

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

RE: THE NARRAGANSETT ELECTRIC)
COMPANY: INVESTIGATION AS TO)
THE PROPRIETY OF PROPOSED)
TARIFF CHARGES)

DOCKET NO. 4065

SURREBUTTAL TESTIMONY OF

DR. DALE E. SWAN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

OCTOBER 27, 2009

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

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DR. DALE E. SWAN

1 **Q. Please state your name, occupation and address.**

2 A. My name is Dale E. Swan. I am a senior economist and principal with Exeter
3 Associates, Inc. Our offices are located at 5565 Sterrett Place, Columbia, Maryland
4 21044.

5 **Q. Are you the same Dale E. Swan who provided direct testimony in this proceeding**
6 **on behalf of the Division of Public Utilities and Carriers (“Division”)?**

7 A. Yes.

8 **Q. What is the purpose of your surrebuttal testimony?**

9 A. I shall respond to certain points made in the direct testimonies of Mr. Ali Al-Jabir on
10 behalf of the U. S. Navy and Mr. John Farley on behalf of the Energy Council of
11 Rhode Island (“TEC-RI”). I shall also respond to several points raised by
12 Mr. Howard Gorman in his rebuttal testimony on behalf of Narragansett Electric
13 Company (“NEC” or the “Company”).

14 A. Response to Mr. Al-Jabir’s Direct Testimony

15 **Q. Do you have any general comments on Mr. Al-Jabir’s testimony?**

16 A. Yes. At pages 7 and 8 of Mr. Al-Jabir’ direct testimony, he contends that one of the
17 benefits of a properly conducted embedded class cost of service study is to provide

1 appropriate price signals to customers to allow them to manage their loads properly.
2 I think it is important to emphasize that embedded costs do not provide the proper
3 basis for economically efficient pricing. For prices to encourage customers to make
4 efficient usage decisions, those prices must be based on the marginal costs of
5 providing service. Embedded class cost of service studies only provide historical
6 average unit costs, which may have little relationship to the structure of marginal
7 costs. For example, decisions regarding the usage of energy should be based on
8 prices that at least reflect the incremental costs of providing energy during on-peak
9 and off-peak periods. Economically efficient pricing of capacity should reflect the
10 incremental costs of using (or avoiding) capacity, and that cost is generally quite
11 different from the average embedded cost of capacity. In short, the spread of the
12 allowed jurisdictional revenue requirement based on embedded class cost
13 responsibilities really has very little to do with generating price signals that will lead
14 to economically efficient use of energy and capacity and the proper amount of
15 conservation and load management.

16 **Q. What criticism does Mr. Al-Jabir have of the Company's class cost of service**
17 **study?**

18 A. One of Mr. Al-Jabir's primary criticisms of the Company's class cost of service study
19 relates to the way the Company has classified and allocated upstream (above the
20 customer service drop) distribution plant and related O&M expenses. In particular,
21 Mr. Al-Jabir criticizes Mr. Gorman for classifying all distribution line costs in
22 Accounts 364 through 367 as 100 percent demand related, and for allocating line
23 transformer costs in Account 368 entirely on the basis of the number of customers.
24 He argues that these costs should all be classified as partly demand related and partly
25 customer related. He recommends that the Company be required to conduct a
26 minimum distribution study in its next rate case to provide the basis for classifying

1 some minimum portion of these costs as customer related, which he would then
2 allocate among the classes on the basis of the number of customers.

3 **Q. Do you agree with Mr. Al-Jabir's recommendation to conduct a minimum**
4 **system study in the next rate case as the basis for classifying a portion of these**
5 **upstream distribution costs as customer related?**

6 A. No. I explained at some length in my direct testimony why the incurrence of these
7 costs is not directly related to the number of customers and why a minimum system
8 study does not provide a reasonable estimate of the customer related portion of these
9 costs. There is no need to repeat these arguments here. I would, however, like to
10 shed some light on Mr. Al-Jabir's reliance on the 1992 NARUC Cost Allocation
11 Manual as support for the use of a minimum system study to determine the customer
12 related portion of these upstream distribution costs. To begin, the NAURC manual
13 goes out of its way to avoid endorsing any particular classification or allocation
14 approach. It states in the Preface that one of the goals of the manual was that, "The
15 writing style should be non-judgmental; not advocating any one particular method but
16 trying to include all currently used methods with pros and cons." (page ii) In the
17 section that discusses the classification and allocation of upstream distribution costs,
18 the Manual states:

