BEFORE THE

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

IN THE MATTER OF

National Grid's Revenue Decoupling	**)**	
Mechanism Proposals	**)**	**Docket No. 4206**

SURREBUTTAL TESTIMONY OF WITNESS
BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

May 6, 2011

TESTIMONY OF BRUCE R. OLIVER
Docket No. 4206
March 17, 2011

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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. ARE YOU THE SAME BRUCE R. OLIVER WHO HAS PREVIOUSLY SUBMITTED DIRECT TESTIMONY ON BEHALF OF THE DIVISION OF PUBLIC UTILITIES AND CARRIERS IN THIS PROCEEDING?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF THIS SURREBUTTAL TESTIMONY?

A. This Surrebuttal Testimony responds to issues regarding National Grid's Revenue Decoupling proposals for electric and natural gas service that are addressed in the Company's April 18, 2011 Rebuttal Testimony which is sponsored by witnesses Jennifer Feinstein and Jeanne A. Lloyd. This testimony also responds to the portion of the Direct Testimony of TEC-RI witness Ferguson that does not address Back-Up Rate issues. Given that questions regarding whether Back-Up Rate issues will be addressed in this proceeding or a separate docket have not been resolved as of the time of the drafting of this testimony, I would reserve the opportunity to respond to the TEC-RI's testimony regarding

Back-Up rates after the Commission has decided whether those issues are to be considered in this docket.

II. RESPONSE TO NATIONAL GRID REBUTTAL

A. Caps on Revenue Decoupling Rate Adjustments

Q. DO YOU ACCEPT THE POSITION PRESENTED BY WITNESS LLOYD ON BEHALF OF NATIONAL GRID AT PAGES 2-3 OF THE COMPANY'S REBUTTAL THAT THE DIVISION'S PROPOSED FIVE PERCENT (5%) "CAP" ON RATE ADJUSTMENTS CONFLICTS WITH PROVISIONS OF THE REVENUE DECOUPLING LEGISLATION §39-1-27.1?

A. No, I do not. I suspect this issue will ultimately be resolved based on a legal interpretation of the statute. However, as a regulatory policy analyst, I find nothing in the revenue decoupling legislation which specifically limits the Commission's authority to implement the law in a manner that would promote rate gradualism and mitigate the potential for rate shock or bars the Commission's use of an appropriately devised rate cap.

B. Changes to Annual Target Revenue

Q. AT PAGES 3-4 OF THE COMPANY'S REBUTTAL, NATIONAL GRID SUGGESTS THAT YOUR PROPOSAL WOULD BE INCONSISTENT WITH THE UNDERLYING COSTS INTENDED TO BE RECOVERED. IS THAT CRITICISM WARRANTED?

A. No. It appears that the Company misunderstands my proposal regarding changes to Annual Target Revenue. My recommendation is that Annual Target Revenue for RDM purposes should not be subject to adjustment outside of a base rate case. However, my recommendation specifically provides for recognition of revenue adjustments due to the ISR plan or other similar considerations through the introduction of a new factor in the current Distribution Adjustment Clause (DAC) for gas service or the introduction of an Electric Distribution Adjustment Clause (E-DAC) for electric service. My intent is that the use of distribution adjustment clauses in this manner will provide the Company full recovery of base rate adjustments on a reconciling basis while keeping RDM revenue adjustments more directly tied to determinations in the Company's last base rate cases for gas and electric service. The key difference between my recommendation and the Company's proposal is that adjustments to revenue requirements associated with ISR or other programs would be reconciled through the DAC or E-DAC while RDM reconciliations would address only variations in base revenue collections based on Commission determinations in the Company's last base rate case.

C. Out-of-Period Billing Adjustments

Q. NATIONAL GRID'S REBUTTAL TESTIMONY AT PAGE 6 ATTEMPTS TO CHARACTERIZE THE IMPACTS OF OUT-OF-PERIOD BILLING ADJUSTMENTS AS "SMALL PERCENTAGE OF REVENUE." DO YOU FIND THAT CHARACTERIZATION TO BE REASONABLE OR APPROPRIATE?

