BEFORE THE

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

IN THE MATTER OF

The National Grid 2009	**)**	
Distribution Adjustment	**)**	**Docket No. 4077**
Charge Filing	**)**	

DIRECT TESTIMONY OF WITNESS BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

October 1, 2009

TABLE OF CONTENTS

DIRECT TESTIMONY OF BRUCE R. OLIVER
Docket No. 4077
October 1, 2009

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS FOR THE RECORD.

A. My name is Bruce R. Oliver. My business address is 7103 Laketree Drive, Fairfax Station, Virginia, 22039.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by Revilo Hill Associates, Inc., and serve as President of the firm. I manage the firm's business and consulting activities, and I direct its preparation and presentation of economic, utility planning, and policy analyses for our clients.

Q. ON WHOSE BEHALF DO YOU APPEAR IN THIS PROCEEDING?

A. My testimony in this proceeding is presented on behalf of the Division of Public Utilities and Carriers (hereinafter "the Division").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. This testimony addresses the request of National Grid (hereinafter “National Grid” or “the Company”) for a change in its Distribution Adjustment Charge (“DAC”) which is set forth in Direct Testimony filed on August 3, 2009 and Supplemental Testimony filed September 1, 2009 by witness John F. Nestor on behalf of the Company. More

specifically, this testimony discusses all elements of the Company's DAC calculations with the exception of the Earnings Sharing Mechanism (ESM), Pension and Post-Retirement Benefits (PBOP), and the Capital Expenditures Tracker (CAPX). Issues associated with the Company's ESM, PBOP, and CAPX adjustments to the DAC will be discussed in separate testimony to be filed on behalf of the Division by Mr. David Effron.

II. DISCUSSION OF ISSUES

Q. WHAT IS THE DAC RATE THAT THE COMPANY PROPOSES IN THIS PROCEEDING?

A. Attachment JFN-1 to the Company's August 3, 2009 filing computed a **net credit** of ($0.0099) per therm. The Company's September 1, 2009 Supplemental Testimony updated the calculations underlying the Company's proposed DAC in Attachment JFN-1S to reflect a **net credit** of ($0.0117) per therm. National Grid filed a further update Attachment JFN-1S on September 28, 2009. That second DAC rate update supports a **net credit** of (**$0.0112) per therm.** The most recent update captures the effects of an increase in Pension and Post-Retirement Benefits costs and a net decrease in Environmental Response costs. By comparison, the Company's present DAC rate reflects a **net credit** of ($0.0032) per therm. Thus, the Company's

most recently proposed DAC rate reflects a $0.0080 per therm **decrease** from the Company's currently effective DAC rate. .

Q. WHAT ARE THE MAJOR COMPONENTS OF THE COMPANY'S DISTRIBUTION ADJUSTMENT CHARGE (DAC) CALCULATIONS?

A. National Grid's DAC calculations comprise twelve (12) components. The components of the Company's Distribution Adjustment Charge calculations include:

1. A System Pressure (SP) Factor
2. An Advanced Gas Technology Program (AGT) Factor
3. A Low Income Assistance Program (LIAP) Factor
4. An Environmental Response Cost (ERC) Factor
5. A Pension Costs and Post-Retirement Benefits (PBOP) Factor
6. A Capital Expenditures (CAPX) Factor
7. An On-System Margin Credits (MC) Factor
8. A Service Quality Performance (SQP) Factor
9. A Weather Normalization (WN) Factor
10. An Earnings Sharing Mechanism (ESM)
11. A Reconciliation (R) Factor
12. An Allowance for Uncollectibles

Q. HOW IS YOUR DISCUSSION OF THE ABOVE REFERENCED FACTORS ORGANIZED?

A. In Sections A through G below, each of the factors identified above will be discussed in the order listed, with the exception of the PBOP, CAPX, and ESM factors which will be addressed in the testimony of witness David Effron. In each section the data

and calculations upon which the Company relies to compute its proposed DAC factors are reviewed and evaluated. The last component of the DAC is the Allowance for Uncollectibles. That allowance was last established by the Commission in its January 29, 2009 Decision and Order in Docket No. 3943. Section H addresses the composite effects of all of the DAC adjustments that National Grid proposes in this proceeding as reflected in its September 28, 2009 Update filing.

