uncollectible accounts expense to delivery and commodity service.

### A. REVENUE DECOUPLING

**Q. WHAT IS REVENUE DECOUPLING?**

A. The phrase "Revenue Decoupling" refers to any rate program or regulatory policy that is intended to reduce or eliminate the sensitivity of the utility's revenue to changes in energy usage. Revenue decoupling mechanisms can provide for either full or partial decoupling of revenue and usage. Forms of partial revenue decoupling have been used by energy utilities for more than three decades. Efforts to implement full revenue decoupling schemes are relatively new. Examples of partial revenue decoupling include:

- Weather Normalization mechanisms;
- Collection of increased portions of total distribution revenue through monthly customer and demand charges; and
- Implementation of declining-block and/or seasonally differentiated rate designs.

Weather Normalization mechanisms typically provide for adjustment of utility charges to compensate for variations in revenue that are linked to variations in usage from the levels that would be expected under "normal" weather conditions.

Efforts to increase the portion of total revenue that is collected through fixed monthly charges reduce the Company's exposure to variations in revenue resulting from variations in customer usage. Thus, through increased reliance on customer and demand charges, the Company achieves considerable revenue stability without the implementation of an annual revenue reconciliation mechanism.[3]

Declining-block and seasonally-differentiated rate designs can also reduce the utility's dependence on marginal usage for the collection of revenue. Declining-block rate designs can moderate the utility's dependence on marginal usage by charging less for the last units of energy use each month than for initial units of energy use. When customers use more or less energy than expected, declining-block rates price most marginal energy use at levels below the utilities average unit cost. In doing so, actual usage levels that are above or below expected levels have less than proportional impacts on revenue collections. Likewise, where the

[3] However, as I will explain later in this testimony, there are some negative factors associated with increased use of fixed charges for the recovery of electric utility revenue requirements.

sensitivity of usage to weather or other factors differs seasonally, a differentiation of distribution rate by seasonal period may also mitigate variations in annual revenue collections.

Full revenue decoupling schemes are designed to provide that the utility recovers its full authorized revenue requirement in each year regardless of changes in customer usage. In general, such mechanisms provide for reconciliation of actual and target revenue with rate adjustments for over- or under-collections made in subsequent billing periods. According to information provided in Exhibit NG-SFT-2 seven (7) states presently have revenue decoupling mechanisms in place for one or more of the electric utilities providing service in that jurisdiction.[4] The parameters of those mechanisms vary across jurisdictions and utilities,[5] and the currently effective mechanisms in states other than California have comparatively short histories. Only California utilities have RDM mechanisms that were implemented prior to 2007.[6]

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[4] Eight states have approved revenue decoupling mechanisms for one or more electric utilities, but New York's approval was generic and the details of revenue decoupling plans for utilities in that state will be addressed in each company's next rate case. Furthermore, Oregon has approved only a two-year pilot RDM for Portland General Electric Company, and Wisconsin has approved a four-year pilot program for Wisconsin Public Service Company.

[5] Examples of variations in the parameters of current RDM mechanisms include, but are not necessarily limited to differences in: (a) the rate classes to which the RDMs are applicable, (b) the time periods over which variations from target revenue are measured, (c) the types of adjustments to annual revenue targets that are permitted, (d) the adjustments made to the utility's ROE, and (e) the length of the lags between the end of the reconciliation period and the effective date for implementing computed rate adjustments.

[6] Schedule NG-SFT-2 indicates that three states other than California implemented revenue decoupling mechanisms prior to 2007 but have since terminated or suspended the operation of those mechanisms.

***1. National Grid's Revenue Decoupling Proposal***

**Q. HOW IS THE COMPANY'S REVENUE DECOUPLING PLAN STRUCTURED?**

A. The revenue decoupling plan that National Grid proposes in this proceeding has three key components. Those components include implementation of:

1. An annual reconciliation of actual and target revenue;

2. Annual adjustments to target revenue; and

3. Annual rate adjustment factors that:

   a. Recover/refund past under-/over-recoveries of target revenue;

   b. Distribute adjustments to annual revenue target among rate classes.

The mechanism also includes another level of complexity in that adjustments to Annual Target Revenue for Incremental Net CapEx and Inflation have both "look back" and "look ahead" components. The "look back" components are intended to adjust revenue requirements for reconciliation purposes. The "look ahead" components adjust revenue requirements for the next period to reflect measures of anticipated cost changes.

**Q. WHAT SUPPORT DOES NATIONAL GRID OFFER FOR ITS REVENUE DECOUPLING PROPOSAL IN THIS PROCEEDING?**

A. The Company's revenue decoupling proposal is presented primarily through the testimony of witness Susan F. Tierney. Witness Tierney explains that the Company

proposes both a Revenue Decoupling Ratemaking Plan ("RDR") and a Revenue Decoupling Mechanism (RDM"). Witness Tierney's testimony also provides: (1) background for the Company's proposal; (2) the Company's rationale for presenting its revenue decoupling proposal; and (3) an explanation of the manner in which its proposed RDR and RDM would operate. Other Company witnesses support specific elements of the Company's revenue decoupling rate plan presentation. For example, the tariff language changes that National Grid proposes to use to implement its revenue decoupling rate adjustment mechanism are found in Schedules NG-HSG-12 and NG-HSG-13 attached to the pre-filed direct testimony of witness Howard S. Gorman. Likewise, witness Paul Moul offers an assessment of the impacts of the Company's RDR Plan on its risk profile and rate of return requirements, and witness Robert O'Brien presents schedules to illustrate the operation of the RDR Plan on a Company-wide basis.[7] In addition, witness Tierney's testimony includes references to portions of the testimonies of witnesses King, Pettigrew, Stout, and Morrissey.

**Q. HOW WOULD THE ANNUAL REVENUE RECONCILIATIONS IN THE FIRST COMPONENT OF THE PROPOSED RATE ADJUSTMENT MECHANISM BE COMPUTED?**

[7] Witness O'Brien's Schedule NG-RLO-7 provides illustrative data for total company costs and revenue for the years 2011 through 2013, but does not examine reconciliations by rate class. In fact, **no witness on behalf of the Company offers a comparable illustration of the ratepayer impacts that can be expected from the Company's RDR Plan on a class-by-class basis.**

A. The Company refers to the reconciliation of revenues as a "look-back" process because it deals with actual revenue collections and Annual Target Revenue ("ATR") for the prior twelve month period. As explained by witness Tierney and illustrated in Schedules NG-SFT-16 and NG-SFT-17, "Revenue Gaps" would be computed for each rate class which reflect the difference between the actual revenue collected from each class and the ATR for the class. However, the ATR used for reconciliation purposes would not necessarily be the same as that upon which forward look rate adjustments were based. Rather, for revenue reconciliation purposes target revenue would be further adjusted to reflect actual net incremental capital additions and a measure of net inflation for the period completed. The identified class Revenue Gaps would be summed across all classes; and that total would be divided by forecasted sales for the next rate adjustment year to produce a uniform cents-per-kWh rate adjustment that would be applied to all rate classes.

**Q. HOW WOULD NATIONAL GRID CALCULATE ANNUAL CAPEX ADJUSTMENTS TO THE COMPANY'S REVENUE REQUIREMENT FOR THE "LOOK BACK" PERIOD?**

A. For revenue reconciliation (i.e., "look-back") purposes, the Company's proposes that its rate base and revenue requirement would be adjusted to reflect actual investment in capital projects completed and placed in service since its base rates were last approved by the Commission.

**Q. WHAT PROCEDURE DOES NATIONAL GRID PROPOSE TO USE IN THE COMPUTATION OF ADJUSTMENTS TO ANNUAL TARGET REVENUE FOR THE NEXT ANNUAL PERIOD?**

A. Starting with the rates to be effective January 1, 2011, the determination of adjustments to annual revenue targets would involve a multi-step process. That process has four major elements. Those elements include:

1. The Commission-approved revenue requirement from the Company's most recent rate case;

2. The computed revenue deficiency from the prior year which reflects the sum of the computed class Revenue Gaps discussed above;

3. An Annual Inflation Adjustment to the Company's O&M costs that includes a purported productivity offset; and

4. A Net CapEx Adjustment to the Company's revenue requirement to reflect a measure of net incremental capital expenditures.

**Q. HOW WOULD ANNUAL INFLATION ADJUSTMENTS FOR THE "LOOK AHEAD" PERIOD BE DETERMINED?**

A. National Grid proposes an annual Net Inflation Adjustment to the distribution O&M component of its revenue requirement. Under the Company's proposal, the inflation would be based on average price increases over the last two years, as measured using Gross Domestic Product Price Index ("GDPPI") that is published by the Bureau of Labor Statistics, less a fixed "productivity offset." The net of the year-to-year increase in the GDPPI and estimated productivity offset factor yields a factor that is applied to the Company's test year distribution O&M costs to determine the dollar magnitude of the annual Net Inflation Adjustment to the Company's Annual Revenue Target for the next calendar year.

Once the total dollar amount of the annual Net Inflation Adjustment to Company's revenue requirement is determined, the result is allocated among rate classes based on the Company's total Distribution O&M allocation factor. The amount allocated to each class is then divided by the forecasted delivery service kWh for the class to yield a class specific cents-per-kWh rate adjustment.

**Q. HOW WOULD NATIONAL GRID CALCULATE ANNUAL CAPEX ADJUSTMENTS TO THE COMPANY'S REVENUE REQUIREMENT FOR THE "LOOK AHEAD" PERIOD?**

A. The forward looking or "look ahead" Net CapEx adjustment would have two parts. The first part would recognize cumulative net investment since the Company's last rate case that is not supported by depreciation associated with the Company's embedded rate base. The second component would provide an addition to the Company's revenue requirement for capital investment projects that are on-going or

anticipated during the coming year. The Company proposes that the amount of this second piece of the "look ahead" adjustment to its ATR for Net CapEx would reflect 75% of the average of its capital expenditures in the two prior years.

**Q. HAVE YOU REVIEWED THE TESTIMONY AND SCHEDULES THAT THE COMPANY PRESENTS IN SUPPORT OF ITS REVENUE DECOUPLING PROPOSALS IN THIS PROCEEDING?**

A. Yes. I have reviewed the testimony of each of the Company's witnesses that addresses revenue decoupling related issues and/or presents schedules supporting the Company's proposals. I have also reviewed the Company's responses to a considerable number of data requests that related to revenue decoupling issues.

***2. Analysis of the Company's Proposal***

**Q. WHAT ARE THE OBJECTIVES OF THE COMPANY'S RDR PLAN AS IT IS PRESENTED IN THIS PROCEEDING?**

A. Witness Tierney's Direct Testimony suggests that the Company's primary objectives for its RDR plan include:

- Removal of disincentives for the Company to undertake programs that encourage customers to pursue energy efficiency;
- Reduced rate volatility for its customers; and
- Insurance of the continued electric service reliability for the Company's Rhode Island customers.

However, my review of the Company's RDR Plan finds that plan to be less focused on providing benefits for Rhode Island ratepayers and more focused toward ensuring benefit for the Company and its shareholder, National Grid, U.S.A. An alternative interpretation of the Company's presentation might characterize the primary objectives of National Grid's RDR plan in this proceeding as:

- Providing the Company and its shareholder greater assurance of revenue collections and earnings regardless of performance;
- Annual adjustment of distribution revenue requirements and rates for non-specific cost increases without the need for rate case filings and without full examination of the Company's costs of service;
- Avoidance of holistic review of the charges billed to Rhode Island consumers for distribution service.

**Q. SHOULD THIS COMMISSION BE COMPELLED BY THE DECISIONS OF COMMISSIONS IN CERTAIN OTHER JURISDICTIONS TO IMPLEMENT REVENUE DECOUPLING?**

A. No. Contrary to the suggestions of witness Tierney, experience with revenue decoupling is quite limited. As previously noted only eight (8) states out of 50 have adopted revenue decoupling for one or more electric utilities, and the parameters of those plans vary significantly. Only one of the currently approved revenue decoupling mechanisms was implemented prior to 2007, and three of the four jurisdictions that implemented revenue decoupling mechanisms prior to 2007 have since terminated or suspended the operation of those mechanisms. In at least two

instances revenue decoupling has been implemented for electric utilities only as limited duration pilot programs.

**Q. WHAT ARE SOME OF THE DIFFERENCES AMONG THE REVENUE DECOUPLING MECHANISMS THAT HAVE BEEN IMPLEMENTED TO DATE?**

A. The parameters of the revenue decoupling mechanisms currently in effect differ noticeably. Among the revenue decoupling mechanisms that have been implemented to date some observable differences include:

- The classes of service to whom revenue decoupling is applied;
- The frequency of rate adjustments;
- The manner in which revenue targets are established;
- The level of the Company's approved ROE and the magnitude of any implicit or explicit adjustment to the Company's ROE that is made in conjunction with approval of the mechanism; and
- Whether the mechanism is viewed as a pilot program or permanent rate provision.