A. No, I do not. In National Grid's response to Division Data Request DIV 1-9,[1] the Company estimated the dollar magnitude of out-of-period billing adjustments for C&I medium gas service customers to be in excess of **$1.2 million** for two of the four years examined.[2] It is unlikely that the Company would consider $1.2 million dollars irrelevant or inconsequential if that amount reflected additional revenue collections for National Grid.

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[1] See Exhibit BRO-4 attached to my Direct Testimony in this proceeding.

[2] It must be recognized that the referenced $1.2 million figure is for only Medium C&I gas service customers. The Division's assessment is that the total dollar amount of out-of-period billing adjustments for all classes could be much greater.

Division Data Requests DIV 1-8 and DIV 1-9 initially sought data regarding the magnitude of billing adjustments for all classes of electric and gas service. When the Company raised concerns regarding its ability to answer these requests, the Division negotiated an alternative which focused on a single rate class (i.e., Medium C&I gas customers). The unanticipated supplemental response from National Grid filed on April 18, 2011 appears to address all classes of electric service, but provides primarily cancel and re-bill data. It does not explicitly show either the dollar amounts of **out-of-period** adjustments made to customers bills or the time periods to which such adjustments apply.

The Division is also concerned that allowing the inclusion of out-of-period billing adjustments in the calculation of the initial RDM factors for electric and gas service could be viewed as an inappropriate form of retroactive ratemaking.

Q. ON THE SAME DAY THAT NATIONAL GRID FILED ITS REBUTTAL TESTIMONY THE COMPANY ALSO FILED A RESPONSE TO DIVISION DATA REQUEST DIV 1-8 (A REQUEST THAT WAS SUBMITTED TO THE COMPANY ON NOVEMBER 19, 2010, NEARLY FIVE MONTHS EARLIER). WHAT BEARING SHOULD THE CONTENTS OF THAT RESPONSE HAVE ON THE ISSUES IN THIS PROCEEDING?

A. None. The voluminous data provided as part of that response is of no relevance to either the Division's request or the Division's recommendation regarding out-of-period billing adjustments. The greater than 1500 pages of material the Company has generated simply shows an extensive series of bill cancellations and re-bills covering roughly a three-year period. This data provides no indication of actual adjustments to customer bills, and to the extent initial billings, cancellations, and re-bills occurred within the same annual period, the data provided do not reflect out-of-period adjustments.

Further, the voluminous nature of the Company's data response is not indicative of the workload that the Division's proposal regarding out-of-period billing adjustments would impose on the Company. Accepting *arguendo* that the data provided in the Company's response to Division Data Request DIV 1-8 is reflective of actual "out-of-period" billing adjustments, my review of the pages of that document indicates that the vast majority of the adjustments shown are for amounts less than $1,000. My recommendation is for the Commission to focus on adjustments that are in excess of $1,000. I estimate that less than 2% of the entries in that response reflect out-of-period adjustments with dollar amounts in excess of $1,000.

Q. DOES THE COMPANY CONSIDER THE IMPACT THAT OUT-OF-PERIOD ADJUSTMENTS MAY HAVE ON THE DETERMINATION OF RDM FACTORS?

A. No, it does not. Out-of-period adjustments that are applied to customers' bills during an RDM Year are properly associated with usage for periods prior to the start of the RDM Year. As a result, inclusion of out-of-period billing adjustments in reported "actual" revenue for the RDM Year yields a level of revenue that is not consistent with the level of revenue that actual usage for the RDM year would appropriately generate. Since billing adjustments are more frequently negative than positive, the resultant lowering of reported "actual" revenue (when compared against the annual targeted revenue) will produce a larger RDA factor for the subsequent twelve-month period.

D. RDM Impacts on Service Quality

Q. DO EXISTING DIVISION RULES AND SERVICE QUALITY STANDARDS ADEQUATELY ADDRESS THE CHANGE IN FINANCIAL INCENTIVES FOR SERVICE RESTORATION THAT WILL RESULT UNDER THE COMPANY'S PROPOSED REVENUE DECOUPLING MECHANISMS?

