Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Members of Rhode Island and Massachusetts Bars

Attorneys at Law

21 Dryden Lane
Post Office Box 6721
Providence, Rhode Island 02940-6721

(401) 351-4100
fax (401) 421-5696

email: RMSchacht@aol.com
McElroyMik@aol.com

September 15, 2009

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: National Grid
Docket No. 4065

Dear Luly:

Enclosed are an original and nine copies of the testimony of John Farley on behalf of The Energy Council of Rhode Island in this matter.

If you have any questions, please feel free to call.

Very truly yours,

Michael R. McElroy

MRMc:tmg
cc: Service List

BEFORE THE

STATE OF RHODE ISLAND
AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

In Re: NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID RHODE ISLAND ELECTRICITY	Docket No. 4065 Application for Approval of a Change in Base Distribution Rates

DIRECT TESTIMONY

of

JOHN FARLEY

Submitted on Behalf of The Energy Council of Rhode Island (TEC-RI)

September 15, 2009

Direct Testimony of John Farley
Submitted on Behalf of The Energy Council of Rhode Island (TEC-RI)
Docket No. 4065

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JF-2: Chart of Distribution Cost Increases for G-62 as a function of kW load
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INTRODUCTION

Q. Please identify yourself.

A. My name is John Farley. I am the Executive Director of The Energy Council of Rhode Island (TEC-RI), One Richmond Square, Suite 340D, Providence, RI 02906. I have been the TEC-RI Executive Director since July 2004.

Q. Please identify TEC-RI.

A. TEC-RI is a non-profit energy consortium made up of many of the largest commercial and industrial users of energy in Rhode Island. TEC-RI's objective is to lower the cost of energy for Rhode Island businesses while preserving environmental quality and adequate supply. A list of the businesses and other organizations that are members of TEC-RI is attached hereto as Exhibit JF-1.

a. Qualifications

Q. What is your work background?

A. I am currently the President of John Farley Consulting, an independent energy consulting firm specializing in the retail energy business. My practice focuses on demand-side management, utility rates, energy efficiency, performance contracting, cost-effectiveness, and measurement & verification. I have twenty-five (25) years of professional experience in the energy field. A native Rhode Islander, I have completed demand-side management projects to benefit customers in over 30 states

and several foreign countries. I have held senior technical, executive, and sales positions with several leading firms and organizations spanning government, utility, consulting, energy services, and end user customer perspectives.

Before forming my own company, I served as Vice President of Sales and Marketing for EPS Solutions, an information technology company serving the utility industry. Prior to that, I was the Manager of Information Services for TASC/LODESTAR, where my duties included building and managing an information service in conjunction with the Electric Power Research Institute (EPRI) to provide critical data to utilities for pricing, Demand-Side Management (DSM) planning and impact evaluation. Prior to that, I served as Senior Analyst for seven years at COM/Energy, a combination gas and electric utility that has since merged into NSTAR. At COM/Energy, I led a team of 6 staff in conducting DSM impact and process evaluations, as well as DSM planning and cost-effectiveness. My career began as a technical advisor to the RI Governor's Energy Office, managing projects with small commercial energy auditing, renewable energy, and other energy efficiency applications.

Q. What is your educational background?

A. I have a Bachelor of Science degree in Physics with highest honors from Providence College.

b. Purpose

Q. What is the purpose of this testimony?

A. The purpose of my testimony is to identify the concerns that the Company's filing in this docket has raised for TEC-RI members, large users of electricity, and ratepayers generally, and to request that the Commission take certain actions to remedy these concerns.

c. Executive Summary of Testimony

Q. Please provide a summary of the issues addressed in your testimony.

A. In my testimony, I address the following six issues: (1) the proposed amount of increase in Revenue Requirements; (2) the appropriateness of the Cost of Service study with respect to the current G-62 and B-62 rate classes; (3) the reasonableness of the proposed new Rate Designs for G-32 and B-32 with respect to the disproportionate impact on current G-62 and B-62 customers ; (4) the proposed Transmission Rate Design; (5) proposals for other adjustment factors; and (6) the Company's Revenue Decoupling Ratemaking proposal.

Q. Please provide a summary of TEC-RI's positions on the issues.

A. Certainly. The following table presents the positions that TEC-RI is taking in this docket:

Issue	Company Witness and Testimony	TEC-RI Position	Supporting Testimony
1. Revenue Requirements	Robert O'Brien	Disagrees with the Company	John Farley, pages 7-8
2. Cost of Service Study	Howard Gorman, pages 4-23	Disagrees with the Company	John Farley, pages 8-11
3. Rate Designs for new G-32/B-32	Howard Gorman, pages 29-31	Disagrees with the Company	John Farley, pages 11-17
4. Transmission Rate Design	Howard Gorman, pages 36-41	Agrees with the Company	John Farley, pages 17-19
5. Other Adjustment Factors	Howard Gorman, pages 43-45	Disagrees with the Company	John Farley, pages 19-22
6. Revenue Decoupling	Susan Tierney	Disagrees with the Company	John Farley, pages 23-30

At this time, TEC-RI is taking no position on the remainder of the issues in this case. TEC-RI is relying on the good work of the Division of Public Utilities and Carriers, and their witnesses, in the matter of protecting the interests of ratepayers in this case with respect to the specific items in the revenue requirements. We do, however, reserve the right to take further positions on surrebuttal, since we will by then have had the benefit of reviewing the testimony of the other parties, as well as the rebuttal testimony of the Company.

