

October 15, 2009

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02889

RE: Docket 4077-Distribution Adjustment Clause 2009
Rebuttal Testimony of William Richer

Dear Ms. Massaro:

In accordance with the provisions of the Distribution Adjustment Clause ("DAC") Tariff, RIPUC NG No. 101, Section 3, Schedule A, enclosed please find ten (10) copies of the rebuttal testimony and attachments of William Richer in the above-captioned proceeding.

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,



Thomas R. Teehan

Enclosure

cc: Leo Wold, Esq.
Steve Scialabba, Division
Bruce Oliver

Certificate of Service

I hereby certify that a copy of the cover letter and / or any materials accompanying this certificate has been electronically transmitted, sent via U.S. mail or hand-delivered to the individuals listed below.



Joanne M. Scanlon

October 15, 2009
Date

Docket No. 4077 – National Grid – Annual Distribution Adjustment Clause Filing (“DAC”) - Service List as of 8/5/09

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

NATIONAL GRID
DOCKET NO. 4077

REBUTTAL TESTIMONY

OF
WILLIAM R. RICHER

October 15, 2009

1 **Q. PLEASE STATE YOUR FULL NAME AND BUSINESS ADDRESS.**

2 A. My name is William R. Richer and my business address is 40 Sylvan Road,
3 Waltham, Massachusetts 02451.

4 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
5 **DOCKET?**

6 A. Yes. I previously submitted pre-filed testimony in this docket on September 15,
7 2009.

8 **Q. WHAT IS THE PUPOSE OF YOUR REBUTTAL TESTIONY?**

9 A. The purpose of my rebuttal testimony is to address the issues raised in the October
10 1, 2009 direct testimony of Mr. David J. Effron, filed on behalf of the Rhode
11 Island Division of Public Utilities and Carriers (“Division”) concerning the
12 calculation of the Capital Expenditures Tracker (“CXT” or “Capital Tracker”) in
13 the Company’s Distribution Adjustment Charge (“DAC”) filing. The Capital
14 Tracker reflects the revenue requirement effect of reconciling the forecasted rate
15 year capital expenditures in the recent gas distribution rate case, Docket No. 3943,
16 to the actual capital expenditures in the twelve months ended September 30, 2009.
17 In this case, the actual capital spending as of September 30 was less than the
18 amount of spending that was projected.¹ The Company included in its CXT
19 calculation the incremental effect that that spending shortfall had on the

¹ Consequently, when the revenue requirement is calculated the amount of plant in service is less than that approved by the Commission in Docket No. 3943.

1 Accumulated Deferred Income Tax (“ADIT”) that was associated with the
2 projected spending levels that was approved in the gas distribution rate case. Mr.
3 Effron described an alternative method for determining the ADIT if it were to be
4 included in that calculation.

5 **Q. PLEASE PROVIDE A SHORT BACKGROUND ON THIS MATTER.**

6 A. During the Company’s recent gas distribution rate proceeding, the Division raised
7 concerns about the Company’s ability to meet its capital spending targets, and it
8 sought a reduction in rate base. In its Order No. 19563, the Commission resolved
9 these issues by approving the Company’s rate base but stating “[i]n the event that
10 the projected capital spending does not occur prior to the end of the rate year, the
11 Company shall notify the Division and make an appropriate adjustment to reflect
12 the actual lower amount of actual plant in service.” (Order No. 19563 at 25). The
13 Order, however, did not provide a specific formula for determining how rates
14 should be adjusted in the event of a shortfall.

15 In an attempt to clarify how rates would be adjusted if there were a shortfall, on
16 May 1, 2009 the Division filed a Motion for Clarification, assented to by the
17 Company, seeking approval for a proposed method of calculating the CXT
18 reconciliation mechanism. (This motion also addressed a timing issue with the
19 Accelerated Replacement Program reconciliation mechanism by requesting the
20 implementation of the CXT in the 2009 DAC and the postponement of the

1 Accelerated Replacement Plan (“ARP”) reconciliation until 2010.) The
2 Commission approved the Motion for Clarification without modification.

3 **Q. WHY DID THE COMPANY INCLUDE ADIT IN ITS INITIAL CXT**
4 **CALCULATION?**

5 A. While neither the Motion for Clarification or the Commission’s Order mention
6 ADIT, in the gas distribution rate case the Commission did approve a specific
7 mechanism for reconciling capital investment for the Accelerated Replacement
8 Plan (“ARP”). The capital spending reconciliation mechanism in the ARP
9 included ADIT in the calculation. (See Docket No. 3943, Attachment NG-MDL
10 5) In developing a CXT mechanism, the Company simply followed the
11 methodology specified in the reconciliation mechanism of the ARP. The
12 Company performed its calculation of the CXT and responded to discovery
13 assuming that this approach was intended to be followed.

