

October 27, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 4065 – National Grid Request for Change of Electric Distribution Rates
Executive Summaries

Dear Ms. Massaro:

Enclosed please find ten (10) copies of executive summaries prepared by National Grid¹ in relation to the above-referenced proceeding. This filing is made in compliance with the Commission's procedural directives at the scheduling conference held on June 5, 2009.

Thank you for your attention to this transmittal. If you have any questions, please feel free to contact me at (401) 784-7667.

Very truly yours,

A handwritten signature in blue ink, appearing to read "T. Teehan", is written over a light blue horizontal line.

Thomas R. Teehan

Enclosures

cc: Docket 4065 Service List

¹ The Narragansett Electric Company d/b/a National Grid ("Company").

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted, hand delivered and mailed to the individuals listed below.

/S/
Linda Samuelian

October 27, 2009
Date

National Grid (NGrid) – Request for Change in Electric Distribution Rates
Docket No. 4065 - Service List as of 10/15/2009

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**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Thomas B. King

TOPICS:
1. Policy Overview
2. Case Overview

DIRECT TESTIMONY

- National Grid is requesting to recover annual revenue deficiency of \$75.3 million, based on rate base of \$624 million.
- Revenue increase is needed to obtain cash flow in support of infrastructure replacements and operations & maintenance costs.
- Introduces testimony of National Grid witnesses presenting the Company's case.
- Introduces and discusses National Grid's vision:
 - Provide cost-effective, reliable and safe electric service to customers
 - Provide customers with information and assistance on energy products
 - Provide low-income rates, budget billing and arrearage management plans
 - Provide Green energy solutions and minimize environmental impact
 - Maintain good community relations and support the local economy
 - EDO transformation to reduce costs over the long term by increasing efficiency and effectiveness of organization
 - Energy Efficiency programs have produced cumulative annual savings of 7 million MWh in Rhode Island.
 - In 2006, Rhode Island enacted the Comprehensive Energy Conservation, Efficiency and Affordability Act requiring standards for energy efficiency.
 - In 2008, RIPUC adopted energy efficiency procurement standards in Docket 3931
 - In 2009, RIPUC approved 3-year Least Cost Procurement Plan and Energy Efficiency Procurement Plan.

- Discusses State and Federal climate change policies
 - Rhode Island Comprehensive Energy Conservation, Efficiency and Affordability Act (2006)
 - Energy Policy Act (2005)
 - Energy Independence and Security Act (2007)
 - American Recovery and Investment Act (2009)
 - Proposals for cap and trade regime in House of Representatives and Senate
- Role of the Utility/Reasons for the Rate Request
 - Merger Rate Plan approved by the RIPUC on March 14, 2000, reduced rates by \$2.7M and instituted rate freeze through December 2004.
 - Additional \$10.2M reduction to rates effective November 1, 2004 through December 2009.
 - Need to have fair opportunity to recover allowed ROE after rates go into effect March 1, 2010.
 - *Proposal:* Recover uncollectible expense associated with electric commodity on a fully reconciling basis (see, Wynter Testimony).
 - *Proposal:* Obtain authorization from RIPUC to file for an adjustment to distribution rates to recover actual level of delivery-related net write-offs for a given year if Company demonstrates that it experienced a substantial increase in delivery-related bad-debt writeoffs due to circumstances beyond the Company's control (see, Wynter Testimony).
 - *Proposal:* Establish a mechanism for Pension and OPEB cost outside of base rates and reconcile costs to actual revenue billed to customers for costs (see, O'Brien Testimony).
 - *Proposal:* Establish revenue decoupling including an annual inflation adjustment to apply to operating expenses and a capital adjustment mechanism to allow for timely recovery of capital investments (see, Tierney Testimony).
 - Timely recovery of capital investment is needed to maintain and upgrade the aging system but traditional ratemaking does not allow the Company to earn on post-rate year investments until the next rate case (see, Pettigrew & Tierney Testimony).
 - *Proposal:* Proposed return on equity is 11.6% (see, Moul Testimony).

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: John Pettigrew

TOPICS
1. Electric Distribution Operations
2. Annual Work Plan
3. EDO Transformation
4. Ratemaking Proposals
Inspection & Maintenance Program
Vegetation Management
Need for Capital Recovery
5. Facilities Management

DIRECT TESTIMONY

▪ **Overview of Rhode Island operating system**

- Service area encompasses 1,070 square miles in 38 cities and towns.
- National Grid serves 475,000 electric customers.
- 100 distribution substations.
- 480 distribution and sub-transmission feeders.
- 82 percent of 6,000 miles of circuits are overhead facilities.
- 85 percent of distribution and sub-transmission system operates in 15 kV range.

▪ **Operating Philosophy and Objectives**

- Reliability objectives
- System maintenance and capital investment objectives
- Improved operating efficiency objectives
- Employee safety and environmental objectives

▪ **Annual Work Plan**

- Shift in focus from reactive, repair-oriented approach to Asset Management model.
- Asset Strategies encompass inspection, maintenance and replacement programs by asset class or asset system, rather than component-by-component in response to performance issues.

- Need to deal with aging infrastructure such as distribution station breakers, distribution station transformers and distribution and sub-transmission poles, with average age over 30 years.
- National Grid is seeking PAS 55 certification in all lines of businesses, which allows for benchmarking of asset-management practices
- Categories of work activities in Annual Plan:
 - System Capacity & Performance
 - Asset Condition
 - Statutory or Regulatory Requirements
 - Damage/Failure Projects
- Key Asset Strategies
 - Capacity Planning
 - Distribution Line Transformers
 - Vegetation Management
 - Feeder Hardening
 - Distribution Line Reclosers
 - Potted Porcelain Cutouts
 - Wood Poles
 - Manhole and Vaults
 - Oil-Fused Cutouts
 - Distribution Substation Transformers
 - Distribution Substation Circuit Breakers
- Annual budgets represent compilation of spending for Asset Strategies. In addition to planning and budgeting process, specific approval for Strategies, programs and projects is obtained through a Delegation of Authority process.
 - Projects in excess of \$1M are presented to the Distribution Capital Investment Group (“DCIG”) for approval
 - Projects estimated at more than \$10M are reviewed by DCIG and then by Distribution Executive Committee
 - Projects greater than \$50 million are reviewed by executive group of National Grid plc.

- Cost containment strategies are implemented on a coordinated basis through the *EDO Transformation Program*. Core areas of focus are:
 - Asset Management
 - Customer Management
 - Contracting Strategies
 - Work Delivery
 - Construction Design
 - Network Operations
- Cost containment strategies include:
 - Centers of Excellence
 - Integrated Strategic Planning
 - Improved Work Processes

▪ **Ratemaking Proposals**

- New Inspection & Maintenance (I&M) Strategy will involve a comprehensive five-year cycle inspection and maintenance program for all overhead, underground and sub-transmission line assets, and will result in the Company performing incremental activities not performed during the 2008 test year (20% of asset class or asset system per year).
 - Inspection findings will be categorized
 - Level 1: Immediate repair
 - Level 2: High probability of failure within 12-18 months
 - Level 3: High probability of failure within 3-5 years
 - Level 4: Information used for asset decisions and future inspections
 - I&M Program costs will involve (1) staffing and other costs for inspections not in test year, and (2) capital costs and O&M expense for repairs discovered through inspections process.
- *Proposal:* Cost of I&M Program is \$4.7 million in CY2010 rate year, with \$2.094 million representing cost of I&M activities performed in CY2010 rate year incremental to test year. Proposal is to recover \$4.7 million through base rates, with amounts incurred annually over \$4.7 million recovered through reconciliation mechanism.

