

BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

DOCKET NO. 4065

SURREBUTTAL TESTIMONY OF LEE SMITH

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

OCTOBER 27, 2009

1 **I. INTRODUCTION**

2 **Q. What is your name and business address?**

3 A. My name is Lee Smith, and I work for La Capra Associates, One Washington
4 Mall, Boston, MA 02108.

5

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of the Rhode Island Division of Public Utilities and
8 Carriers (“Division”).

9

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

11 A. Yes. I submitted direct testimony on September 15 regarding the reasonableness
12 of the Company’s affiliate costs. This testimony is in response to Rebuttal
13 Testimony of Mr. Pettigrew.

14

15 **Q. You recommended a disallowance of some of the dollars in Account 583 and
16 588 in the rate year. Did the Company’s rebuttal testimony attempt to
17 justify the full inclusion of its costs in Account 583 and 588?**

18 A. Yes. Although the GIS program that produced \$1.6 million of expenses in
19 Account 583 in the test year has been completed, Mr. Pettigrew testified that the
20 “costs incurred during the test year are representative of the costs the Company
21 will incur on an ongoing basis. (Pettigrew Rebuttal p. 26.) Mr. Pettigrew argues
22 that all of the Transformation expenses in Account 588 should be allowed because
23 they reflect “strong project management skills.” I believe the important point is
24 whether those management skills, however strong they may be, produce
25 appropriate results for ratepayers. The Company has not demonstrated that those
26 management skills produced results that justify recovering these expenses from
27 Narragansett’s ratepayers. Mr. Pettigrew also argues that these expenses should
28 be allowed because “the result produced by these improvements will be captured
29 in future rate cases.”

30

1 **Q. Has the Company’s rebuttal testimony caused you to change your position**
2 **with regard to Account 583?**

3 A. No. Neither the benefits to Narragansett, nor the reason why a “pilot” project
4 should be so expensive, nor the projected test year cost to Narragansett have been
5 provided as of the date this testimony was written. This project may have been
6 designed on the basis of needs of the New England National Grid electric
7 distribution companies as a whole, even though Narragansett Electric itself may
8 have had little need for it. The Company has also, to date, not provided any
9 evidence as to its commitment to expenses, or to the amount of such expenses, in
10 the test year. The Division has asked additional discovery on the pilot
11 Underground GIS program, but the responses have not been provided as of the
12 date this testimony was written. The Company’s rationale for allowing these
13 expenses, i.e., that customers will receive benefits in future rate cases, is of
14 limited relevance if the Company does not need to file rate cases for many years
15 in the future. The Company’s demand for rate decoupling plus various
16 mechanisms that would allow it to increase its rates automatically appear to be
17 designed to ensure that rate cases will not be needed for many years.

18
19 **Q. What are your fundamental concerns with test year expenditures in both**
20 **Accounts 583 and 588?**

21 A. My concerns remain those expressed in my direct testimony. These accounts
22 evidence dramatic cost increases compared to prior years, without evidence that
23 the underlying expenditures were designed to result in benefits to ratepayers in
24 excess of costs, or even that the 2008 expenditures are reflective of rate year
25 expenditures.

26
27 **Q. What do you recommend with regard to Account 583?**

28 A. I continue to recommend that \$2.3 million be removed from Account 583, as this
29 expenditure has not been justified by a cost/benefit analysis and has not been
30 demonstrated that it will be recurring at the same amount of expense.

31

1 **Q. What do you recommend with regard to Account 588?**

2 A. I continue to recommend a disallowance of \$0.8 million to Account 588. The
3 Division has requested all reports, presentations, or other documents that
4 demonstrate the tracking of benefits resulting from the expenditures on the
5 Transformation program. As of the date this testimony was written, these
6 documents have not been provided.

7

8 **Q. Does this conclude your testimony?**

9 A. Yes.