**Q. WITNESS TIERNEY'S DIRECT TESTIMONY AT PAGE 4, LINES 9-12, SUGGESTS THAT REVENUE DECOUPLING IS "*MOST COMMONLY ACHIEVED*" THROUGH A MECHANISM WHICH ESTABLISHES AN ALLOWED OR "*TARGET*" REVENUE AND THEN PROVIDES FOR A SUBSEQUENT RECONCILIATION OF ACTUAL REVENUE WITH THE IDENTIFIED TARGET REVENUE. DO YOU AGREE?**

A. No, not entirely. What witness Tierney describes is a "full" decoupling mechanism, but "full" revenue decoupling mechanisms are presently used only by a comparatively small number of electric utilities. According the Company's response to Division Data Request DIV-6-11, to date only 13 electric utilities in eight (8) states have "full" revenue decoupling mechanisms approved, and six of those thirteen utilities are found in two states, California and Maryland. More commonly, electric utilities have pursued "partial" decoupling through the types of mechanisms outlined above (e.g., weather normalization adjustments, increased customer and demand charges, and/or declining-block distribution energy charges).[8]

**Q. DOES NATIONAL GRID HAVE OTHER FORMS OF REVENUE DECOUPLING INCLUDED IN ITS PRESENT OR PROPOSED RATES?**

A. Yes. In this case the Company's proposed rates reflect two important revenue decoupling influences.

First, National Grid's rates for Medium and Large C&I customers recover the majority of the revenue requirements for those classes through monthly customer and demand charges. Thus, a large portion of the revenue it collects from those customers has little, if any, sensitivity to variations in customer usage.

Second, the Company's rate proposals in this proceeding are premised on sales forecasts that have been adjusted to account for anticipated impacts of the Company's existing DSM programs. Through the use of sales forecasts that are

[8] Increases in customer and/or demand charges are generally made subject to in the context of the principles of gradualism and continuity in ratemaking policy.

adjusted for anticipated DSM impacts, the Company's proposed rates already reflect an assumed level of further DSM-related sales losses.

**Q. WITNESS TIERNEY ASSERTS THAT REVENUE DECOUPLING WILL REDUCE RATE VOLATILITY. DO YOU AGREE?**

A. No. Witness Tierney's response to Division Data Request DIV-6-10.a indicates that her assessment of the impacts of revenue decoupling on rate volatility is premised on a **January 1994** study published by Lawrence Berkley Laboratories ("LBL") of the experience of three California electric utilities with revenue decoupling between 1983 and 1993. Although that study concluded that two of those three companies experienced reduced rate volatility, the third **experienced <u>increased</u> rate volatility**. It should also be noted that since actual rates during the study period included revenue decoupling adjustments, the authors were required to <u>estimate</u> rate levels without revenue decoupling. That estimation process cannot reliably assess the wide array of economic, financial, and political factors that might have influenced (a) the timing of rate increase requests in the absence of revenue decoupling and/or (b) the actions utility management may have taken to control costs in the absence of revenue decoupling, (c) the size of rate increase requests, and (d) the outcomes of traditional rate proceedings. Thus, the results of the referenced **1994** study do not warrant a conclusion that the implementation of a revenue decoupling mechanism in Rhode Island will necessarily serve to reduce rate volatility. To that contrary, that study appears to suggest significant potential that the opposite could occur.

Furthermore, due to the lagged nature of revenue decoupling rate adjustments, the Company's proposals could actually serve to increase rate volatility. Fluctuations in weather as measured by heating and cooling degree days represent one of the greatest sources of variations in usage on a year-to-year basis. If we assume that variations from normal weather are randomly distributed and that "normal" weather conditions are rarely achieved in actuality, the probability of the Company's proposed RDM amplifying the rate volatility in customers' bills due to weather fluctuations is at least as great as the probability that rate volatility will be moderated.

| **Weather In Period For Calculating RDM Adjustment** | **Weather In Period RDM Adjustment Is Applied** | **Type of Adjustment** | **Impact On Volatility Of Billed Charges** |
|---|---|---|---|
| Less Than Normal | Greater than Normal | Surcharge | **Increased** |
| Greater than Normal | Greater than Normal | Credit | Moderated |
| Less Than Normal | Less Than Normal | Surcharge | Moderated |
| Greater than Normal | Less Than Normal | Credit | **Increased** |

In other words, there is roughly a 50% probability that either (1) a computed RDM rate surcharge will be applied during a period in which usage is increased due to severe weather or (2) a computed RDM rate credit will be applied during a period in which usage is depressed by more mild than normal weather. Under the first case, increases in customers' bills would be exacerbated by increased usage during the period in which surcharges are applied. In the second case, rate credits would be applied at a time when customers' bills are already lower due to milder than normal weather. Since over a number of years both of these combinations of

outcomes could be observed, the likelihood that the proposed revenue decoupling mechanism would result in increased rate volatility appears high.

**Q. HOW DO YOU RESPOND TO FIGURE NG-SFT-6 AT PAGE 42 OF 97, OF WITNESS TIERNEY'S TESTIMONY WHICH SUGGESTS THAT, IF THE PROPOSED RDM HAD BEEN IN PLACE FOR 2003 THROUGH 2008, MONTHLY BILLINGS FOR A RESIDENTIAL CUSTOMER BILLED UNDER RATE A-16 WOULD HAVE BEEN NEARLY FLAT OVER THAT PERIOD?**

A. Quite simply, the analysis presented in Figure NG-SFT-6 does not depict the full operation of the proposed revenue decoupling mechanism. As indicated in the notes below that figure, witness Tierney's analysis "*assumes that the residential customer used an amount in each year equivalent to its usage in 2008*." In other words, despite the fact that a primary function of the RDM is to adjust revenue to offset variations in usage, no variations in usage were allowed to affect the Company's estimated residential billings with an RDM in place for the years 2003-2008. Naturally, if the analysis is structured in a manner that assumes away variations in usage, year-to-year impacts on customer bills may appear small. In this context, witness Tierney's analysis may be a bit misleading since it is the anticipation of significant year-to-year declines in annual energy use that have purportedly led the Company to propose an RDM in this proceeding.

Under the provisions of the Company's proposed RDM, a residential customer's bills could be affected by:

- Variations in annual usage by the customer reflected in the analysis;
- Variations in usage by other residential customers; and
- Variations in usage by customers in other rate classes.

Thus, even if usage for the individual customer represented in witness Tierney's Figure NG-SFT-6 remains unchanged over time, variation in the electricity use by other customers would likely result in more noticeable changes in the charges billed for the example residential customer than witness Tierney portrays in Figure NG-SFT-6.

In addition, it is worth noting that witness Tierney's assumption of flat annual usage for the example residential customer over the entire 2003-2008 suggests that: (a) the customer had no weather-sensitive load; and (b) none of National Grid's DSM programs had any impact of the customers' energy requirements.

**Q. DOES THE COMPANY PLACE ANY LIMIT ON THE MAGNITUDE OF ADJUSTMENTS THAT CAN BE BILLED TO CUSTOMERS THROUGH ITS PROPOSED RDM FACTOR?**

A. No. Witness Tierney suggests that deferred revenue balances in excess of 10% may trigger the need for an interim rate adjustment, but the Company offers no formal cap on the size of revenue decoupling rate adjustments that customers could experience. In its response to Division Data Request No. 6-3, the Company states:

> "*The Company is not proposing any limits on the size of any upward or downward RDR Plan Revenue Reconciliations that may arise as a result of over- or under-collection of actual billed revenues relative to the ATR because those* ***limits would tend to undermine the purpose of the RDR mechanism****.*" (Emphasis Added.)

**Q. IF A REVENUE DECOUPLING MECHANISM IS APPROVED, WOULD A "CAP" ON ANNUAL RATE ADJUSTMENTS BE APPROPRIATE?**

A. Yes. Although I urge the Commission **not** to approve the Company's RDM proposal, I would recommend a cap on rate adjustments if such a mechanism is employed. Contrary to the representations of witness Tierney, a rate cap is a necessary and appropriate element of such an adjustment mechanism and, if appropriately designed, a rate cap would not undermine the purposes of that mechanism.

**Q. ARE CAPS IMPOSED ON RATE ADJUSTMENTS FOR ANY OF THE ELECTRIC UTILITIES THAT PRESENTLY HAVE REVENUE DECOUPLING MECHANISMS?**

A. Yes. In Maryland the Potomac Electric Power Company ("Pepco"), Delmarva Power and Light Company ("Delmarva"), Baltimore Gas and Electric Company (BGE) place caps of plus or minus 10% on the size of revenue decoupling rate adjustments that can be imposed. Any amounts in excess of those limits, as applied on a class-by-class basis, are deferred for recovery (or refund) in subsequent periods.

**Q. IS THE COMPANY'S SUGGESTION OF A POSSIBLE "INTERIM" RATE ADJUSTMENT, IF A LARGE UNDER-OR OVER-COLLECTED BALANCE ACCUM-**

**ULATES WITHIN A GIVEN YEAR, A REASONABLE ALTERNATIVE TO THE APPLICATION OF A CAP ON RATE ADJUSTMENTS?**

A. No. Although the accrual of large over- or under-collected revenue balances should be communicated to the Commission, the efficacy of implementing of "interim" rate adjustments should questioned. An interim rate adjustment applied only to usage in the remaining months of a calendar year could have disproportionate impacts on customers who have greater portions of their total annual usage in the latter part of the year. Thus, National Grid's concept of an interim rate adjustment is inconsistent with the Company's proposed use of a uniform cents-per-kWh reconciliation adjustment applicable to usage by customers in all rate classes throughout the year. If the Commission approves an RDM, the Company's desire to speed up revenue collections through implementation of an "interim" rate adjustment must be balanced with interclass and intra-class rate equity considerations.

**Q. DO YOU HAVE ANY OTHER CONCERNS REGARDING THE COMPANY'S PROPOSAL AS IT RELATED TO POSSIBLE INTERIM RATE ADJUSTMENTS?**

A. Yes. As the Company explains its interim rate adjustment proposal, it appears unlikely that such an adjustment would be implemented significantly before the scheduled implementation date for a new annual rate adjustment. Furthermore, under the Company's proposals an interim rate adjustment could essentially exempt summer period usage from that adjustment and place disproportionate impacts on the fall and early winter usage of customers with electric space heating and/or electric water heating.

**Q. IF A REVENUE DECOUPLING MECHANISM IS APPROVED, WOULD IT BE APPROPRIATE FOR THE COMMISSION TO REQUIRE THAT A CAP BE PLACED ON THE MAGNITUDE OF THE ANNUAL REVENUE ADJUSTMENT THAT COULD BE APPLIED TO A RATE CLASS?**

A. Yes. Customers should expect the Commission to apply the same principles of gradualism and rate continuity in the structuring of rate adjustments that it applies in the establishment of base rates. A reasonable cap on the magnitude of rate adjustments implemented in any year through rate adjustment clauses such as the proposed revenue decoupling mechanism would simply represent an extension of those principles to the rate adjustment process. If the implementation of rate caps results in the accumulation and maintenance of large deferred balances, it should be viewed as a signal that a more thorough review is needed of: (a) the Company's costs of service; and (b) the Commission's ratemaking policies.

**Q. IF A REVENUE DECOUPLING MECHANISM IS APPROVED, AT WHAT LEVEL SHOULD ANNUAL INCREASES IN DISTRIBUTION RATES BE CAPPED?**

A. A reasonable limit would require that no rate class be subject to an annual adjustment in excess of ten percent (10%) of the target distribution revenue established for the class for the preceding year. Any portion of a computed revenue adjustment for a class which exceeds the established rate cap could be deferred with interest for recovery through the next computed RDM adjustment for that rate

class. In this manner, the Company is kept whole while ratepayers are protected from unduly large rate increases.

**Q. DO YOU HAVE ANY COMMENTS REGARDING THE ANALYSIS THAT WITNESS TIERNEY PRESENTS IN FIGURE NG-SFT-15?**

A. Yes, I do. In Figure NG-SFT-15 witness Tierney purports to illustrate the manner in which a utility facing rising capital costs over time is adversely impacted by traditional approaches to regulation. However, the "note" at the bottom of that figure details assumptions underlying the analysis presented therein which render that analysis essentially meaningless in this context of the facts of this proceeding. For example, witness Tierney's analysis assumes that revenue is recovered "*solely through charges set based on kWh deliveries*."[9] Yet, as shown in **Schedule DIV-BRO-1** attached to this testimony, the Company presently recovers the majority of its revenue from medium and large industrial customers through monthly customer and demand charges.

Another questionable assumption included in the note to witness Tierney's Figure NG-SFT-15 is that new distribution capital would be depreciated over 20 years. Although the "2009 Depreciation Rate Study" that witness Kateregga presents on behalf of the Company in this proceeding shows an average remaining life for distribution plant of about 21 years,[10] the full service lives used in the

[9] Direct Testimony of National Grid witness Tierney at page 71 of 97, note to Figure NG-SFT-15.
[10] See Schedule NG-KAK-1 attached to the Direct Testimony of National Grid witness Kateregga.

determination of depreciation rates for distribution capital additions are generally much longer.

Witness Tierney's analysis also assumes kWh sales levels roughly three times those that the Company projects in this proceeding for 2010, as well as revenue requirements and capital expenditures that substantially exceed those that the Company presently projects for the years shown. Likewise, witness Tierney assumes 2010 capital expenditures that equal depreciation on existing rate base, yet the level of capital expenditures shown is nearly three times National Grid's reported 2008 depreciation expense. Finally, witness Tierney's illustrative example shows a revenue deficiency for in the year 2013 of $35 million. But that deficiency of roughly 5% of total distribution revenue would only be about one-third of the level estimated in Figure NG-SFT-15 if all costs and kWh were adjusted to reflect more realistic numbers for National Grid in this proceeding. Given the assumptions that witness Tierney has used, this Commission should not be alarmed by the estimated revenue deficiency of roughly 5% four years after new rates are placed in effect.