- Also, the Company expects to increase its capital investment from approximately \$8.2 million to \$11 million for repair projects.
- The capital expenditures from the I&M strategy would be recovered through the revenue decoupling mechanism.
- Vegetation Management Strategy is changed for the overhead distribution system in post test-year period.
- *Proposal:* The Company will incur \$9.084 million of vegetation-management costs in CY2010 rate year, which is \$1.985 million above the test year amount of \$7.037 million. Proposal is to recover \$9.084 million through base rates.
- *Proposal:* Annual Work Plan involves approximately 50 Asset Strategies. The Company's capital forecast for 2009 and 2010 amounts to \$59.9 and \$75.9 respectively, and these amounts are included in the Company's average rate base and cost of service for the rate year.
- *Proposal:* Recovery of capital investment following rate case will occur through revenue decoupling mechanism. Given the circumstances in financial markets, National Grid cannot invest significant amounts of capital without the opportunity to include the capital additions in rate base without the filing of a rate case.

▪ **Facilities Management**

- Property consolidation strategy developed following merger with KeySpan.
- Cost-benefit analysis showed \$10 million of benefit in 10-year period 2008 through 2018, and \$29 million through 2028.
- Involves three types of facilities: operations centers, special purpose facilities and office facilities.
- There are 12 operations centers in Rhode Island.
- As of April 2010, National Grid will have one special purpose facility in Northborough, MA to house control and dispatch center for electric and gas distribution and electric transmission.
- Reservoir Woods facility in Waltham, MA will house main office function.
 - Building will be LEEDS certified.
- For CY 2010, Rhode Island share is recorded as rent expense and amounts to \$257,940 for Reservoir Woods, and \$323,494 for Northborough facility.

REBUTTAL TESTIMONY

- **Union Labor Commitment:** Company will incur known and measurable costs of \$1,363,000 in CY2010 rate year for additional union positions needed to complete work on distribution system. These costs will not be offset by reduced contractor costs (Rebuttal to Effron Testimony).
- **I&M Program Costs:** I&M Program involves new inspection, maintenance and repair approach. Company will be performing a large number of inspections and repairs on a systematic/cyclical basis, which are incremental to work performed in test year. Incremental cost of \$2.094 million should be included in base rates subject to annual reconciliation over \$4.7 million on a going forward basis (Rebuttal to Effron & Hahn Testimony).
- **Vegetation Management Costs:** Vegetation management strategy is changed in post test-year period. Incremental cost is \$1.985 million and should be allowed for recovery through base rates (Rebuttal to Effron & Hahn Testimony).
- **Capital Forecast:** The Company's capital forecast through CY2010 rate year is needed to address replacement of aging equipment. Also, the capital forecast should be viewed on a fiscal year basis and is accurate (Rebuttal to Effron & Hahn Testimony).
- **Service Company Allocations:** Amounts charged to the Company by the Service Company through Account 583 and 588 are appropriate and should be included in rates. Account 583 is used to record costs of updating data in GIS system and these types of costs are recurring. Account 588 is used to record costs associated with Transformation Program because benefits will inure to benefit of customers in future rate cases (Rebuttal to Smith Testimony).

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Rudy L. Wynter

TOPICS
1. Uncollectible Expense
2. Credit & Collections

DIRECT TESTIMONY

▪ **Ratio of Net Write-Offs to Total Revenue**

- Company's actual net write-off experience

Actual Net Write-Off Experience		
	<u>Rate</u>	<u>Amount</u>
2004	0.72%	\$5,827,520
2005	0.67%	\$6,059,581
2006	1/04%	\$10,384,405
2007	1.17%	\$11,000,164
2008	1.08%	\$12,412,851

- Net write-offs are directly affected by electric commodity costs.
- Net write-offs are also affected by economic circumstances
- Net write-offs are affected by billing and termination requirements.
- Company expects ratio of net write-offs to increase going forward despite decline in commodity costs.

▪ **Overview of Collection Process**

- Company's approach is flexible to address customer specific circumstances
- Company uses a behavioral scoring model to evaluate customer characteristics.

▪ ***Proposal for Uncollectible Recovery***

- Commodity-related uncollectible expense would be recovered through Standard Offer Service rate on a fully reconciling basis (i.e., expense would equal actual net write-offs experienced in each year).

- Commodity-related uncollectible expense would be removed entirely from base distribution rates
- Distribution-related uncollectible expense would be calculated based on two-year average of actual write-off experience. Amount would be included in revenue requirement for base distribution rates.
- If actual expense exceeds amount included in base rates by greater than \$500,000, Company would be eligible to apply to Commission for recovery of actual amount in excess of amount included in rates if certain circumstances are satisfied.
 - Company would have to demonstrate that it has made 510,000 outbound calls and 41,000 field visits.
 - Company would have to demonstrate that the increase is due to factors beyond its control, such as regulatory, judicial, or legislative changes; market forces beyond the Company's control, including elevated levels of Standard Offer Service rates or elevated and sustained unemployment rates, or a change in public policy directives affecting collection practices.
- ***Proposal: Creation of Customer Advocate Positions***
 - The Company is proposing to add two Customer Service Advocates to deal directly with Rhode Island electric customers.
- ***Proposal: Operating Expense for Credit & Collections Function***
 - Enhanced collection efforts were undertaken in test year to mitigate bad-debt cost, but cost is not fully reflected in test year amounts.
 - Post-test year adjustment would be \$376,255 to increase outbound calls and support additional field visits.

REBUTTAL TESTIMONY

- **Connection between Commodity Costs and Uncollectible Expense:**
 - Commodity costs are not the sole factor affecting uncollectible expense, but are a significant factor. Other factors include economic conditions, availability of energy assistance funding and other items outside the control of the Company.
 - These factors support the use of actual net write-off experience to develop uncollectible ratio.
 - The Company expects uncollectible expense to increase going forward because of the poor economic conditions and unemployment in Rhode Island.

