

**NATIONAL GRID - GAS**  
**DISTRIBUTION ADJUSTMENT CLAUSE FILING**

**RIPUC DOCKET NO. 4269**

**BEFORE THE**  
**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**SUPPLEMENTAL TESTIMONY OF DAVID J. EFFRON**

**ON BEHALF OF THE**  
**DIVISION OF**  
**PUBLIC UTILITIES AND CARRIERS**

**OCTOBER 21, 2011**

1 Q. Please state your name.

2 A. My name is David J. Effron.

3

4 Q. Have you previously submitted testimony in this docket?

5 A. Yes. I submitted direct testimony on October 12, 2011. My qualifications and  
6 experience are included with my direct testimony.

7

8 Q. What is the purpose of this supplemental testimony?

9 A. In my direct testimony, I noted that the Company had not responded to all of the data  
10 requests submitted by the Division. On October 19, 2011, the Company responded to  
11 Division Data Request 3-8. That data request asked the Company to explain why the  
12 funding of pension and postretirement benefits other than pensions ("PBOP") in fiscal  
13 2011 was less the pension and PBOP expense accruals in fiscal 2011. The purpose of  
14 this supplemental testimony is to respond to the Company's answer to Division Data  
15 Request 3-8 and to address the underfunding of the pension and PBOP obligations.

16

17 Q. Is there any dispute that the cumulative pension and PBOP expense has been  
18 underfunded from the inception of the pension and PBOP reconciliation mechanism  
19 through June 30, 2011?

20 A. No. Based on Attachment WRR-1, Page 6, the cumulative underfunding of pension  
21 and PBOP expense from November 1, 2008 through June 30, 2011 was \$7,758,000. In  
22 the response to Division Data Request 3-8, the Company posited that Attachment  
23 WRR-1, Page 6 overstated the extent of the underfunding because it did not account for

1 a contribution made in April 2008, a portion of which the Company believes should be  
2 credited to the part of the first fiscal year in which the reconciliation mechanism was in  
3 effect. However, even with the credit for a portion of the contribution in April 2008, as  
4 described in the response to Division Data Request 3-8, the cumulative underfunding as  
5 of June 30, 2011 is still \$3,460,000. The Company stated that it “plans” to fund this  
6 shortfall before the end of fiscal 2012.

7

8 Q. Do you agree that Attachment WRR-1, Page 6 overstated the extent of the  
9 underfunding as of June 30, 2011?

10 A. No. The contribution in April 2008 was made more than six months before the pension  
11 and PBOP reconciliation mechanism was even approved. It cannot properly be  
12 attributed to the period during which the mechanism has been in existence. Actually,  
13 Attachment WRR-1, Page 6 *understates* the extent of the underfunding as of June 30,  
14 2011.

15

16 Q. Please explain.

17 A. Attachment WRR-1, Page 6 does not recognize the pension and PBOP cost that is  
18 capitalized and charged to plant costs. While the capitalized pension and PBOP cost is  
19 not recovered as a current expense as part of the Company’s revenue requirement, it is  
20 recovered in the revenue requirement through the return on and of plant included in rate  
21 base. More importantly, the capitalized pension and PBOP cost is every bit as much of  
22 an obligation as the pension and PBOP cost charged to expense, and there is no logic to  
23 distinguishing the funding of the cost that is capitalized from the funding of the cost

1 that is expensed. In determining the extent to which the pension and PBOP obligation  
2 is being over or under-funded, it is necessary to take account of the capitalized pension  
3 and PBOP costs.

4

5 Q. Have you prepared a calculation of the underfunding as of June 30, 2011 that accounts  
6 for the capitalized pension and PBOP costs?

7 A. Yes. With the capitalized pension and PBOP in fiscal 2010 and fiscal 2011 included in  
8 the total cost, the cumulative funding from November 1, 2008 through June 30, 2011  
9 was \$13,808,000 less than the total pension and PBOP costs in that same period  
10 (Schedule DJE-1).

11

12 Q. Is it clear that what the Company “plans” for fiscal 2012 will even begin to make up the  
13 underfunding of the pension and PBOP obligation?

14 A. No. Based on the Company’s response to Division Data Request 3-8, the “plans”  
15 appear to be little more than an undefined intent to increase the contributions if it’s  
16 convenient to do so, rather than a firm commitment with specific additional  
17 contributions on specific dates.