19
20 To ensure that costs are properly allocated, the analyst must first
21 classify each account as demand-related, customer-related or both.
22 The classification depends upon the analyst's evaluation of how
23 the costs in these accounts were incurred. (p. 89)

24 This same point -- that the analyst must choose to classify these costs as either
25 demand- or customer-related (or both) -- is made again at page 90 of the Manual.
26 Suffice it to say that, while the NARUC Cost Allocation Manual recognizes that these
27 costs may be classified as demand-related and/or customer-related, there is no
28 prescription for any particular classification. Further, while Mr. Al-Jabir is correct

1 that many states do accept a partial classification of these costs as customer-related,
2 others do not.

3 **Q. What comments did Mr. Al-Jabir have with regard to the Company's proposed**
4 **class spread of the requested total jurisdictional revenue increase?**

5 A. Mr. Jabir took issue with Mr. Gorman's proposal to impose on the C&I Large
6 Demand Class the entire revenue shortfall that results from capping the Lighting and
7 Propulsion classes at twice the jurisdictional average percentage increase. He opines
8 that it is inappropriate to single out the C&I Large Demand Class to bear this burden
9 and instead argues that this revenue shortfall should be allocated to all classes so as to
10 move all classes toward cost of service. Consequently, he recommends that the
11 Commission directly assign to the C&I Large Demand Class "...any reductions that it
12 orders to the Company's requested revenue requirement in this proceeding" until that
13 class' revenue is brought down to its cost of service. He recommends that any further
14 reduction in the Company's total revenue requirement be allocated among the classes
15 on the basis of rate base.

16 **Q. Do you agree with Mr. Al-Jabir's analysis and recommendation?**

17 A. I agree that it is inappropriate to allocate to The C&I Large Demand class all of the
18 revenue shortfall that results from capping the Lighting and Propulsion classes at
19 twice the jurisdictional average increase. As I stated in my direct testimony, I
20 believe it would be more appropriate to allocate this shortfall among all the uncapped
21 classes on the basis of class revenues at equal rates of return. However, I cannot
22 agree with Mr. Al-Jabir's remedy, which is to give to this class the first portion of any
23 disallowed revenues requested by the Company until the C&I Large Demand class is
24 placed at its cost of service. There are too many factors that the Commission should
25 account for when determining the spread of the allowed revenue increase, including
26 cost of service, other revenue changes that will affect the classes in different ways,

1 and the general issue of gradualism or rate continuity. Mr. Al-Jabir's prescription
2 would constrain the Commission's ability to pursue its several revenue spread and
3 rate design goals in a balanced manner.

4 B. Response to Mr. Gorman's Rebuttal Testimony

5 **Q. What issues will you address relating to Mr. Gorman's rebuttal testimony on**
6 **behalf of NEC?**

7 A. I shall address five issues that were raised by Mr. Gorman in his rebuttal testimony:

- 8
- 9 • The allocation of line transformer costs;
 - 10 • The allocation of uncollectibles expenses;
 - 11 • The allocation of Customer Service and Information Costs;
 - 12 • The spread of the allowed jurisdictional revenues among the classes; and
 - 13 • The appropriateness of the large customer charge increases proposed by the
14 Company for A-16 Residential and C-06 Small C&I customers.

15 1. The Allocation of Transformer Costs

16 **Q. Did Mr. Gorman take issue with your treatment of line transformer costs in**
17 **your version of the class cost of service study?**

18 A. Yes. I criticized Mr. Gorman in my direct testimony for essentially allocating line
19 transformers 100 percent on class customer counts. This same criticism was made by
20 Mr. Al-Jabir on behalf of the Navy. Instead, I allocated these costs on class Non-
21 coincident peak demands (Class NCPs). The basis for my criticism was that
22 Mr. Gorman's method made no allowance for the different sizes of customers in
23 terms of their loads. Mr. Gorman takes issue with my analysis. He states that:

24

25 ...the cost of line transformers (Account 368) and maintenance of line
26 transformers (Account 595) were assigned on a special study of the
27 customers served by each Transformer... Then, the cost of each
28 transformer was allocated among the rate classes based on the number of
29 customers served by that transformer. Therefore, the ACOSS explicitly

1 recognized the ‘different sizes of customers in terms of their loads’.” (p. 2,
2 emphasis in original)
3

4 Mr. Gorman then goes on to agree that some portion of line transformer costs should
5 be allocated on the basis of customer loads and so proposes to change his allocation
6 to one based on 50 percent of his allocator and 50 percent of the allocator
7 I recommended, which is the average of the class shares of NCPs at primary and
8 secondary.