▪ **Service Terminations:**

- The Company has doubled the number of account terminations in the years 2004-2008, or from 10,015 disconnections to 20,721 disconnections and yet the net write-off ratio has climbed from 0.72 percent to 1.08 percent regardless.
- The Division's proposed ratio of 0.71 percent is calculated by assuming disconnections of residential accounts with arrearages after 150 days and C&I accounts with arrearages after 90 days, without regard to customer-specific circumstances. However, the Company cannot use service terminations in this way; the Company uses service terminations as a collection tool, but must account for customer-specific circumstances also.
- Uncollectible ratio would have been higher without Company's significant efforts to ramp-up collection activities.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Paul R. Moul

TOPICS
1. Capital Structure
2. Return on Equity

DIRECT TESTIMONY

- *Proposal:* Company's proposed capital structure is:
 - Common Equity = 50.05%
 - Long-term Debt = 44.78%
 - Short-term Debt = 4.98%
 - Preferred Stock = 0.19%
- The proposed capital structure assumes completion of a financing application with the Division, which will reduce Narragansett Electric's capital structure from 77.99% common equity to approximately 50% common equity by issuing \$512 million in long term debt. The new long-term debt will repay short term debt and pay dividends. On average, the capital structures of electric utilities include 48% common equity in 2008 and this ratio is forecasted to increase to 50%.
- Narragansett Electric's preferred stock has annual dividend rate of 4.5%.
- *Proposal:* The Company proposes to use the actual cost of debt per the debt issuance approved by the Division. The effective cost rate of the long-term debt cost is estimated to be 6.79%, inclusive of issuance costs.
- The short term debt rate is 2.50%.
- *Proposal:* The Company's proposed ROE is 11.60% with a weighted cost of capital of 8.98%
- To determine the proposed ROE, the Company used a proxy group of seven electric or combination electric and gas utility companies (the "RDM Electric Group"). The RDM Electric Group is composed of companies meeting the following requirements:
 - included in Value Line Investment Survey
 - currently paying a dividend on their common stock
 - not presently target of an announced acquisition or merger

- have at least 60% of their assets devoted to utility regulation
 - currently have a revenue decoupling mechanism in place, and
 - have a credit quality rating of Baa2/BBB or higher.
- The Company's ROE analysis is summarized as follows:

	RDM Electric Group
DCF Analysis	11.17%
Risk Premium Analysis	12.00%
CAPM Analysis	11.80%
Comparable Earnings Analysis	14.90%
Average	12.47%
Median	11.90%
Midpoint	13.04%

- The Company recommended an ROE of 11.60% because it was the approximate average of the DCF, which was 11.17%, Risk Premium, which was 12.00%, and CAPM, which was 11.80%.
- The Company also recommended that in setting the ROE the Commission should take into account the recent financial crisis such as the collapse of Bear Sterns in March 2008 and nationalization of AIG in September 2008, which caused investors to become more risk-averse and seek a higher return for their increased risk.

REBUTTAL TESTIMONY

- **Significance of ROE:** ROE is important because it signals the level of regulatory support for regulated utilities. To attract and retain capital, the rate of return on common equity must be higher than the 10.1% recommended by Division (Rebuttal to Kahal)
- **Common Equity Included in Capital Structure:** Division's recommendation of 47.5% common equity is based on two proxy groups (one gas group and one electric group). The gas group ratio is off because short-term debt levels have to be normalized to eliminate impact of winter gas purchasing. The electric group ratio is off because the group contains an outlier (Northeast Utilities at 38.1% common equity). Lastly, Division's equity ratio includes too much debt so that proposed range of 45 to 50% should be calculated as 50 to 55%, with Company's proposed 50% at lower end (Rebuttal to Kahal).
- **ROE Calculation:** Division's proxy-group selections are not reasonable because the groups are not composed of similarly situated electric companies with revenue decoupling in place. Also, there are issues with Division's DCF and CAPM analyses and the Division has not sufficiently accounted for Risk Premium and Comparable Earnings analyses (Rebuttal to Kahal).

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Julie M. Cannell

TOPICS
1. Return on Equity

REBUTTAL TESTIMONY

▪ **Investor Evaluation of Investments in Utility Companies**

- Investors provide capital to construct, maintain and replace infrastructure
- The terms on which the Company is able to obtain capital has a direct and measurable impact on customers and the amount they pay for distribution service – if credit ratings are lowered, costs of capital increase.
- If the rate of return is within a “zone of reasonableness,” both customers and the Company benefit. If rate of return is set too low, both utility and customers are adversely affected because of cost of capital.
- Risk of investing in electric utilities is increasing because of deregulation, construction cycle, regulatory uncertainty and other factors.
- Industry is in a construction cycle requiring major capital investment, which causes investor concern because of regulatory lag in recovery and risk premiums.
- There is uncertainty regarding allowed returns on equity.
- Financial crisis is affecting investor evaluations.
- Market is heavily populated by institutional investors who own large blocks of shares and have the ability to react quickly to bad news.

▪ **Investor Perceptions of Present Proceeding**

- Having an investment-grade credit rating is important because the higher the credit rating, the less it costs to borrow.
- Ratings agencies evaluate the “predictability and supportiveness of regulatory framework” and “ability to recover costs and earn returns.”
- Moody’s and S&P have a generally favorable view of Rhode Island regulatory environment.
- Moody’s voiced expectations that National Grid’s U.S. subsidiaries will see improved earned returns as a result of rate proceedings.

- Consistency of regulatory decisions is important.
- There is an understanding among investment firms that National Grid's U.S. businesses are under-earnings.
- Morgan Stanley identified 10.5 percent as a "target" ROE assumption for National Grid's U.S. subsidiaries.

▪ **Proposed Return on Equity in this Case**

- In the 35 case decisions rendered over the past year, only six ROE allowances were as low or equal to 10.1 percent nationwide since the onset of the financial crisis.
- Low ROE of 8.75 set in Connecticut/United Illuminating case represents a powerful example of investor disappointment with stock declining by 37 percent.
- A positive example is Tampa Electric, which was granted an ROE of 11.25 percent, with stock price increasing by 35 percent in two weeks between staff recommendation and commission order.
- The Company's proposed ROE of 11.6 percent is fair and reasonable.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Robert L. O'Brien

TOPICS
1. Revenue Requirement Calculation
Pro Forma Adjustments to Test Year
2. Cash Working Capital
3. Expense Reconciliation Adjustment Mechanisms
Pension/OPEB Reconciliation Adjustment
I&M Program Reconciliation Adjustment
Standard Offer Service Cost Adjustment

DIRECT TESTIMONY

▪ **Revenue Requirement**

- The revenue requirement is based on test-year ending December 31, 2008.
- The total revenue requirement is \$288,775,921, based on a proposed distribution rate increase of \$65,533,534 and \$9,751,787 for the commodity reconciliation mechanism (\$75,285,321 in total).
- This level of revenue is required to allow the Company to earn a rate of return of 8.98 percent on its rate base of \$623,948,473.
- Pro forma adjustments are made to calculate known and measurable changes in O&M expenses through the end of the Rate Year, or December 31, 2010. Pro forma expense adjustments total \$18,470,006, including:
 - *Salary & Wages:* A net adjustment of \$3,092,128 is made to account for union and non-union wage increases through the end of the rate year (see, Dowd Testimony).
 - *Medical, Dental & Group Insurance Expense:* An adjustment of \$713,244 is for increases in medical and dental expense through the end of the rate year. An adjustment of \$48,661 is made for group insurance expense.
 - *Pension & OPEB Expense:* An adjustment of \$4,470,254 is made to reflect increased pension expense through the end of the test year. An adjustment of \$1,070,902 is made to reflect increased OPEB expense through the end of the rate year.
 - *Thrift Plan – Company Match:* Adjusted by \$144,870.
 - *Information Services Leasing Expense:* Adjusted by \$412,103.