**Q. ARE THERE INCONSISTENCIES IN THE CONCEPTS UNDERLYING NATIONAL GRID'S PROPOSED REVENUE DECOUPLING MECHANISM?**

A. Yes. The Company suggests that the adoption of a revenue decoupling mechanism is necessary to break the link between energy use and revenue recovery, but the Company relies upon energy-related rate adjustments to implement an array of current and proposed rate surcharges.

**Q. IS REVENUE DECOUPLING NECESSARY TO ENSURE THE PURSUIT OF IMPROVED ENERGY EFFICIENCY BY ELECTRIC CUSTOMERS IN RHODE ISLAND?**

A. No. Decisions to implement energy efficiency/conservation measures are primarily customer decisions, not utility decisions.[11] Although the Company may assist customers in identifying opportunities to improve energy efficiency in their residences, offices, or other facilities, there are other non-regulated entities in the market place who are also working actively to encourage customer investment in energy efficiency programs and equipment. The Commission must remember that the encouragement of energy efficiency is **NOT** a monopoly service. Non-regulated providers of energy efficiency equipment and services can be expected to continue to expand their market presence regardless of the Company's energy efficiency incentives.

**a. The Revenue Reconciliation Process**

**Q. SHOULD THE COMMISSION HAVE CONCERNS REGARDING THE REVENUE RECONCILIATION PROCESS THAT NATIONAL GRID PROPOSES?**

A. Yes. Those concerns should include:

[11] A possible exception may be found in programs that provide assistance to low income customers to weatherize and/or improve the energy efficiency of their homes. In those instances, the Company already has incentives to support such programs, since reductions in gas use by low income customers can reduce the levels of future uncollectible accounts write-offs.

- The impacts of computing a single uniform revenue reconciliation adjustment for all rate classes;

- The absence of explicit consideration of the impacts of major electrical outages and out-of-period billing adjustments;

- A lack of sufficient detail for determining revenue requirements associated with plant additions since the Company's last rate case;

- Requirements for increased Commission and Division review of annual revenue reconciliation, Net CapEx, and rate adjustment filings (including possible requirements for determinations regarding the prudence of capital expenditures) without assurance of a reduced frequency of rate case filings.

**Q. UNDER THE COMPANY'S PROPOSALS IN THIS PROCEEDING IS RECONCILIATION OF REVENUE ON A CLASS-BY-CLASS BASIS NECESSARY?**

A. The Company believes it is not necessary. In response to a Division Data Request, witness Tierney explains:

> "*The Company is proposing to reconcile billed distribution revenue to ATR on a rate class basis, however the rate class over- and/or under-recovery of ATR will be aggregated and recovered from all customers through a uniform mill-per-kWh factor. (Mathematically, the proposed process* ***produces the same result*** *as a method that identified the company-wide revenue gap between ATR and actual revenues in the time period of interest. The Company's approach provides information about the trends in revenue gaps, but the result – in terms of mill-per-kWh factor – would be the same if it were calculated in the first instance on a company-wide basis as compared to the Company's proposed approach.)*"[12]

**Q. SHOULD THIS COMMISSION CONCLUDE THAT APPLYING ANNUAL REVENUE RECONCILIATION RATE ADJUSTMENTS ON A UNIFORM CENTS-**

[12] National Grid's response to Division Data Request 6-35.e. (Emphasis Added.)

**PER-KWH BASIS FOR ALL RATE CLASS WILL ADEQUATELY ADDRESS CONCERNS THAT CLASS-BY-CLASS RECONCILIATIONS COULD ADVERSELY IMPACT CUSTOMERS IN SMALL HETEROGENEOUS RATE CLASSES?**

A. No. The concern that customers in rate classes having either small numbers of customers and/or heterogeneous usage characteristics could be adversely impacted by revenue reconciliations that are performed on a class-by-class basis is valid, but the application of uniform cents-per-kWh adjustments for all rate classes does **not** provide a reasonable or appropriate solution for the Company's Rhode Island rate classifications.

To support the Company's uniform cents-per-kWh approach to recovering/ refunding past over- or under-recoveries of annual target revenue, National Grid and witness Tierney have relied on a Massachusetts Department of Public Utilities ("MDPU") determination based on "*comments*" filed in a generic revenue decoupling proceeding. Unfortunately, National Grid did not analyze the Company's Rhode Island rates in formulating that recommendation.[13] Had it undertaken a basic assessment of the impacts of its proposal on rates by class of service, the Company would have identified important concerns regarding the equity of the methodology that it has recommended.

As demonstrated in **Schedule DIV-BRO-2**, neither the Company's current rates nor its proposed rates in this proceeding are uniform across classes. Rather, average distribution rates for Residential and Small Commercial rate classifications

[13] National Grid's response to Division Data Request 6-4.

in cents-per-kWh are three to four times larger than the average rate levels for medium and large Commercial and Industrial ("C&I) customer rate classifications. As a result, uniform cents-per-kWh revenue adjustments would have significantly larger percentage rate impacts on the Company's medium and large C&I customers without regard to either the source of revenue over- or under-collections or the relationship between actual revenue and the Company's costs of providing service by rate class.

**Q. WHY IS THE ABSENCE OF EXPLICIT ADJUSTMENTS FOR MAJOR ELECTRICAL OUTAGES IMPORTANT?**

A. Traditionally, utilities' exposure to losses of sales and revenue has been seen as providing an incentive for rapid restoration of service after a major electrical outage. If a utility's response to a major outage is not timely, the company's loss of sales and revenue grow in proportion to the length of the service outage and will adversely impact its earnings. However, under the provisions of the proposed RDM, National Grid would be fully compensated for lost sales through the reconciliation process regardless of the reason(s) for those losses. Service Quality Standards may provide some incentive for minimizing the duration of service outages, but penalties for failure to meet outage restoration standards may need to be enhanced if traditional incentives for timely restoration of service are eliminated through the adoption of the type of fully reconciling revenue decoupling mechanism that National Grid proposes in this proceeding.

**Q. WHAT ARE OUT-OF-PERIOD BILLING ADJUSTMENTS?**

A. Out-of-period billing adjustments reflect changes made to amounts billed to individual customers for prior billing periods. Such adjustments typically result from billing disputes, improper application of tariff provisions, and/or meter reading errors, and may impact billed units of service and/or the total amount of billed charges. Often such adjustments are minor, but it is not uncommon for either (i) comparatively large out-of-period billing to be made for large individual C&I customers, and/or (ii) for smaller billing adjustments to aggregate to a significant total adjustment on an annual basis.

**Q. SHOULD OUT-OF-PERIOD BILLING ADJUSTMENTS BE ACCOUNTED FOR IN THE ANNUAL REVENUE RECONCILIATION PROCESS?**

A. Most individual customer billing adjustments are for comparatively small dollar amounts. However, for classes comprising comparatively small numbers of customers and/or customers with large annual usage, out-of-period billing adjustment can at times have a noticeable impact on the assessment of class revenue gaps. If revenues are to be reconciled on a class-by-class basis, then tracking of out-of-period billing adjustments for such classes may be necessary. If revenues are to be reconciled on a system basis, then reflection of such billing adjustments in the revenue reconciliation process may only be necessary and appropriate if the net amount of such adjustments exceeds a reasonable threshold level (e.g., one percent of total distribution revenue.)

**Q. WHY DO YOU SUGGEST THAT THE PROCEDURES THE COMPANY PROPOSES FOR DETERMINING ADJUSTMENTS TO ANNUAL TARGET REVENUE REQUIREMENTS FOR REVENUE RECONCILIATION PURPOSES LACK ADEQUATE SPECIFICITY?**

A. Nothing in the tariff language upon which National Grid would rely for implementation of its RDM and nothing in the Company's pre-filed testimony in this docket fully detail the manner in which incremental revenue requirements associated with Net CapEx adjustments would be computed. Although the conversion of capital additions to revenue requirements may seem straightforward, the Commission should recognize that such may not always be the case. One area of potential dispute is likely to involve the determination of appropriate depreciation expense. The Company's proposed tariff language does not specify the manner in which depreciation on Cumulative Net CapEx will be computed. For example, depreciation expense for Cumulative Net CapEx could be computed separately by FERC account and subaccount for the types of plant added or determined by applying an average depreciation rate for the Company's overall distribution plant. Furthermore, at times the Company may add plant for which no appropriate depreciation schedule has previously been established. In such instances, it may be unclear how depreciation expense for such plant would be determined.[14]

[14] The Company's plans for installation of Advanced Metering Infrastructure ("AMI") may be a relevant example. Where the Company's traditional meters are assessed to have remaining lives of approximately 21 years and estimated service lives in the range of 40 years, AMI meters may have expected service lives of 15 years or less.

**Q. HOW DOES THE COMPANY PROPOSE TO ALLOCATE NET CAPEX ADJUSTMENTS TO REVENUE REQUIREMENTS AMONG RATE CLASSES?**

A. National Grid proposes to allocate Net CapEx adjustments among rate classes using its Total Distribution Plant allocation factor.

**Q. IS THE MANNER IN WHICH NATIONAL GRID PROPOSES TO ALLOCATE NET CAPEX ADJUSTMENTS TO REVENUE REQUIREMENTS AMONG RATE CLASSES REASONABLE AND APPROPRIATE?**

A. No. Use of the Company's Total Distribution Plan allocation factor has the potential to create significant distortions in the apportionment of Net CapEx adjustments among rate class. Within the Company's filed class cost of service study, responsibilities for distribution plant costs are spread among classes using a number of different allocators. Some plant costs, such as those associated with meters are allocated using factors that reflect numbers of customers. Other costs are allocated using measures of demand by rate class. As long as the mix of new investment by plant type remains reasonably consistent, the Company's approach to the allocation of Net CapEx adjustments may be reasonable. However, there is reason to believe that the mix of future distribution plant additions may depart noticeably from the current mix.[15] If that occurs, the allocation approach that the Company recommends

[15] Reference National Grid's filed AMI plan. Disproportionate increase in customer-related plant costs as well as impacts on distribution O&M expenditures that could noticeably alter the overall allocation of responsibilities for distribution O&M costs by rate class.

may cause significant distortions within the Company's determination of class revenue requirements.

**b. Proposed Net Inflation Adjustments**

**Q. IS THE COMPANY'S PROPOSAL FOR COMPUTING ANNUAL NET INFLATION ADJUSTMENTS REASONABLE?**

A. No. The Company's proposed Net Inflation Adjustment has two major problems. First, the 0.5% fixed "productivity offset" factor that National Grid witness Tierney proposes represents little more than a judgmental estimate from: (1) an array of studies that produce substantially varying results; and (2) rate settlements "*in which the utility companies agreed to* ***incentive regulation plans in which all rates or revenues are capped***…"[16] Second, broad indices of inflation, such as the Gross Domestic Product Price Index ("GDPPI") that the Company proposes to use do not necessarily provide a reasonable or accurate depiction of the distribution O&M cost increases for National Grid's Rhode Island operations.

**Q. WHAT IS YOUR ASSESSMENT OF THE "RECENT STUDIES" UPON WHICH WITNESS TIERNEY RELIES IN DEVELOPING HER PROPOSED PRODUCTIVITY OFFSET FACTOR?**

[16] The Direct Testimony of National Grid witness Tierney at page 84 of 97. (Emphasis Added.)

A. The concept of productivity offsets may be of interest from an academic perspective. But, productivity and productivity offsets are not easily measured. Instead, reliance must be placed on estimates of achieved or achievable levels of productivity where the number of potentially influential variables is large, and limitations on the available data are considerable. In that context, production of reliable estimates of the productivity offsets that can reasonably be expected from real world utility operations given rapidly changing economic, regulatory, and market conditions is an undertaking of questionable merit. The fact that analysts can manipulate data and compute estimates does not make those estimates reasonable or reliable. For these reasons, this Commission must exercise substantial caution when asked to consider the potential use of productivity offset estimates for ratemaking purposes.

**Q. IS THERE ANYTHING IN THE REPORTED RESULTS FOR THE "RECENT STUDIES AND RULINGS" REFERENCED BY WITNESS TIERNEY THAT SUGGESTS PRODUCTIVITY OFFSET VALUES ARE REASONABLY VIEWED AS CONSTANT OVER TIME?**

A. No. To the contrary, the information witness Tierney presents suggests that Energy Distribution Productivity should be expected to vary over time. For example, the Kansas City Power & Light study that witness Tierney references produced estimates of Energy Distribution Productivity for three different period of time and found noticeably different results for each time period. In fact, that study suggests productivity can vary dramatically between time periods. For the period 1994-1998 that study estimates Energy Distribution Productivity at **1.6%**. Yet, for the period

1998-2004 the same study estimated Energy Distribution Productivity at only **0.1%**. Likewise, in the NSTAR settlement the settling parties agreed to a mechanism that provides for increases in the agreed upon "productivity offset mechanism" in which the offset is increased each year for five years.[17]

The Commission should note that even witness Tierney appears to recognize that distribution productivity and productivity offsets are likely to be influenced by changes in "*economic, regulatory, and market conditions*."[18] Moreover, witness Tierney has relied only on recent utility productivity studies (i.e., studies developed from 2003 to the present) "…*so as to capture recent trends in industry productivity, rather than relying upon studies that themselves use data samples taken from periods in which economic, regulatory and market conditions may have differed substantially from those faced by energy distribution utilities at present*."[19] Yet, the most recent period examined in the studies upon which witness Tierney relies analyzed data through 2006.