A. No, they do not. Never in the past has the Company had a mechanism which fully compensates for revenue lost due to service outages. The introduction of RDM mechanisms which do not differentiate losses of revenue due to service outages from losses of revenue due to other factors such as conservation the implementation of energy efficiency measures, or economic factors would totally insulate the Company from a traditional business risk it has always borne and substantially alters the financial incentives presently in place. Requiring the Division or Commission to institute after-the-fact investigations and assess penalties as the only form of ratepayer protection against a failure by the Company to timely restore service after major outages does not reduce regulatory burdens. Moreover, from a consumer perspective, the Pepco experience in Maryland demonstrates that ratepayer relations are greatly strained when customers are required to pay (through subsequent rate adjustments) for service they did not receive. Extended outages of service can be difficult and expensive for customers, and it is often difficult for customers to understand why a utility such as National Grid would be totally insulated from the effects of such problems.

If service outages are minimized, then losses of revenue due to outages will also be minimized. It is important to note that through the recently approved ISR factors as required by the same decoupling legislation that gave rise to the RDM, National Grid is compensated in a timely manner for investment it makes in its system. Additionally, under National Grid's approved service quality plan as amended by the Commission in 2007, certain events called Major Event Days are excluded from the results associated with frequency and duration of outages in the determination of any service quality penalties.[3] Since the Company is timely compensated for reliability investments and further, is insulated from service quality penalties for Major Event Days, it is appropriate to not factor in the lost revenue from these same Major Event Days in the determination of the RDM.

E. Single RDM Factor

Q. DOES NATIONAL GRID RECOGNIZE THAT ITS PROPOSED USE OF A SINGLE RDM FACTOR WOULD SHIFT REVENUE REQUIREMENTS AMONG CLASSES?

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[3] See Commission Order No. 19020 and its attachments in Docket 3628, National Grid's Service Quality Plan.

A. Yes, it does so explicitly at page 10, line 1, of its Rebuttal Testimony. However, the Company asserts without any analytic support that such shifts would not be "*inappropriate or unfair*."[4] National Grid's argument that fully allocated class cost of service studies are only performed as part of base rate proceedings must be rejected. In reality, the "traditional" regulatory approach to which the Company refers was established when there were no revenue decoupling mechanisms and has at best limited relevance in the context of RDM implementation. More importantly, the Commission cannot ignore its responsibility to provide customers with just and reasonable rates simply because a growing portion of rate adjustments are implemented outside the context of a base rate proceeding. The simplified "*single factor*" approach to the determination of RDM rate adjustments that National Grid proposes may serve the Company's objectives, but it does not satisfy the Commission's responsibility to provide equitable treatment of customers in all classes of service.

Q. WOULD THE USE OF CLASS SPECIFIC RDM FACTORS INCREASE THE RISK THAT CUSTOMERS IN SMALLER GROUPS COULD BE FACED WITH

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4 In addition, the Company's Rebuttal at page 12, lines 11-13, indicates National Grid's belief that a uniform per kWh adjustment factor would not produce "unacceptable" shifts of revenue responsibilities among rate classes. Yet, the Company does not explain the criteria it uses to assess the acceptability of such revenue shifts. As I noted in my Direct Testimony, it is inappropriate to charge or credit high load factor, non-weather sensitive users of electric or gas service for weather-related variations in revenue collections. Yet, that is exactly what will happen under National Grid's single RDM factor approach.

Also, the Commission should take note of the allocation methods used in the determination of GCR charges for gas customers which differentiate the amounts of fixed costs assigned to high load factor and low load factor rate classifications. Clearly, there is precedent for rate adjustments performed outside of a base rate proceeding not to ignore the effects of class load characteristics on distribution of revenue responsibilities among rate classes.

LARGER RATE ADJUSTMENTS IF THERE IS A SIGNIFICANT CHANGE IN SALES FOR SMALLER RATE CLASS?

A. No, that is not a necessary outcome. If the Commission imposes a reasonable "cap" on the magnitude of rate adjustments that may be imposed between rate cases, the potential for imposing large adjustments on customers in smaller classes can be eliminated. Furthermore, if the implementation of a cap on rate adjustments results in a comparatively large deferred balance for a given class, such a balance can be addressed by the Commission in the Company's next base rate case. The Commission can then make reasonable and equitable decisions regarding the distribution and recovery of such balances in the context of an updated class cost of service study.