- *Rent Expense:* Adjusted by \$554,455 to account for allocated shares of Reservoir Woods facility in Waltham, Ma and Northborough MA operations facility (see, Pettigrew Testimony).
 - *Union Labor Staffing:* Adjusted by \$1,432,583 to account for new union labor through the end of the rate year.
 - *Consumer Advocates:* Adjusted for cost of adding two consumer advocate positions by \$190,763.
 - *Postage Expense:* Adjusted by \$73,270.
 - *Rate Case Expense:* Projected rate-case expense totals \$1,730,000, or \$865,000 with a two-year recovery period.
 - *Inflation Adjustment:* Adjusted by \$493,198.
 - *Seasonal Employees:* Adjusted by \$382,314.
 - *Uncollectibles Mitigation Plan:* Adjusted by \$376,255 for cost of enhanced collections process is \$376,255 (see Wynter Testimony).
 - *Economic Development Program:* Adjusted by \$1,000,000 for cost of proposed Economic Development Program (see, Fields Testimony).
 - *Vegetation Management Expense:* Adjusted by \$1,985,323 for incremental cost of vegetation management activities (see, Pettigrew Testimony).
 - *Inspections and Maintenance Program:* Adjusted by \$2,094,305 for incremental cost of inspection, maintenance and repair activities (see, Pettigrew Testimony).
- Delivery-related Uncollectible Expense is based on two-year average of net writeoffs, or 1.0975 percent times total delivery revenues in test year of \$397,154,007, or \$4,358,765.
 - Commodity portion of Uncollectible Expense is \$7,861,885.
 - The Company maintained the \$3,078,000 annual contribution for the environmental response fund, and the \$1,041,000 annual contribution for the storm fund.
 - The net merger synergies from the National Grid/Key Span merger are projected to be annual steady state of \$6.5 million, after accounting for costs-to-achieve of \$2,100,000 per year for a 10-year amortization period. The Company's share of the net savings equates to \$3.25 million or 50 percent of net synergy savings consistent with Commission precedent.
 - *Proposal:* Company requires approval of creation of regulatory asset under FAS 71 for deferral and amortization of CTA.
 - Adjustment made to account for pro forma change in municipal taxes of \$2,215,909
 - Adjustment made to account for change in depreciation expense of \$2,281,902.

- Rate base is calculated using the five quarter average for the rate year plant in service of \$1,232,746,925, which is then reduced by a five-quarter average of \$516,525,305 in accumulated depreciation.
- **Cash Working Capital**
 - The Company submitted a study of cash working capital requirements
 - Calculated revenue lag of 9.93 percent
 - Expense payment lag is 8.54 percent, for a net revenue lag of 1.39 percent.
- **Expense Reconciliation Adjustment Mechanisms**
 - *Pension/OPEB Reconciliation Adjustment Mechanism ("POAM")*
 - Adjusted test-year (rate year) amount of pension and OPEB expense included in base rates (\$14,243,640) and used as the base for POAM.
 - Actual expense levels over and under base-year amount will be collected or refunded to customers.
 - *Inspection and Maintenance Program Expense Reconciliation*
 - Adjusted test-year (rate year) amount of I&M Program expense included in base rates (\$4.7 million) and used as the base for reconciliation mechanism.
 - Actual expense levels over and under base-year amount will be collected or refunded to customers.
 - *Standard Offer Service Cost Adjustment Mechanism*
 - Would provide for recovery of commodity-related uncollectible expense and administrative costs through Standard Offer Service Rates.
 - Company has computed initial Standard Offer Service rates to recover allowed expenses.
- **Revenue Decoupling Mechanism**
 - Provides sample calculation
 - See, Testimony of Dr. Tierney.

REBUTTAL TESTIMONY

- The Company's rebuttal revenue deficiency is \$63,586,000, as compared to the filed amount of \$65,533,534.
- **CORRECTIONS:**
 - Other Revenue overstated in error by \$20,000. Corrected amount is \$325,967.

- Merger Related Costs to Achieve (removed from cost of service) overstated by \$399,245.
- Rent Expense – allocation percentage of Northboro facility should have been 10.5 percent instead of 12.24 percent, which reduces expense amount by \$45,987.
- Municipal Tax Expense – should be reduced by \$879,000.
- Depreciation Expenses – reduction of rate year depreciation expense of \$9,150.
- Change in plant in service reducing rate year average plant from \$1,232,746,925 to \$1,232,477,804.
- Accumulated Depreciation increased by \$65,940 and ADIT reduced by \$21,272.

▪ **REBUTTAL**

- *Rate-case Expense:* Five-year recovery period recommended by Division is not reflective of more frequent rate filings on a going forward basis and may result in overlapping recovery where rate case filed prior to end of five-year amortization.
- *Storm Fund Contribution:* Annual contributions to Storm Fund are needed to avoid negative impacts of large storm. Storm fund is intended to provide for restoration and recovery of service for customer damage cause by large storms and suspending this funding will defeat the purpose of the fund.
- *Storm Damage Expense:* Division recommendation is to use five-year average of storm expense instead of test-year amount of expense. Upon review, test-year expense should be \$4,410,401 instead of \$5,168,131 referenced by Mr. Effron because of amounts that should have been deferred. Corrected amount of \$4,410,401 is representative of going-forward costs and is in line with costs in period 2005 through 2007, which ranged from \$2.9 million to \$4.1 million.
- *Injuries and Damage Expense:* Division recommendation is to eliminate \$2.5 million from injury and damage expense and use three-year average. However, item is not “non-recurring” simply because it involves a reserve amount because reserves are commonly used in relation to injuries and damage expense. Also, test year amount is not out of line with prior years.
- *Legal Expense:* Division recommendation is to eliminate legal expenses of \$419,000 because case is closed. While the specific proceeding may not recur, the total level of costs is representative. Completed cases are replaced with new cases.
- *Uncollectible Expense:*
 - The Company agrees with recovery of transmission-related uncollectible expense with Commission approval to recover transmission-related uncollectible expense through transmission rates.
 - If Commission is inclined to require earlier disconnect of customers, Commission should advise Company in this case and take action in next case

to allow Company time to implement procedures consistent with Commission policy.

- If Commission agrees with Division's recommendation on uncollectible ratio, adjustments would need to be made bringing ratio to 0.72 percent. Adjustments take into account (1) dollars recovered after shutoff not given credit in Division's calculation, and (2) loss of revenue associated with terminated customers should be reflected in revenue requirement. Also would have to account for cost of disconnections.

○ *Merger Synergies and Costs to Achieve:*

- Division recommendation is to reduce cost of service by \$1,176,000 relating to reduction to CTA allowed through rates.
- CTA are incurred on one-time basis at outset of consolidation effort, but produce enduring savings for entire period. Specifically, 54% of total CTA incurred in years 1 and 2 and 46% reflected in years 3 through 10.
- Conversely, 12% of merger savings realized in years 1 and 2, and remaining 88% realized in years 3 through 10.
- Company proposes to start 10 year amortization in 2008 to coincide with the period for merger savings. Therefore, Company would have absorbed two years of amortization at \$2,100,000 per year.
- Company should not be subject to synergy savings proof in eight-year period commencing in 2010 because Company has included synergy savings in rates to the benefit of customers although not expected until 2011.