A. System Pressure Factor

Q. WHAT IS THE PURPOSE OF THE SYSTEM PRESSURE ADJUSTMENT?

A. Since the beginning of rate unbundling for firm service customers, this Commission has recognized that a portion of the Company's use of its LNG facilities is for maintaining adequate operating pressures on the gas distribution system. Given that both sales service and transportation service customers benefit from the maintenance of system operating pressures, it is appropriate that such costs be recovered from customers in both of those service classifications. In the absence of the System Pressure Adjustment, all of the Company's LNG costs would be recovered through its Gas Cost Recovery (GCR) charges and paid for by only sales service customers. Thus, it is necessary for the Company to allocate a portion of its

LNG costs to system pressure maintenance, and collect those costs through charges that are applied to both firm sales service and firm transportation service customers. The System Pressure factor within the DAC mechanism accomplishes this objective.

Q. HOW IS THE SYSTEM PRESSURE FACTOR DETERMINED?

A. In Docket No. 3943 the System Pressure factor was established through a Commission-approved settlement at 0.1680. The 0.1680 factor was developed to reflect the assessment that 16.80% of LNG commodity-related costs were used for System Pressure purposes. Those costs should therefore be borne by all customers (i.e., sales and transportation service customers) who utilize the Company's distribution system, as opposed to being treated as gas costs and assigned only to gas sales service customers. Multiplying Total LNG Commodity Related Costs by the System Balancing Factor (.1680) and dividing by projected, weather-normalized, annual Firm Throughput yields a System Pressure Factor (SP) in dollars per therm.

Q. WHAT IS THE LEVEL OF THE SYSTEM PRESSURE FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. As shown in Attachment JFN-2, filed on August 3, 2009, the computed System Pressure (SP) Factor for the November 1, 2009 to October 31, 2010 GCR period was $0.0034 per therm. That factor was updated in conjunction with the Company's filing of the September 1, 2009 Supplemental Testimony of witness Nestor to reflect a charge of $0.0038 per therm. National Grid's updated SP Factor calculations represent a small increase over the $0.0037 per therm factor included in the Company's presently effective DAC.

Q. IS THE COMPANY'S UPDATED SYSTEM PRESSURE FACTOR APPROPRIATELY COMPUTED?

A. Yes, I find no mathematical or data problems in the Company's September 1, 2009 Updated System Pressure Factor calculations. I have reviewed the detail of National Grid's LNG Commodity related cost estimates, and I find them reasonably consistent with the Company's past actual experience and reflective of reasonable planning assumptions.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S COMPUTED SYSTEM PRESSURE FACTOR?

A. The Company's updated System Pressure costs in Attachment JFN-2S differ noticeably from those in its original August 3, 2009 filing both in total and by month. Division Data Request 3-1 asked the Company to document and explain in detail the causes of significant changes in the Company's projected "*Withdrawal Commodity costs for the months of December 2009, January 2010, and February 2010*." However, the Company's response to that request states, "*The changes are the results of different demand forecasts and LNG dispatch projections*." No explanation or documentation of the nature of the referenced differences in demand forecasts and LNG dispatch projections is provided. Moreover, the monthly distribution of Withdrawal Commodity costs in the Company's updated Attachment JFN-2S also differs noticeably from both the Company's August 3, 2009 version of the same Attachment and the monthly pattern reflected in the Company's October 31, 2008 Updated filing in last years DAC proceeding (Docket No. 3977). Thus, National Grid has not provided the information necessary to verify the reasonableness of the GCR costs upon which the Company's allocations of LNG costs to the DAC are premised.

B. Advanced Gas Technology Program Factor

Q. WHAT IS THE PURPOSE OF THE ADVANCED GAS TECHNOLOGY PROGRAM FACTOR?

A. The Advanced Gas Technology (AGT) Program Factor reflects the Company's renaming of its Demand Side Management (DSM) Factor. The AGT Factor provides the Commission a mechanism for reflecting differences between actual expenditures for AGT program rebates and the amount of funding provided for that program annually through base rates. It should be noted that the Company has renamed this factor to avoid confusion with the recently implemented National Grid Energy Efficiency Programs. The goal of the AGT program is to promote the installation of gas technologies that increase utilization of natural gas during periods of low demand.