Given dramatic changes in the overall economy and in energy markets since that time, one must question whether even the recent studies that witness Tierney cites can be considered reflective of current economic, regulatory, and market conditions. In this context, I observe that only two of the eight states in which one or more utilities have currently effective revenue decoupling mechanisms implemented

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[17] Whether the year-to-year increases agreed upon are merely the product of the settlement of compromises involving a broader set of issues or reflect actual or anticipated productivity trends is not discernible from the information provided.

[18] The Direct Testimony of National Grid witness Tierney at page 83 of 97, lines 5-10.

[19] *Ibid*.

those mechanisms prior to 2006. Thus, the periods examined in the "recent studies" to which witness Tierney refers do not appear to depict what witness Tierney would consider the present regulatory environment.

**Q. DO THE RECENT STUDIES THAT WITNESS TIERNEY REFERENCES PROVIDE ANY CLEAR EVIDENCE OF "TRENDS"IN INDUSTRY PRODUCTIVITY?**

A. No, they do not.

**Q. SHOULD RATE SETTLEMENTS IN WHICH PARTIES AGREED TO INCENTIVE REGULATION PLANS IN WHICH ALL RATES OR REVENUES ARE CAPPED HAVE ANY BEARING ON THE COMMISSION'S DETERMINATIONS IN THIS PROCEEDING?**

A. No. The Company's proposals in this case involve neither "*incentive ratemaking*" nor caps on rates or revenues for all classes of customers.

**Q. SHOULD THE FACT THAT THE PRODUCTIVITY OFFSETS ESTABLISHED FOR THREE UTILITIES IN MASSACHUSETTS RANGE BETWEEN 0.41% AND 0.75% BE ACCORDED ANY SIGNIFICANT WEIGHT IN THIS PROCEEDING?**

A. No. The determinations for each of those utilities were made in the context of PBR plans and rate caps for all classes of customers. In addition, the approved factors for two the three Massachusetts utilities listed in witness Tierney's Schedule NG-SFT-4 were the results of settlements.

**Q. ON WHAT BASIS DO YOU QUESTION THE APPROPRIATENESS OF THE INFLATION INDEX THAT NATIONAL GRID PROPOSES TO USE IN THE COMPUTATION OF ITS NET INFLATION ADJUSTMENT?**

A. National indices of price changes such as the GDPPI cannot be relied upon to accurately assess cost increases within a limited market area. The Commission should be cautioned by the fact that neither the Company nor witness Tierney offers evidence of any past correspondence between changes in the GDPPI and changes in the Company's distribution O&M costs. In addition, no demonstration has been made that the mix of items used to compute price changes for the GDPPI is in any way analogous to the mix of products and services that comprise the Company's distribution costs.

In this context, I must also observe that when witness Tierney attempts to depict the Electric Distribution construction cost changes in Figure NG-SFT-10 in her Direct Testimony at page 65 of 97, she uses a Handy-Whitman Distribution Plant cost index for the **North Atlantic Region**,[20] not a national cost index for distribution plant. As the publishers of that data series indicate in the forward to their publication, their indices have be divided into six geographical regions "*to reflect differing cost trends throughout 48 contiguous states*." If costs trends for electric distribution plant differ sufficiently by geographical region to warrant the maintenance of separate cost indices, the Commission should question whether

[20] The North Atlantic Region is one of six regions within the U.S. for which Handy-Whitman electric utility cost indices are published.

electric utility distribution O&M costs reflect equally important differences across regions; and if they do, why has the Company not made a greater effort to assess such differences?

**Q. IS NATIONAL GRID'S APPROACH TO THE ALLOCATION OF REVENUE REQUIREMENTS ASSOCIATED WITH ITS NET INFLATION ADJUSTMENT AMONG RATE CLASSES REASONABLE?**

A. The Company proposes to allocate its Net Inflation Adjustment to revenue requirements based on a total distribution O&M allocation factor. If cost increases are assumed to impact all distribution O&M expenditures in a roughly similar manner (i.e., approximately equal percentage increases), then the Company's proposal would produce reasonable results. However, that is rarely the case. More likely, costs for labor, transportation, and materials will increase at different rates. When that occurs, differences between actual increases and implicitly assumed increases by account and sub-account may tend to grow over time, potentially eroding the cost basis for the Company's rates.

Moreover, given the Company's plans for implementing "smart grid" technology in Rhode Island, the Commission should anticipate that the composition of the Company's distribution O&M costs may experience some noticeable changes in the coming years. Such changes in the composition of National Grid's distribution O&M costs could create further rate inequities.

For the "look back" period this problem could be alleviated to some degree by requiring that actual cost increases be allocated among classes on an account and

subaccount basis, as they are allocated in the Company's filed class cost of service study in this proceeding. Under the Company's proposals in this proceeding it appears that no such allocation of actual distribution O&M costs would be performed as part of the revenue reconciliation process.

For the "look ahead" period, however, cost increases are not identified by account and sub-account, and therefore, a more detailed allocation of allowed distribution cost increases is **not** possible. Yet, as previously noted, the Company's plan for the deployment of AMI could noticeably impact class responsibilities for distribution O&M costs. In addition, the Commission should consider that implementation of AMI could cause changes in Distribution O&M costs that depart significantly from simple inflation based adjustments to costs.[21]

**c. Proposed Net CapEx Adjustments**

**Q. WHY DOES THE COMPANY BELIEVE THAT IMPLEMENTATION OF ITS PROPOSED ADJUSTMENT FOR NET CAPEX IS NECESSARY?**

A. National Grid Witness Tierney suggests that a Net CapEx adjustment is necessitated by the implementation of the proposed revenue decoupling mechanism. She reasons that, since revenue decoupling would return excess revenue due to sales growth to customers through the annual reconciliation process, the

[21] See National Grid's "Smart Grid Pilot Program Proposal, Docket No. 4075, filed July 22, 2009.

Company would be denied a traditional source of funding for utility capital investment between rate cases.[22]

**Q. WOULD ADDITIONS TO THE COMPANY'S RATE BASE MADE AS PART OF THE ANNUAL REVENUE RECONCILIATION PROCESS BE SUBJECT TO PRUDENCY DETERMINATIONS?**

A. According to witness Tierney's testimony at page 78 of 97, each year the Company would file documentation in support of the Net CapEx that has been incurred since the Commission's last review. That information would be provided as part of the Company's annual RDR Plan filing, and the Commission would be expected to review the Company's claimed capital additions and render a determination regarding which of those expenditures are considered "prudent, used and useful." However, in response to Division Data Request No. 6-39, the Company modified it position somewhat suggesting that "*the Commission could retain the opportunity to review capital additions as part of future base rate proceedings, in addition to any review undertaken from year to year*."

**Q. WOULD IT BE REASONABLE FOR THE COMMISSION TO DEFER A DETERMINATION REGARDING THE PRUDENCE OF CAPITAL ADDITIONS UNTIL THE COMPANY'S NEXT BASE RATE CASE?**

[22] Direct Testimony of National Grid witness Tierney at page 78 of 97, lines 10-11.

A. No. The "*prudent, used and useful*" standard is generally understood to require that such determinations be made before costs for capital additions are included in rates. If the Commission should defer determinations regarding the prudence of capital additions, costs for those capital additions not affirmed by the Commission as prudent expenditures would be inappropriate for inclusion in rates. Thus, if the Company's proposal for annual rate adjustments is accepted, sound ratemaking practice would require prudence determinations for all capital additions included in rates each year. This implies that Actual Net CapEx filings would need to include sufficient information to support Commission findings regarding the "*prudent, used, and useful*" nature of each capital addition to be included in rates, not just a listing of capital additions and their costs.

**Q. IS THE PORTION OF COMPANY'S PROPOSAL FOR CURRENT YEAR OR "LOOK AHEAD" NET CAPEX ADJUSTMENTS TO RATES CONSISTENT WITH THE PRUDENT, USED, AND USEFUL STANDARD?**

A. No. That portion of the Company's proposed Net CapEx "look ahead" adjustment to rates which is premised on 75% of the average of the Company's capital expenditures for the past two years does not appear to be consistent with the requirement that plant additions must be "*prudent, used, and useful.*" Once again, the Company's proposal raises the potential that costs would be included in rates for capital expenditures that have not been subjected to the "*prudent, used, and useful*" standard. Furthermore, the Company's proposed tariff language for the Current Year Net Capital Expenditure ("CapEx") Adjustment, does not limit the measures of

prior year capital expenditures used in that determination to include only those costs that have been found to be prudent. As a result, rate adjustments for the "look ahead" period could be premised on capital expenditures that the Commission has found or could find to be inappropriate for inclusion in rates.

**Q. IS IT NECESSARY AND APPROPRIATE FOR NATIONAL GRID TO LINK ITS NET CAPEX PROPOSAL TO ITS REVENUE DECOUPLING PROPOSAL?**

A. No, it is not. Such adjustments to rates could be just as easily implemented through modification of the Company's existing Distribution Adjustment Provision ("DAP"). However, as part of the DAP, that program would most likely still embody most, if not all of the problems discussed above.

**d. Interclass and Intra-class Rate Equity Considerations**

**Q. DO THE COMPANY'S PROPOSALS PROVIDE REASONABLE CONSIDERATION OF INTERCLASS AND INTRA-CLASS RATE EQUITY ISSUES?**

A. No. The focus of the Company's revenue decoupling proposals in this proceeding is unquestionably securing its own recovery of revenue; and as a result, the Company has attributed at best a secondary priority to interclass and intra-class rate equity issues.

**Q. HOW DOES THE COMPANY'S REVENUE DECOUPLING RATEMAKING PLAN IMPACT INTERCLASS RATE EQUITY CONSIDERATIONS?**

A. The proposal to use a single uniform cents-per-kWh rate adjustment for all classes as part of its revenue reconciliation process greatly increases the potential for shifting revenue requirements among classes of service in a manner that is not supported by or consistent with National Grid's costs of providing service. Although the Company would allocate revenue requirements associated with changes in CapEx costs and distribution O&M costs among classes in a manner that has at least some ties to past cost incurrence patterns, those allocations would be essentially ignored in the revenue reconciliation process.

Let us assume, for illustrative purposes, that one rate class (Class A) produces revenue that more than recovers its allocated costs plus revenue requirements associated with Net CapEx and Net Inflation adjustments. Assume also that another rate class (Class B) produces revenue that falls well short of its fully allocated revenue requirements. Under the Company's proposal for a uniform cents-per-kWh adjustment to the rates for all classes, Class A would be called upon to absorb at least a portion of the revenue shortfall for class B, and thereby further subsidize service provided to Class B. Moreover, it appears possible, if not likely, that the adjustment mechanism National Grid proposes would allow differences between actual revenues for a class and allocated class revenue requirements to grow without limits between rate cases. As a result, long periods between rate cases filings could be expected to widen disparities in class rates of return.

In addition, National Grid's proposal for a uniform cents-per-kWh adjustment to the rates for all classes will result in those classes having higher load factor operations being called upon to absorb disproportionate share of revenue reconciliation revenue requirements. Such adjustments do not appear to be either cost-based or consistent with the encouragement of energy efficiency.

**Q. IS THE COMPANY'S REVENUE DECOUPLING RATEMAKING PLAN LIKELY TO IMPACT INTRA-CLASS RATE EQUITY?**

A. Yes. Recovery of all reconciliation adjustments through a uniform cents-per-kWh charge for all classes will place a disproportionate share of the burden for such adjustments on customers within each class that have comparatively large kWh requirements, regardless of their load factors or the comparative efficiency of their energy use.

**Q. WOULD A REVENUE DECOUPLING MECHANISM, BASED ON USAGE PER CUSTOMER AND THE APPLICATION OF A SEPARATE CENTS-PER-KWH REVENUE RECONCILIATION ADJUSTMENT FOR EACH RATE CLASS, BE PREFERABLE TO THAT WHICH NATIONAL GRID HAS PROPOSED IN THIS PROCEEDING?**

A. No. Both alternatives can produce highly inequitable rate impacts. The problems associated with a class-by-class reconciliation appear to have been the primary reason the MDPU decided to turn to use of a single reconciliation factor for all

classes. But, as **Schedule DIV-BRO-2** illustrates, the alternative chosen by the MDPU does not work for National Grid's Rhode Island service territory.

**Q. NATIONAL GRID SUGGESTS THAT APPLYING ANNUAL REVENUE RECONCILIATION ADJUSTMENTS ON A UNIFORM CENTS-PER-KWH BASIS FOR ALL RATE CLASSES WILL ADEQUATELY ADDRESS CONCERNS THAT CLASS-BY-CLASS RECONCILIATIONS COULD ADVERSELY IMPACT CUSTOMERS IN SMALL HETEROGENEOUS RATE CLASSES. DO YOU AGREE?**

A. No. The concern that customers in rate classes having either small numbers of customers and/or heterogeneous usage characteristics could be adversely impacted by revenue reconciliations that are performed on a class-by-class basis is valid, but the application of uniform cents-per-kWh adjustments for all rate classes does **not** provide a reasonable or appropriate solution for the Company's Rhode Island rate classifications.