Q. Please describe the remedies you are requesting from the Commission.

A. I will describe the remedies we are requesting for each issue we raise:

(1) With respect to the Revenue Requirements, at this time, we disagree with the size of the Company's request as a general matter, while not taking any specific positions on particular adjustments at this time. We will review the testimony of all other parties. We reserve the right to support the positions of other parties in our surrebuttal testimony.

(2) With respect to Cost of Service study, we find that the cost allocations to the current G-62 and B-62 classes are not appropriate. We reserve the right to support, on surrebuttal, specific recommendations made by other parties in this case.

(3) With respect to the proposed Rate Designs for the new G-32 and B-32 rates, we are asking the Commission to (a) eliminate all backup rates, and (b) order the Company to redesign the combined G32/G62 rate so that large high load factor ratepayers see a distribution rate increase of no more than 1 ½ times the average distribution rate increase for the rest of the customers in the combined G32/G62 class. In the event that this is not feasible, we ask instead that the Company accomplish the same thing by preserving a distinct G-62 rate that does not have a per kWh energy charge.

(4) With respect to Transmission Rate Design, we are asking the Commission to approve the Company's proposal for allocating transmission costs to rate classes.

(5) With respect to all other adjustment factors in distribution rates, we are asking the Commission to adopt the same approach as the Company has proposed for Transmission rates. We strongly urge the Commission to eliminate all per kWh surcharges or adjustment factors from the bill. Instead, we ask that any adjustments be built into the distribution rate structures each year, ensuring that these costs are allocated to rate classes using cost of service allocators appropriate to the nature of the costs so collected.

(6) With respect to Revenue Decoupling Ratemaking, we are asking the Commission not to approve the Company's proposal for revenue decoupling.

I. REVENUE REQUIREMENTS

Q. Turning to the first issue, please give an overview of TEC-RI's position with respect to the Company's revenue requirements proposal.

A. TEC-RI maintains that the Company's proposed increase in its revenue requirements is excessive and out of proportion to any of the major factors that could drive an increase in revenue requirements.

From 2004 to 2008, the population of Rhode Island actually declined slightly, from 1,071,095 to 1,050,788, according to the U.S. Census Bureau. Similarly, the number of jobs in Rhode Island also declined from 2004 to 2008, according to the Quarterly Census of Employment and Wages that is conducted by the R.I. Department of Labor and Training. That situation certainly has not improved in 2009.

From 2003 to 2008, total wages for all workers in Rhode Island increased from $17.2 billion to $20.2 billion. It increased by 17.5%, and this is a good upper limit on what the ratepayer is able to absorb for a rate increase.

According to the most recent EIA state electricity report (August 2009), Rhode Island already has the fourth (4^{th}) highest industrial price for electricity in the United States. We are higher than Maine. We are higher than Massachusetts.

We are higher than New York. We are even higher than California! The price that Rhode Island industry pays is 277% of what industry in Wyoming pays.

By any of these core indicators, the Company's requested increase in revenue requirements of 30% cannot be supported.

A second approach, and the one that provides specific remedies, is to examine the elements of revenue requirements one line item at a time. Here, TEC-RI is relying on the excellent work of the Division of Public Utilities and Carriers and their expert witnesses, and expects that we may support some or all of their findings, subject to our review once the Division files their testimony in this case.

II. COST OF SERVICE

Q. What is TEC-RI's position on the Company's Cost of Service filing?

A. First of all, the Company has filed a cost of service study that increases the allocated distribution revenue required from the B62/G62 rate class from $5.4 million [RIPUC Docket 3617, Distribution Rate Plan, October 15, 2004, Exhibit 3, Page 1 of 1] to $10.0 million [Docket 4065, Schedule NG-HSG-4, Page 1 of 2], effectively doubling the allocated distribution revenue. The rate base allocated to the G-62 class has increased from $14.0 million to $22.7 million. That is a 62% increase in the amount of rate base allocated to the G-62 class in five years.

Yet, over the same time period, normalized MWh sales for this class have actually fallen by 8%, from 614,107 MWh down to 565,578 MWh. And demand billing units have increased by just 1%.

How can class revenue requirements double and allocated rate base increase by 62% when demand billing units increase 1% and sales fall 8%? This is an unacceptably large increase in the cost of service with no clear explanation behind it.

Secondly, the Company has shifted costs from two other rate classes into the new combined G32/G62 rate class. The explanation for this cost shifting is "to mitigate extreme rate impacts both on rate classes and on individual customer subgroups, a concept known as gradualism" [Testimony of Howard S. Gorman, Page 19 of 45, lines 13-15].

The Company's Cost of Service and Rate Design witness, Mr. Howard S. Gorman, then explains that he implemented the concept of gradualism by limiting the increases for the Streetlighting and Electric Propulsion rate classes to "twice the system average" [page 22 of 45,line 4]. This result was achieved by increasing the C&I Large Demand rate classes by somewhat more than the amount indicated by the Allocated Cost of Service Study (ACOSS).

Mr. Gorman then proceeds to quantify this further. He explains that the average increase for base distribution revenue is 29.47%. The principle of gradualism, according to the Company's expert witness on cost of service and rate design, dictates that no rate class or individual customer sub-group shall incur an increase of more than 58.7%. Therefore, the Company allocated $1,263,000 of cost away from Rates S-10, S-14, and X-01, and to the combined B32/G32/B62/G62 rate class.