Q. WHAT IS THE LEVEL OF FUNDING CURRENTLY PROVIDED FOR THE COMPANY'S AGT PROGRAM THROUGH THE BASE RATES?

A. As set forth in National Grid's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 3, paragraph 3.2, the level of funding presently embedded in base rates for the AGT program is **$300,000** per year. However, due to inactivity in the AGT program and lack of specific information on anticipated projects, the

incremental funding provided through base rates over the last year was offset by a $0.0008 per therm **credit** to the DAC. As a result, there was no addition to the AGT fund balance, except for interest, over the past year.

Q. ARE ANY UNEXPENDED AGT FUNDS BEING CARRIED FORWARD?

A. Yes. The Company projects a carry-forward balance of uncommitted AGT funds at the end of the 2008-09 DAC period of $715,013.

Q. IS THE COMPANY PROPOSING ANY CHANGE IN FUNDING FOR AGT PROJECTS FOR FY 2008?

A. Yes. The Company's proposes to remove the AGT credit adopted last year for the Advanced Gas Technology (AGT) Program Factor and allow the funds collected through base rates to accrue for future use. As a result, National Grid requests that the AGT factor for the coming year (November 2009 – October 2010) be set at **$0.0000 per therm**. This represents an increase of $0.0008 from the previous year. With the AGT credit removed, $1,015,013 of funding for new projects would be available over the next year (not counting any additional interest that may accrue during the projected DAC period year).

Q. WHAT NEW AGT PROJECTS DOES THE COMPANY PLAN TO FUND OVER THE COMING YEAR?

A. National Grid has identified new no major AGT projects that will require funding during the November 2009 to October 2010 time period. However, the Company has identified a major institutional customer that has completed a design study and is evaluating alternatives for a $15-$25 million dollar project with an expected May 2011 in-service date. Although no formal request for AGT funds has been submitted by that customer to date, National Grid anticipates, if that project goes forward, a one-time AGT rebate that could be in the range of **$1.5 to $3.0 million**.[1]

Q. DOES THE DIVISION SUPPORT THE COMPANY'S PROPOSAL TO CHANGE FUNDING LEVELS FOR AGT PROJECTS FOR FY 2009?

A. The Division is not opposed to restoring the funding provided through base rates for the coming year. Although no requirements for significant expenditures of AGT funds are projected for the coming year, the potential for the payment of a sizeable rebate during the following year suggests for the elimination of the AGT credit factor that has applied over the last twelve months may be warranted.

The Division expresses some concern, however, regarding the possibility that the provision of a rebate to a single customer may equal or exceed the total amount

of available AGT funding for the 2010-2011 GRC year. According to correspondence from the customer that was provided in National Grid's response to Division Data Request 2-2, the customer intends to apply for the maximum rebate which it understands to be $500,000. That amount could be readily provided through existing AGT funds. However, National Grid's suggestion that the potential rebate amount could be in the range of **$1.5 to $3.0 million** could impede, if not eliminate, the availability of AGT funds for other potential projects. Also, if a rebate in the range that National Grid suggests is approved, the AGT factor could result in significant positive AGT charges to ratepayers, possibly for several years into the future. Before funding for any rebate of the magnitude suggested by National Grid is authorized, the Commission should carefully examine the costs and benefits of such a project as well as the rate impacts of such funding on other customers.[2]

[1] See National Grid's responses to Division Data Requests 2-2 and 3-7 in this proceeding.

[2] As will be discussed later in this testimony, National Grid has indicated in response to Commission Data Request 1-1, the Company anticipates environmental response expenditures during FY 2010 that are in excess of $5.25 million dollars. That is nearly three times the level of environmental expenditures that National Grid has incurred for the twelve months ended June 2009. Coupled with a significant increase in AGT program expenditures, the combined impact on ratepayers could be noticeable.

C. Low Income Assistance Program Factor

Q. WHAT IS THE PURPOSE OF THE LOW INCOME ASSISTANCE PROGRAM (LIAP) FACTOR?

A. The Low Income Assistance Program (LIAP) Factor performs a function similar to that of the AGT (or DSM) Factor. It provides a mechanism for the Commission to adjust the funding of the Company's Low Income Heating Assistance Program (LIHEAP) and Low Income Weatherization Program activities outside the context of a base rate proceeding.

Q. WHAT IS THE LEVEL OF FUNDING PROVIDED FOR NATIONAL GRID'S LOW INCOME ASSISTANCE PROGRAMS THROUGH ITS BASE RATE CHARGES?