9 **Q. How do you respond to Mr. Gorman’s comments?**

10 A. I appreciate Mr. Gorman recognizing that customer load sizes should be accounted
11 for, as he does when proposing an average of his allocator and the NCP allocator that
12 I have proposed. However, I am unconvinced that Mr. Gorman’s transformer study
13 does anything but allocate transformers on the basis of the number of customers. It
14 does not, as he represents, account for the different sizes of customers that utilize a
15 particular standard transformer. In Mr. Gorman’s transformer study, he allocates
16 each standard transformer type on the number of customers in each class. Consider,
17 for example, overhead, single phase 25 kVa transformers. There are 30,076 of these
18 transformers at a total equipment replacement cost of \$24,451,186. By allocating
19 these transformers on the number of customers, he allocates the same cost of \$122 per
20 customer to all customers regardless of their size or the class in which they are
21 served. That means he allocates \$122 to each residential customer who may have an
22 average load of, say, 7 kW, and he allocates \$122 to each G62 customer who must
23 have a load of at least 3,000 kW. Or, consider the case of overhead, 3-phase,
24 300 kVA transformers. In that case he allocates an equal \$3,041 to each customer,
25 regardless of the size of that customer. The 208 A16 customers get \$3,041 each, and
26 the 33 G32 customers also get \$3,041 each. These dollar allocations, when summed
27 across all transformer types constitute Mr. Gorman’s class allocator, and it cannot
28 account properly for the sized differences among customers.

1 **Q. What do you recommend regarding the allocation of the costs of line**
2 **transformers (Account 368) and maintenance of line transformers (Account**
3 **595)?**

4 A. I again urge the Commission to allocate all of these costs on the average of the
5 percentage class responsibilities for NCPs at primary and secondary voltages.
6 Transformers are sized and installed to meet the local area coincident demands that
7 will be placed on these transformers and the best available proxy for those loads is
8 class NCPs. There is no direct relationship between the number of customers and the
9 costs of transformers or their maintenance and so the number of customers should not
10 be used in the allocation of these costs. To average Mr. Gorman's and my proposed
11 allocators, as suggested by Mr. Gorman in his rebuttal testimony, is simply a back
12 door way of getting the minimum system results into the allocation process, and it
13 should be rejected by the Commission.

14 2. The Allocation of Uncollectibles Expenses

15 **Q. Please summarize your understanding of Mr. Gorman's comments on your**
16 **direct testimony recommendations regarding the allocation of uncollectibles**
17 **expenses.**

18 A. Mr. Gorman maintains that the direct assignment of uncollectibles expenses to the
19 classes in which those costs originate properly reflects the costs of serving those
20 classes, and he criticizes my recommendation to use a general allocator (revenues or
21 energy) that treats those costs as part of the general cost of doing business. While he
22 states that the Company believes it is better to directly assign the cost of delivery
23 service related uncollectibles costs, he also states that, if the Commission determines
24 it is more appropriate to allocate these costs on class revenue responsibility, the
25 revenue allocator should reflect the "approved allocation of rate year revenue
26 requirement for distribution service" instead of historical delivery revenue.
27 (Response to Division Data Request 29-2) He also states unequivocally that the

1 Company believes that directly assigning commodity-related uncollectible accounts
2 expense is the appropriate approach.

3 **Q. What is your response to Mr. Gorman with respect to delivery service-related**
4 **uncollectibles expenses?**

5 A. As I indicated in my direct testimony, I do not agree that the uncollectibles that
6 originate in a particular class are caused by the customers in that class who do pay
7 their bills on time, and so the Company's approach is contrary to the fundamental rule
8 of embedded class cost of service studies – that costs should be allocated to those
9 customers that cause the incurrence of those costs. Mr. Gorman states that direct
10 assignment "...is normally preferable to an allocation." (p. 4, line 19) However, that
11 is only true if it is clear that the customers to whom the costs would be directly
12 assigned are unquestionably the customers who caused the costs to be incurred in the
13 first place. In the case of uncollectibles that clearly is not the case. Uncollectibles
14 should be viewed as one of the general costs of doing business and those costs should
15 be allocated on the basis of some general allocator such as class revenues or energy
16 consumption.