Again, to repeat, Mr. Gorman considers any increase higher than 58.7% to be an extreme rate impact that must be mitigated.

Third, combining the G62/B62 rate classes with the G32/B32 rate classes for purposes of revenue allocation and rate design masks the very real rate impacts which result for the former G62/B62 class of customers. This leads to consideration of the next issue, that of rate design.

The genesis of the problem can be found in Schedule NG-HSG-4 Page 1 of 2, behind Mr. Howard S. Gorman's testimony. He treats B32/G32 separately from B62/G62 for purposes of the cost of service study. He then, however, combines all four rates into one group for purposes of the proposed revenue allocation.

However, were one to continue the calculations for B62/G62 in this Schedule down through line 32, one would discover that the increase in distribution rates required for B62/G62 is 91.4%. This would of course not be an issue if the resulting rate design in fact limited distribution rate increases for current B62/G62 customers to the 17.8% placed on the combined C&I Large Demand class. Unfortunately, that is not the case at all.

III. RATE DESIGNS for G-32 & B-32

Q. What is TEC-RI's position on the design of rates?

A. TEC-RI is convinced that the proposed new rates G-32 and B-32 need to be changed.

First, the proposed new G-32 rate results in unacceptably large increases in distribution charges to the largest customers, those currently served on rate G-62 and having typical peak demands higher than 8.4 MW.

Second, the proposed new B-32 rate increases the demand charge placed on onsite generation, now and in the future, for current B-62 customers from $2.22 per kW to $5.11 per kW. This is a 130% increase a charge that burdens the cost-justification of these onsite generation assets.

Q. Please quantify the excessive rate impact for large customers.

A. TEC-RI analyzed the bill impacts on the distribution bill of current G-62 customers. At 500 hours use per month, any current G-62 customer with a demand of greater than 8400 kW will incur a distribution bill increase of over 58.7%.

Be assured that this is not an academic exercise. One TEC-RI member performed its own bill impact calculation using the Company's proposed rate design in this case. The Company confirmed their calculations. Those calculations showed that their distribution bill would increase by 124% if the Company's proposed rates were to be approved in this case.

Exhibit JF-2 is a chart that shows the percentage increase in the distribution bill given the Company's proposed rates filed in this case, as a function of peak MW demand, for a typical current G-62 customer with a load factor equivalent 500 hours use per month.

As Exhibit JF-2 clearly shows, the Company's new G-32 rate results in distribution rate increases that grow as the size of the customer grows. The larger you are, the higher the percentage rate increase you get.

Exhibit JF-3 is a chart that shows the percentage increase in the distribution bill as a function of monthly hours use, for a typical current G-62 customer that has a 15 MW peak demand.

Exhibit JF-3 reveals that the Company's new G-32 rate punishes the current G-62 customer for having a higher load factor. This is contrary to the goal of improving load factors and making better utilization of the distribution system. This problem is caused by the introduction of a new energy charge to current G-62 customers under the proposed new G-32 rate. TEC-RI is convinced that keeping this energy charge in the proposed new G-32 rate, especially for current G-62 customers, is a mistake that runs contrary to good ratemaking practice.

Q. Why is the proposed energy charge in the proposed new G-32 rate contrary to sound ratemaking practice?

A. There are three reasons why the proposed energy charge is contrary to sound ratemaking practice.

First, the proposed energy rate is not cost-based, and therefore it has no underlying support, and violates the ratemaking goals of efficiency and reasonableness.

Second, the proposed new energy rate results in excessive rate impacts to the current G-62 customers greater than 8 MW, and therefore violates the goal of gradualism.

Third, the proposed energy rate discourages economic growth and development, and therefore runs counter to state policy and the Company's stated desire in this case to promote economic development.

Q. Please explain why the energy charge violates the goal of efficiency.

A. Certainly. Efficiency refers to the principle that the rate structure should reflect the cost of providing service. Efficiency in rate structure means that a rate is cost-based and reflects the cost to society of the resources consumed to produce that particular service.

Schedule NG-HSG-6 Page 5 of 12 shows that the Company proposes to collect $21,898,096 out of a total of $46,572,470 of total Rate G-32 revenue from this proposed energy charge.

However, the Company's cost of service study shows that the amounts of distribution costs that are energy-related are - zero! The classification step assigns assets and costs to demand, energy, and customer classifications.

"All assets and costs in the sub-transmission and primary functions are classified as Demand-related, and all assets and costs in the billing function are classified as Customer-related. Assets and costs in the secondary function were classified to Demand or Customer based on the nature of the item." [Gorman, page 14 of 45, lines 15-18]. No assets and costs were classified as Energy-related.

Q. Please explain why the energy charge hurts economic growth.

A. The energy charge functions similar to a tax on economic activity. Customers in the Large C&I class are major businesses and institutions. When they expand their economic activity in their facilities, they use more electricity. This occurs, for example, when a manufacturer adds a shift, or a college offers more night classes. When this increased economic activity is done with existing plant and equipment, it does not place new capacity burdens on the distribution system. If there are increased capacity requirements, a well-designed distribution capacity charge will collect the adequate revenues to pay for those additional costs. So the energy charge acts as a brake on increased economic activity. There is no cost-justification for doing this.