A. As set forth in the Company's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 4, paragraph 3.3, the LIAP funding presently embedded in base rates for National Grid is **$1,785,000** per year. That amount includes $1,585,000 for LIHEAP and $200,000 for Low Income Weatherization Program activities.

Q. **ARE ANY FUNDS FOR LOW INCOME ASSISTANCE PROGRAMS BEING CARRIED OVER FROM FY 2008?**

A. No. The Company reports that it slightly over spent its available funding for Low Income Assistance Programs for the twelve months ended June 2009, leaving a **negative** carry forward balance of **$9,415**.

Q. DOES NATIONAL GRID SEEK ADDITIONAL LIAP FUNDING THROUGH ITS PROPOSED LIAP FACTOR IN THIS PROCEEDING?

A. No, it does not. Therefore, the LIAP factor in the Company's DAC calculations remains at $0.0000 per therm.

D. Environment Response Cost Factor

Q. PLEASE DESCRIBE THE PURPOSE OF THE ENVIRONMENTAL RESPONSE COST (ERC) FACTOR?

A. The primary function of the ERC Factor is to provide the Company a means of recovering "reasonable and prudently incurred" environmental response costs while limiting impacts on customers' bills. Costs subject to recovery through the ERC Factor include:

(1) Costs for evaluation, remediation and clean-up of sites associated with National Grid's ownership and operation of manufactured gas

plants, manufactured gas storage facilities, and manufactured gas plant-related off-site waste disposal locations;

(2) Costs for removal and disposal of mercury regulators and meters;

(3) Costs for acquiring property associated with the clean up of such sites; and

(4) Litigation costs, claims, judgments, and settlements associated with environmental clean up activities.

Q. HOW ARE REASONABLE AND PRUDENTLY INCURRED ENVIRONMENTAL RESPONSE COSTS RECOVERED THROUGH THE ERC FACTOR?

A. According to the terms of the settlement approved by this Commission in Docket No. 3401, Environmental Response Costs shall be recovered through a 10-year straight-line amortization, subject to the restriction that the ERC Factor shall be limited to an increase of no more than $0.10 per dekatherm (i.e., $0.01 per therm) in any annual DAC filing. Moreover, the ERC Factor is computed to reflect an adjustment to the $1,310,000 of Environmental Response Costs that is presently included in National Grid's base rate charges. Thus, the dollar amount subject to recovery through the

ERC Factor in any year reflects the sum of all applicable 10-year ERC amortizations less the $1,310,000 of budgeted base rate recoveries, and the ERC Factor reflects that net dollar amount divided by forecasted firm throughput.

Q. IN THIS PROCEEDING, WHAT IS THE NET DOLLAR AMOUNT THAT NATIONAL GRID PROPOSES FOR RECOVERY THROUGH ITS ERC FACTOR?

A. As originally filed on August 3, 2009, in Attachment JFN-4, , the Company sought approval of a net recovery of **($546,199)**. The net dollar amount of ($546,199) reflects:

1. A 10-year amortization of $12,510,252 of net ERC costs incurred through the end of FY 2002;

2. A 10-year amortization of ($6,012,673) of net ERC costs for FY 2003;

3. A 10-year amortization of ($472,960) of net ERC costs for FY 2004;

4. A 10-year amortization of $136,707 of net ERC costs for FY 2005;

5. A 10-year amortization of $436,020 of net ERC costs for FY 2006;

6. A 10-year amortization of ($758,291) of net ERC costs for FY 2007;

7. A 10-year amortization of ($45,755) of net ERC costs for FY 2008 and adjustment for FY 2007;

8. A 10-year amortization of $1,844,698 of net ERC costs for FY 2009; and

9. An annual deduction of $1,310,000 for ERC costs embedded in base rates.

Q. WHAT IS THE NET BALANCE OF THE ENVIRONMENTAL REMEDIATION COSTS THAT REMAIN TO BE RECOVERED THROUGH THE COMPANY'S ERC FACTOR?

A. In its August 3 filing, the Company reported a net balance of unrecovered Environmental Response Costs at the end of FY 2009 of **$1,816,704**.

Q. DID NATIONAL GRID UPDATE ITS PROPOSED ERC FACTOR IN THIS PROCEEDING?

A. Yes. National Grid's September 28, 2009 Update filing proposes an ERC Factor of **($0.0018)** per therm which represents an increase of ($0.0003) in rate credit from the originally proposed factor of ($0.0015) per therm. The Company's updated ERC Factor constitutes a slight reduction from the ERC credit of ($0.0020) that is incorporated in the current DAC factor.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2009?

