

NATIONAL GRID

DISTRIBUTION ADJUSTMENT CLAUSE FILING

RIPUC DOCKET NO. 4077

**BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON**

ON BEHALF OF THE

**DIVISION OF
PUBLIC UTILITIES AND CARRIERS**

OCTOBER 1, 2009

RIPUC DOCKET NO. 4077
DIRECT TESTIMONY
OF DAVID J. EFFRON

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1 **I. STATEMENT OF QUALIFICATIONS**

2 Q. Please state your name and business address.

3 A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton,
4 New Hampshire, 03862.

5

6 Q. What is your present occupation?

7 A. I am a consultant specializing in utility regulation.

8

9 Q. Please summarize your professional experience.

10 A. My professional career includes over thirty years as a regulatory consultant, two
11 years as a supervisor of capital investment analysis and controls at Gulf & Western
12 Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am
13 a Certified Public Accountant and I have served as an instructor in the business
14 program at Western Connecticut State College.

15

16 Q. What experience do you have in the area of utility rate setting proceedings?

17 A. I have analyzed numerous electric, gas, telephone, and water filings in different
18 jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys
19 in case preparation, and provided assistance during settlement negotiations with
20 various utility companies.

21 I have testified in cases before regulatory commissions in Alabama, Colorado,
22 Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland,
23 Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio,

1 Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and
2 Washington.

3

4 Q. Please describe your other work experience.

5 A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was
6 responsible for reports and analyses concerning capital spending programs, including
7 project analysis, formulation of capital budgets, establishment of accounting
8 procedures, monitoring capital spending and administration of the leasing program.
9 At Touche Ross & Co., I was an associate consultant in management services for one
10 year and a staff auditor for one year.

11

12 Q. Have you earned any distinctions as a Certified Public Accountant?

13 A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest
14 scores in the May 1974 certified public accounting examination in New York State.

15

16 Q. Please describe your educational background.

17 A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College
18 and a Masters of Business Administration Degree from Columbia University

19

20 **II. PURPOSE AND SUMMARY OF TESTIMONY**

21 Q. On whose behalf are you testifying?

22 A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers
23 ("the Division").

1

2 Q. What is the purpose of your testimony?

3 A. On August 3, 2009, National Grid (“the Company”) filed testimony supporting
4 proposed changes to various components of the Distribution Adjustment Clause
5 (“DAC”), to be effective November 1, 2009. That testimony was subsequently
6 supplemented and updated by further direct testimony filed on September 1 and
7 September 15, 2009. The purpose of this testimony is to address certain elements of
8 the DAC and to propose a specific adjustment to the Company’s calculation of the
9 Capital Expenditures Tracker component of the DAC.

10

11 Q. Please summarize your testimony.

12 A. I have reviewed the Company’s calculation of the Pensions and Postretirement
13 Benefits component of the DAC. I am not proposing any adjustments at this time.
14 However, the Division has outstanding discovery requests, and I reserve the right to
15 amend my testimony based on the responses to those discovery requests.

16 With regard to the Earnings Sharing Mechanism component of the DAC, I
17 have reviewed the Company’s calculation of its earned return on equity for the twelve
18 months ended June 30, 2009. I am not proposing any adjustments to the Company’s
19 calculation of the earned return on equity. While it is possible that adjustments to the
20 Company’s calculation may be warranted, I have not identified any adjustments that
21 would have the potential to increase the Company’s calculated return on equity of
22 2.45% to the earnings sharing threshold.

1 With regard to the Capital Expenditure Tracker (“CXT”), the Company’s
2 calculation of the net rate base used in the determination of the return component of
3 the reconciliation of capital spending should be modified to reflect the actual average
4 balance of accumulated deferred income taxes for the twelve months ended
5 September 30, 2009. With this modification, the preliminary annual revenue
6 requirement effect of the reconciliation of capital spending is \$2,807,000. This is
7 discussed in more detail below.

8

9 **III. CAPITAL EXPENDITURE RECONCILIATION**

10 Q. How did the Company calculate the revenue requirement effect of the reconciliation
11 of actual capital expenditures in the twelve months ended September 30, 2009 to the
12 forecasted rate year capital expenditures in Docket No. 3943?

13 A. The revenue requirement calculation is explained in the testimonies of Company
14 Witnesses Nestor at pages 11-13 and Richer at pages 14-15. The revenue
15 requirement consists of a return on the net rate base effect of the difference between
16 forecasted and actual capital expenditures, plus related depreciation expense and
17 municipal taxes. The rate base used in this calculation consists of plant in service less
18 accumulated depreciation and accumulated deferred income taxes (“ADIT”).

19

20 Q. Why did the Company deduct the ADIT from the plant in service in calculating the
21 rate base effect of the capital expenditures reconciliation?