14 **Q. HOW SHOULD THE CALCULATION FOR THE CXT BE**
15 **PERFORMED?**

16 A. The calculation for the CXT should be performed based upon the formula set
17 forth in the Motion for Clarification and approved in the Commission’s Order,
18 and not the ARP reconciliation mechanism. This approach incorporates and
19 complies with the specific language of the Motion for Clarification and the
20 Commission’s Order. Accordingly, the Company will remove the ADIT

1 reconciliation from its calculation of the CXT. By removing the ADIT
2 adjustment from its calculation, customers will receive approximately an
3 additional \$80K to \$90K in this year's DAC filing due to the one-time and annual
4 CXT adjustment, as well as an additional ongoing annual CXT adjustment of
5 approximately \$45K to \$50K in each future year. The impact of this modification
6 will change the overall DAC rate proposed by the Company from (\$0.0112) per
7 therm to (\$0.0116) per therm.²

8 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.

² At this time, the Company's proposed CXT annual revenue requirement credit to customers is approximately \$1.9M. The elimination of the ADIT calculation will increase this credit to approximately \$2M. An updated attachment with September 2009 actual data and eliminating the ADIT reconciliation from the CXT calculation is attached here as Updated Attachment WRR-3.

**National Grid - RI Gas
Reconciliation of Capital Spending
Calculation of Appropriate Adjustment
For the Period Ended September 30, 2009**

| Line No. | 5 Quarter Average | | | | |
|-------------|----------------------|--|------------------------|--------|---------------|
| 1 | | <u>Deferred Tax Calculation:</u> | | | |
| 2 | | Actual Average Gross Plant in Service | 569,764,089 | | |
| 3 | | Forecasted Average Gross Plant in Service | 589,768,959 | | |
| 4 | | Decremental Amount | <u>\$ (20,004,870)</u> | | |
| 5 | | | | | |
| 6 | | Composite Book Depreciation Rate | 3.38% | | |
| 7 | | | | | |
| 8 | | Book Depreciation | (676,165) | | |
| 9 | | | | | |
| 10 | | | | | |
| 11 | | <u>Rate Base Calculation</u> | | | |
| 12 | | Actual Average Balance of Net Plant | \$305,033,837 | | |
| 13 | | Forecasted Average Balance of Net Plant | 314,249,372 | | |
| 14 | | | <u>\$ (9,215,535)</u> | | |
| 15 | | | | | |
| 16 | | <u>Revenue Requirement Calculation:</u> | | | |
| 17 | | Rate Base for the 12 months ending 9/30/09 | (9,215,535) | | |
| 18 | | Pre-Tax ROR | 11.41% | | |
| 19 | | Return and Taxes | (1,051,493) | | |
| 20 | | Book Depreciation | (676,165) | | |
| 21 | 3.10% | Property Taxes | (285,682) | | |
| 22 | | Annual Revenue Requirement | <u>\$ (2,013,339)</u> | | |
| 23 | | | | | |
| 24 | | | | | |
| 25 | | <u>Imputed Capital Structure:</u> | | | |
| 26 | | | | | |
| 27 | | Long Term Debt | 40.63% | 7.99% | 3.25% |
| 28 | | Short Term Debt | 11.66% | 3.91% | 0.45% |
| 29 | | Common Equity | 47.71% | 10.50% | 5.01% |
| 30 | | | <u>100.00%</u> | | <u>8.71%</u> |
| | | | | | <u>2.70%</u> |
| | | | | | <u>11.41%</u> |

Line Notes:

- 2 See Attachment NG-WRR-3, Page 2 Column (a) Line 1
3 Docket No.3943 Attachment NG-MDL-1, Page 24 Line 1
4 Line 2 - Line 3
6 Docket No.3943 Attachment NG-MDL-1, Page 21 Line 41
8 Line 4 x Line 6
12 See Attachment NG-WRR-3, Page 2 Column (a) Line 6
13 Docket No.3943 Attachment NG-MDL-1, Page 24 Line 6
14 Line 12 - Line 13
17 From Line 14
18 From Line 30 pre-tax WACC
19 From Line 17 x Line 18
20 From Line 8
21 Line 14 x Prior Fiscal Year ratio of municipal tax expense to average net plant in service
22 Line 19 + Line 20 + Line 21