A. In the Company's August 3, 2009 DAC filing, National Grid claimed a net Environment Response Cost for FY 2009 of $1,844,698. That amount represented $1,844,698 of new environmental expenditures less zero dollars for Insurance Settlement proceeds. As shown below, three projects accounted for nearly 85% of the total new Environmental Response Costs incurred by National Grid during FY 2009. Those projects and their associated costs are as follows:

➢	Project --	Thames & Wellington	$ 1,106,495	60.0%
➢	Project 171	Contaminated Regulators	$ 244,143	13.2%
➢	Project 700	18 & 21 Holders COR	$ 211,465	11.5%
➢	All Other Projects		$ 282,595	15.3%
	Total		$ 1,844,698	100.0%

Q. AT PAGE 9, LINES 3-5, OF WITNESS NESTOR'S AUGUST 3, 2009 TESTIMONY, HE STATES THAT "…THE FY2009 [ENVIRONMENTAL RESPONSE COST]

DATA IS CONSIDERED PRELIMINARY AND IF THERE ARE ANY CHANGES WHEN THE COMPANY'S BOOKS ARE FINALIZED FOR THE FISCAL YEAR, THE COMPANY WILL FILED AN UPDATED CALCULATION." HAS NATIONAL GRID SUBSEQUENTLY UPDATED THAT DATA?

A. Yes. Although the Company's September 1, 2009 update reflected no change in the ERC Factor presented in its August 3, 2009 Direct Testimony and Attachments, National Grid did file an updated ERC Factor as part of its September 28, 2009 Update Filing. In the transmittal letter associated with that Update Filing, the Company explains that its initial ERC Factor computations omitted a credit for an insurance settlement in the amount of $898,744 that was received in November 2008. Recognition of the proceeds from that insurance settlement reduces the net ERC costs for FY 2009 from $1,844,698 to $965,754 and increases the level of the Company's proposed ERC Factor **credit** from ($0.0015) per therm to **($0.0018) per therm**.

Q. IS THE DOLLAR AMOUNT THAT NATIONAL GRID NOW PRESENTS AS ITS NET ENVIRONMENTAL RESPONSE COSTS FOR FY 2009 REASONABLE?

A. I have reviewed the testimony and supporting materials that witness Nestor presents on behalf of National Grid regarding the Company's FY 2009 Environmental Response Costs. I have also reviewed National Grid's Annual Environmental

Report for FY 2009, and the Company's responses to data requests relating to the determination of its filed ERC Factor in this proceeding. Based on that review, I find that the Company has not provided sufficient information to assess the reasonableness and appropriateness of the FY 2009 environmental response cost for which it seeks recovery through the DAC.

In the Company's filings in this proceeding prior to September 28, 2009, National Grid omitted the proceeds from a significant insurance settlement that the Company had received in November 2008. That omission has now been addressed. However, the Company has not provided: (1) any basis for assessing whether the amount of those proceeds has been properly determined; (2) any information regarding the specific environmental response costs or clean-up sites with which the proceeds received are associated; or (3) any information regarding the time periods to which the settlement proceeds relate. As a result, I am unable to render an assessment of the reasonableness or appropriateness of the insurance proceeds received. I can only affirmatively state that a check in the amount of the now recognized insurance proceeds (i.e., $898,744) was received in November 2008 from Southern Union and now has been credited to the ERC factor.

Likewise, the Division requested further support for the $1,844,698 of environmental response costs that National Grid claims to have incurred for FY 2009. But, the information provided was not sufficient to assess the reasonableness

and prudence of those expenditures. More specifically, Division Data Request 2-3a asked National Grid to provide detailed documentation of all amounts paid for work performed during FY 2009 on each of the environmental projects identified in Attachment JFN-4. However, the Company's response to that request provides only a listing of vendor names, invoice numbers, and dollar amounts paid. No copies of actual invoices were provided, and the Company offered no explanation of the work that was performed and/or the commodities or services were purchased for the dollar amounts listed.

Q. DO YOU FIND ANY BASIS FOR CHALLENGING THE ACCURACY AND RELIABILITY OF THE COMPANY'S UPDATED ERC FACTOR COMPUTATIONS?

A. I can state that the updated ERC Factor computations are mathematically accurate and appear to be performed in a manner consistent with the tariff and this Commission's prior determinations relating to rate treatment of such costs. However, I am unable to offer any assessment of the reasonableness or prudence of the Company's claimed environmental response costs given the limited nature of the information that National Grid has provided in support of its claimed Environmental Response costs.

