BEFORE THE

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

IN THE MATTER OF

The National Grid 2012	**)**	
Distribution Adjustment	**)**	**Docket No. 4339**
Charge Filing	**)**	

DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

October 12, 2012

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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. 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 1, 2012,and Supplemental Testimony dated September 4, 2012 by witness Mariella C. Smith on behalf of the Company, as well as the Company’s Environmental Report Filed August 1, 2012. 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), the Capital Expenditures Tracker (CAPX)/Accelerated Replacement Program (ARP), and the Service Quality Program (SQP). Issues associated with the Company's ESM, PBOP, and CAPX/ARP 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 NG-MCS-1 to the Company's September 4, 2012 Supplemental Direct Testimony computes a DAC Factor (not including the ISR which represents a **net charge** of **$0.0484 per therm** for the Residential, Small and Medium C&I classes, and a **net charge** of **$0.0077 per therm** for the Large and Extra Large C&I classes. By comparison, the Company's present DAC reflects a **net charge** of **$0.0062 per therm**. Thus, the Company's proposed DAC charge in this proceeding represents a **increase** from the currently effective DAC charge of **$0.0422 per therm for** the Residential, Small and Medium C&I classes and an increase of **$0.0015 per therm** the Large and Extra Large C&I classes. After inclusion of ISR charges, which are differentiated by rate class, the Final DAC rates that that the Company proposes are:

Rate Class	Proposed November 1, 2012 Final DAC Rates (per Therm)
Res-NH	**$0.1211**
Res-NH-LI	**$0.1211**
Res-H	**$0.0770**
Res-H-LI	**$0.0770**
Small	**$0.0740**
Medium	**$0.0665**
Large LL	**$0.0249**
Large HL	**$0.0204**
XL-LL	**$0.0147**
XL-HL	**$0.0122**

As shown below the effective dollars per therm change is the same for all rate classifications, but the percentage changes in per therm charges are quite large for the Residential, Small C&I and Medium C&I classes.

Rate Class	Current DAC Rates (per therm)	Proposed 11/1/2012 DAC Rates (per therm)	Change (per therm)	Percent Change
Res-NH	**$0.0741**	**$0.1211**	**$0.0470**	**63.4%**
Res-NH-LI	**$0.0741**	**$0.1211**	**$0.0470**	**63.4%**
Res-H	**$0.0331**	**$0.0770**	**$0.0439**	**132.6%**
Res-H-LI	**$0.0331**	**$0.0770**	**$0.0439**	**132.6%**
Small	**$0.0309**	**$0.0740**	**$0.0431**	**139.5%**
Medium	**$0.0238**	**$0.0665**	**$0.0427**	**179.4%**
Large LL	**$0.0228**	**$0.0249**	**$0.0021**	**9.2%**
Large HL	**$0.0181**	**$0.0204**	**$0.0023**	**12.7%**
XL-LL	**$0.0133**	**$0.0147**	**$0.0014**	**10.5%**
XL-HL	**$0.0109**	**$0.0122**	**$0.0013**	**11.9%**

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 (CAPX)/Accelerated Replacement Program (**ARP**) Factor
7. An On-System Margin Credits (**MC**) Factor
8. A Service Quality Performance (**SQP**) Factor
9. A Revenue Decoupling Adjustment (**RDA**) 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 DAC 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/ARP, SQP, 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 4, 2012 Update filing.

Q. DOES YOUR REVIEW OF NATIONAL GRID'S DAC FILING RESULT IN ANY PROPOSED CHANGES IN THE DAC RATES THAT WOULD BECOME APPLICABLE TO THE COMPANY'S RHODE ISLAND CUSTOMERS AS OF NOVEMBER 1, 2012?

A. Yes, it does. As I will explain below, adjustments to the Company's proposed SP, AGT, ERC, and R factors are recommended.