○ *Accumulated Depreciation*

- Division's calculations are not correct.

○ *Cash Working Capital*

- Division has not provided adequate justification for recommendations.
- Company's calculations are appropriate and correct.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: William F. Dowd

TOPICS
1. Employee Wages & Salaries
2. Employee Benefits

DIRECT TESTIMONY

▪ **Overview of Wages and Benefits**

- National Grid uses a compensation policy called “Total Rewards Program.”
- National Grid commissioned a market analysis of pay and benefits structure following merger with KeySpan Corporation indicating that the approach of offering less costly benefit plans with greater level of variable pay would be in line with what other employers are offering in the marketplace.
- National Grid has made changes to contain costs for medical, dental and life insurance programs, including changes in co-pays and self-insurance for prescription drugs.
- Employees’ total compensation is reasonable after considering base and variable pay on an aggregate basis. Variable pay is based on both the overall performance of the company and the individual employee with individual employee performance goals reflecting objectives of safety, reliability and customer satisfaction.
- Nearly 100% of surveyed companies have variable pay plans, with over 90% of employees participating in plans.

▪ **Non-Union Wages**

- The CY2010 rate-year payroll expense for non-union employees is \$22,657,396, which reflects an annual overall wage increase of 1.5% for the twelve months beginning on July 1, 2009, and includes a 3% increase for the six months beginning July 1, 2010. For non-union employees, National Grid seeks to set pay at approximately the median level for comparable companies in the northeast United States.

▪ **Union Wages**

- The union payroll expense for the CY2010 rate year is \$23,714,167, which reflects increases in collective bargaining agreements in 2009 and 2010 in the range of 2.5% to 3.5% increases. For union employees, National Grid wage rates are within the range of other New England utilities.

▪ **Benefit Plans**

- National Grid offers benefits that include medical and dental coverage, pension and post retirement medical benefit plans, life insurance coverage and long term disability coverage, vacations and holidays. National Grid's benefits are close the median of 12-15 comparable companies, which are mostly utilities.
- Medical benefits are increasing by 8% over the test year and dental benefits are increasing by 3% over the test year.
- National Grid attempts to control costs with actions such as being self-insured, and having employees pay for pre-age 65 post retirement medical insurance at the same rate as active employees.
- National Grid has implemented a common cash balance pension plan design for all non-union employees, effective with new hires on and after July 15, 2002. A cash-balance plan has not been implemented for union employees or National Grid USA Service Company, although IBEW Local 3 and TWU Local 101 have adopted a cash balance plan for new hires on and after October 16, 2001.

REBUTTAL TESTIMONY

- **Variable Pay/Incentive Compensation:** Variable pay totaling \$1,204,000 should not be excluded from cost of service because of relationship to "financial goals."
 - Variable pay should be included in rates because (1) variable pay is part of total compensation and is needed to attract and retain qualified employees, and (2) using base and variable pay structure is better than paying base salary equal to base and variable pay and then allowing bonuses because the base and variable pay structure is tied to performance goals that must be achieved.
 - Base compensation will need to be raised to attract and retain employees if variable pay tied to financial goals is not allowed.
 - Attainment of financial goals has a benefit for customers in terms of protecting the Company's access to capital resources at a reasonable cost.
- **Union Labor Commitment:** The Company will incur known and measurable costs of \$1,363,000 in CY2010 rate year for additional union positions needed to complete work on distribution system. These costs will not be offset by reduced contractor costs (Rebuttal to Effron Testimony) (see also, Pettigrew Rebuttal).

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Dr. Susan F. Tierney

TOPICS
1. Revenue Decoupling Policy
2. Revenue Decoupling Ratemaking Plan

DIRECT TESTIMONY

▪ **Overall Framework**

- The Company's proposed RDR Plan is shaped in light of traditional ratemaking practices and changed circumstances.
- The proposal will provide benefits to consumers by ensuring that: (a) rates reflect the cost to provide distribution service; (b) the Company will be able to fund reliability improvements and investments to modernize its system, fund productivity improvements, and operate its system safely and reliably; and (c) the Company's distribution revenue is decoupled from kWh deliveries so that its financial interests are better aligned with customers' interests and the state's policy directives by encouraging customers to better manage and/or reduce their energy use and, in so doing, more effectively manage their own energy bills.
- The Company's RDR Plan includes two overall elements: (1) base rates as set by the rate case; and (2) an RDR Plan Adjustment Factor, that will modify rates annually.
- The RDR Plan involves (1) a revenue decoupling mechanism, (2) a second component to provide revenues to adjust for the effects of inflation beyond those reflected in the rate case and (3) a component to provide revenues related to cumulative net capital spending (above amounts supported in base rates), and (4) a component to provide revenues for the effects of increased capital spending levels in the current year (when adjustments come into effect), based on actual recent levels of capital additions made by the Company.
- The factors work in conjunction with each other but are not simply added to each other. The calculation involves two separate parts: (A) an RDR Plan Revenue Reconciliation, which is designed to decouple the Company's revenues from the quantity of its sales by reconciling revenues billed in the prior year with the revenue amount the Company was allowed to recover (i.e., the "Annual Target Revenue" ("ATR")); and (B) the RDR Plan Revenue Adjustment to enable revenue support for the impact of net inflation and net capital additions in the year in which these adjustments take effect.
- These two part are referred to as the "look-back" portion and the "look-ahead" portion of the overall process

▪ **Policy Supporting Revenue Decoupling**

- *Federal Policy*: Federal policy goals include (1) the desire to promote procurement of least cost retail energy supply in the face of rising and increasingly volatile fuel prices and rising costs of construction for new energy facilities; (2) the need to increase or maintain the reliability of retail energy supply, particularly as our energy infrastructure is aging and our economy grows more dependent on reliable electricity; and (3) the need to address environmental impacts associated with energy production and use, particularly those related to climate change.
- *Rhode Island Policy*: Revenue decoupling is encouraged by Rhode Island's Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006. The 2006 Act put in place the statutory requirement for "least-cost procurement" as a key element of the state's plan to meet "electrical energy needs in Rhode Island, in a manner that is optimally cost- effective, reliable, prudent and environmentally responsible." The 2006 Act further requires that utilities pursue all cost-effective energy efficiency and conservation: "Least-cost procurement, which shall include procurement of energy efficiency and energy conservation measures that are prudent and reliable and when such measures are lower cost than acquisition of additional supply, including supply for periods of high demand."
- *ARRA*: The February 2009 American Recovery and Reinvestment Act ("ARRA") will introduce at least \$58 million in funding for weatherization, energy efficiency grants and local energy efficiency improvements in Rhode Island alone. Given the large percentage of statewide retail electricity sales provided by the Company, its service territory might expect to see almost all of the incremental \$58 million spent on demand-side measures installed in its service area.
- There are two types of barriers that inhibit the realization of cost-effective energy efficiency. The first includes barriers that prevent *customers* from undertaking all cost-effective opportunities for energy efficiency. The second type of barrier to adoption of cost-effective energy efficiency measures are those that create disincentives so that utilities pursue cost-effective energy efficiency less aggressively than the economics of the programs would otherwise warrant.
- Revenue decoupling would tend to stabilize (if not have a downward effect on customers' total bills) and will also stabilize a utility's total revenues. Revenue decoupling provides an opportunity for the utility and customers to *share* the risks associated with variation in sales volume by smoothing out the utility's earnings and reducing variation in customers' total bills.
- While tending to leave customers' total bills for distribution service relatively flat, depending on how decoupling is implemented, the bill impacts of decoupling across customers may vary. For example, over time customers that decide to implement energy efficiency measures, install more efficient appliances, or equipment may end up picking up a smaller portion of the utility's revenue requirement over time; this happens as a result of the math. Conversely, customers that fail to participate in energy efficiency

programs and do not reduce their energy use may begin to pay a larger share of utility revenues.