Q. DO YOU HAVE ANY FURTHER OBSERVATIONS REGARDING NATIONAL GRID'S ENVIRONMENTAL RESPONSE COSTS?

A. Yes. In response to Commission Data Request 1-1, the Company indicates that its anticipated expenditures for environmental response activities during FY 2010 will increase to more than $5.25 million. That is nearly triple the dollar amount of the Company's claimed environmental response costs (prior to consideration of insurance settlement proceeds) for FY 2009. In the context of such a large increase in anticipated expenditures, the Division's must emphasize its concerns regarding the adequacy of the documentation that National Grid provides in support of its environmental expenditures. If the Company's does not support its cost claims with more detailed documentation and explanations of the costs incurred, the Commission may be well-advised to order the performance of a more detailed audit of the Company's claimed environment costs. Or, in the alternative, the Commission could require National Grid to make regular (monthly or quarterly) submissions to the PUC of documentation and detailed explanations of the environmental expenses for the Company intends to seek recovery through the DAC.

E. On-System Margin Credits

Q. WHAT IS THE ROLE OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR?

A. During FY 2009 the nature and purpose of the On-System Margin Credit (MC) factor changed.

Prior to November 1, 2008 the On-System Margin Credit (MC) Factor performed two functions. First, it provided National Grid a mechanism for recovery of shortfalls, if any, in the actual on-system margin revenue derived from Non-Firm sales and transportation services relative to the $1.6 million of annual on-system margin revenue presently assumed in the design of the Company's base rates. Second, the MC Factor provided a mechanism for sharing of on-system margin revenue in excess of the level of non-firm revenue margins assumed in the design of base rates. If actual Non-Firm margin revenue exceeded $1.6 million within the 12-month period ending June 30th of each year, National Grid was permitted to retain 25%, and the remaining 75% was credited to the Company's firm service customers through the MC Factor. However, this mechanism applied only through October 2008 as a result of the Docket 3943 PUC Order.

For all periods subsequent to November 1, 2008 a new margin revenue threshold was established in Docket No. 3943 which is applied to revenue margins derived from firm and non-firm Dual Fuel customers, as well as Special Contract

customers. Furthermore, under the newly approved revenue margin considerations, all revenue margins from dual fuel customers (firm and non-firm), as well as revenue margins from non-firm special contracts that exceed an annual threshold of $2,816,000, exclusive of the Rhode Island GET, are credited 100% to customers through the MC Factor.

Q. DID NATIONAL GRID ACHIEVE REVENUE MARGINS DURING FY2009 THAT RESULT IN CREDITS FOR CUSTOMERS SUBJECT TO DAC CHARGES?

A. Yes. However, the Commission's approved changes to the manner in which revenue margins and margin credits are calculated yield a bifurcated MC Factor determination in this proceeding. Accordingly, the calculation of non-firm margins and the amount available for sharing based on the 25%/75% tariff provision in RIPUC NG No. 101 Section 3, Schedule A, paragraph 3.5, was only in affect for the period July 2008 – October 2008. For the remaining eight months of FY 2009, a new annual margin revenue threshold was established in Docket No. 3943 which applies to all margins from firm and non-firm Dual Fuel and Special Contract customers. In addition, the mid-year change in the effective margin mechanism requires proration of annual margin thresholds.

For the purposes of this year's filing, the $1.6 million threshold for margin sharing was prorated for the first four-months (i.e., July 2008 - October 2008)

producing an adjusted sharing threshold of $533,333.[3] Non-firm margins in excess of that threshold for the months of July through October 2008 remained subject to the 75%/25% sharing arrangement. For that period, the Company reports total non-firm margins of $928,327, of which $394,994 exceeded the prorated sharing threshold. Of the $394,994 of non-firm margin revenue subject to sharing, the Company retains $98,749 and $296,246 is credited to firm customers through the MC factor.

For periods subsequent to November 2008, a new annual threshold was established at $2,816,000, exclusive of the Rhode Island GET. However, for FY 2009 the new annual threshold is prorated to reflect its initial application for only the remaining eight months of that fiscal year (i.e., November 2008 through June 2009). The prorated eight-month threshold for the months of November 2008 - June 2009 is $1,879,800.