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 LNG and the facilities used to supply LNG serve to maintain adequate operating pressures on the Company's 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 both sales and transportation service customers. In the absence of the System Pressure Factor, all of the Company's LNG costs would be recovered through National Grid's Gas Cost Recovery (GCR) charges and thus only sales service customers would bear those costs. To more appropriately apportion responsibility for System Pressure costs, the Commission has determined that the Company should allocate a portion of its LNG costs to system pressure maintenance, and it should collect those costs through the DAC. The System Pressure factor within the DAC is intended to accomplish that objective.

Q. HOW HAS NATIONAL GRID DETERMINED THE DOLLAR AMOUNTS TO BE RECOVERED THROUGH THE SYSTEM PRESSURE FACTOR AS PART OF ITS DAC CHARGES?

A. National Grid has computed its proposed System Pressure Factor in this proceeding by: (1) applying an allocation factor to the sum of the Company's forecasted LNG Withdrawal Commodity Costs, LNG Inventory Costs, and LNG Demand Costs for the 2012-13 GCR period; and (2) dividing that result by forecasted firm throughput for the 2012-13 GCR period. The allocation factor National Grid employs is **18.12%**.

Q. WHAT IS THE SYSTEM PRESSURE FACTOR THAT NATIONAL GRID PROPOSES IN THIS DOCKET?

A. Using the 18.12% allocation factor that National Grid has computed for this proceeding, the Company proposes a **System Pressure Factor** of **$0.0030 per therm**. That System Pressure Factor results from multiplying the Company's forecasted LNG costs by the 18.12% factor (which yields $1,077,346 of forecasted System Pressure costs)[1] and dividing the forecasted System Pressure Costs by the Company's forecasted throughput for the 2012-13 GCR year produces National Grid's proposed SP Factor of **$0.0030 per therm**.

[1] It should be noted that the $9,381,932 amount shown in Attachment MCS-2S is incorrect and does not reflect either the total of the monthly dollar amounts in the column above it or the sum of the totals for the columns headed "Withdrawal Commodity," "Inventory Financing," and "Supplier Demand." The correct total is $5,945,625. This error, however, has no impact on the Company's proposed SP Factor since the $9,381,932 amount was not used directly in the computation of its proposed SP Factor.

Q. DOES NATIONAL GRID'S UPDATED ALLOCATION FACTOR APPROPRIATELY REFLECT THE PORTION OF THE COMPANY'S ANNUAL LNG COSTS THAT IS ASSOCIATED WITH MAINTENANCE OF SYSTEM PRESSURES?

A. No. It does not. The Company's approach to determining the portion of its LNG-related costs that should be assigned to the System Pressure Factor does not properly identify the portion of the Company's LNG costs that are associated with the maintenance of system pressures.

The 18.12% allocation factor the Company employs is derived from its March 8, 2012 Long Range Gas Supply Plan. As shown at page 45 of that plan, National Grid derived its 18.12% allocation factor by dividing the amount of LNG required for Pressure Support during its peak hour (i.e., 3,410 Dth/hr) by the Company's **2010-2011** Peak Hour Sendout requirement, where its Peak Hour Sendout reflects the amount of gas flowing into its system under Design Peak Hour conditions from all sources of gas supply (i.e., 18,820 Dth/hr). Thus, as computed by National Grid the System Pressure allocation factor (AF) for LNG costs is constructed as follows:

AF = Peak Hour LNG sendout capability / Total System Peak Hour Sendout

Where,

Peak Hour LNG Sendout Capability = 3,410 Dth/hr
Total System Peak Hour Sendout = 18,820 Dth/hr

Thus,

3,410 Dth/hr / 18,820 Dth/hr = **18.12%**

There are two problems with this formulation of the Company's allocation factor. First, it is not properly constructed to allocated LNG-related costs. Rather, it erroneously attempts to assess the portion of total sendout of gas from all sources (i.e., pipeline supplies, storage supplies, and LNG vaporization) under peak hour conditions that is comprised of LNG used for system pressure support. That ratio of LNG for system pressure support to total system sendout tells us nothing about the portion of total **LNG costs** that is attributable to system pressure requirements. Second, the Company's allocation factor does not consider its use of LNG for system pressure support during non-peak hours.