At a time when unemployment is at a 25 year high, and capacity utilization rates have fallen, this is the last thing we want to be doing to our local economy.

Q. What remedy are you requesting from the Commission with regard to the design of the G-32 rate?

A. We request that the Commission order the Company to redesign the proposed combined G-32/G-62 rate so that large (greater than 8 MW) high load factor (greater than 500 hours use) ratepayers see a distribution rate increase of no more than 1 ½ times the average distribution rate increase for the rest of the customers in the combined G-32/G-62 class. In the event that this is not feasible, we ask instead that the Company accomplish the same thing by preserving a distinct G-62 rate that does not have a per kWh energy charge.

Q. What is TEC-RI's position on the backup rate (B-32)?

A. Backup rates in Rhode Island remain a significant impediment to the full development and procurement of cost-effective distributed generation (DG) and combined heat & power (CHP) in the National Grid service territory. They are in fact completely contradictory to the policy established by law and embodied in the same least cost procurement mandate that National Grid is relying on in this case in an attempt to justify their proposed Revenue Decoupling Ratemaking plan.

Therefore, TEC-RI requests that backup rates be completely eliminated in this docket by the Commission.

That the Commission has the authority to do this is made clear by the same chapter of law that the Company cites in an attempt to justify their Revenue Decoupling Ratemaking proposal. The Company has quoted from R.I.G.L. § 39-1-27.7 (d). We wish to quote from that same chapter, the first subheading, namely 39-1-27.7 (a) (1) (iv) : "To effectuate the purposes of this division, the commission may establish standards and /or rates (A) for qualifying distributed generation, demand response, and renewable energy resources, (B) for net-metering, (C) for back-up power and/or standby rates that reasonably facilitate the development of distributed generation, and (D) for such other matters as the commission may find necessary or appropriate."

IV. TRANSMISSION RATE DESIGN

Q. What is TEC-RI's position on the Transmission Rate Design?

A. TEC-RI is in favor of the Company's Transmission Rate Design.

The Company is proposing a change in the design of the transmission service rates to reflect more closely how the Company incurs those costs.

Currently, transmission costs are recovered from the Company's customers through base transmission charges which differ by rate class, and a transmission adjustment factor which is designed to collect for increases in base transmission costs as well as to account for over or under recoveries of transmission expense in the prior year. The transmission adjustment factor is a per kWh charge applicable to all rate classes.

The Company's base transmission charges were established in Docket 2515. Since that case, the load attributes of the classes have changed, and the level of transmission expense has risen from $19.1 million then to nearly $104 million in 2009.

In this case, the Company is proposing to allocate transmission costs based on each rate class's contribution to the Company's monthly peak, and to perform this allocation annually.

Q. Why is TEC-RI in favor of the Company's Transmission Rate Design?

A. TEC-RI is in favor of the Company's Transmission Rate Design because it is a more efficient and fair design. It provides better price signals to customers about what drives transmission costs, and it does a better job making sure that customers and rate classes pay according to the costs their usage imposes on the transmission system.

The old way – relying heavily on the per kWh Transmission Adjustment charge - penalized high load factor customers. Higher load factor customers place less demand on the transmission system for a given level of kWh consumption than lower load factor customers do.

V. OTHER ADJUSTMENT FACTORS

Q. What is TEC-RI's position on the other adjustment factors on the bill?

A. We are asking the Commission to adopt the same approach as the Company has proposed for Transmission rates. We strongly urge the Commission to eliminate all per kWh surcharges or adjustment factors from the bill. Instead, we ask that any adjustments be built into the distribution rate structures each year, ensuring that these costs are allocated to rate classes using cost of service allocators appropriate to the nature of the costs so collected.

The Company is proposing to use a kilowatt-hour recovery mechanism for several new charges: (1) the proposed new Distribution Adjustment Factor; (2) the proposed new Pension and OPEB Adjustment Factor; (3) the proposed new RDR plan Revenue Reconciliation factor; and (4) the proposed new Inspection and Maintenance Cost Adjustment Factor.

According to its filed tariffs in this case [Schedule NG-HSG-11] dealing with each of these four surcharges, the Company is proposing to collect from all of its retail delivery service customers on a uniform per kilowatt-hour basis.

Q. Why is TEC-RI opposed to the Company's proposed collection of these new charges on a per kilowatt-hour basis?

A. First, the Company's own allocated Cost of Service Study (ACOSS) shows that none of the costs in its revenue requirement are assigned to energy. The distribution costs in this case are classified as demand or customer related.

If customer classes had similar allocations based on energy as they do for the other major cost allocators, this would not be of practical concern. However, as the following table containing several key allocators in this case shows, there is a great deal of variation in the percentages allocated to classes in the Company's ACOSS.

Please note that the source of the values in the following table is the Company's Schedule NG-HSG-2, pages 5 of 8 through 8 of 8.