The Commission made determinations regarding fair and reasonable adjustments to class revenue requirements in each of the Company's last base rate proceedings. In the absence of the performance of a new class cost of service study, the most appropriate action for the Commission is to attempt to minimize shifts of base revenue requirements among classes between rate cases. Such a minimization of revenue shifts clearly cannot be achieved under the Company's proposal to apply a single RDM factor to all classes.

Q. SHOULD THE COMMISSION CONCLUDE THAT REVENUE SHIFTS AMONG RATE CLASSES THAT WOULD RESULT FROM RDM IMPLEMENTATION

USING A SINGLE RDM FACTOR FOR ALL CLASSES WOULD BE REASONABLE AND APPROPRIATE?

A. No. The Company's representations regarding the reasonableness and appropriateness of changes in revenue requirements by rate class under its RDM proposals are offered with no analytic support and substantially undermine the role of the Commission in determining just and reasonable rate levels for the various sizes and types of customers that the Company serves.

<u>F. Interim Rate Adjustments for Electric RDM</u>

Q. WHAT ARGUMENTS HAVE BEEN ADVANCED BY THE COMPANY IN ITS REBUTTAL TESTIMONY TO SUPPORT ITS PROPOSAL FOR INTERIM RATE ADJUSTMENTS?

A. First, the Company claims that its proposal for interim adjustments is consistent the treatment of its other reconciling mechanisms. Second, National Grid claims that interim rate adjustments benefit customers by (1) mitigating the impact of a single large rate change at the end of a period and (2) implementing rate decreases in a more timely manner.

Q. SHOULD THE COMMISSION ACCEPT THE COMPANY'S ARGUMENTS IN SUPPORT OF ITS INTERIM RATE PROPOSAL?

A. No, it should not. Unlike the Company's other reconciling mechanisms, the RDM will be directly influenced by weather. Unless the Company can accurately forecast weather variations over the remainder of an RDM year, forecasting of period ending balances and appropriate adjustments to its RDM factor is at best a speculative undertaking. Moreover, implementing an adjustment for a portion of a year may not result in a reasonable or equitable distribution of the adjustment among customers with varying monthly and/or seasonal patterns of use. Annual adjustments based on known results will spread rate adjustments more evenly across the customers to whom an RDM factor is applied and yield more stable rates.

Also, given concerns that conservation and energy efficiency programs will erode revenue collections from target revenue levels, the likelihood appears much greater that any interim revenue adjustment will result in an increase in rates to customers rather than a decrease. Thus, the Company's suggestion that its interim adjustment proposal would deny ratepayers timely rate decreases places unwarranted focus on an event that is less likely than an increase. Further, since requests for interim adjustments would be initiated by the Company, it appears that National Grid would have little incentive to propose reductions in RDM factors when there remains any possible argument that weather variations or other considerations could mitigate the need such an adjustment before that end of the RDM year.

G. Exemption of Large & Extra Large C&I Customers from the Gas RDM

Q. NATIONAL GRID'S REBUTTAL TESTIMONY APPEARS TO ENCOURAGE THE COMMISSION TO IGNORE, UNTIL THE NEXT BASE RATE CASE, THE IMPACTS ON FUTURE RATEMAKING CONSIDERATIONS OF EXEMPTING LARGE AND EXTRA LARGE C&I CUSTOMERS FROM ITS PROPOSED GAS RDM. WHY IS THAT APPROACH ILL ADVISED?

A. Having guaranteed levels of revenue collection for most classes but not having the same guarantees for Large and Extra Large C&I customers will alter the relative revenue risk associated with service to the Large and Extra Large C&I rate classes. That would necessitate a differentiation of the target rate of return for those classes. Unfortunately, such a differentiation of return requirements is not easily quantified.[5] Thus, the Commission should favor a more uniform RDM policy for all classes, which, applies the RDM rate adjustments to all classes but imposes "caps" on RDM rate adjustments. This approach avoids the need for future differentiation of class rate of return targets while protecting customers in all classes, especially Large and Extra Large C&I **electric and gas** customers, from unacceptably large rate adjustments. Moreover, if the Commission ultimately moves toward greater use of Straight Fixed-Variable (SFV) rate design