Q. HOW SHOULD THE ALLOCATION OF LNG-RELATED COSTS TO THE SYSTEM PRESSURE FACTOR BE DETERMINED?

A. Proper allocation of LNG-related costs must be accomplished in two steps which separately allocate LNG capacity (i.e., demand) costs and LNG commodity costs. Capacity-related costs should be allocated based on ratio of LNG capacity required for system pressure support under peak hour conditions to total peak hour LNG vaporization capacity. Commodity-related LNG costs should be allocated using a ratio of total annual LNG sendout for system pressure purposes under normal winter weather conditions to total forecasted LNG sendout for all purposes under normal winter conditions.

Q. WAS THIS ISSUE DISCUSSED IN DOCKET 4269?

A. Yes, it was. I raised similar concerns in my pre-filed Direct Testimony in that proceeding. However, it was agreed that National Grid would address this matter further in the new Long Range Gas Supply Plan that it intended to file in the first quarter of 2012.

Q. DID NATIONAL GRID ADDRESS THE ALLOCATION OF SYSTEM PRESSURE COSTS AS ANTICIPATED IN THE LONG RANGE GAS SUPPLY PLAN THAT IT FILED IN MARCH 2012?

A. No. It did not. Despite lengthy discussions between the Division and the Company regarding this matter in the months preceding the Company's filing of its new Long Range Gas Supply Plan, its presentation regarding this issue in that Plan simply (1) repeats its filed position in Docket 4269 and (2) suggests that the matter be discussed further with the Division.

Q. HAVE YOU COMPUTED REVISED ALLOCATIONS TO DETERMINE THE PORTION OF THE COMPANY'S LNG COSTS THAT SHOULD BE CONSIDERED SYSTEM PRESSURE RELATED?

A. I have new allocation factors for both capacity-related and commodity related LNG costs.

For capacity (demand) related LNG costs I have constructed an allocation factor which reflects the percentage of peak hour LNG Required for Pressure Support to Total Peak Hour LNG Sendout Capability. Using the information

provided on page 45 of the Company's March 2012 Long Range Gas Supply Plan, an allocation factor based the ratio of LNG required for system pressure support to dedicated peak hour LNG vaporization capacity is computed as follows:

LNG Facility	Dedicated Vaporization Capacity	Required for Pressure Support	Ratio
Cumberland	1,333	0	
Allen's Ave (Prov)[2]	3,958	2,999	
Exeter	750	411	
Portsmouth	325	0	
Total	5,616	3,410	**60.72%**

The allocation factor for commodity-related LNG costs is premised on the ratio of annual non-peaking related LNG sendout to total annual LNG sendout. Based on witness Arangio's Exhibit EDA-2 annual non-peaking related LNG sendout is 228,950 Dth. Total annual LNG sendout is the sum of the sendouts of LNG from the Company's Providence, Valley, and Exeter LNG facilities which as forecasted for the November 2012 through October 2013 period equals 362,200 Dth. Thus, the resulting allocation factor for commodity-related LNG costs reflects 228,950 Dth divided by 362,200 Dth or **63.21%**.

The overall allocation of LNG-related costs to the DAC is achieved by: (1) applying the 63.21% factor to the Commodity Withdrawal and Inventory Financing Costs shown in witness Smith's Exhibit MCS-2S and (2) applying the 60.72% LNG

[2] Note 4 to the table on page 45 of the Company's March 8, 2012 Long Range Gas Supply Plan states, "While the LNG vaporization capacity at Providence is 6,000 Dth/hr, the National Grid contract amount is only 3,935 Dth/hr." The measure of dedicated LNG vaporization capacity used for Providence thus reflects only the Company's contracted capacity.

capacity allocation factor to the total Supplier Demand from GCR costs. As demonstrated in **Exhibit BRO-1**, these allocations result in the assignment of a total of **$3,672,665** of LNG-related costs to the DAC. As a result, the System Pressure Factor increases from $0.0030 per Dth as proposed by the Company to **$0.0102 per therm**.