17 **Q. What are Mr. Gorman's reasons for seeming to be more adamant in urging the**
18 **Commission to directly assign commodity-related uncollectibles expense?**

19 A. Mr. Gorman addresses this issue at lines 5-10 on page 5 of his rebuttal testimony.
20 If I understand Mr. Gorman's argument, he maintains that, unless the cost of
21 uncollectibles for residential customers is included in the administrative charge for
22 SOS service to residential customers, that will put competitive suppliers at a
23 competitive disadvantage compared to SOS service. Presumably, the reason for this
24 is that competitive suppliers will apply a premium to the cost of energy for residential
25 customers to account for the costs associated with a portion of residential customers
26 defaulting on their bills. The only way to account for this is to directly assign to
27 residential customers the costs of the uncollectibles that originated in that class.

1 **Q. Do you accept the implications of Mr. Gorman's argument?**

2 A. No. First, it is my understanding that there has been little interest on the part of
3 competitive suppliers in serving residential loads. Their interest is focused on the
4 possibility of serving large C&I loads. If there is any merit in Mr. Gorman's logic,
5 then the cost of SOS service to large C&I customers will be overstated by averaging
6 the uncollectibles charge among all customers, thereby placing SOS service to large
7 C&I customers at a competitive disadvantage vis-à-vis competitive suppliers.
8 Second, NEC has no option whether to provide SOS service to a qualifying
9 residential customer. It has an obligation to serve that customer, regardless of his
10 credit history or his ability to pay. That is not the case with a competitive supplier.
11 He has no obligation to serve. He has the ability to undertake due diligence
12 investigation of a prospective customer's credit history, payment history and factors
13 that could affect his ability to pay, and the competitive supplier has the ability to deny
14 service to a questionable customer if there is any doubt about his ability to pay. Thus,
15 the competitive supplier is hardly disadvantaged vis-à-vis NEC's SOS service.

16 **Q. How do you recommend commodity-related uncollectibles expense be allocated**
17 **among the customer groups after considering Mr. Gorman's comments on your**
18 **direct testimony?**

19 A. I continue to maintain that uncollectibles related to commodity purchases should be
20 allocated among the customer groups on the basis of SOS energy deliveries. Indeed,
21 I continue to recommend that all of the administrative charges, including
22 uncollectibles expense, be allocated on the basis of SOS energy deliveries, which
23 would result in a uniform Standard Offer Administrative Cost Factor for all
24 customers.

25 3. The Allocation of Customer Service and Information Costs

26 **Q. Please summarize Mr. Gorman's comments on your recommendation to allocate**
27 **Customer Service and Information Costs on energy use at meter because doing**
28 **so is consistent with the purpose for which these costs have been incurred**

1 **according to the definitions of these expenses in the FERC Uniform System of**
2 **Accounts -- the encouragement of safe efficient and economical use of the**
3 **utility's service.**

4 A. Mr. Gorman takes issue with my recommendation and argues that the approach taken
5 by the Company in his direct testimony should be followed, which is to allocate the
6 lion's share of these costs on the number of customers. In defense of this approach,
7 Mr. Gorman reiterates his direct testimony, noting how he has allocated the major
8 component parts of these \$5.4 million in costs --\$2.4 million of Information System
9 costs on the number of customer bills; \$1.0 million for the proposed Economic
10 Development Program "...among the rate classes to which these programs would be
11 directed" (p.6, lines 22-23); \$700,00 for service and information for commercial and
12 industrial customers allocated among those rate classes; and \$500,000 related to retail
13 access allocated on energy at meter. Then he states and restates that, "The
14 Company's allocations of these costs reflect cost causation much more closely than
15 Dr. Swan's proposed general allocator." (p. 7, lines 17-18.) What Mr. Gorman fails
16 to do in his rebuttal testimony is explain why his approach better reflects cost
17 causation than my recommended use of energy at meter.

18 I continue to maintain that the \$1.0 million for a Economic Development
19 Program would be an expense that the Commission would approve on a policy basis
20 because it believes the incurrence of that expense would yield benefits to the region
21 and therefore to all NEC ratepayers. As such it should be allocated to all customer
22 classes. Mr. Jabir for the Navy seems to agree (Direct Testimony, pp. 17-21), and
23 Mr. Gorman has provided no argument to the contrary. The bulk of the remainder of
24 these costs are for Information System expenses, and all Mr. Gorman does is to claim
25 that these costs are "...typically allocated based on the number of customers or bills,
26 as the Company did in its ACOSS." (p.6, lines 19-20) He never actually addresses
27 my reliance on the description of the purpose for these expenses as set forth in the
28 FERC Uniform System of Accounts -- the encouragement of safe, efficient and

1 economical use of the utility's service. That service is generally the provision of
2 energy, and therefore I continue to believe that the appropriate basis for allocating
3 these costs is energy use at meter.