18 In addition, it appears that even with the Company’s stated plans, the  
19 underfunding will grow in fiscal 2012. The original funding plan for fiscal 2012 was  
20 \$5,550,000 for pensions and \$5,250,000 for PBOP, a total of \$10,800,000. The  
21 Company indicated that it “plans to increase its funding by \$1,400,000 over the  
22 remainder of fiscal 2012” which would imply total funding of \$12,200,000. But the  
23 Company will recover \$7,632,000 of pension expense and \$6,060,000 of PBOP

1 expense (Attachment NG-JFN-5), for a total of \$13,692,000, which would lead to an  
2 additional funding shortfall of \$1,492,000. The Company went on to say that it plans  
3 to fund an additional \$2,100,000 “before the end of fiscal 2012.” If the Company  
4 actually funds the \$1,400,000 “over the remainder of fiscal 2012” plus the \$2,100,000  
5 “before the end of fiscal 2012,” this would cover the expense portion of the pension  
6 and PBOP cost being recovered prospectively. However, to the extent that the  
7 capitalized pension and PBOP cost is greater than \$608,000, the underfunding of the  
8 total pension and PBOP cost will grow in fiscal 2012, even with the Company’s plans  
9 to increase its funding.

10

11 Q. Should the Company be fully funding its accrued pension and PBOP obligations?

12 A. Yes. In Docket No, 3943, the Company represented that “a reconciliation mechanism  
13 will ensure that the Company funds the pension and PBOP funds at the same level as  
14 amounts collected from customers.” (Docket No. 3943, Order, January 29, 2009, at  
15 53-54, citing Ex. NGrid-4 at 24) Further, in approving the requested reconciliation  
16 mechanism, the Commission found that “A reconciling mechanism will give  
17 ratepayers greater assurance that the Company is funding pension and PBOP funds at  
18 the same level as amounts collected from customers.” (Docket No. 3943, Order,  
19 January 29, 2009, at 56)

20

21 Q. On Attachment WRR-1, Page 6, the Company characterizes the difference between the  
22 expense recovery and the actual cash contributions as an “internal funding” of the

1 pension and PBOP obligation. Is the Company's "internal funding reserve" in any way  
2 similar to actual cash contributions to the pension and PBOP trusts?

3 A. No. The "internal funding reserve" is an accounting record of the expense recovered  
4 from ratepayers in excess of the contributions to the external trusts. It represents the  
5 additional amounts owed to properly fund the pension and PBOP expense, not actual  
6 funds set aside to pay the obligations. There is no restriction on the use of these  
7 internal funds for general corporate purposes. The so-called "internal funding reserve"  
8 is a balance sheet liability that has nothing to do with the pension and PBOP  
9 reconciliation mechanism and would exist even in its absence.

10

11 Q. What do you recommend?

12 A. The approval of the requested pension and PBOP reconciliation in Docket No. 3943  
13 mechanism was premised on the obligations being fully funded as the costs were  
14 recovered from customers. The problem is not just that there is an unfunded liability  
15 for pensions and PBOP; the magnitude and trend of this unfunded liability is also a  
16 problem. Unless the Company can make a firm, specific, and verifiable commitment to  
17 fund the existing shortfall as soon as reasonably possible and to fully fund the ongoing  
18 costs prospectively, the pension and PBOP reconciliation mechanism should be  
19 discontinued.

20

21 Q. Does this conclude your supplemental testimony?

22 A. Yes.

NATIONAL GRID - RI GAS  
PENSION PBOP FUNDING  
(\$000)

		<u>Pension</u>	<u>PBOP</u>	<u>Total</u>
<b>8 Months Ended June 30, 2009</b>				
Expense Recovery	(A)	3,368	3,045	6,413
Funding	(A)	<u>2,741</u>	<u>4,600</u>	<u>7,341</u>
Funding Excess (Shortfall)		<u>(627)</u>	<u>1,555</u>	<u>928</u>
<b>12 Months Ended June 30, 2010</b>				
Expense Recovery	(A)	5,424	5,371	10,795
Capitalized Cost	(B)	1,759	827	2,586
Funding	(A)	<u>5,020</u>	<u>1,891</u>	<u>6,911</u>
Funding Excess (Shortfall)		<u>(2,163)</u>	<u>(4,307)</u>	<u>(6,470)</u>
<b>12 Months Ended June 30, 2011</b>				
Expense Recovery	(A)	6,970	5,140	12,110
Capitalized Cost	(C)	1,990	1,473	3,463
Funding	(A)	<u>4,635</u>	<u>2,672</u>	<u>7,307</u>
Funding Excess (Shortfall)		<u>(4,325)</u>	<u>(3,941)</u>	<u>(8,266)</u>
<b>Cumulative Excess (Shortfall)</b>		<b><u>(7,115)</u></b>	<b><u>(6,693)</u></b>	<b><u>(13,808)</u></b>

## Sources:

- (A) Attachment WRR-1, Page 6
- (B) Response to Division 1-5, Docket 4196
- (C) Response to Division 1-1