Q. HOW DOES THIS CHANGE IN THE ALLOCATION OF LNG-RELATED COSTS IMPACT THE COMPANY'S RECOVERY OF LNG-RELATED COSTS?

A. National Grid continues to receive full recovery of its LNG-related costs. The key difference is that a greater portion of the Company's LNG-related costs is recovered through the DAC, and that results in a larger share of LNG-related costs being recovered from Firm Transportation Service customers. The Company's development of its System Pressure Factor for the DAC distributes responsibility for LNG-related costs over all Firm Throughput for both Sales and Transportation service customers. As shown in Witness Smith's Attachment MCS-3, the Firm Throughput used to compute the System Pressure Factor totals **35,387,711 Dth**. That contrasts with **24,879,878 Dth** of forecasted Firm Sales volumes over which LNG costs retained within the GCR are distributed. In other words, recovery of System Pressure-related LNG costs through the DAC results in a much broader distribution of responsibility for those costs, which is appropriate given that all sales and transportation service customers benefit from the maintenance of system pressures.

B. Advanced Gas Technology Program Factor

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

A. 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. The Advanced Gas Technology (AGT) Program Factor provides the Commission a mechanism for reflecting differences between actual expenditures for AGT program rebates and the amount of funding provided annually through base rates.

Q. AS OF JUNE 2012, WHAT LEVEL OF FUNDING WAS AVAILABLE FOR NEW AGT PROJECTS?

A. The August 1, 2012 Direct Testimony of National Grid witness Nestor indicates that the AGT program balance of available funds as of the end of June 2012 was **$2,222,825**. The balance represents an increase of **$623,288** over the comparable AGT program balance as of June 30, 2011, and reflects accumulated ratepayer contributions to the program at a rate of $600,000 annually (i.e., $300,000 through base rates and $300,000 through the DAC) plus interest on the monthly net balance for the program.

Q. DOES NATIONAL GRID REQUEST FURTHER FUNDING OF THE AGT PROGRAM IN THE COMPANY YEAR?

A. Yes. National Grid asks that the current $600,000 annual level of funding be continued. The Company submits that the increase in AGT program funding that the Commission approved in Docket No. 4196 has stimulated renewed interest in AGT programs. Although, once again, no AGT program funds have been expended over the past year, National Grid seeks to continue the $300,000 per year of additional funding for AGT projects that was initiated based on a recommendation by the Division in Docket 4269.

Q. HAS NATIONAL GRID USED ANY AGT PROGRAM FUNDS OVER THE LAST YEAR?

A. No. In fact, National Grid has not expended any AGT funds for nearly five years. The last reported expenditure of AGT program funds was $12,916 in February 2008 (i.e., more than four-and-a-half years ago). In the context of the total level of funding that has been provided for the AGT program over in recent years, that reported expenditure of $12,916 appears somewhat trivial.

Q. DOES THE DIVISION SUPPORT FURTHER FUNDING OF NATIONAL GRID'S AGT PROGRAM AT THIS TIME?

A. At this time, the Division does not support the provision of an added $300,000 per year of AGT funding, beyond the funding provided through base rates. The Company appears to have sufficient resources within the AGT program to be able to provide substantial immediate support to AGT projects, if any actually materialize. However, after nearly five years of inactivity during a time when economic

stimulation was needed, the Division assesses that the provision of additional AGT funding beyond the level set forth in base rates does **not** represent a prudent use of ratepayer funds. Therefore, the Division recommends that the Company's proposed AGT factor be modified to remove the $300,000 of additional annual funding that was approved in Docket 4269.

Q. WITH REMOVAL OF THE $300,000 PER YEAR ADDED ANNUAL FUNDING, AT WHAT LEVEL SHOULD THE COMPANY'S AGT FACTOR BE SET?

A. With the added $300,000 removed, the Company's AGT factor for the 2012-2013 DAC year should be **$0.0000 per therm**.

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 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. 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**.