4 4. The Spread of the Allowed Jurisdictional Revenues Among the Classes

5 **Q. What aspects of your recommended class spread of the allowed jurisdictional**
6 **revenues did Mr. Gorman address in his rebuttal testimony?**

7 A. Mr. Gorman addressed four aspects of my recommended class revenue spread, which
8 I shall address in turn:

- 9
- 10 • Which class cost of service study should be used;
 - 11 • What revenues should be included to test whether the proposed increases are
12 reasonable;
 - 13 • How the revenue shortfall from capping the Lighting and Propulsion classes
14 should be allocated; and
 - 15 • From which classes the A-60 discount should be recovered.

16 **Q. What class cost of service study should be used as a starting point to determine**
17 **the spread of the allowed total jurisdictional revenues?**

18 A. Mr. Gorman has offered in Schedule NG-HSG-R-1 a revision of his initial cost study
19 which allocates line transformer costs on an average of his initial allocator and the
20 allocator that I have recommended. It also updates the transformer cost estimates in
21 his transformer cost study. Mr. Gorman recommends that this cost study be used and
22 that, if additional changes are required by the Commission, those changes also be
23 reflected in the study. I continue to disagree with several of Mr. Gorman's specific
24 allocations that are contained in that study, but I do agree that whatever changes to
25 the Company's study are required by the Commission should be included in a revised
26 study as the starting point for determining the spread of the allowed jurisdictional
27 revenue requirement. Of course, one of the most important of these changes will be

1 the adjustments to the Company's total revenue case that the Commission might
2 make in its final decision.

3 **Q. What revenues should be accounted for in determining whether the proposed**
4 **class increases are consistent with the standard of gradualism or rate continuity?**

5 A. In my direct testimony, I argued that one needs to account for other revenue changes
6 when assessing whether the proposed class revenue spread is consistent with the
7 standard of gradualism or rate continuity. In particular, I encouraged the Commission
8 to account for the proposed changes in transmission charges and for SOS
9 administrative charge revenues when assessing the final spread of the revenues
10 among the classes. I noted that accounting for the changes in transmission revenues
11 is especially important because the Company is recommending a shift of
12 approximately \$4.0 million from the C&I Large Demand class to the Residential
13 class. Mr. Gorman has argued in his rebuttal testimony that, if other revenues are to
14 be accounted for, then commodity revenues should also be included.

15 **Q. Does including commodity revenues make a difference?**

16 A. Mr. Gorman seems to think so. He points out that, when commodity revenues are
17 included, valued at the current standard offer charge, "...the Company's proposed
18 increases for all classes except Lighting are seen to be modest, and reasonably close
19 to the average increase." (p. 10, lines 1-3) Mr. Gorman and I must have a different
20 view of what is "reasonably close to the average increase." Under his proposal,
21 including commodity revenues, the Residential class would receive an increase of
22 11.1 percent, which is 154 percent of the average increase. The C&I Large Demand
23 class, on the other hand, would receive an increase of 1.4 percent, or only
24 19.4 percent of the system average percentage increase. Interestingly, the Propulsion
25 class would receive an increase of only 4.0 percent, or 55 percent of the system
26 average increase. If Mr. Gorman really believes that it is appropriate to judge
27 gradualism on the basis of revenues, including commodity revenues, then it would

1 seem that the Propulsion class would not have to have its increase capped. Yet,
2 Mr. Gorman makes no such recommendation in his rebuttal testimony.