- Revenue decoupling will only affect the distribution portion of electric rates so reductions in customer usage through conservation will still reduce a customer's overall electric bill.
- Revenue decoupling began in California in 1980s. It is often used for natural gas utilities. Twelve electric utilities in seven states have revenue decoupling at the present time.

▪ **Ratemaking Challenges in Rhode Island**

- Because in the past utilities relied on revenue growth from increases in kWh deliveries after a rate case to pay for capital investments and address inflation, a decoupling mechanism must include adjustments for inflation and capital spending.
- The magnitude of rate changes in distribution rates if decoupling had been implemented in 2003 through 2008 is minimal compared to the changes in electric bills due to standard offer rate changes.
- Revenue stability is typically perceived by financial markets as beneficial to a utility company's financial strength.
- Revenue decoupling does not guarantee earnings, but only stabilizes a company's annual revenues. The Company will still need to manage costs.
- Revenue decoupling, in particular with an inflation adjustment, will avoid unnecessary rate cases.
- Alternatives to decoupling such as reimbursing utilities for lost revenues due to utility energy efficiency programs will be administratively time consuming and fails to address the utility's underlying incentive to increase sales. Also, straight fixed variable rate design, an alternative to decoupling, will reduce a customers' incentive to implement energy efficiency and lead to a significant shift of costs to low-volume customers.
- In the fall of 2008, utilities' market capitalization dramatically declined. Electric utilities are capital intensive and have high debt levels. Utilities' credit ratings are dropping.
- To accommodate revenue decoupling, the need for investments, and giving investors a fair return requires adjustments for inflation and capital expenditures, and the use of a future test year. Rate mechanisms for the timely recovery of capital expenditures are important because the Company's infrastructure is aging, and commodity costs are rising globally.
- Commission oversight of utilities with decoupling can occur through annual filings in which the Company presents its capital expenditures.

▪ **Design of RDR Plan**

- At the end of each year, the Company will file as part of its annual RDR Plan filing an annual revenue target (ATR), which will generate revenues to address inflation and capital requirements.
- The ATR is built on the class-specific revenue requirement resulting from the rate case.
- The ATR also includes an adjustment to reflect the effects of two revenue requirement elements that will be presented to the Commission in future annual RDR Plan filings. One revenue requirement element accounts for the net distribution capital expenditures (“CapEx”), and the other accounts for the incremental effects of a net inflation adjustment.
- Costs and revenue reconciled outside of base distribution rates are not affected by the RDR Plan (such as energy supply for standard offer service and last resort service customers; transmission costs; renewable energy standard compliance costs; and stranded costs through the non-bypassable transition charge).
- The Company is not proposing any adjustment to its ATR to account for changes in the number of customers it serves.
- In the annual “look back” reconciliation, the Company will reconcile (1) actual distribution revenue billed to its customers through the application of the prior year’s distribution rates (including customer charges, distribution demand charges, distribution energy charges, and any prior year’s RDR Plan Adjustment Factor), and (2) its actual ATR from the prior year. The Company proposes to perform this reconciliation on a calendar year basis, since the Company anticipates the distribution rates resulting from this case are to become effective on January 1, 2010.
- The first RDR Plan Reconciliation, for rate adjustment to go into effect on January 1, 2011, will include a reconciliation of actual net CapEx for the calendar year 2010 relative to the amounts included in the Company’s revenue requirement in this case.
- The ATR for years subsequent to 2010 will be determined in the November RDR Plan filing and will include adjustments for the net inflation and net CapEx as reviewed and approved by the Commission during the annual review process.
- And at the end of each year, the Company will file, as part of its annual RDR Plan filing, documentation in support of the net CapEx that has occurred since the Commission’s last review of the Company’s actual distribution capital investment. Each year the Commission will review this filing and determine which incremental distribution investments are prudent, used and useful.
- Based on these rulings, in each year, the ATR will include the revenue requirement to support the Company’s Cumulative Net CapEx, which will include: (a) Commission-approved distribution-related capital expenditures net of the level of the annual

depreciation expense allowance embedded in base rates; plus (b) the sum of Net CapEx approved as a part of prior years' RDR Plan reconciliations.

- In the ATR Plan Reconciliation, the Company's revenue requirement from the rate case would be adjusted to reflect the cumulative impact of inflation, net of an amount designed to provide an offset for productivity (on behalf of customers) (i.e., the "Net Inflation Adjustment").
- The Net Inflation Adjustment is calculated by multiplying (a) the applicable operating expenses of the Company's base distribution revenue requirement subject to the Net Inflation Adjustment times (b) the net inflation factor (compounded over the relevant time period). The net inflation factor reflects a measure of economy-wide inflation for the time period in question net of a fixed adjustment for industry productivity. The Net Inflation Adjustment will reflect changes in the Company's net costs relative to mid-year 2010, since the Company's revenue requirement already reflects an inflation adjustment to account for inflation from the mid-year of the test year 2008 to the mid-year of the rate year 2010.
- The Company is proposing 0.5 percent for the productivity offset based on an assessment of recent estimates of utility productivity developed within the context of various regulatory proceedings addressing utility ratemaking issues (including incentive regulation and cost of capital).
- The Company will have two adjustments associated with Net CapEx adjustments in the "look-ahead" portion of the process. The first adjustment is the Cumulative Net CapEx adjustment and will account for the revenue requirement associated with the Net CapEx already approved by the Commission in the instant and prior reconciliation proceedings. It will be based upon the revenue requirement for Net CapEx included in the prior year's ATR.
- The second adjustment is the Current Year Net CapEx adjustment and will account for the incremental effect of Net CapEx anticipated in the coming (or "current") year. The Company's annual RDR Plan filing will include information on the prior two years of the Company's distribution-related capital expenditures.
- An incremental Net CapEx adjustment for the year in which the adjustment goes into effect (or "current year") will be based on 75 percent of the average level of actual annual Net CapEx for the prior two years. The rate adjustment looking forward will compare this 75 percent amount to the allowance in base rates for depreciation expense. To the extent that the percent amount exceeds the allowance for depreciation expense, the revenue requirement associated with that incremental Net CapEx amount will be included in the RDR Plan Adjustment for the current year.
- The Company is proposing that it notify the Commission if (1) the difference between the year-to-date actual revenue and the year-to-date ATR is 10 percent above or below the actual ATR, and (2) the Company does not anticipate that the discrepancy will fall below the 10-percent threshold in coming months.