Q. IS CONTINUATION OF THE CURRENT LEVEL OF FUNDING SUPPORT FOR LIAP PROGRAMS REASONABLE?

A. Yes. In the context of legislated changes in LIHEAP funding, the effective amount of LIAP funding is substantially increased. Thus, continuation of the current LIAP factor appears reasonable, and the LIAP factor included in the Company's DAC calculations should remain at **$0.0000 per therm**.

<u>D. Environment Response Cost Factor</u>

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. WHAT IS THE ERC FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. Witness Smith's Direct Testimony, filed on August 1, 2012 proposes an ERC Factor of (**$0.0019)** per therm.

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 1, 2012, National Grid proposes a net credit of **($665,607)** to be returned to customers. This net dollar amount reflects:

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

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

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

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

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

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

7. A 10-year amortization of $965,754 of net ERC costs for FY 2009;

8. 10-year amortization of $2,088,264 of net ERC costs for FY 2010;

9. 10-year amortization of $4,522,947 of net ERC costs for FY 2011;

10. 10-year amortization of $5,583,936 of net ERC costs for FY 2012; and

11. 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 1 filing, the Company reported a net balance of recovered Environmental Response Costs for this DAC proceeding was a credit of (**$665,607)**. That reflects the $1,310,000 collected annually through base rates less $644,393 of expenses collected over the 2012-2013 DAC year based on the above the

amortization schedule. Dividing ($665,607) by the forecasted firm throughput for the 2012-2013 DAC year yields the Company's proposed ERC Factor of **($0.0019) per therm**.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2012?

A. In the Company's August 1, 2012 DAC filing, National Grid claimed a net Environment Response Cost for FY 2012 of $5,583,936. National Grid had nine (9) active projects for which expenditures were reported, plus $392,933 of insurance recovery expenditures. As shown below, one of those projects accounted for over 77% of the total new Environmental Response Costs incurred by National Grid during the twelve months ended June 30, 2012. A breakdown of the Company's 2012 expenditures is provided below:

➢ Project 379	Petroleum Site	$ 4,325,817	77.5%
➢ Project --	Thames & Wellington	$ 455,580	8.2%
➢ Insurance Recovery		$ 392,933	7.0%
➢ All Other Projects		$ 409,606	7.3%
Total		$ 5,583,936	100.0%

Q. HAVE YOUR REVIEWED SUPPORTING DETAIL FOR THE ENVIRONMENTAL RESPONSE COSTS THAT THE COMPANY CLAIMS FOR THE TWELVE MONTHS ENDED JUNE 2012?

A. Yes. I have reviewed the calculations supporting its requested ERC Factor, the full detail of the Company's August 1, 2012 Annual Environmental Report, and National

Grid's responses to a number of Division data requests for further supporting detail for its actual FY 2012 Environmental Costs.

Q. DO YOU FIND ANY REASON TO QUESTION THE PRUDENCE OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID INCURRED DURING THE 12 MONTHS ENDED JUNE 30, 2012?

A. No. Through discovery the Division sought and the Company has provided considerable additional detail to support its costs claims in the form of invoices for amounts paid, copies of studies and reports provided by contractors, and explanations of work performed. Although the Division's review of this material does not constitute a full audit of those expenditures, the Company's expenditures appear to be reasonable and well documented.

Q. PLEASE DISCUSS THE $4,062,878 OF PROPERTY PURCHASE, SETTLEMENTS, AND LEGAL EXPENSES ASSOCIATED WITH THE 170 ALLENS AVENUE PROJECT THAT IS INCLUDED IN THE COMPANY'S CLAIMED ENVIRONMENTAL EXPENSE FOR THE TWELVE MONTHS ENDED JUNE 2012.