To support the Company's uniform cents-per-kWh approach to recovering/refunding past over- or under-recoveries of annual target revenue, National Grid and witness Tierney have relied on a Massachusetts Department of Public Utilities ("MDPU") determination based on "*comments*" filed in a generic revenue decoupling proceeding. Unfortunately, National Grid did not perform any analysis of National Grid's Rhode Island rates in formulating that recommendation.[23] Had it undertaken a basic assessment of the impacts of its proposal on rates by class of service, the

[23] National Grid's response to Division Data Request 6-4.

Company would have identified important concerns regarding the equity of the methodology that it has recommended.

As demonstrated by the analysis in **Schedule DIV-BRO-1**, neither the Company's current rates, nor its proposed rates, in this proceeding are uniform across classes. Rather, average distribution rates for Residential and Small Commercial rate classifications in cents-per-kWh are three to four times larger than the average rate levels for medium and large Commercial and Industrial ("C&I) customer rate classifications. As a result, uniform cents-per-kWh revenue adjustments would have significantly larger percentage rate impacts on the Company's medium and large C&I customers without regard to either the source of revenue over- or under-collections or the relationship between actual revenue and the Company's costs of providing service by rate class.

**Q. DO YOU AGREE WITH THE COMPANY'S POSITION REGARDING THE NEED FOR, AND APROPRIATENESS OF, REVENUE DECOUPLING?**

A. No, I do not. I specifically disagree with the Company on a number of key points:

- Decoupling is not necessary for utilities to encourage conservation and energy efficiency. Most utilities actively encourage customers to consider the installation of more energy efficient appliances and have not been impeding customer efforts to pursue energy efficiency. National Grid is no exception. The Company's existing Demand-Side Management (DSM) programs are examples of utility efforts to advance energy efficiency in the absence of revenue decoupling. In addition, the Company has a history of providing information to consumers regarding advantages of Energy Star rated appliances and the installation of more energy efficient lighting equipment.

- Contrary to the Company's representations the Commission **cannot** rely on revenue decoupling to reduce volatility in its rates for electric service.

- The Company has provided no sound basis for this Commission to conclude that its Revenue Decoupling Rate Plan will either reduce frequency of rate cases or lower the costs of regulation. Rather, the Company's proposals will require substantial on-going activity with little or no opportunity for the Commission to view the Company's costs and revenues from a holistic perspective. Moreover, if this Commission is to reasonably ensure fairness and equity in the determination of class revenue requirements, the Company's revenue decoupling proposal may require more frequent, rather than less frequent, rate cases to insure that rates charge by class of service do not move dramatically away from the Company's cost of service by rate class.

- All revenue decoupling mechanisms are not the same. The RDR plan for which National Grid seeks approval in this proceeding, with its annual adjustments to target revenues, mitigates significantly greater risk for the Company than a mechanism which only reconciles revenue collections to the level of revenue approved by the Commission in the Company's last rate case. .

In essence, the case that National Grid presents for adoption of its RDR Plan and its RDM is far from compelling.

***e. Administrative Considerations***

**Q. CAN THE COMPANY'S PROPOSED REVENUE DECOUPLING PLAN BE RELIED UPON TO REDUCE THE FREQUENCY OF RATE CASES?**

A. No. To the contrary, it should be anticipated that a full examination of the Company's rates will be necessary at least every three to four year to ensure that

revenue requirements, costs of service, and the structure of charges for each rate class maintain reasonable and equitable relationships.

**Q. WOULD A REDUCED FREQUENCY OF BASE RATE CASES BE EXPECTED TO BENEFIT RATEPAYERS?**

A. No. First, base rate investigations are generally cost-effective activities from a ratepayer perspective. Rarely, do the overall costs of litigating rate cases exceed the difference between the amount of revenue requested by a utility and the amount of the revenue increase that is ultimately granted the utility. As long as that relationship prevails, ratepayers are not harmed by the Company's filing of regular base rate proceedings.

Second, although the Company's revenue decoupling ratemaking plan may reduce risk and assure revenue growth over time for National Grid, it would not ensure the maintenance of reasonable relationships between costs of service and rates for Rhode Island consumers. However, both interclass and intra-class measures of rate equity are likely to be adversely affected between rate cases.

**Q. SHOULD THE COMMISSION EXPECT THAT IMPLEMENTATION OF REVENUE DECOUPLING WILL REDUCE OVERALL REGULATORY EXPENSES FOR THE COMPANY, THE COMMISSION, THE DIVISION, AND OTHER RATE CASE PARTICIPANTS?**

A. No. The number of additional annual filings that the Division and the Commission will be required to review coupled with little, if any, change in the anticipated frequency of base rate cases will tend to increase, rather than decrease regulatory expenses for all parties.

**Q. DO YOU HAVE ANY FURTHER CONCERNS REGARDING THE ADMINISTRATIVE ASPECTS OF NATIONAL GRID'S PROPOSALS IN THIS PROCEEDING?**

A. Yes. I have at least two additional concerns.

The first concern relates to the tariff language that National Grid proposes for its Revenue Decoupling Mechanism. Within the Company's proposed tariff, all details of the calculations that the Company intends to use in such a mechanism should be fully articulated in the provisions of the proposed mechanism that would be part of the Company's tariff. I note, for example, that the proposed provisions of the Revenue Decoupling Mechanism Provision, as set forth in Schedule NG-HSG-11,[24] makes no reference to the accrual of interest on deferred revenue balances. However, the Direct Testimony of witness Tierney at page 77 and the Company's response to Division Data Request No. 6-37.a., both suggest National Grid's intent to apply interest to such balances. In addition, National Grid's response to Division Data Request No. 6-37.a., suggests that reconciliations and interest computations

[24] See page 8, Book 7 of 9, of the Company's June 1, 2009 filing in this proceeding.

will be performed on a monthly basis, yet the proposed tariff language makes no reference to monthly reconciliations and/or monthly interest computations.

Second, if the Company's proposals are adopted, the number of annual filings (gas and electric) that the Commission and the Division will be required to review, often on a comparatively expedited bases, in the second half of each year will increase significantly. Whether all the proposed filings can be reasonably and appropriately reviewed within the allotted time schedules is a matter of concern to the Division.

***f. Other Impacts of National Grid's Revenue Decoupling Proposal***

**Q. WILL REVENUE DECOUPLING HAVE A SIGNIFICANT IMPACT ON THE EXPANSION OF NATIONAL GRID'S ENERGY EFFICIENCY PROGRAMS?**

A. No. Most of the energy efficiency programs that National Grid has undertaken to date have been pursued in response to legislative mandates. The Company can be expected to continue to pursue such programs regardless of whether additional revenue decoupling is approved by the Commission in this proceeding.

**Q. WILL REVENUE DECOUPLING ADVERSELY IMPACT CUSTOMER INITIATED ENERGY EFFICIENCY?**

A. Yes. The proposed reconciliation would further distort customers' perceptions of the relationship between energy usage and monthly billed charges for electric service.

This could increase payback periods on any energy efficiency investments by diluting the value of kWh or kW reductions. This disincentive inherent in full revenue decoupling schemes is ignored in the Company's assessments of the merits of its revenue decoupling proposal. It may also impact the magnitude energy efficiency-based reductions in usage attributable to both existing and new energy efficiency programs in future periods.

**3. Revenue Decoupling Recommendations**

**Q. SHOULD THE COMMISSION APPROVE NATIONAL GRID'S PROPOSED REVENUE DECOUPLING RATE PLAN (RDR) AND REVENUE DECOUPLING MECHANISM (RDM)?**

A. No. Based on the foregoing considerations, the Commission should reject both the proposed RDR plan and RDM. In doing so, the Commission should conclude that the Company's revenue decoupling proposals are inappropriate and inequitable and represent unjustified departures from traditional ratemaking practices and principles.

**Q. ACCEPTING *ARGUENDO* THAT THE COMMISSION APPROVES NATIONAL GRID'S PROPOSED REVENUE DECOUPLING RATE PLAN (RDR) AND REVENUE DECOUPLING MECHANISM (RDM), ARE THOSE PROPOSALS APPROPRIATE FOR IMPLEMENTATION AS PRESENTED?**

A. No. Any revenue decoupling mechanism approved for National Grid's Rhode Island operations should:

1. Be limited to an annual reconciliation of actual and approved base rate revenue and not allow for adjustments to revenue targets between base rate proceedings;

2. Specifically bar speculative adjustments to the Company's revenue requirements based on broad cost indices and/or questionable estimates of possible productivity improvements.

3. Limit annual rate impacts from such adjustments to not more than 10% of the Company's base rate revenue requirement for each rate class with a provision that any amount in excess of that limit would be deferred with interest for recovery/refund in future periods.[25]

4. Be coupled with a reduction in the Company's authorized return on equity ("ROE") to reflect the impact of such a mechanism on the Company's risk profile and return requirements as explained in the testimony of Division witness Matthew Kahal.

## B. ECONOMIC DEVELOPMENT

**Q. DOES THE CURRENT STATE OF THE ECONOMY IN RHODE ISLAND SUGGEST THAT MORE ECONOMIC DEVELOPMENT ACTIVITY MAY BE JUSTIFIED?**

A. Yes. But, given the depth of the current economic recession, few businesses, governments, or individuals can afford additional electric service charges to fund speculative benefits from inadequately designed economic development programs.

[25] In the event that the deferred revenue balance for a rate class reaches a level that cannot reasonably be expected to be eliminated over a few years through the normal operation the mechanism the Company may in a subsequent base rate case ask the Commission to consider either an adjustment of the 10% rate adjustment cap for the class or redistribution of some or all of the deferred balance to other classes.

Thus, this Commission must use its oversight to ensure that any ratepayer-funded economic development programs represent cost-effective expenditures.

***1. National Grid's Economic Development Proposal***

**Q. HOW IS NATIONAL GRID'S PROPOSED ECONOMIC DEVELOPMENT PROGRAM STRUCTURED?**

A. The testimony of National Grid witness Fields indicates that the Company proposes an Economic Development Pilot Program that would have three components:

- A Targeted Infrastructure Improvement program;
- An Urban Revitalization program; and
- A Strategic Business Development program.[26]

**Q. WHAT DOES NATIONAL GRID OFFER AS THE OBJECTIVES OF ITS PROPOSED ECONOMIC DEVELOPMENT PROGRAMS?**

A. Witness Fields states the Company's desire in offering its proposed economic development programs is to "*help create jobs, attract new business, and assist in retaining and helping existing businesses expand*."[27]

**Q. WHAT IS THE LEVEL OF FUNDING THAT NATIONAL GRID REQUESTS FOR ITS ECONOMIC DEVELOPMENT PROGRAM?**

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[26] The Direct Testimony of National Grid witness Carmen Fields at page 3 of 15, lines 3-8.

[27] *Ibid*, page 6 of 15, lines 17-18.

A. The Company seeks approval of $1.0 million annually as part of its revenue request in this proceeding. That annual funding would be allocated among the three components of its overall program proposal as follows:[28]

| | |
|---|---|
| Targeted Infrastructure Improvement program | $400,000 per year |
| An Urban Revitalization program | $400,000 per year |
| A Strategic Business Development program | $200,000 per year |

**Q. HOW DOES NATIONAL GRID PLAN TO IMPLEMENT ITS PROPOSED ECONOMIC DEVELOPMENT PROGRAMS?**

A. Assuming it receives approval of its proposals, National Grid plans to engage in a 180-day collaborative process prior to actual program implementation. That 180-day collaborative process would be intended to "*identify specific initiatives that will best complement existing economic development programs*,"[29] The Company expects that such a collaborative process would commence in March 2010 with the first 90 days focused on "*information gathering and program development*" and the second 90 days used for refining the Company's program proposal and obtaining Commission approval.[30] National Grid does not expect to commence actual

[28] *Ibid*, page 11 of 15, lines 15-16; page 12 of 15, line 17; and page 13 of 15, lines 19-20.

[29] *Ibid*, page 8 of 15, lines 17-18.

[30] National Grid's response to Division Data Request 16-14.

implementation of any of its proposed Economic Development Pilot Programs until September of 2010.[31]

**Q. WOULD THE COMPANY BEAR ANY OF THE COSTS OF THE ECONOMIC DEVELOPMENT GRANTS THAT IT PROPOSES TO OFFER?**

A. No, it would not. National Grid proposes that the proposed economic development grants would be fully ratepayer funded.

***2. Analysis of the Company's Proposal***

**Q. HAVE UTILITY-SPONSORED ECONOMIC DEVELOPMENT PROGRAMS BEEN UTILIZED IN OTHER JURISDICTIONS?**

A. Yes. However the parameters of those programs have varied considerably. Some are offered broadly across a utility's entire service territory while others are targeted to either specific sizes or types of customers or specific portions of the utility's service territory (e.g., economic development zones). Most utility economic development offerings also include some form of rate discount.