[5] In the absence of a policy determination in this proceeding regarding the manner in which RDM implementation will be addressed in the Company's next base rate case, it is unlikely that this Commission will have the necessary information available to investigate such matters in the Company's next base rate case. Therefore, the Division recommends that a decision supporting the exemption of certain classes from the RDM in this proceeding should be accompanied by a directive that National Grid explicitly address the impact of such exemption and associated differences in revenue recovery risk in its class cost of service analysis and determination of class revenue requirements in its next base rate case filing.

concepts for Large and Extra Large C&I gas customers, the need for RDM rate adjustments for those classes at that time can be substantially reduced, if not totally eliminated.

<u>**H. Calculation of CIAC Requirements in the Context of an RDM**</u>

Q. PLEASE RESPOND TO NATIONAL GRID'S REBUTTAL TESTIMONY AT PAGES 15-17 REGARDING THE RELATIONSHIP BETWEEN RDM IMPLEMENTATION AND ITS CALCULATION OF CIAC CHARGES.

A. The Company's argument hinges on its assumption at page 16, lines 8-10, of its Rebuttal Testimony that "*incremental investments on behalf of an individual customer are supported by revenue that the Company is not allowed to retain*." This assumption incorrectly presumes that any revenue collected by the Company from an individual customer in excess of the class revenue target cannot be retained by the Company. In fact, the Company's retention of revenue is based on <u>**average**</u> revenue collected per customer, and either conservation by existing customers or the addition of smaller-than-average customers within the same class will serve to offset revenue that the Company may gain from an individual larger-than-average customer.

The Commission should recognize that calculations of CIAC for all customers in a class based on average revenue per customer for the class would increase CIAC required of new larger-than-average customers. That, in turn, would serve to inappropriately discourage the attraction of new large customers and undermine efforts to foster economic development and create new jobs for Rhode Island residents.

Finally, it should be noted that even National Grid recognizes at page 17, lines 1-5 of its Rebuttal Testimony that its proposed approach to the calculation of CIAC requirements "*may result in individual customer benefit or harm*," but then argues that its approach is appropriate on a "*collective*" basis. However, CIAC requirements are NOT applied on a collective basis and adverse impacts on individual customers must not be ignored by this Commission.

Q. THE COMPANY'S REBUTTAL AT PAGE 17 OFFERS A COUNTER PROPOSAL UNDER WHICH "PROJECTED INCREMENTAL REVENUE" FOR EACH INDIVIDUAL NEW CUSTOMER WOULD BE USED IN CIAC CALCULATIONS. DO YOU SUPPORT THAT ALTERNATIVE?

A. No, I do not. Although I agree with the use of projected individual customer revenue in calculating CIAC requirements, I cannot support National Grid's request for "*inclusion*" of any difference between CIAC calculated using projected individual customer revenue and CIAC using the RDM average revenue per customer target. Again, the Company's proposal is premised on the unfounded assumption that the process would identify an "*amount of revenue the Company is ultimately not allowed to retain*." Yet, whether the Company ultimately retains such revenue is a matter that involves a broader set of considerations as I noted earlier. In summary, the Division does not believe that the Company's CIAC policies should be affected in any way by the adoption and implementation of revenue decoupling mechanisms for either electric or gas service.

I. Customer Migration Issues

Q. WOULD TRACKING OF CUSTOMER MIGRATION BETWEEN CLASSES IMPOSE UNDUE ADMINISTRATIVE BURDENS ON THE COMPANY?

A. No. The amount of movement between classes is limited and generally controlled by the Company. Moreover, National Grid can easily flag individual accounts that migrate between classes to facilitate recognition of such migration in subsequent RDM filings. The process I have recommended is comparatively simple and straightforward and would not represent an unreasonable burden for the Company.

III. RESPONSE TO TEC-RI WITNESS FERGUSON

Q. PLEASE COMMENT ON THE SUPPORT OF TEC-RI WITNESS FERGUSON FOR EXEMPTION OF LARGE AND EXTRA LARGE C&I CUSTOMERS FROM THE COMPANY'S GAS RDM?