3 **Q. Do you think it is appropriate to include commodity revenues when assessing**
4 **whether the proposed increases meet the gradualism or rate continuity**
5 **criterion?**

6 A. No. This case has to do with the increase in revenues that are under the control of
7 the Rhode Island Public Utilities Commission (the “Commission”). The Commission
8 has no control over the cost of energy. That is why Mr. Gorman valued the
9 commodity at the current SOS rate. In fact, those costs may rise significantly over
10 the period during which these delivery service charges are in effect. I believe the
11 Commission must view gradualism or rate continuity in terms of the changes over
12 which it has control in this proceeding, and that would exclude the cost of
13 commodity. Otherwise, that gradualism or rate continuity criterion could be assessed
14 in terms of a number of costs over which this Commission has no control in this case,
15 such as the cost of natural gas, the cost of telephone service, the cost of cable TV
16 service and any other utility services that make up the total utility expenditure of NEC
17 customers. In fact, once starting down that path, there would be no need to limit the
18 comparison to utility services. One could merely point out that this is a small change
19 in comparison to a typical family’s total annual expenditures and so meets the
20 gradualism test. I do not believe that is what the venerable Professor Bonbright had
21 in mind when he identified as one of the criteria of a sound rate structure, “Stability
22 of the rates themselves, with a minimum of unexpected changes seriously adverse to
23 existing customers.”¹

24 **Q. Mr. Gorman states that your proposal to recover the shortfall for capped classes**
25 **from all other classes is at odds with your proposal that the Company’s**
26 **proposed increase for the Residential class is excessive. Would you please**
27 **comment.**

¹ James. C. Bonbright, Principles of Public Utility Rates, (New York, Columbia University Press:1961); p. 291.

1 A. I would agree that allocating the shortfall among all the classes, including the
2 Residential class, raises the Residential class' increase, other things constant.
3 However, I feel strongly that there is no basis for the C&I Large Demand class to
4 absorb all of that shortfall, and so I think it more appropriate to allocate the shortfall
5 to all classes on the basis of full cost revenue. That spreads the burden of carrying the
6 shortfall among all classes. The Residential class is not the only class that is
7 adversely affected. Then other considerations can be brought to bear to mitigate the
8 impact on certain classes, such as the Residential class, if the Commission believes
9 that is appropriate.

10 **Q. Mr. Gorman testified in his rebuttal testimony that the Company agrees that the**
11 **discount provided to A-60 customers should be recovered from all rate classes,**
12 **not only from the Rate a-16 class. Is that consistent with your testimony?**

13 A. Yes.

14 5. Customer Charge Increases

15 **Q. What comments has Mr. Gorman offered regarding your criticism of the large**
16 **percentage increases in the Customer Charges for Rate Schedules A-16 and C-06**
17 **proposed by the Company?**

18 A. In my direct testimony I argued that the proposed 100 percent increase for the A-16
19 customer charge and the 67 percent increase for the C-06 customer charge are
20 excessive. I proposed that the Commission limit the increases to between \$1.00 and
21 \$1.25 (36 to 45 percent) for A-16 customers, and to \$2.00 (33 percent) for C-06
22 customers. Mr. Gorman argues that the increases are fully justified on cost-of-service
23 grounds, that the increases will lead to charges that are modest compared to the
24 charges imposed by other electric distribution companies, and that the smallest
25 residential customers are provided protection by the existence of rate A-60, which
26 includes no current or proposed customer charge.

1 **Q. How do you respond to Mr. Gorman's arguments?**

2 A. My review of customer charges for residential and small C&I customers in the tariffs
3 of other electric distribution companies in New England verifies that most of these
4 utilities have customer charges for these groups of customers equal to or exceeding
5 the Company's proposed charges. I also agree that the increase can be justified on
6 pure cost of service grounds. Finally, Mr. Gorman makes a good point when he
7 argues that the existence of Rate A-60 provides some protection for the smallest
8 customers. Of course, that protection is only provided to qualifying small, low-
9 income customers.

10 At the same time I remain concerned about one-shot increases in customers
11 charges of the magnitude proposed by the Company – 100 percent for A-16
12 customers and 67 percent for C-06 customers. Such increases can impose a burden
13 on the smallest customers in these two classes. Moreover, residential and small C&I
14 customers have historically been most dissatisfied with the customer charge
15 component of their bills, because they do not understand the basis of the charge and
16 see it as a kind of head tax that is unrelated to their consumption, and therefore out of
17 their control. Given this historical antipathy toward the customer charge, I think it
18 would be more prudent to limit the increases as I have suggested, and to step up to the
19 higher charges proposed by the Company over a couple of rate cases.