**Q. DOES NATIONAL GRID CURRENTLY OFFER ECONOMIC DEVELOPMENT PROGRAMS IN RHODE ISLAND?**

A. No.

[31] National Grid's response to Division Data Request 16-13.c. and d.

**Q. HAVE ECONOMIC DEVELOPMENT PROGRAMS PREVIOUSLY BEEN EMPLOYED IN RHODE ISLAND?**

A. Yes, but it appears that such programs pre-dated National Grid's ownership of electric operations in Rhode Island.

**Q. WHY HAS NATIONAL GRID NOT PREVIOUSLY PROPOSED ECONOMIC DEVILOPMENT PROGRAMS FOR RHODE ISLAND?**

A. According to witness Fields' response to a data request propounded by the Division:

> "*Until the National Grid-Niagara Mohawk 2002 merger in upstate New York, the Company's New England territory did not have recent experience with economic development programs*."[32]

Ms. Fields also represents that the Company now recognizes the benefits of its programs in New York State, and wants to pursue similar programs throughout its U.S. service territories.

**Q. DOES NATIONAL GRID'S PROPOSED ECONOMIC DEVELOPMENT PROGRAM PROVIDE A TIMELY STIMULUS FOR THE RHODE ISLAND ECONOMY?**

A. No. The Company indicates that if the Commission accepts National Grid's Economic Development proposals as presented, actual implementation would not

[32] National Grid's response to Division Data Request 16-2.

being until September 1, 2010.[33] That would be nearly a year from the time of the preparation of this testimony and a year and half after the Company first submitted testimony in this proceeding recognizing the significant impacts of the recent financial crisis and current economic recession on the Rhode Island economy.[34]

**Q. WHY WOULD THE COMPANY NEED UNTIL SEPTEMBER 2010 TO BEGIN IMPLEMENTING IS PROPOSED PILOT ECONOMIC DEVELOPMENT PROGRAM?**

A. The simple answer is that the Company feels that it has more work to do in terms of developing the details of its proposed programs before it will be in a position to seek Commission approval of specific Economic Development offerings. According to witness Fields, "***The Company would not be fully prepared to implement any new grant programs without the aid of a collaborative process***."[35]

**Q. WHAT WOULD BE THE DURATION OF THE COMPANY'S PROPOSED ECONOMIC DEVELOPMENT PILOT PROGRAM?**

A. Three months.

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[33] National Grid's response to Division Data Request 16-13.a.

[34] See the Direct Testimony of National Grid witness Carmen Fields at page 4 of 15, lines 3-13.

[35] National Grid's response to Division Data Request 16-14. The Company's plan provides for a 180-day collaborative process to be initiated in March 2010 with the first 90 days of that process dedicated primarily to information gathering and program development. During the second 90-day period, the Company's program proposal would be refined and submitted for Commission approval. Apparently, National Grid expects that the Commission will provide expedited consideration of its revised and refined Economic Development Program plans, and therefore, implementation could commence by September 1, 2010. Depending on how long it takes the Company to prepare and submit its revised program plans, this schedule may or may not be achievable.

Although the Company does not expect to commence implementation of its proposed Economic Development Pilot Programs until September 1, 2010, witness Fields indicates , "*The program would be considered a 'non-pilot' program if and when the Company receives approval for programs effective in 2011 and beyond.*"[36] Thus, the Company's timetable would allow only three months for implementation and essentially no time for analysis of actual program implementation efforts before converting its proposed "pilot" to a program of more permanent status.

**Q. SHOULD THE COMMISSION BE OPPOSED TO NATIONAL GRID'S PARTICIPATION IN A COLLABORATIVE PROCESS TO REFINE ITS ECONOMIC DEVELOPMENT PROPOSALS?**

A. No. However, the Commission should refrain from approving funds for the program's components outlined in witness Field's testimony until details of those programs are refined and the Company presents that detail, along with appropriate cost-benefit analyses for regulatory review. Furthermore, I must admit some surprise that National Grid, with all of its experience in New York and with a seat on the board of RIEDC,[37] was not able to present more detailed and refined proposals as part of its direct testimony in this proceeding.

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36 National Grid's response to Division Data Request 16-10.a.

37 See National Grid's response to Division Data Request 16-7.a.

**Q. WILL THE COMPANY AND ITS SHAREHOLDER BENEFIT FROM THE OFFERING OF ECONOMIC DEVELOPMENT PROGRAMS?**

A. In the absence of full revenue decoupling, it would be expected that economic development programs would provide an increment to the Company's earnings. As suggested by an article attached to the Company's response to Division Data Request 16.3 which is titled, "*'Partnering for Success' – Revitalized Economic Development Adds Value to the Bottom Line*," economic development programs are generally understood to add to the Company's profitability. However, if the Company is permitted to implement its revenue decoupling proposal any expansion of economic activity in the State as a result of such programs would serve primarily to lessen the magnitude of the annual rate increases that customers might otherwise anticipate.

**Q. DOES THE COMPANY PROVIDE ANY BASIS FOR ITS ALLOCATION OF ITS REQUESTED $1.0 MILLION PER YEAR OF ECONOMIC DEVELOPMENT FUNDING AMONG ITS PROPOSED PROGRAM COMPONENTS?**

A. No. Nothing in the materials that National Grid has submitted to date provides any basis for the allocation of funds that witness Fields presents. Furthermore, given that the details of specific programs for Rhode Island will not be known until the Company completes it's proposed "*180-day collaborative process,*" any allocation of funding among the general components of National Grid's Economic Development Program proposal appears arbitrary and pre-mature.

**Q. WHO WILL BEAR THE COSTS OF THE COLLABORATIVE PROCESS IN WHICH NATIONAL GRID PROPOSES TO ENGAGE?**

A. The Company indicates that it intends to "*take responsibility for the costs of its participation in the collaborative process*."[38] However, that statement is unclear as to whether it is meant to imply that its participation in the collaborative process will be funded through rates or absorbed by its shareholder.

**Q. DOES NATIONAL GRID PROPOSE TO OFFER RATE DISCOUNTS AS PART OF ITS ECONOMIC DEVELOPMENT PROGRAM OFFERINGS IN RHODE ISLAND?**

A. No. Witness Fields indicates that although the National Grid offers rate discount programs in both its Upstate New York and Metro New York service territories, "*the Company is not seeking to include any energy price incentive programs in its proposals in this case*."[39] The Company's proposals call for the use of "grants" as the primary, if not the exclusive, means of conveying economic development incentives to existing or potential customers.

**Q. HAS THE COMPANY OFFERED ANY ECONOMIC OR FINANCIAL JUSTIFICATION FOR ITS PREFERENCE FOR THE USE OF "GRANTS" AS OPPOSED TO RATE DISCOUNTS AS THE MEANS OF PROVIDING ECONOMIC DEVELOPMENT INCENTIVES?**

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[38] National Grid's response to Division Data Request

A. No, it has not. The Company's rationale for its preference for a "grant" to distribute economic development funds is premised on the following:

- The Company's belief that rate discount programs are "*very complex and costly to develop*;"
- "*Energy discounts can provide disincentive for some customers to pursue energy efficiency measures*;"
- Energy discount programs limit the Company's flexibility "*to address a wide range of economic development opportunities – some directly with customers, and others in cooperation with state and local economic development entities*."[40]

**Q. HAS NATIONAL GRID PROVIDED ANY QUANTITATIVE SUPPORT FOR ITS BELIEF THAT RATE DISCOUNT PROGRAMS ARE "VERY COMPLEX AND COSTLY TO DEVELOP"?**

A. No, it has not. Moreover, that belief appears to be undermined by the number of other utilities that have implemented Economic Development rate discount programs over the years.

**Q. THE COMPANY SUGGESTS IN RESPONSE TO DIVISION DATA REQUEST 16-9 THAT ENERGY DISCOUNTS CAN PROVIDE A DISINCENTIVE FOR SOME CUSTOMERS TO PURSUE ENERGY EFFICIENCY MEASURES. DO YOU AGREE?**

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39 The Direct Testimony of National Grid witness Carmen Fields at page 6 of 15, lines 8-10.

40 National Grid's response to Division Data Request 16-9.

A. Not entirely. Although conceptually Ms. Fields may be correct, I do not agree that the rationale she offers in support of the Company's position provides adequate or appropriate basis for excluding consideration of rate discount programs as part of the Company's Economic Development Program proposals. The Commission should recognize that charges for distribution service represent a comparatively small portion of customers' total bills, and it would take a rather large discount from standard distribution service charges to have a significant impact on customers' energy consumption decisions. This is particularly true for the types of commercial and industrial establishments to whom economic development programs are generally targeted. As long as offered rate discounts are limited to the distribution service portion of the charges on bills of program participants, the benefits to the Rhode Island economy from a well-structure economic development rate discount may well offset any unintended incentives for increased energy use.

Moreover, National Grid has indicated that its concept is to encourage economic development in a manner consistent with energy conservation goals.[41] If focus on that objective is maintained the conveyance of economic development incentives through distribution rate discounts need not be inconsistent with an overall objective of reducing energy use.

**Q. ARE THERE OTHER CONSIDERATIONS THAT MAY FAVOR THE USE OF RATE DISCOUNTS TO ENCOURAGE ECONOMIC DEVELOPMENT?**

[41] The Direct Testimony of National Grid witness Fields at page 7 of 15, lines 9-11.

A. Yes. If customers are provided "grants" as incentives for economic development, the Company may have no means of ensuring that benefits will continue after grant funds are disbursed. A rate discount program can be used to ensure that recipients of economic development incentives remain active and engaged in the Company's service area over a period of time.

**Q. DO YOU HAVE ANY FURTHER CONCERNS REGARDING THE COMPANY'S PROPOSED ECONOMIC DEVELOPMENT PROGRAM?**

A. Yes, I have several.

First, National Grid offers no cost-benefit analysis in support of its Economic Development proposals. Given the current economic environment, it is important that the burdens placed on ratepayers by such programs are not unnecessarily increased by economic development spending that fails to produce sufficient benefits to justify the costs incurred to pursue those programs. It is only reasonable and appropriate that the costs and benefits of such programs be fully considered by the Commission before each increment of economic develop funding is approved. This is particularly important where significant portions of the programs that the Company plans to undertake are duplicative of programs already being pursued by other entities, such as RIEDC.[42]

Second, the Company's proposals for regulatory oversight of its proposed Economic Development Program are somewhat problematic. Witness Fields states

[42] **Schedule DIV-BRO-3** provides a listing of economic development incentives currently available to businesses in Rhode Island. (The list is rather extensive.)

that, *The Company proposes an oversight process that includes both pre-approval of each year's economic development pilot programs and an evaluation of the previous year's Pilot activities*. She also offers a proposed schedule for annual filings and a schedule for Commission review of program proposals for the next year's activities. That schedule provides the Division and the Commission at best limited time to review the experience for the current year and evaluate program proposals for the next year.

Third, the Company has not provided any substantial detail regarding the costs it would incur for its economic development activities. National Grid provides no information on its anticipated costs planning, administration, and evaluation of its economic development programs, and leaves unanswered important questions regarding how much of the funding it requests would represent payments of grants to program participants and much would be used to support planning, administration and evaluation of those programs.

Fourth, the Company indicates that it will "*take responsibility for the costs of its participation in the collaborative process*."[43] But, the proposals that National Grid presents provide no safeguards against the diversion of funds intended for economic development grants to other purposes. Nor does it explain the manner in which Economic Development program costs will be identified and segregated from other distribution utility costs. If National Grid intends to use ratepayer funds to support its participation in its proposed collaborative process, then the Company should be

[43] National Grid's response to Division Data Request No. 16-13.f.

required to (a) provide a budget for those activities, (b) identify more specifically the source of funds that it intends to use, and (c) provide greater detail regarding the manner in which it will account for the costs it incurs as part of such a collaborative process.

Fifth, National Grid represents itself as a leader in the area of renewable energy, but "[t]*he Company currently is not participating in any alternative energy projects in Rhode Island, other than facilitating interconnections for customer-owned projects*."[44]

Finally, if the Company's electric ratepayers are to be called upon to fund economic development efforts:

- The programs should be structured to ensure that **ratepayers** derive positive net benefits from those expenditures; and

- Their funding of such activities should be explicitly recognized in all communications relating to those programs.[45]

[44] National Grid's response to Division Data Request 16-6.

[45] Where ratepayers are required to provide the funding and grants represent the primary form of incentives to be used, the offering of grants should not be a vehicle for the utility or National Grid, U.S.A. to foster its own public relations objectives.

***3. Economic Development Recommendations***

**Q. SHOULD THE COMMISSION FIND THAT THE COMPANY'S ECONOMIC DEVELOPMENT PROPOSAL IN THIS PROCEEDING REPRESENTS A WELL-CONCIEVED AND COST-EFFECTIVE USE OF RATEPAYER FUNDS?**

A. No. Witness Fields attempts to characterize the Company's economic development proposals in this proceeding as "*comprehensive*."[46] However, the comprehensive attributes of National Grid's proposal are at best conceptual. The reality is that, despite the existence of strong leadership within the state on economic development matters by the Rhode Island Economic Development Corporation ("RIEDC") and others,[47] National Grid's planning of its Economic Development Programs for Rhode Island is in its infancy.