	A16/A60	C6	G2/E40	B32/G32/ B62/G62	S10/S14
Allocator	**Residential**	**Small C&I**	**General C&I**	**32/62 Combined**	**Lighting**
MWH-Meter	39.64%	7.21%	17.90%	34.02%	0.89%
NCP_at_Pri	45.01%	8.60%	17.41%	27.36%	0.91%
NCP_at_Sec	62.72%	11.99%	24.03%	0.00%	1.26%
Customers	88.43%	9.59%	1.76%	0.22%	0.00%
Xfmr_Cost	71.18%	18.14%	6.95%	3.73%	0.00%
Services_Cost	86.58%	11.18%	2.12%	0.12%	0.00%
RateBase	52.89%	10.23%	14.61%	16.58%	5.27%
LABOR	54.38%	9.64%	14.03%	15.44%	6.17%

Keep in mind that no category of the Company's distribution costs has been classified as energy based in this case. As this table shows, the combined 32/62 rate class is allocated 34% on energy, and only 0% to 27% in the other categories. The effect of allocating costs on a per kilowatt-hour basis is to shift costs to large commercial and industrial customers from other classes.

As an example, suppose there were a major future program of maintenance and inspection of transformers. The Company has correctly assigned its transformer allocator, "Xfmr_Cost", to expenses related to the maintenance of line transformers [see Schedule NG-HSG-1, Page 34 of 50, line 71]. The Company's transformer allocator says that the proposed new G32/B32 class should be allocated 3.73% of those costs. However, if those costs are allocated based on megawatt-hours instead, the 200 kW and 3000 kW classes would be allocated 34.02% of those costs.

This would clearly be an unfair thing to do! To put this in perspective, imagine the outcry if a city or town tried to raise the tax rate on residential property from 4% to 34%!

The bottom line? Allocations matter, and therefore it is incumbent upon the Commission to ensure that care has been taken to assign the right allocator to each cost element, whether it occurs as part of a rate case or in an annual adjustment filing.

Q. In light of these facts, please state again what TEC-RI's position is with respect to the Company's four new proposed adjustment factors in this docket.

A. We are asking the Commission to eliminate all per kWh surcharges or adjustment factors from the bill. Instead, we ask that the costs associated with adjustment factors approved in this case, if any, be allocated to classes using the most appropriate Cost of Service allocator. Further, we ask that the resulting costs be collected from ratepayers in any class by adjusting the distribution rate charges that are appropriate given the nature of the costs involved. Since no category of cost is classified as energy, the Company should be discouraged from simply applying the adjustment to the energy charge portion of the rate when it is more efficient to use the customer charge or demand charge for that rate.

VI. REVENUE DECOUPLING

Q. What is TEC-RI's position on the Company's proposed Revenue Decoupling Ratemaking plan?

A. TEC-RI is opposed to the proposed Revenue Decoupling Ratemaking ("RDR") plan that the Company filed in this case. The Company's "revenue decoupling" plan is really a permanent, automatic future year rate setting apparatus. As such, it circumvents the role of the regulator in the rate setting function, and shifts risks from Company shareholders to Rhode Island ratepayers without any commensurate benefit flowing back to Rhode Island ratepayers.

It certainly does decouple revenues. The only problem is that in addition to decoupling revenues from sales volume, it goes on to decouple them first from oversight, next from actual costs, and, therefore, finally, from common sense. It should be rejected by the Commission. This plan is even more unfair to ratepayers than the decoupling plan that National Grid proposed in its gas rate case last year (docket 3943), a plan that the PUC wisely rejected.

Q. Please give a brief overview of your understanding of the Company's proposed Revenue Decoupling Ratemaking plan.

A. As I understand the plan, it basically has two parts. The first part is called the "Look Back" adjustment. It will operate as follows: Each year, the Company will compare actual revenues collected to a revenue target that was approved in the prior year. Any difference will be divided by the forecasted next year sales, and the resulting factor will be added or subtracted from the energy rate that was in effect the prior year. Also, each year the Company will calculate the carrying cost of all of the distribution capital expenditures made during that year, net of depreciation, and will calculate a second per kWh rate adjustment, again using forecasted energy sales. That charge will also be added or subtracted from the rates in effect. Finally, a third per kWh adjustment will be calculated, one that reflects the impact of inflation on the Company's operating expenses it has determined are subject to inflationary pressures.

The second part is what the Company calls the "Look Ahead" adjustment, and it allows the Company to adjust rates further to support a forecasted amount of capital expenditure as well as a forecast of future inflation. The mechanisms for adjusting rates are similar to those in the "Look Back" with the exception that the data used are projections and not actual data.

Q. You mentioned that the Company's Revenue Decoupling plan is essentially an automatic rate case. Why is that not a good thing?

A. The plan is essentially an automatic rate case focused on selected cost elements. However, it is a rate case that does not have many of the protections currently afforded to ratepayers in traditional rate cases. For instance, there is no mechanism to adjust for operating expense reductions that occur in the future. It claims to simulate the workings of a real rate case, but it does so in a way that pre-determines a beneficial outcome for the utility.

Q. You also say that this plan circumvents the role of the regulator. Please explain that a little more.

A. Certainly. The plan will circumvent the role of the regulator in the rate setting function by weakening regulatory oversight. The extensive use of automatic adjustments makes it very difficult for the regulator to have the whole story when approving rate increases. Essentially, only one side of the regulatory equation would be considered. We customers sleep better at night when we have confidence that our regulators know exactly what is going on with the utility on both the expenditure side and the revenue side, so that the regulators will see the whole picture and make wise decisions. That is hard to do when all you are asked to do is to approve an automatic calculation based on select data, much of which is estimated, not actual data. So it seriously weakens regulatory oversight.