Using that prorated threshold, and the Company's computed actual margin revenue for the months of November 2008 – June 2009 (i.e., $2,290,165), National Grid finds that its actual revenue margins exceeded the prorated threshold revenue by $410,365. As a result, an additional $410,365 is credited to firm customers through the proposed DAC.

[3] Four-twelfths of $1,600,000 equals $533,333.

As shown in Attachment JFN-7S, these two components of the MC Factor determination for FY 2009 produce a total revenue credit of $706,610 and an MC Factor of ($0.0020).

Q. HAVE YOU ASSESSED THE APPROPRIATENESS OF NATIONAL GRID'S FY 2009 MARGIN REVENUE DETERMINATIONS?

A. My review of the Company's margin revenue determinations finds the underlying computations to be mathematically correct. However, the customer-by-customer and month-by-month data upon which the computations are premised include comparatively high percentages of customers and bills for which significant billing adjustments were made after initial bills were rendered. Of 61 Dual Fuel customers included in the Company's margin calculations, nearly one third had subsequent billing adjustments in excess of $1,000 for one or more months. Moreover, in several instances these typically large gas users were billed for six months or longer without correction of meter reading or data communications problems. One customer had "no actual [meter] reads received" for at least seven successive months. Another is noted as having a device "out" from 9/24/08 to 3/18/09. A third customer had a "corrector" problem associated with a dead battery that apparently started in May 2008 and was not resolved until March 31, 2009. Several others had initial billings based on "estimates" for unexplained reasons that subsequently

required significant adjustments to volumes and revenues billed. In many instances re-billed amounts may also be based on estimates (or amounts agreed upon by the Company and the customer through negotiations) leaving little, if any, basis for verification of actual usage and appropriate revenue billings.

F. Service Quality Performance (SQP) Factor

Q. DESCRIBE THE PURPOSE OF THE SERVICE QUALITY PERFORMANCE FACTOR?

A. The Service Quality Performance factor is used to credit customers any penalties reflected in the Company's annual Service Quality Report**.**

Q. WHAT PENALTY AMOUNTS WERE APPLICABLE TO THE COMPANY BASED ON ITS PERFORMANCE DURING FY 2009?

A. No penalties are reflected in the Company's FY 2009 Annual Report on Service Quality. Therefore, the SQP Factor is set at **$0.0000 per therm**.

Q. DO ANY OF THE SERVICE QUALITY PERFORMANCE STANDARDS FOR WHICH PENALTIES CAN BE ASSESSED DIRECTLY ADDRESS THE TYPES OF

METERING AND BILLING PROBLEMS FOR DUAL FUEL CUSTOMERS DISCUSSED IN THE PRECEEDING SECTION OF THIS TESTIMONY?

A. My understanding is that the Dual Fuel customer billing issues discussed above have no direct bearing on annual assessments of the Company's service quality performance. Problems with meter reading and billing can cause problems not only for the customer, but also potentially for competitive gas suppliers who serve duel fuel transportation customers and rely on National Grid to perform an accurate and timely meter reading in order to properly bill their customers and balance gas supply requirements with gas deliveries.

G. Weather Normalization Factor

Q. WHAT IS THE INTENDED ROLE OF NATIONAL GRID'S WEATHER NORMALIZATION FACTOR?

A. The Weather Normalization (WN) Factor provides a mechanism for moderating the impacts of weather on the Company's base revenue. When winter weather, as measured in Heating Degree Days (HDDs), is warmer than normal, National Grid's collection of fixed costs through its charges for distribution service declines below the level anticipated under normal weather conditions. If the resulting decline in heating degree days is significant, a positive Weather Normalization Factor is

computed for the subsequent DAC period to compensate the Company for a portion of the revenue foregone due to reduced system throughput. On the other hand, colder than normal winter weather causes system throughput and distribution charge revenue to increase relative to expected revenue levels under normal weather conditions. If recorded HDDs are greater than anticipated normal degree day levels, a negative Weather Normalization Factor (credit) returns a measure of excess revenue collections to customers during the subsequent DAC period.