At this point the Company's Economic Development Program constitutes little more than **a plan to develop a plan**. The RIEDC has already initiated collaborative efforts to foster economic development within the state, and appears to have a coordinated and well-develop effort to spur economic development within the state.[48] By contrast, National Grid has demonstrated nothing new that it is bringing to the table at this time, except perhaps ratepayer funding. Although National Grid represents itself as a leader in economic development within the utility sector, it has come to the Commission in this proceeding with: (1) a dearth of specifics regarding

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46 National Grid's response to Division Data Request 16-14.

47 See National Grid's response to Division Data Request 16-7.a.

48 See the RIEDC website, http://www.riedc.com/

the manner in which it can reasonably and appropriately provide timely and productive stimulation of the economy within its Rhode Island service territory; and (2) an alarming lack of information regarding the economic development needs of Rhode Island.

It is particularly notable that:

- Although the Company's Targeted Infrastructure Improvement program is intended to provide energy infrastructure to **"fast track"** development, the Company has **not** as of this time compiled a list of "shovel ready" industrial sites and buildings in its Rhode Island service territory;[49]

- "*The Company has not compiled a list of current issues involving customers whose electric infrastructure is a barrier to their growth or retention*."[50]

- The Company has not identified any sites as"brownfield" sites within its Rhode Island service territory that would be targeted for inclusion in its economic development programs, and "*the Company has not yet compiled a list of vacant or underutilized structures in its Rhode Island service territory*."[51]

- The Company has provided no budget or estimate of the costs that it will incur either for (a) implementation and administration of its proposed Economic Development Program or (b) the proposed collaborative process;[52]

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[49] National Grid Response to Data Request DIV 16-4.e.

[50] National Grid Response to Data Request DIV 16-18.a.

[51] National Grid Response to Data Request DIV 16-21.a. The lack of development of budgets for such activities is a serious concern given that the Company's response to Division Data Request 16-16 indicates National Grid has expended $8.4 million since 2003 (i.e., **an average of well over a million dollars per year**) in support of its economic development programs in New York State, **not counting** the value of economic development incentives made in the form of grants, rate discount amounts, or labor overheads such as pensions and benefits.

[52] National Grid Response to Data Request DIV 16-13.e.

- The Company has not identified any potentially eligible applicants for its proposed "*Urban Revitalization Program*;"[53]

- "*The Company expects that, as part of the proposed collaborative program development process,* ***the Company will learn about Rhode Island's economic development strategies*** *related to* [renewable energy and life sciences] – *and potentially of the advanced manufacturing and R&D sectors…*"[54] (Emphasis Added.)

- The Company offers no specific cost-benefit framework for evaluating proposed programs at this time;[55] and

- The Company presents no specific recommendations regarding the manner in which it intends to ensure that grant funds disbursed as part of its proposed programs will actually produce anticipated benefits, both initially and over time.

**Q. ARE THERE OTHER ACTIONS THAT MIGHT FOSTER ECONOMIC DEVELOPMENT EFFORTS WITHIN RHODE ISLAND?**

A. National Grid could develop cost-based distribution rate alternatives that would provide incentives for economic development while encouraging increased utilization of the Company's existing electric system facilities in Rhode Island. To ensure that such an offering is consistent with energy efficiency objectives, eligibility for such rate discounts could be conditioned upon the recipient of rate discounts agreeing to either implement energy efficiency measures, utilize renewable energy resources, or

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[53] See National Grid Response to Data Request DIV 16-22. As stated therein, "*The Company plans to become* ***more familiar*** *with the universe of potential projects and grant applicants over the next several months*." (Emphasis Added.)

[54] National Grid Response to Data Request DIV 16-23.b. Also, the Commission should note that the information that the Company presents regarding its proposed "Strategic Business Development" initiatives does not go significantly beyond the information readily available on the RIEDC website.

[55] National Grid Response to Data Request DIV 16-24.c.(i). As stated therein, "*The Company will work with interested parties to identify appropriate evaluation criteria*."

achieve a load factor that is greater than the current system average load factor. Furthermore, such rate discounts should only be applicable to new load added to the system.

**C. UNCOLLECTIBLE ACCOUNTS EXPENSE RECOVERY**

**Q. HAVE YOU REVIEWED THE PORTION OF THE DIRECT TESTIMONY OF NATIONAL GRID WITNESS WYNTER THAT ADDRESSES THE COMPANY'S PROPOSALS FOR RECOVERY OF COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE?**

A. Yes, I have.

**Q. HOW DOES NATIONAL GRID PROPOSE TO RECOVER COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE?**

A. As explained in the Direct Testimony of National Grid witnesses Wynter and O'Brien, the Company seeks to recover commodity-related uncollectible accounts expense through a fully reconciling rate adjustment mechanism that would be part of National Grid's annual adjustment mechanism for its Standard Offer Service (SOS) rates. Language for the Company's proposed "Standard Offer Adjustment Provision" is presented in witness Wynter's Schedule NG-RLW-3, as well as Schedules NG-HSG-11 and NG-HSG-12. Witness Wynter also states that the initial level of the commodity-related uncollectible accounts expense to be recovered through the

"Standard Offer Adjustment Provision" would be set at the level the Company has estimated for calendar year 2008. Witness O'Brien's Schedule NG-RLO-6, Page 2 shows that Bad Debt Expense attributable to commodity service would be included as part of the Standard Office Service Administrative Costs, along with procurement costs and cash working capital.

**Q. WITNESS WYNTER ASSERTS THAT THE COMPANY'S PROPOSAL FOR THE RECOVERY OF COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE IS CONSISTENT WITH THE TREATMENT THAT THE COMMISSION PROVIDES ITS GAS DIVISION FOR COMMODITY-RELATED BAD DEBT EXPENSE. DO YOU AGREE?**

A. No. I agree that the Company's Gas Division is permitted to recover bad debt expense through Gas Cost Recovery ("GCR") commodity charges. I do not agree that the proposal National Grid set forth in this proceeding is consistent with the Commission's determinations regarding the Gas Division's recovery of commodity-related bad debt expense.

**Q. IN WHAT MANNER DOES THE COMPANY'S PROPOSAL FOR RECOVERY OF COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE IN THIS PROCEEDING DIFFER FROM THE TREATMENT ACCORDED COMMODITY-RELATED BAD DEBT EXPENSE FOR THE GAS DIVISION?**

A. The key difference is found in the manner in which the level of the uncollectible expense to be recovered through commodity-related charges is determined. The mechanism National Grid proposes in this proceeding would be fully reconciling on an annual basis. As a result, customer could experience considerable year-to-year fluctuations in the percentage of total commodity-related charges that represents commodity-related uncollectible accounts expense. The Commission's final order In Docket No. 3943 found as follows:

> *"The Commission finds that a bad debt ratio of 2.46% for base rates is supported by the record. The Commission declines, however, to approve the proposed gas cost-related bad debt reconciling mechanism. The Commission has historically used a multi-year average of the Company's actual experience in base rates in order to mitigate year to year variations, and finds that annual reconciliation of commodity-related bad debt cost is not in the best interest of ratepayers because it has the potential to amplify price volatility for customers. Ex. DIV-3 at 74-75, 79 (Oliver). Fixing the commodity-related bad debt ratio in base rates is not inconsistent with the Commission's treatment of commodity costs, which are recovered on a pass-through basis, because the Company has the ability to develop and implement measures to lower the uncollectible ratio."*[56]

Thus, the Commission's determination in Docket No. 3943 does not provide for the GCR charges to be adjusted each year to reflect the full level of the prior year's uncollectible accounts experience.

**Q. IS NATIONAL GRID'S REQUEST TO RECOVER COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE THROUGH AN ADJUSTMENT TO ITS STANDARD OFFER SERVICE RATES REASONABLE?**

A. Recognition of commodity-related uncollectible expenses through an adjustment to SOS rates may be appropriate if implemented in an appropriate and administratively efficient manner. In fact, National Grid's Gas Division currently does so through the calculation of the Gas Cost Recovery (GCR) rate. In the Company's Gas Division base rate proceeding (Docket 3943), the issue of the manner in which the Company recovers commodity-related uncollectible accounts expenses was reviewed by the Commission, and the Commission reaffirmed the procedure through which the Gas Division recovers its commodity-related uncollectible accounts expense.[57]

The Division of Public Utilities believes that same regulatory treatment of commodity-related uncollectibles should be applied for the Electric Division in this docket. But, the manner in which the Company proposes to recover commodity-related uncollectibles for the Electric Division is more akin the mechanism that the Company proposed and the Commission rejected in Docket No. 3943. Therefore, the Division of Public Utilities asks that the Commission establish a more uniform treatment of commodity-related uncollectible accounts expense for National Grid's Electric and Gas divisions by adopting the recommendation presented herein and rejecting the Company's proposal for the collection of bad debt costs in this proceeding.

**Q. WHAT LEVEL OF COMMODITY-RELATED UNCOLLECTIBLE ACCOUNTS EXPENSE SHOULD BE INCLUDED IN THE COMPANY'S SOS CHARGES?**

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56 Order No. 19563 in Docket No. 3943 at page 50.
57 Order No. 19563, issued 1/29/09 in Docket 3943.

A. Division witness Bruce Gay addresses the appropriate level of uncollectibles and recommends a bad debt percentage rate in his testimony. The overall bad debt rate that the Commission approves in this case should be used to determine the level of uncollectible accounts expense included in the Company's Standard Offer rate. This approach ensures balanced treatment of delivery-related and commodity-related bad debt expenses. It also reduces the potential that recovery of commodity-related uncollectible accounts expenses will amplify volatility in SOS charges.

**Q. DOES YOUR PROPOSAL PROVIDE FOR ANNUAL RECONCILIATION OF THE COMPANY'S ACTUAL UNCOLLECTIBLES EXPENSES IN FUTURE YEARS WITH THE LEVEL OF UNCOLLECTIBLES INCLUDED IN SOS CHARGES?**

A. No, it does not. As noted earlier in this testimony, that would be inconsistent regulatory treatment for an element within the same utility. Further, the Division finds that such reconciliations may inappropriately diminish incentives for the Company to actively manage its accounts receivables.

**Q. DO YOU HAVE ANY CONCERNS REGARDING THE LANGUAGE THAT NATIONAL GRID PROPOSES TO USE TO IMPLEMENT ITS PROPOSED ANNUAL RATE ADJUSTMENT FOR UNCOLLECTIBLE ACCOUNTS EXPENSE?**

A. Yes. The language of the provision that National Grid proposes lacks adequate specification of the manner in which the level of commodity-related uncollectible

accounts expense included in that adjustment would be determined. The Commission's exercise of appropriate oversight with regard to administration of the proposed Standard Offer Adjustment Provision requires that such determinations be specified in greater detail within the language of the proposed provision.

## IV. CONCLUSION

**Q. DO YOU HAVE ANY CONCLUDING OBSERVATIONS TO SHARE WITH THE COMMISSION?**

A. Yes. If all of National Grid's rate adjustment proposals in this proceeding are adopted, the Company's tariff will include a total of nine (9) rate adjustment riders. However, customers will continue to have just one set of Distribution Energy Charges reflected on their monthly bills. For billing purposes the Company plans to roll its rate adjustments into a single cents-per-kWh charge. Customers will have little, if any, understanding of the causes of changes in the rates that they pay or the factors affecting the level of their monthly distribution service charges. The Company, on the other hand, will have assured recovery of a growing portion of its total costs of service. Factors for which National Grid will have assured cost recovery include:

- Test year distribution O&M costs plus a Net Inflation factor;
- Incremental Net Capital Expenditures;
- Pension and OPEB costs;
- Transmission service costs;
- Conservation and Load Management costs;
- Inspection and Maintenance costs;
- Legislative and Regulatory changes;
- Externally imposed accounting rule changes;

- Delivery Bad Debt; and
- SOS related administrative costs and uncollectible accounts expense.

The Company unquestionably seeks a regulatory environment in which substantial revenue and cost risk is shifted from the Company to ratepayers.

The Commission must find a reasonable balance between ensuring the financial health of utilities under its jurisdiction and controlling the costs and risks placed on Rhode Island ratepayers. National Grid believes that this objective is achieved by shifting increasing amounts of cost and revenue risk from shareholders to ratepayers while raising the Company's rate of return. Yet, as this Commission learned in Docket No. 3943 (the recent National Grid Gas Division base rate proceeding) the Company's indicated that its response to declining equity returns in the absence of revenue decoupling, is the exercise of "*prudent cost management*."[58]

The Commission must keep sight of the fact that a significant portion of the Company's customer base is struggling through tough economic times. Unemployment in the state has reached double digit levels, annual sales volumes are down, and uncollectible accounts expenses are up. This is not a reasonable time to expect that ratepayers will be able to either absorb additional risk or find extra cash to pay increased charges for electric service. National Grid witness Fields testifies:

[58] Rebuttal Testimony of National Grid witness Simpson, at page 24 in Docket No. 3943.

> "*The last few months have clearly demonstrated that Rhode Island has suffered as much, if not more, than many other states during the recent financial crisis and current recession*."[59]

Still, it is difficult to discern particular sensitivity to the plight of the Company's service territory and customer base in most of the rate proposals that National Grid presents in this proceeding. Thus, it is incumbent on the Commission to ensure that (1) utility management has incentives to be lean in their operations and (2) charges for electric service are minimized.