A. I suspect that most customer groups would prefer an exemption from that mechanism if offered, and I respect the concerns that witness Ferguson raises regarding the potential for substantial adverse impact that unrestrained application of such a mechanism could place on classes of customers that he represents. However, after weighing the types of considerations that witness Ferguson addresses, I concluded that requiring most classes of service to provide effective revenue guarantees to the Company while exempting other classes from any responsibility for similar guarantees would be inappropriate and inequitable as long as reasonable protection is provided against large adverse impacts. I also noted that large C&I electric customers face similar potential problems as their gas service counterparts but were offered no opportunity for exemption from the Company's electric RDM under the revenue decoupling legislation.

Given the foregoing, I reasoned that two alternatives exist for treating all classes of service in an even handed manner while protecting against (1) large adverse impacts on any individual class of customers and (2) substantial shifts of base revenue requirements among customer classes. This can be achieved by either (a) placing reasonable "caps" on the magnitude of rate adjustments that can be imposed on any class between rate cases; and/or (b) moving more rapidly toward the use of Straight-Fixed Variable (SFV) rate designs for large customers.[6] Since implementation of SFV rate designs for large customers does

[6] Under SFV rate designs, losses of revenue due to losses of sales should be minimized since only a small portion of distribution service costs would be billed on the basis of kWh or therms of gas used.

not appear to be an option within this proceeding, I urge the Commission to adopt reasonable rate "caps" for all classes of both gas and electric service at this time. I also encourage the Commission to consider establishing a separate docket to pursue timely implementation of SVF rate designs for the distribution rates applied to large and extra large C&I customers on National Grid's electric and gas systems.

Q. UNDER YOUR PROPOSALS WHAT WOULD BE THE IMPACT ON RATES FOR LARGE OR EXTRA LARGE C&I CUSTOMERS OF THE LOSS OF A LARGE CUSTOMER OR A LARGE REDUCTION IN LARGE CUSTOMER LOADS?

A. In no event would any class of customers experience an increase in excess of the proposed rate cap (i.e., five percent (5%)) as a result of RDM rate adjustments.

Q. IF THE COMPANY'S LOSSES OF REVENUE FOR A CLASS EXCEED FIVE PERCENT FOR A GIVEN RDM YEAR, HOW WOULD NATIONAL GRID BE COMPENSATED?

A. Amounts in excess of 5% of base distribution revenue for each rate class would be deferred with interest for recovery in future years. If at the time of the Company's next base rate filing an under-recovery or over-recovery balance exists which National Grid does not reasonably expect to recover within a reasonable time period, the Commission can weigh alternatives for recovery of such deferred balances within its base rate determinations in that proceeding.

Q. WITNESS FERGUSON ALSO ADDRESSES THE IMPACTS OF THE RDM ON CIAC DETERMINATIONS AS PART OF HIS RATIONALE FOR EXEMPTING LARGE AND EXTRA LARGE C&I CUSTOMERS FROM THE GAS RDM. DO YOU AGREE WITH HIS ASSESSMENT?

A. No, I do not. Although we appear to share concerns regarding the impact of the Company's proposals on economic development, we disagree regarding the (1) impacts of RDM implementation on CIAC determinations for individual customers and (2) the effects of the RDM on the Company's revenue collections. As discussed in my response to National Grid on similar matters, CIAC calculations should be based on projections of revenue for an individual customer based on the customer's individual service requirements and should not be affected by RDM implementation. Furthermore, I disagree with witness Ferguson's sugges-tion that, "*With the RDM there does not seem to be much if any basis for the Company to assist in expanding service for existing customers because any increase would be returned to customers through the RDM…*" Witness Ferguson's assessment may be correct if all other factors are held constant, but a primary motivation behind adoption of revenue a decoupling mechanism is the concern that conservation and energy efficiency will reduce utility sales and revenue. In the context of losses of revenue due to energy efficiency, conservation, or even economic conditions there is considerable potential that National Grid will retain increased revenue associated with expanded service to an existing customer. Moreover, National Grid's assistance to existing customers seeking to expand service is not discretionary, and the methodologies for determining CIAC contributions are not subject to change without Commission approval.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.