A. Those costs which represent 77.5% of the Company's total Environmental Cost Recovery claim for the twelve months ended June 30, 2012, primarily reflect costs associated with acquiring the property parcels through bankruptcy court which are related to the evaluation, remediation and clean-up of Rhode Island State Piers, LLC (RISPP) sites.

Q. DO YOU HAVE ANY SPECIAL CONCERNS REGARDING THESE PROPERTY PURCHASE COSTS?

A. I do. Although the provisions of the agreement relating to the Company's recovery of Environmental Response Costs specifically provide for recovery of costs for acquiring property associated with the clean up of sites, these costs are associated with an asset having substantial present value and conceivably the potential for increased value after clean-up activities are completed. National Grid has indicated in response to discovery that it intends to record these assets as non-utility property. However, the costs of these assets are being presented for full recovery (over 10 years) through the Company's ERC Factor. Thus, National Grid's ratepayers will ultimately bear the entire costs of those asset purchases, and in that context, they should receive the benefit of any proceeds derived from a subsequent sale or disposition of those assets.

To ensure proper monitoring of the Company's disposition of such assets, the Division recommends that reporting requirements for the Company's annual Environmental Report for Gas Service be expanded to include reporting of all asset sales or exchanges involving real property that the Company has acquired or may acquire and ratepayers fund through the DAC.

Q. EXCLUDING THE PROPERTY PURCHASE RELATED EXPENSES DISCUSSED ABOVE, DO YOU FIND ANY REASON TO QUESTION THE ACCURACY AND RELIABILITY OF THE COMPANY'S ERC FACTOR COMPUTATIONS IN THIS PROCEEDING?

A. No, I do not. 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. Further the claimed costs are supported in considerable detail by documentation (such as environmental reports, studies, and invoices) which was provided in response to the Division's discovery requests.

E. On-System Margin Credits

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

A. The current On-System Margin Credit (MC) factor is designed to distribute to firm customers margin revenue collected from sixty-four (64) Dual Fuel customers in excess of the annual margin target for such customers of $2,816,000 that was established in the Docket No. 3943.

Q. DID NATIONAL GRID ACHIEVE REVENUE MARGINS DURING FY 2012 THAT EXCEEDED THE $2,816,000 THRESHOLD?

A. Yes. Attachment NG-MCS-7 indicates that National Grid realized Total Dual Fuel Margins for the twelve months ended June 30, 2012 of $3,546,576. That represents $730,576 of margins in excess of the $2,816,000 threshold to be distributed to National Grid's RI customers through the On-System Margin Factor.

Q. HAVE YOU ASSESSED THE REASONABLENESS OF NATIONAL GRID'S FY 2011 MARGIN REVENUE DETERMINATIONS?

A. Yes. I have reviewed in detail the margin revenue calculations that National Grid has presented in Attachment NG-MCS-7 for both Firm and Non-Firm Dual Fuel customers as well as the Company's responses to Division data requests regarding the data supporting its On-System Margin determinations. Based on that review, I find no major concerns regarding the Company's computation of Dual Fuel margin revenue. Thus, the Company's proposed MC Factor of ($0.0021) per therm appears reasonable.

F. Revenue Decoupling Adjustment Factor

Q. WHAT IS THE PURPOSE OF THE COMPANY'S REVENUE DECOUPLING ADJUSTMENT (RDA) FACTOR?

A. In Docket 4206, the Commission approved a Revenue Decoupling Mechanism (RDM) for the Residential, Small Commercial, and Medium Commercial rate classes. The approved RDM provides for an annual reconciliation of the Company's actual base revenues with its approved test year base revenue (on a revenue-per-customer basis) as approved in the Company's most recent base rate case.