However, the Weather Normalization Factor only addresses heating degree days recorded for each year that are more than 2% above or below normal heating degree day levels when accumulated over the defined winter season (i.e., the months of November through April). If recorded actual HDDs are within plus or minus 2% of normal levels for the winter season, no adjustment to revenue is permitted and the Weather Normalization Factor for the subsequent DAC period is zero. On the other hand, if total HDDs for the winter season are beyond the range defined by normal HDD expectations plus or minus 2%, each heating degree day beyond that range is multiplied by $9,000 per degree day to obtain the total dollar amount to be recovered from, or credited to, customers through the Weather Normalization Factor.

Q. WAS THE 2008-2009 WINTER SEASON A SUFFICIENTLY WARMER OR COLDER THAN NORMAL TO TRIGGER THE COMPUTATION OF A NON-ZERO WEATHER NORMALIZATION FACTOR FOR NATIONAL GRID?

A. Yes. As shown in Attachment JFN-8 filed with Mr. Nestor's August 3, 2009 testimony in this docket, the actual number of heating degree days (HDDs) for the months of November 2008 through April 2009 was **5,024**. As a result, actual heating degree days for that period were 254 HDDs above normal. However, the upper bound of the plus or minus 2% dead band around Normal Heating Degree Days was 4,865 HDDs. Thus, the Company's proposed WN Factor seeks a net credit for the winter of 2008-9 based on 159 HDDs above the 2% colder than normal threshold. At $9,000 per excess HDD, the Company's weather normalization adjustment calculations yield a Weather Mitigation credit for customers of $1,431,000, and that translates to WN Factor that reflects a **net credit** of **($0.0040) per therm**.

Q. DO YOU FIND ANY BASIS FOR QUESTIONING THE COMPANY'S DEGREE DAY CALCULATIONS FOR THE WINTER OF 2008-09?

A. No, I do not.

H. Reconciliation Factor

Q. HOW IS THE RECONCILIATION (R) FACTOR COMPUTED?

A. The Reconciliation (R) Factor component of the Company's DAC adjusts for differences between revenue collections associated with each component of DAC and either actual costs or budgeted revenue by component, adjusted for interest on deferred balances. In this proceeding, the R Factor computations include reconciling adjustments for Advanced Gas Technology, Low Income Assistance, Environmental Response Costs, System Pressure Costs, On-System Margin Credits, Weather Normalization, Earnings Sharing, and the previous Reconciliation Factor. It also includes a one-time adjustment for Lost Revenue associated with the timing of the rate increase implemented at the conclusion of Docket No. 3943.

Q. WHAT IS THE RESULT OF NATIONAL GRID'S "R" FACTOR COMPUTATIONS?

A. Updated Attachment JFN-9, page 1 of 16, reflects a Reconciliation Factor of $0.0008 per therm for application during the Company's 2008-2009 DAC period. The Company's proposed R Factor, thus, results in a net charge to customers for the November 2009 – October 2010 period.

Q. DO YOU FIND ANY REASON TO CHALLENGE RECONCILIATION ADJUSTMENTS THAT NATIONAL GRID COMPUTES AS PART OF THE "R" FACTOR FOR ITS PROPOSED DAC?

A. No, I do not.

I. Distribution Adjustment Charge Summary

Q. PLEASE SUMMARIZE THE CHANGES THAT YOU PROPOSE TO THE COMPANY'S FILED DAC?

A. In this testimony I have expressed some reservations regarding the reliability of the Company's Environmental Response Cost (ERC) Factor and the Company's On-System Margin Credit determinations, but at this time I proposed no changes in those factors presented in the Company's September 28, 2009 Updated DAC calculations. The composite factors of yields a DAC rate, adjusted for uncollectibles, of **($0.0112) per therm**. My testimony does not include any adjustments from Mr. Effron's recommendations at this point. The Division will update its DAC factor recommendations later in this proceeding.

Q. HOW DO THE COMPANY'S UPDATED DAC CALCULATIONS IMPACT CUSTOMERS BILLS?

A. Updated Attachment JFN-10 provides Bill Impact Analyses by rate classification for varying levels of annual gas use. As shown therein, the combination of the Company's proposed DAC and Gas Cost Recovery (GCR) rate changes produce small percentage rate reductions for all sizes and types of customers. If those DAC and GCR rates are approved as presently updated, most Residential Heating customers will experience about a one-percent (1%) reduction in their annual charges for gas service. Reductions in annual charges for customers in other rate classifications will range from 0.8% to 2.6%. The updated DAC rate reduction represents less than half of the total annual reduction in gas service charges for all sizes and types of customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.