Q. You seem convinced that this proposed plan will hurt ratepayers. Why do you think that?

A. There are several reasons why I think this proposed plan will hurt ratepayers. There are ratepayer protections built into the traditional ratemaking approach. One of them is that when a utility wants ratepayers to pay for capital investments, the utility has the burden of proof to demonstrate with credible evidence that these investments are prudent, used and useful.

This revenue decoupling plan turns that regulatory principle on its head. Under the Company's proposal, regulators or ratepayers would have to make a case to prove that the proposed investment – yet to be made – will be imprudent. That's a hard case to prove, and it violates R.I.G.L. § 39-3-12 which places the burden of proof on the utility. So this is a really fundamental proposed change in regulatory policy (and law), albeit one dressed in the dignified clothing of precise mathematical formulas!

In addition, though, the plan takes away from the ratepayer the benefit of actions taken by utility management during difficult economic times like the ones we are in right now. Currently, utilities have managed to keep the lights on and maintain service during tough times by being good business managers. They adjust their financing strategy, they aggressively manage costs, and ratepayers reap the benefits

of that good management. The rates might stay where they are, or, if they went up, they went up less than they otherwise would have.

However, if the rates are on an automatic trajectory under proposed revenue decoupling ratemaking, to the extent utility management still decides to do these things, ratepayers will no longer reap those benefits.

The plan also uses forecasted data to predict future costs and asks the ratepayer to begin paying for those projected future costs immediately. The only thing that is certain about that forecast is that it will be wrong. The time-tested regulatory standard of basing rates on costs that are known and measurable, with assets that are used and useful, protects ratepayers. It preserves the integrity of the ratemaking process. It should not be abandoned now, of all times, when the stakes in terms of our economic future have never been higher, and when citizen confidence in core institutions has never been lower.

Finally, the plan would allow a broad range of automatic rate adjustments that would result in rate increases without any required review of the Company's actual expenses overall or its actual earned returns on capital. Over time, the targeted revenue requirement will deviate more and more from the actual revenue requirement, especially as you get into the details of expense categories and rate base, and at the individual class level.

If the deviation accrues to the Company's benefit, they get to keep the excess. But if the deviation starts going the other way, the Company still retains the right to seek general rate relief at any time. There is no down side to the Company. The only down side is to the ratepayers. So this plan tilts the playing field further and further in favor of the utility and against the Rhode Island ratepayers. This is what I mean about risks being transferred from the Company shareholders to the citizens and businesses in Rhode Island.

Q. The Company's witness, Susan Tierney, refers to Rhode Island state law, in particular "The Comprehensive Energy Conservation, Efficiency and Affordability Act of 2006", to explain the Company's rationale in proposing their Revenue Decoupling Ratemaking plan. How does their plan stack up with this Rhode Island law?

A. If the Company had actually adhered to the language of the law in their Revenue Decoupling Ratemaking plan, this would be a far different discussion. They did not. In fact the clear language of the law contemplates an ongoing review by the Commission of "reasonable and prudent overhead and fixed costs" (R.I.G.L. § 39-1-27.7 (d)). The law allows the Commission only to establish a mandatory rate adjustment to collect these in the event that the Commission also determines that the implementation of system reliability and energy efficiency and conservation

procurement – that, and that alone, as no other factor is mentioned in the law – has caused or is likely to cause under or over-recovery of overhead and fixed costs.

Instead, the Company has proposed a far more sweeping set of rate adjustments that not only decouples revenues from sales but also decouples revenues from prudent and reasonable costs! The plan goes far beyond decoupling revenues from changes in sales attributable to the Company's energy efficiency programs. There is simply no justification in the legislature's modest language for the overreaching Revenue Decoupling Ratemaking plan that the Company has proposed.

Q. Is TEC-RI opposed to the Company's revenue decoupling proposal in this case?

A. Yes. TEC-RI is asking the Commission to reject the Company's proposed Revenue Decoupling Ratemaking plan in this filing.

Q. Should the Commission decide to grant the Company's revenue decoupling request in full or in part, what does TEC-RI suggest?

A. First, we expect to support the more detailed and specific review and recommendations by the Division of Public Utilities and Carriers with respect to the RDR plan.

Second, should the Commission approve part or all of the Company's RDR plan, despite the sound reasons for rejecting it, TEC-RI asks that the Commission change the allocation method for the RDR Plan Revenue Reconciliation so that it is based on cost of service allocators rather than on kWh consumption.

Further, we ask that all amounts to be collected under any Revenue Decoupling mechanism be built in to the rate design for each class and not simply be collected using a per kWh rate adjustment. The annual per kWh rate adjustment will punish high load factor customers. Again, the Company's cost of service study shows that no costs in this distribution rate case are attributable to the level of kWh usage of customers. Therefore to set up an adjustment factor that could be in force for many years and based it on a per kWh charge is to put in place a mechanism that has no evidentiary basis and will shift rates further and further away from cost-based principles.

CONCLUSION

Q. Please summarize the requests that TEC-RI is making in this docket.

A. Certainly. I will describe the remedies we are requesting for each issue we have raised:

(1) With respect to the Revenue Requirements, we disagree with the size of the Company's request, and reserve the right to support the positions of other parties in our surrebuttal testimony.

(2) With respect to the Cost of Service study, we are asking the Commission to find that the proposed cost allocations to the current G-62 and B-62 classes are not appropriate. We reserve the right to support specific recommendations made by other parties in our surrebuttal testimony.