- The year-to-date ATR will include both the Company's projected revenue requirement for Net CapEx and Net Inflation adjustments in the current year. The monthly ATR will be determined – as described above – based upon the monthly forecast kWh deliveries. To avoid an interim adjustment immediately prior to the Company's scheduled rate adjustment, the Company will notify the Commission of variances exceeding 10 percent of ATR no later than August 31, although the Company would expect that the reconciliation would await the normally scheduled filing and review process.
- The net CapEx will include past capital expenditures net of depreciation above what was allowed in the last base rate case, and the Current Year Net CapEx will account for the incremental effect of Net Cap Ex in the coming year.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Timothy Stout

TOPICS
1. Existing Energy Efficiency Programs
2. Three-Year Energy Efficiency Plan

DIRECT TESTIMONY

- **Existing Energy Efficiency Programs**

- In 2006, a law was enacted that required the establishment of standards and implementation of least cost procurement of energy efficiency and system reliability. On March 31, 2009, the Commission approved the Company's three-year plan for energy efficiency and system reliability procurement.
- The current program also establishes energy efficiency programs for three sectors, residential, low-income residential, and commercial and industrial (C&I). Residential customers are offered the following programs:

- **EnergyWise Program** (Gas and Electric)
- **ENERGY STAR® Homes Program** (Gas and Electric)
- **ENERGY STAR® Heating Program** (Electric Only)
- **ENERGY STAR®**
- **Central Air Conditioning Program** (Electric Only)
- **ENERGY STAR® Lighting** (Electric Only)
- **ENERGY STAR® Appliances** (Electric Only)
- **Information and Education** (Electric Only)

Low-income individuals, depending on income eligibility, may have co-payments reduced or waved. And the C& I sectors have programs such as *Design2000Plus*, which promote energy efficient design and construction practices in new and renovated commercial, industrial, and institutional buildings.

- **Going Forward Energy Efficiency Programs**

- New three-year plan for energy efficiency programs will offer \$280 million of net lifetime benefits for Rhode Island consumers.
- In order for the program to be effectively implemented, there must be available funds and the approval of a revenue decoupling mechanism.

- The Company projects \$102 million in efficiency program implementation and evaluation spending over the three-year period. By comparison, this is \$58 million more in energy efficiency spending than what the expenses would be over the same period at the 2008 spending level.
- The short term effects of an increase in energy efficiency on consumption are that an individual participating customer's electric use may decrease. But in the long term, another effect there may be a deeper penetration of energy efficiency through the energy efficiency programs may lead to the presence of more energy efficiency technologies in the market.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Carmen Fields

TOPICS
1. Economic Development Program

DIRECT TESTIMONY

- The Company is proposing \$1 million per year in new economic development pilot initiatives in response to current economic conditions and that in New York National Grid offers economic development programs. There will be generally a matching funds requirement of at least 50 percent of total project costs from other sources.
- The Targeted Infrastructure Improvement program is \$400,000 per year and will address the development of key industrial sites and buildings where the existing energy delivery infrastructure is a barrier to economic growth.
- The Urban Revitalization program is \$400,000 per year and will focus on the redevelopment of vacant buildings in urban communities with both idle energy infrastructure and strong development potential.
- The Strategic Business Development program is \$200,000 per year and will promote specific regional development assets or enhance the competitiveness of Rhode Island.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Kimbugwe A. Kateregga

TOPICS
1. Depreciation Study

DIRECT TESTIMONY

▪ **Current Depreciation Rates**

- The Company's current depreciation rates were adopted in Docket No. 2290.

▪ **Development of Depreciation Rates**

- The goal of depreciation accounting is to charge to operations a reasonable estimate of the cost of the service potential of an asset (or group of assets) consumed during a time interval.
- Depreciation study involves collection of plant data, determination of average service life, future net salvage rates and projection curves.
- Revenue associated with depreciation is a significant source of internally generated funds used to finance plant additions and replacements.

▪ **Results of Depreciation Study**

- Used Plant Accounting data for period 1995 through 2008.
- Average service lives were derived from statistical analysis.
- Net salvage analysis performed.
- Recorded depreciation reserves were analyzed.
- The result of the study is that the proposed depreciation composite rates should be 3.20%, which is lower than the current 3.34% composite rate.
- Current annualized depreciation rates represent an annual expense of \$45,473,702, but the proposed depreciation rates would result in an annualized depreciation expense of \$43,499,404.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Alfred P. Morrissey

TOPICS
1. Sales Forecast
2. Impact of Energy Efficiency Savings through CY2010

DIRECT TESTIMONY

▪ **Gigawatthour Sales Forecast**

- First Step:
 - Econometric forecast of gWh sales based on economic conditions, weather, electricity prices and days billed.
 - Did not include any additional energy efficiency savings from Company-sponsored programs beyond those achieved through the 2008 historic test year.
- Second Step:
 - Forecast energy efficiency savings based on existing programs, their life cycle and energy efficiency initiatives for 2009 through 2010.
 - Differences in level of DSM savings between the test year and rate year were used to adjust the econometric forecast of gWh in the 2010 rate year, which lowers forecast of 2010 gWh sales by 0.4%.
- The forecast of 2010 gWh is lower than 2008 because of energy efficiency programs and the regional economic slowdown, with gWh sales declining at an average rate of 1.1% per year since 2005. For period of 1995 to 2005, average annual growth was 2.1 percent.

▪ **Peak Load Forecast**

- Monthly peak demands coincident with the Company's peak were forecast for four power supply areas composing the Company's service area. Demand for PSAs then summed to yield monthly peak demand forecast.
- Compared to actual 2008 average monthly peaks, the forecast anticipates a 3.2% drop in 2009 and 1.9% increase in 2010.
- Average monthly peaks are forecast to be 1.4% lower in 2010 than in 2008.

- DSM savings on the summer peak amount to 7.6% of the actual 2008 summer peak. These savings are expected to grow by 5.8 MW between the 2008 test year and the 2010 rate year, reaching 9.0% of summer peak load. This has the effect of lowering the model-produced 2010 peak forecast by approximately 0.4%.
- DSM savings on the winter peak demand, which equaled 10.3% of the actual 2008 winter peak, are expected to fall by 22.5 MW between the 2008 test year and 2010 rate year. This has the effect of raising the 2010 peak forecast by approximately 1.7%.
- The overall adjustment to the model-produced average monthly peak forecast for 2010 was an upward adjustment equal to 15.4 MW or 1.1%.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: John E. Walter

TOPICS
1. Streetlighting Tariff Changes
2. Decorative and Area Lighting Tariffs

DIRECT TESTIMONY

▪ **Proposed Modifications to Streetlighting Tariffs:**

- The Company currently has two tariffs for street and area lighting service.
 - Rate S-10: Limited Service - Private Lighting provides for unmetered electric service and for maintenance of Company-owned equipment. It is available to residential, commercial and industrial customers for private area lighting and floodlighting. This service offering has been closed to new service location customers for many years.
 - Rate S-14, General Street and Area Lighting Service is available to municipal customers for municipally owned or accepted roadways and other public areas. This service offering provides for unmetered electric service and for maintenance of Company-owned equipment and is available to municipalities or other public authorities for street and area lighting applications.
- Changes to streetlighting tariffs are as follows:
 - Housekeeping changes;
 - Updating rates and charges to reflect the Company's allocated cost of service;
 - The creation of a separate Decorative Street and Area Lighting option;
 - The adoption of a turn-off rate provision for Street Lighting Rate S-1 which will allow customers to avoid paying any energy charge but would require customers to continue to pay associated facility charges, and
 - The application of a Lighting Service Charge to be charged to customers in response to customer requests which do not involve Company lighting facilities.