20 C. Response to Mr. Farley

21 **Q. Have you reviewed the testimony of the Energy Council of Rhode Island (TEC-**
22 **RI) witness, Mr. John Farley, regarding the Company's proposed C&I Large**
23 **Demand rate?**

24 A. Yes. Among other points, Mr. Farley demonstrates that the percentage changes in
25 distribution charges for existing G-62 customers is well in excess of the jurisdictional
26 average percentage increase. For example, he states that the increase in distribution
27 charges for a current G-62 customer at 500 hours use per month, "...with a demand of

1 greater than 8400 kW will incur a distribution bill increase of over 58.7 percent.”
2 (p. 12, lines5-6) That is twice the jurisdictional average increase at the Company’s
3 requested revenue increase, which is the cap the Company believes should apply to
4 the Lighting and Propulsion classes. Mr. Farley provides two exhibits which show
5 that the increases in distribution charges for a 500 hours use customer with loads
6 ranging up to 20,000 kW will exceed 60 percent at 9,000 kW and continue to rise to
7 nearly 120 percent at 20,000 kW. Similarly, he shows that the percentage increases
8 in distribution charges for a 15 MW customer will exceed 20 percent at 200 hours use
9 and continue to rise as the hours of use rise up to over 140 percent at 700 hours use
10 per month.

11 **Q. Is Mr. Farley’s testimony at odds with your testimony regarding the billing**
12 **impacts on current G-62 customers of the Company’s proposal to move these**
13 **customers to a new G-32 rate?**

14 A. Yes, in part. Mr. Farley has correctly identified the percentage increases in the pure
15 distribution-related charges for these customers. In my Schedule DES-7, I show the
16 percentage increases in delivery service charges at varying sizes and load factors for
17 current G-62 customers. That table shows increases ranging from 15 percent to 18
18 percent for a 20 MW customer at hours of use ranging from 200 to 500 per month.
19 The difference is that I included in my comparisons the changes in transmission
20 charges as well as the transition charge and the C&LM charge, which are the same
21 under both rates. My schedule show substantially lower percentage increases in
22 delivery service charges for current G-62 customers because my comparison includes
23 the reductions that result from the Company’s proposed revised allocation of
24 transmission costs, as well as the transition and C&LM charges, which do not change.

25 **Q. What should the Commission conclude from Mr. Farley’s and your discussion of**
26 **the Company’s proposed increases on current G-62 customers?**

27 A. Mr. Farley is correct regarding the magnitude of the percentage increases in the pure
28 distribution charges for current G-62 customers. However, I believe the Commission

1 should make its determination regarding appropriate gradualism for this group of
2 customers based on the total delivery services cost increases under the Company's
3 proposal. That would include all of the non-SOS charges, and particularly the
4 proposed reduction in transmission charges. While, as I indicated in my direct
5 testimony, the resulting total delivery service charge increases may still be too large
6 given the potential adverse impact on Rhode Island economic activity, the total
7 increases for these customers will not be nearly as large as Mr. Farley suggests. The
8 Commission may still want to mitigate the impact on these customers, but the degree
9 of mitigation will need to be a lot less if account is also taken of the proposed
10 reduction in these customers' transmission charges.

11 **Q. Would you please comment on Mr. Farley's recommendation that backup rates**
12 **for customers with their own generation should be eliminated?**

13 A. Mr. Farley argues that the maintenance of backup rates is an "...impediment to the
14 full development and procurement of cost-effective distributed generation (DG) and
15 combined heat and power (CHP) in the National Grid service territory." (p. 16, lines
16 12-14) He goes on to argue that such rates are "...contradictory to the policy
17 established by law...." (p. 16, line 15) I cannot add clarity to the legal issue whether
18 backup rates are or are not consistent with Rhode Island law. What I can state,
19 however, is that standing ready to provide service to these customers to replace their
20 own generation when their generators are down does impose a cost on the utility,
21 since the utility must carry sufficient transmission and distribution capacity to serve
22 that additional load. While that cost is probably less per kW than the cost of actually
23 serving the load of requirements customers because of greater diversity among the
24 backup loads, there nonetheless is a cost to National Grid. If that cost is not
25 recovered from the self generators then it must be recovered from all of the other
26 retail customers in the jurisdiction. The Commission may choose to decide that it is

1 in the interests of Rhode Island to waive those charges for self generating customers
2 in order to encourage distributed generation and the development of CHP in the
3 National grid service territory. But that decision should be made explicitly and with
4 the certain knowledge that this action will amount to a subsidy to self-generators that
5 will have to be picked up by other retail customers if the Company is to be made
6 whole.

7 **Q. Does this conclude your surrebuttal testimony?**

8 A. Yes.