With the slowed growth that National Grid now foresees in Rhode Island, requirements for expansion of the Company's electric system facilities should decline along with its need for increased capital expenditures. In addition, the Commission should note that the Company's sales forecast presentation indicates that over the last two years the state of the economy in Rhode Island has done more to reduce energy use than all of the Company's DSM programs. As a result, while improved energy efficiency should remain a long-term objective, arguments for the expenditure of large amounts of ratepayer funds to pursue the deployment of energy efficiency programs may be less compelling and at least a portion of such expenditures may be deferrable. In addition, the current economic environment should cause this Commission to carefully weigh the incentives that would be provided to the Company through the institution of a Net CapEx adjustment to revenue. That type of mechanism does not necessarily encourage efficient use of capital resources

[59] The Direct Testimony of National Grid witness Carmen Fields at page 4 of 15, lines 4-6.

and may incent the Company and its management to expend more on capital projects than its Rhode Island customers base can afford at this time.

Witness Fields also represents, "*This proceeding is the best opportunity to approach economic development comprehensively*."[60] However, the Company presentation to the Commission in this proceeding falls well short of a comprehensive proposal. Rather, the meat of the Company's proposal is yet to be developed, and by the time the Company is ready to present a more definitive program proposal the Commission may need to question its timeliness.

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

A. Yes, it does.

[60] National Grid's response to Division Data Request 16-2.

**Narragansett Electric Company**
**d/b/a National Grid**
*Docket No. 4065*

**National Grid's Present and Proposed Revenue by Rate Class by Type of Charges**

| Rate Class/Type of Charge | Present Revenue | Proposed Revenue | Revenue Increase | Percent Increase | Percent of Total Revenue: Present Rates | Percent of Total Revenue: Proposed Rates |
|---|---|---|---|---|---|---|
| **Residential A-16, A-60** | | | | | | |
| Customer Charge Revenue | $ 12,994,875 | $ 25,989,750 | $ 12,994,875 | 100.0% | 11.5% | 17.3% |
| Distribution Energy Charge Revenue | $ 100,110,475 | $ 124,531,936 | $ 24,421,461 | 24.4% | 88.5% | 82.7% |
| Demand Charge Revenue | $ - | $ - | $ - | 0.0% | 0.0% | 0.0% |
| Other Revenue | $ - | $ - | $ - | 0.0% | 0.0% | 0.0% |
| Total Revenue | $ 113,105,350 | $ 150,521,686 | $ 37,416,336 | 33.1% | 100.0% | 100.0% |
| **Small C&I C-06** | | | | | | |
| Customer Charge Revenue | $ 3,189,287 | $ 5,336,686 | $ 2,147,399 | 67.3% | 13.7% | 18.7% |
| Distribution Energy Charge Revenue | $ 20,019,420 | $ 23,107,405 | $ 3,087,985 | 15.4% | 86.2% | 81.2% |
| Demand Charge Revenue | $ 27,901 | $ 30,725 | $ 2,824 | 10.1% | 0.1% | 0.1% |
| Other Revenue | $ - | $ - | $ - | 0.0% | 0.0% | 0.0% |
| Total Revenue | $ 23,236,608 | $ 28,474,816 | $ 5,238,208 | 22.5% | 100.0% | 100.0% |
| **General C&I G-02, E-40** | | | | | | |
| Customer Charge Revenue | $ 8,991,571 | $ 10,871,594 | $ 1,880,023 | 20.9% | 28.4% | 27.0% |
| Distribution Energy Charge Revenue | $ 10,688,581 | $ 12,578,431 | $ 1,889,850 | 17.7% | 33.7% | 31.2% |
| Demand Charge Revenue | $ 12,067,252 | $ 16,864,172 | $ 4,796,920 | 39.8% | 38.1% | 41.9% |
| Other Revenue | $ (39,911) | $ (55,773) | $ (15,862) | 0.0% | -0.1% | -0.1% |
| Total Revenue | $ 31,707,493 | $ 40,258,424 | $ 8,550,931 | 27.0% | 100.0% | 100.0% |
| **% Customer & Demand Charge Revenue** | | | | | **66.4%** | **68.9%** |
| **Large C&I G-32, B-32, G-62, B-62** | | | | | | |
| Customer Charge Revenue | $ 6,272,150 | $ 15,328,471 | $ 9,056,321 | 144.4% | 16.4% | 32.9% |
| Distribution Energy Charge Revenue | $ 18,149,275 | $ 21,898,096 | $ 3,748,821 | 20.7% | 47.3% | 47.0% |
| Demand Charge Revenue | $ 14,657,404 | $ 10,450,873 | $ (4,206,531) | -28.7% | 38.2% | 22.4% |
| Other Revenue | $ (742,227) | $ (1,107,842) | $ (365,615) | 0.0% | -1.9% | -2.4% |
| Total Revenue | $ 38,336,602 | $ 46,569,598 | $ 8,232,996 | 21.5% | 100.0% | 100.0% |
| **% Customer & Demand Charge Revenue** | | | | | **54.6%** | **55.4%** |
| **Electric Propulsion X-01** | | | | | | |
| Customer Charge Revenue | $ 120,000 | $ 198,000 | $ 78,000 | 65.0% | 59.7% | 60.5% |
| Distribution Energy Charge Revenue | $ 80,918 | $ 129,157 | $ 48,239 | 59.6% | 40.3% | 39.5% |
| Demand Charge Revenue | $ - | $ - | $ - | 0.0% | 0.0% | 0.0% |
| Other Revenue | $ - | $ - | $ - | 0.0% | 0.0% | 0.0% |
| Total Revenue | $ 200,918 | $ 327,157 | $ 126,239 | 62.8% | 100.0% | 100.0% |
| **% Customer & Demand Charge Revenue** | | | | | **59.7%** | **60.5%** |

**Narragansett Electric Company**
**d/b/a National Grid**
*Docket No. 4065*

***Analysis of Uniform Cents-per-kWh Revenue Reconciliation Rate Adjustments for All Rate Classes***

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
|---|---|---|---|---|---|---|---|---|---|
| **Class** | **Present Distribution Charge Revenue** | **Proposed Distrubtion Charge Revenue** | **Test Year MWH Sales** | **Average $/kWh @ Present Rates** | **Average $/kWh @ Proposed Rates** | **Uniform Revenue Adjustment at Present Rates** | **Uniform Revenue Adjustment at Proposed Rates** | **Percent Impact at Present Rates** | **Percent Impact at Proposed Rates** |
| | **($1,000's)** | **($1,000's)** | | **($/kWh)** | **($/kWh)** | **($/kWh)** | **($/kWh)** | **(%)** | **(%)** |
| | | | | **Assumed 10% Revenue Reconciliation Adjustment** | | | | | |
| Residential | $ 113,105 | $ 150,507 | 3,037,613 | $0.03723 | $0.04955 | $ 0.002811 | $0.003657 | 7.5% | 7.4% |
| Small C&I | $ 23,237 | $ 28,473 | 552,429 | $0.04206 | $0.05154 | $ 0.002811 | $0.003657 | 6.7% | 7.1% |
| General C&I | $ 31,707 | $ 40,255 | 1,371,694 | $0.02312 | $0.02935 | $ 0.002811 | $0.003657 | 12.2% | 12.5% |
| 200 kW Demand | $ 33,256 | $ 35,430 | 2,041,538 | $0.01629 | $0.01735 | $ 0.002811 | $0.003657 | 17.3% | 21.1% |
| 3000 kW Demand | $ 5,080 | $ 9,878 | 565,378 | $0.00899 | $0.01747 | $ 0.002811 | $0.003657 | 31.3% | 20.9% |
| Lighting | $ 8,834 | $ 14,663 | 68,382 | $0.12919 | $0.21443 | $ 0.002811 | $0.003657 | 2.2% | 1.7% |
| Propulsion | $ 201 | $ 1,035 | 25,935 | $0.00775 | $0.03991 | $ 0.002811 | $0.003657 | 36.3% | 9.2% |
| **Total** | **$ 215,420** | **$ 280,241** | **7,662,969** | **$0.02811** | **$0.03657** | **$ 0.002811** | **$0.003657** | **10.0%** | **10.0%** |
| | | | | **Assumed 5% Revenue Reconciliation Adjustment** | | | | | |
| Residential | $ 113,105 | $ 150,507 | 3,037,613 | $0.03723 | $0.04955 | $ 0.001406 | $0.001829 | 3.8% | 3.7% |
| Small C&I | $ 23,237 | $ 28,473 | 552,429 | $0.04206 | $0.05154 | $ 0.001406 | $0.001829 | 3.3% | 3.5% |
| General C&I | $ 31,707 | $ 40,255 | 1,371,694 | $0.02312 | $0.02935 | $ 0.001406 | $0.001829 | 6.1% | 6.2% |
| 200 kW Demand | $ 33,256 | $ 35,430 | 2,041,538 | $0.01629 | $0.01735 | $ 0.001406 | $0.001829 | 8.6% | 10.5% |
| 3000 kW Demand | $ 5,080 | $ 9,878 | 565,378 | $0.00899 | $0.01747 | $ 0.001406 | $0.001829 | 15.6% | 10.5% |
| Lighting | $ 8,834 | $ 14,663 | 68,382 | $0.12919 | $0.21443 | $ 0.001406 | $0.001829 | 1.1% | 0.9% |
| Propulsion | $ 201 | $ 1,035 | 25,935 | $0.00775 | $0.03991 | $ 0.001406 | $0.001829 | 18.1% | 4.6% |
| **Total** | **$ 215,420** | **$ 280,241** | **7,662,969** | **$0.02811** | **$0.03657** | **$ 0.001406** | **$0.001829** | **5.0%** | **5.0%** |

Sources:

**Present Distribution Charge Revenue** - Docket No. 4065, Schedule NG-HSG-1, Page 2, Line 1.
**Propased Distribution Charge Revenue -** Docket No. 4065 Schedule NG-HSG-1, Page 2, Line 22.
**Test Year kWh Sales** - Docket No. 4065, Schedule NG-HSG-2, Page 33, Column 1.

Schedule DIV-BRO-3

# Rhode Island Economic Development Corporation

## List of Business Incentives

# Business Incentives

The RIEDC publishes this summary of state and local business incentives as an information tool for the business community. Download the complete list of business incentives or read about specific incentives below.

## Corporate Tax Reduction

- Jobs Development Act: Corporate Income Tax Reduction for Job Creation

## Film and Television Industry Incentives

- Motion Picture Production Tax Credit

## Financial Service Industry Incentives

- Deregulation of Commercial Lines
- Income Apportionment
- Intangible Personal Property Sales Tax Exemption
- International Investment Management Fee Income Tax Exemption
- Mutual Insurance Holding Companies
- Telecommunication Sales Tax Exemption
- Alien Insurance Companies
- Gross Premiums Tax Credits in Enterprise Zones
- Insurance Company Retaliatory Tax Exemption
- Interest and Usury
- Interstate Banking
- Protected Cell Companies

## Foreign Trade Zones

- Foreign Trade Zone 105

## General Business Taxes

- General Business Taxes

## Historic Preservation

- Historic Preservation Investment Tax Credit
- Historic Homeowner Tax Credit

## Job Training and Education

- Job Training Tax Credit
- Employer's Apprenticeship Tax Credit
- Job Training Grants
- Adult Education Tax Credit
- Educational Assistance and Development Credit

## Manufacturing Incentives

- Apportionment Exclusion for Medical & Pharmaceutical Manufacturers
- Manufacturing Investment Tax Credit (4%)

### Notice

These descriptions are offered only as a general summary of available tax and other business incentives. Readers should not rely upon these descriptions as a source of legal or regulatory authority.

Download the complete list of business incentives

For specific information about a particular incentive, please contact:

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Rhode Island Division of Taxation
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Providence, RI 02908-5800
Corporate Taxes: (401) 222-1120
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- Business Income Apportionment for Manufacturers
- Accelerated Amortization for Defense Industry Manufacturers
- High Performance Manufacturing Investment Tax Credit (10%)

### Miscellaneous Tax Credits and Incentives

- Child and Adult Daycare Tax Credit
- Hiring of Unemployed or Low-Income Residents
- Natural Disaster Rebuilding
- Bonus Program Private Participation
- Hazardous Waste Facilities Amortization
- Hydroelectric Tax Credit
- Artwork Exhibition

### Personal Income Tax Incentives

- Innovation Tax Credit
- Reduction of Long-Term Capital Gains Tax
- Taxpayer Relief Act of 2006: Alternative Flat-Tax Rate Computation
- Jobs Growth Act of 2005: Income Tax Reduction on Performance-Based Income

### Research and Development

- Research & Development Property Credit
- Research & Development Sales Tax Exemptions
- Research & Development Expense Credit
- Elective Deduction for Research & Development Facilities
- Specialized Stock Provisions for Software Developers

### Sales Tax Exemptions

- Manufacturing Fuels & Raw Materials
- Scientific Equipment
- Aircraft, Boats and Aircraft Fuel
- Intangible Personal Property
- Sales Tax Rebate under RIEDC "Project Status"
- Manufacturing Machinery & Equipment
- Pollution Control Equipment
- Professional and Occupational Services

### Small Business Incentives

- Disabled Access Credit for Small Business
- Small Business Capital Investment Tax Incentives

### State Enterprise Zones

- State Enterprise Zones


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