**National Grid - RI Gas
Rate Base
For the Period Ended September 30, 2009**

| Line No. | | Actuals for 5 Quarters Year End 9/30/09 (a) | Rate Year End 9/30/09 5 Quarter Average (b) | Increase / (Decrease) (c) |
|-------------|---|---|---|------------------------------|
| 1 | Gas Plant In Service | \$ 569,764,089 | \$ 589,768,959 | \$ (20,004,870) |
| 2 | CWIP | 21,759,274 | 8,981,531 | 12,777,743 |
| 3 | Less: Contribution in Aid of Construction | 1,133,803 | 99,473 | 1,034,330 |
| 4 | Less: Accumulated Depreciation | 285,355,723 | 284,401,645 | 954,078 |
| 5 | | | | |
| 6 | Net Plant | <u>\$ 305,033,837</u> | <u>\$ 314,249,372</u> | <u>\$ (9,215,535)</u> |

Column Notes:

- (a) See Attachment NG-WRR-3, Page 3 Column (f)
- (b) Docket No.3943 Attachment NG-MDL-1, Page 24
- (c) Column (a) - Column (b)

Line Notes:

- 6 Line 1 + Line 2 - Line 3 - Line 4

**National Grid - RI Gas
Net Plant in Service
5 Quarter Average**

| Line No. | | Actual Quarter ending September 2008 (a) | Actual Quarter ending December 2008 (b) | Actual Quarter ending March 2009 (c) | Actual Quarter ending June-09 (d) | Actual Quarter ending September 2009 (e) | 5 Quarter Average September 2009 (f) |
|-------------|---|---|--|---|--|---|--|
| 1 | Gas Plant In Service | 558,520,642 | 565,561,284 | 570,485,192 | 573,441,321 | 580,812,005 | 569,764,089 |
| 2 | CWIP | 15,657,825 | 18,022,162 | 18,978,688 | 24,704,458 | 31,433,240 | 21,759,274 |
| 3 | Less: Contribution in Aid of Construction | 1,058,510 | 840,584 | 821,398 | 1,309,920 | 1,638,605 | 1,133,803 |
| 4 | Less: Accumulated Depreciation | 279,080,825 | 282,846,425 | 284,953,213 | 288,672,727 | 291,225,426 | 285,355,723 |
| 5 | | | | | | | |
| 6 | Net Plant | <u>\$ 294,039,132</u> | <u>\$ 299,896,438</u> | <u>\$ 303,689,269</u> | <u>\$ 308,163,132</u> | <u>\$ 319,381,214</u> | <u>\$ 305,033,837</u> |

Column Notes:

(a) Per Company books as of September 30, 2008

(b) Per Company books as of December 31, 2008

(c) Per Company books as of March 31, 2009

(d) Per Company books as of June 30, 2009

(e) Per Company books as of September 30, 2009

(f) Average of (Column (a)+Column (b)+Column (c) +Column (d)+Column (e))

Line Notes:

6 Line 1 + Line 2 - Line 3 - Line 4

**National Grid - RI Gas
Net Plant in Service
Actual Quarter 9/30/09**

| Line No. | | Actual <u>July-09</u> (b) | Actual <u>August-09</u> (c) | Actual <u>September-09</u> (d) | Quarter ending <u>September-09</u> (e) |
|-------------|---|---------------------------------|-----------------------------------|--------------------------------------|--|
| 1 | Gas Plant In Service | 574,889,419 | 579,228,429 | 580,812,005 | \$ 580,812,005 |
| 2 | CWIP | 27,949,393 | 28,331,629 | 31,433,240 | \$ 31,433,240 |
| 3 | Less: Contribution in Aid of Construction | 1,400,818 | 1,533,061 | 1,638,605 | \$ 1,638,605 |
| 4 | Less: Accumulated Depreciation | 289,646,303 | 290,794,719 | 291,225,426 | \$ 291,225,426 |
| 5 | | | | | |
| 6 | Net Plant | <u>\$ 311,791,691</u> | <u>\$ 315,232,277</u> | <u>\$ 319,381,214</u> | <u>\$ 319,381,214</u> |

Column Notes:

(b) Per Company books as of July 31, 2009

(c) Per Company books as of August 31, 2009

(d) Per Company books as of September 30, 2009

(e) Per Company books as of September 30, 2009

Line Notes:

6 Line 1 + Line 2 - Line 3 - Line 4