(3) With respect to the proposed Rate Designs for the new G-32 and B-32 rates, we are asking the Commission to (a) eliminate all backup rates, and (b) order the Company to redesign the combined G32/G62 rate so that large high load factor ratepayers see a distribution rate increase of no more than 1 ½ times the average distribution rate increase for the rest of the customers in the combined G32/G62 class.

In the event that this is not feasible, we ask instead that the Company accomplish the same thing by preserving a distinct G-62 rate that does not have a per kWh energy charge.

(4) With respect to Transmission Rate Design, we are asking the Commission to approve the Company's proposal for allocating transmission costs to rate classes.

(5) With respect to all other adjustment factors in distribution rates, we are asking the Commission to adopt the same approach as the Company has proposed for Transmission rates. We strongly urge the Commission to eliminate all per kWh surcharges or adjustment factors from the bill. Instead, we ask that the costs associated with adjustment factors, if any, be allocated to classes using the most appropriate Cost of Service allocator. Further, we ask that the resulting costs be collected by adjusting the distribution rate charges in an appropriate manner given the cost category or categories involved. Since no category of cost is classified as energy based, the Company should be discouraged from simply applying the adjustment to the energy charge when it is more efficient to use the customer charge and/or the demand charge.

(6) With respect to Revenue Decoupling, we are asking the Commission to reject the Company's proposal for a Revenue Decoupling Ratemaking Plan in this filing.

Q. Does this conclude your testimony?

A. Yes it does.

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Exhibit JF-1

TEC-RI MEMBERS

Brown University
Bryant University
Calise & Sons Bakery, Inc.
Clariant Corporation
Cooley, Inc.
Fairfield Resorts (The InnGroup)
GTECH Corporation
Hasbro, Inc.
Hudson Companies
Hyatt Regency Newport
International Packaging Corp.
Jay Packaging Group
Johnson & Wales University
Kenney Manufacturing Company
Kenyon Industries
J. H. Lynch & Sons, Inc.
Mahr Federal Inc.
Matrix, Inc.
The Moore Company
Newport Athletic Club

* members, but charters require that they represent themselves in rate cases

Newport Hospital
Original Bradford Soapworks
OSRAM Sylvania
Pease and Curren
Polytop Corporation
Providence College
Raytheon Company
Rhode Island Hospital
Rhode Island School of Design
R.I. Dept. of Administration *
Rhodes Technologies
Soluol Chemical Company, Inc.
Stanley-Bostitch
TACO Inc.
Teknor Apex Company
Toray Plastics America Inc.
U.S. Naval Station Newport *
UVEX Safety Inc.
Westerly Hospital