22 A. The Company explained why it deducted the ADIT in the response to Division Data
23 Request 1-1. In this response, the Company stated that in order to determine the

1 revenue requirement effect of the capital expenditures reconciliation “it is necessary
2 to adjust the rate base for the deferred tax reserve,” adding that “This adjustment is
3 consistent with the calculation of the rate base provided by the Company in Docket
4 No. 3943 (See attachment to NG-MDL-5).”

5

6 Q. Should the Company’s calculation of the revenue requirement effect of the capital
7 expenditures reconciliation be modified?

8 A. Yes. If it is appropriate to deduct ADIT from rate base in calculating the revenue
9 requirement effect of the capital expenditure reconciliation, then the ADIT true-up
10 should be calculated in the same manner as the true-up of the forecasted balance of
11 net plant in service to the actual balance of net plant in service. That is, the
12 forecasted average balance of rate year ADIT in Docket No. 3943 should be
13 compared to the actual average balance of ADIT for the twelve months ended
14 September 30, 2009. The Company did not perform its “Deferred Tax Calculation”
15 in this manner, but rather used an estimating method based on the difference between
16 tax and book depreciation related to the capital expenditure shortfall. Therefore, the
17 Company’s ADIT adjustment is not “consistent with the calculation of the rate base
18 provided by the Company in Docket No. 3943.”

19

20 Q. What was the forecasted average rate year balance of ADIT in Docket No. 3943?

21 A. The forecasted average rate year balance of ADIT in Docket No. 3943 was
22 \$8,952,000 (Attachment NG-MDL-1, Page 24).

23

1 Q. What was the actual average balance of ADIT for the twelve months ended
2 September 30, 2009?

3 A. Based on the actual ADIT as of 9/30/08, 12/31/08, 3/31/09, and 6/30/09 and the
4 projected balance of ADIT as of .9/30/09, I have calculated an average balance of
5 \$15,925,000 for the twelve months ended September 30, 2009. This exceeds the
6 forecasted rate year balance of ADIT in Docket No. 3943 by \$6,973,000 (Schedule
7 DJE-1).

8

9 Q. What is the effect of the adjustment to the forecasted ADIT balance?

10 A. As the balance of ADIT is deducted from plant in service in the determination of
11 rate base, the effect of the adjustment to ADIT is to increase the difference between
12 the forecasted rate base and the actual rate base by an additional \$6,973,000,
13 resulting in a total rate base differential of \$16,342,000 (Schedule DJE-1). As with
14 the balances of plant in service and accumulated depreciation, the projected balance
15 of ADIT as of September 30, 2009 must be updated when the actual balance
16 becomes available.

17 .

18 Q. With this modification to Company's reconciliation of net rate base, what is the
19 annual revenue requirement effect of the capital spending reconciliation?

20 A. I have calculated an annual revenue requirement of \$2,807,000 (Schedule DJE-1).
21 In calculating the property tax component of the annual revenue requirement, I have
22 applied the Company's property tax rate of 3.10% to the adjustment to plant in
23 service net of accumulated depreciation, as I believe that this is the appropriate

1 method to calculate the property tax effect. The annual revenue requirement of
2 \$2,807,000 is \$851,000 greater than the revenue requirement of \$1,956,000
3 calculated by the Company on Attachment NG-WRR-4, Page 1 (September 15,
4 2009). The annual revenue requirement effect of \$2,807,000 should be used as the
5 basis for calculating the credit for the capital expenditure reconciliation in the DAC.

6

7 Q. Does this conclude your direct testimony?

8 A. Yes.

9

NATIONAL GRID - RI GAS
 PRELIMINARY CAPITAL SPENDING RECONCILIATION
 12 MONTHS ENDED SEPTEMBER 30, 2009
 (\$000)

Rate Base Calculation

Actual Average Balance of Net Plant	(A)	\$304,880
Forecasted Average Balance of Net Plant	(A)	<u>314,249</u>
Average Net Plant Adjustment		<u>(\$9,369)</u>

Deferred Tax Calculation:

Actual Average Balance of ADIT	(B)	\$ 15,925
Forecasted Rate Year Balance of ADIT	(C)	<u>8,952</u>
Average ADIT Adjustment		<u>\$ 6,973</u>

Revenue Requirement Calculation:

Rate Base for the 12 months ending 9/30/09		(\$16,342)
Pre-Tax ROR	(A)	<u>11.41%</u>
Return and Taxes		(1,865)
Book Depreciation	(A)	(652)
Property Taxes	3.10% (A)	<u>(290)</u>
Annual Revenue Requirement		<u>\$ (2,807)</u>

Sources:

- (A) Attachment NG-WRR-4
- (B)

ADIT	9/30/2008	10,350	DIV 1-4, Page 2
ADIT	12/31/2008	12,941	DIV 1-4, Page 2
ADIT	3/31/2009	15,607	DIV 1-4, Page 2
ADIT	6/30/2009	18,932	DIV 1-4, Page 2
ADIT	9/30/2009	<u>21,793</u>	Projection
Average Balance		<u>15,925</u>	
- (C) Docket No. 3943 - Attachment NG-MDL-1, Page 24