▪ **Rate S-14 Temporary Turn-Off Provision**

- The present Rate S-14 tariff for use by municipal customers provides for temporary disconnection subject to a \$25 disconnect charge.

- The proposed Temporary Turn-Off provision would provide to the Company a return on the investment left in place to serve those customers under Rate S-14 who take advantage of this provision, requesting that their luminaire facilities be made temporarily inoperative for a period of at least one year but not to exceed three years.
- **Decorative Street and Area Lighting Facility Proposals**
 - The decorative street and area lighting service option is intended to allow the Company to provide a selection of ornamental or historic style post top luminaires and anchor based standards.
 - This service option is fundamentally based on Rate S-14, with facility charges developed utilizing a cost-of-service model similar to other service offerings. This new offering is designed for lighting facilities that are owned by the Company and would be available only in areas where the power supply is located underground.
 - The Company is proposing that this service be made available to municipal customers responsible for street lighting and/or public areas. Customers would be able to replace existing street lights with decorative street lights or new decorative street lights could be installed where none are currently in use.
- **Metal Halide Floodlight Offering**
 - The Company is proposing to offer luminaire facility rates for two wattages of metal halide floodlight luminaires for which there are currently a limited quantity of facilities in service for customers of the former EUA. These luminaire facilities are used for area lighting applications (i.e., not for street lighting).
 - The respective offerings would be available within Rate S-10 and Rate S-14.
- **Proposed new Lighting Service Charge**
 - The Company is proposing the Lighting Service Charge because there are numerous occasions when the Company's personnel respond to a customer's request for attention to a lighting facility where the problem requiring attention was unrelated to equipment owned by the Company. The Company does not propose to assess a Lighting Service Charge in those situations where the problem requiring attention arises from Company owned facilities.

**DOCKET 4065
EXECUTIVE SUMMARY
NATIONAL GRID TESTIMONY**

WITNESS: Howard S. Gorman

TOPICS
1. Allocated Cost of Service Study
2. Rate Design

DIRECT TESTIMONY

▪ **Allocated Class Cost of Service Study**

- The Company performed an Allocated Class Cost of Service Study (“ACOSS”), to assign each element of the revenue requirement to the respective customer classes in order to determine the costs of providing service to each rate class.
- Of the total revenue requirement of \$298,528,000, the Company is proposing to recover \$281,077,000 through base distribution rates; \$9,752,000 through the Standard Offer Service Rate and \$7,699,000 from other operating revenue.
- A three-step process is used: functionalization, classification and class allocation.
- Functions are: sub-transmission, primary distribution, secondary distribution and billing.
- Classifications are Demand or Customer.
 - A Minimum System Study is often used to classify the following Secondary distribution assets: poles, towers and fixtures; overhead conductors and devices; underground conduits; underground conductors and devices, and line transformers.
 - A Minimum System Study recognizes that these assets have dual purposes both to connect customers and to meet peak demands.
 - No Minimum System Study was performed.

▪ **Revenue Allocation Process**

- Two guiding principles: reflect results of ACOSS as closely as possible and mitigate extreme rate impacts on rate classes and on individual customer subgroups.
- *Proposal:* The Company is proposing to eliminate the rate classes 3,000 kW Demand Rate G-62, and 3,000 kW Demand Rate B-62 and transfer existing customers to Rates G-32 and Rate B-32.
- For rate design the Company combined the following four classes: 200 kW Demand Backup Rate B-32, 200 kW Demand Rate G-32, 3,000 kW Demand Backup Rate B-62, and 3,000 kW Demand Rate G-62.

- The Company is proposing to maintain Back-Up Service rate B-32. However, if the Commission approves the revenue decoupling proposal, the Company would be willing to terminate Rate B-32 effective with the implementation of the RDM, and would transfer all backup service customers to Rate G-32, under which customers are charged only for actual use of the distribution system at their peak hours.

▪ **Rate Design**

- *Proposal:* The Company is proposing to change the energy based charges for low income A-60 rate to make it the same as the A-16 residential rate.
- *Proposal:* The Company proposes to set the monthly customer charge as follows:
 - A-16 rate class = \$5.50 per month
 - C-06 rate class = \$10 per month
 - G-02 rate class = \$125 per month
 - C&I large Demand rate class = \$980 per month.
- *Proposal:* The Company is proposing to change the transmission rate design so that transmission costs are based on each rate classes' contribution to the Company's monthly peak.
- If the Company's proposed rate increase is approved, it would cause a 500 kWh per month residential customer's bill to increase by \$8.95 or 11.2% from \$79.71 to \$88.66.

REBUTTAL TESTIMONY

- **Allocation of Line Transformer Costs:** The Company allocated the cost of line transformers and maintenance of line transformers based on a special study of the customers served by each transformer, with the cost of each transformer allocated among the rate classes based on the number of customers served by each transformer. Therefore, the ACOSS explicitly recognized the different sizes of customers in terms of their loads, as recommended by the Division (Rebuttal to Swan Testimony).
- **Allocation of Uncollectible Accounts Expense Among Rate Classes:** The Commission should accept the allocation of Uncollectible Accounts Expense proposed by the Company (allocated among customer classes in proportion to class origin of the uncollectible costs) rather than the Division's proposal to allocate using a general allocator such as class revenue responsibility because direct assignment follows cost causation principles.
- **Allocation of Customer Service and Information Costs Among the Rate Classes:** Allocation of Customer Service and Information Costs proposed by the Company (allocated among customer classes based on detailed analysis of costs actually included in Accounts 908-910) should be used rather than the Division's proposal to use a general allocator based on energy use at the meter because Company's method better follows cost causation principles.

- **Revenue Allocation:** Commodity Costs should be included when considering the total revenue change for each class. Using the total revenue change basis to evaluate rate design impacts, the Company's proposed increases for all classes except Lighting are modest and reasonably close to the average increase. For Lighting and Propulsion, the Commission should accept the Company's proposal because capping those impacts will cause costs to shift to other classes. Lastly, the discount received by rate A-60 customers should be recovered from all customers, not just rate A-16, consistent with Division's recommendation.
- **Customer Charges for Rate Classes A-16 and C-06:** The Commission should accept the Company's proposed