Exhibit JF-2

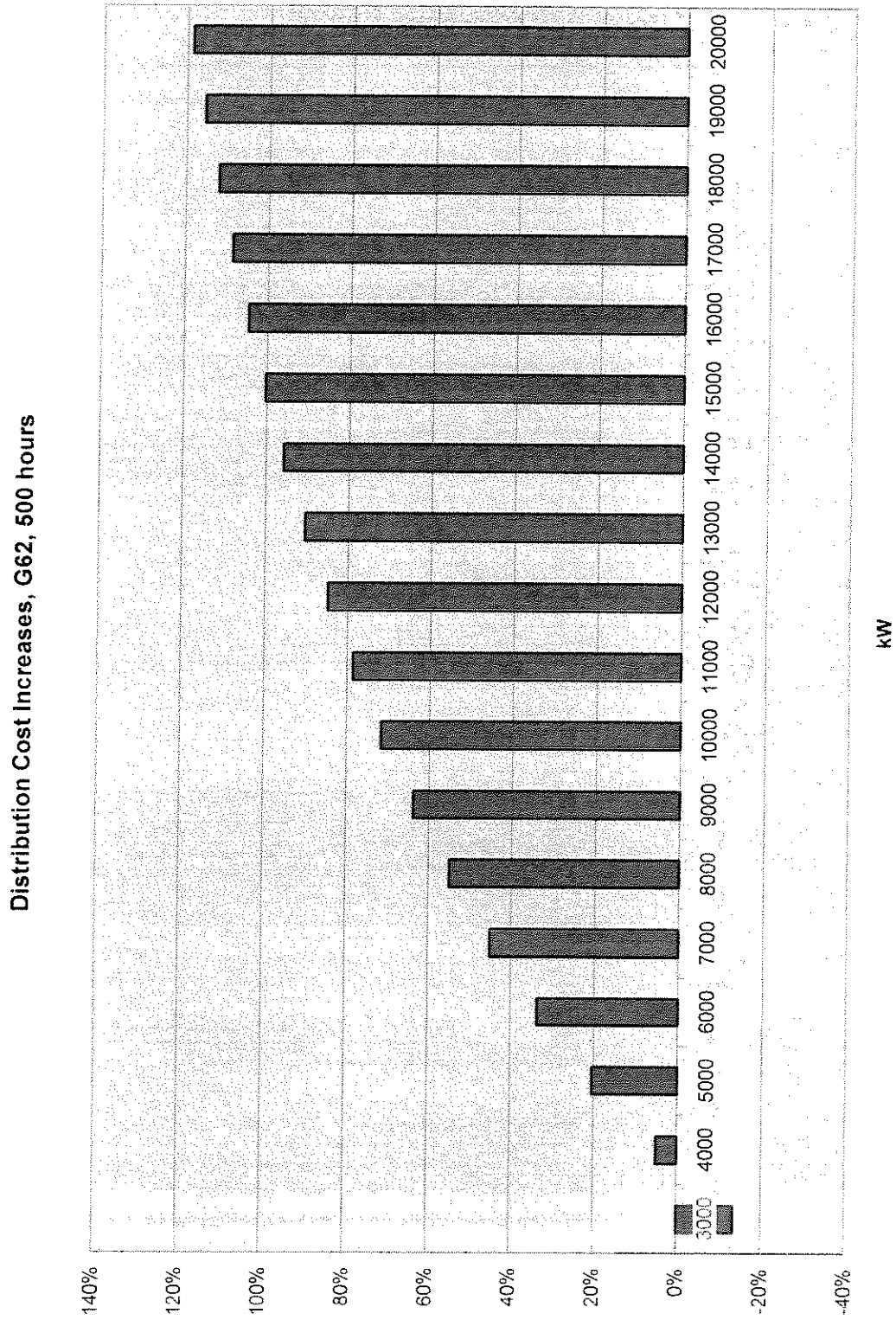
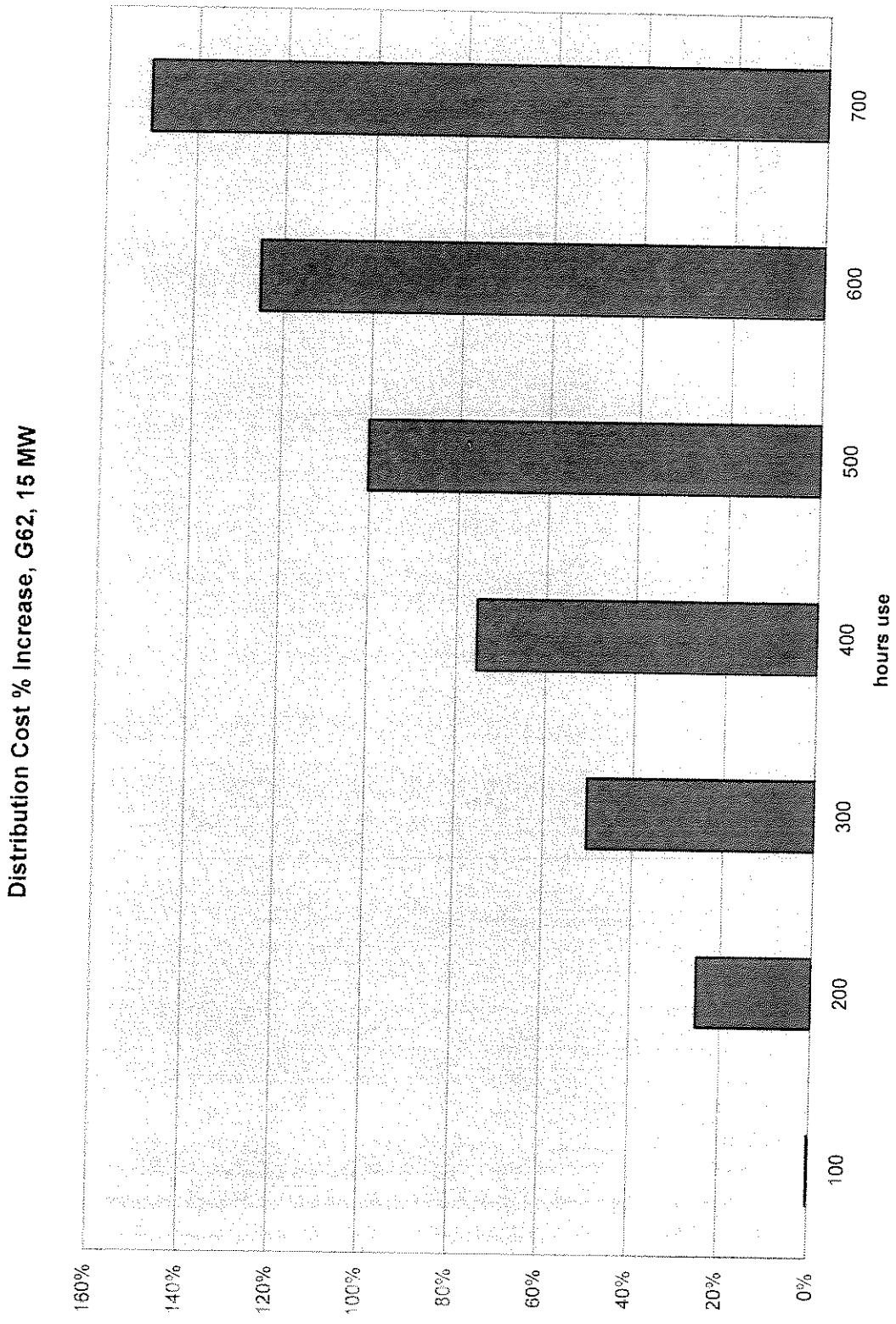

Distribution Cost Increases, G62, 500 hours
kW
300
4000
5000
6000
7000
8000
9000
10000
11000
12000
13000
14000
15000
16000
17000
18000
19000
20000
140%
120%
100%
80%
60%
40%
20%
0%
-20%
-40%

Exhibit JF-3


Distribution Cost % Increase, G62, 15 MW
160%
140%
120%
100%
80%
60%
40%
20%
0%
100
200
300
400
500
600
700
hours use