Q. WHAT IS THE RDA FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. Witness Smith's Supplemental Testimony, filed on September 4, 2012, indicates that a reconciling adjustment of **$10,704,374** is required to offset under-recoveries of approved test year revenue for the Company's Residential, Small Commercial, and Medium Commercial rate classes for the twelve months ended March 31, 2012. Based on the computed **$10,704,374** under-recovery, the witness Smith's Supplemental Testimony calculates a uniform RDA Factor for application to all Residential, Small C&I and Medium C&I customers of **$0.0413 per therm**.[3]

Q. WHAT IS THE IMPACT OF THE REVENUE DECOUPLING ADJUSTMENT (RDA) FACTOR ON THE WEATHER NORMALIZATION AJUSTMENT (WNA)?

A. Witness Smith states at page 20, lines 18-20, of her August 1, 2012 testimony that "With the RDA, the WNA component of the DAC is no longer necessary, because the RDA takes into account the effect of weather on base rates." However, the RDA is only applied to Residential, Small Commercial, and Medium Commercial classes. Although it is reasonable to expect that weather (i.e., heating degree days) will impact usage for Large and Extra Large C&I customers, no provision for a weather-related adjustment to the revenue requirements of Large and Extra Large C&I customers presently exists. For this reason, I suggest that the Company and the Division work together to assess the merits of a separate WNA Factor that would be applicable only to Large and Extra Large C&I customers.

[3] The Company's August 1, 2012 DAC filing computed a RDA Factor of $0.032 per therm. However, the computation of that factor inadvertently used Total Firm Throughput as the divisor where the appropriate divisor should include only firm throughput for Residential, Small C&I and Medium C&I customers.

G. 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 NG-MCS-9S, page 1 of 1, indicates that in aggregate the Company's reconciliations reflect a net under-collection of $487,072. That under-collected balance results in a computed Reconciliation Factor of **$0.0014 per therm** for application during the Company's 2012-2013 DAC period.

Q. HAVE YOU REVIEWED THE COMPANY'S SUPPORT FOR ITS RECONCILIATION FACTOR COMPUTATIONS?

A. Yes, I have reviewed the full detail of the computations provided in Attachment NG-MCS-9S filed on September 4, 2012.

Q. DO YOU QUESTION THE REASONABLENESS OF ANY ELEMENT OF THE COMPANY'S COMPUTED RECONCILIATION ADJUSTMENTS?

A. Yes. I question the Company's treatment of interest computed on AGT Factor balances. Although National Grid appears to have computed interest on its AGT Factor balances properly, it has applied that interest as an increase in the balance for that factor. That addition of the calculated interest to the AGT Factor balance is inappropriate. The funds on which interest is computed in this interest are effective ratepayer funds that are being held by the Company for future use. To the extent interest accrues on those balances, such interest should be treated as a credit against the amounts that ratepayers are required to provide to support that program.

H. Distribution Adjustment Charge Summary

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

A. This testimony recommends three changes in the Company's proposed DAC factors. Those changes include:

- The development of revised allocations of LNG-related costs for the determination of the System Pressure Factor;

- Removal of the extra $300,000 per year of funding provided for the Company's AGT program in Docket No. 4269; and

- Revision of the manner in which interest on AGT balances is applied in the reconciliation of AGT Factor costs and revenues.

With incorporation of the foregoing changes, I recommend that the Commission adopt the DAC Factors and DAC charges presented in **Exhibit BRO-2**.

Also, as I noted in my Direct Testimony in Docket 4323,[4] the levels of usage that the Company represents as "average use" in its bill comparisons are substantially out-of-date and should be updated to provide the Commission a more accurate assessment of bill impacts resulting from its pending proposals for changes in its base rate, DAC and GCR charges by rate class.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

[4] See the Schedule BRO-9 attached to the Direct Testimony of Bruce R. Oliver on behalf of the Division in Docket 4323.

National Grid - Gas

Docket 4346

Reallocation of National Grid LNG Costs to the System Pressure Factor

	LNG Related Costs			
	Withdraw Commodity*	**Inventory Costs***	**Demand from GCR***	**Total**
Nov-12	$ 105,291	$ 40,243	$ 282,490	$ 428,024
Dec-12	$ 510,215	$ 36,025	$ 282,490	$ 828,730
Jan-13	$ 350,598	$ 33,127	$ 282,490	$ 666,215
Feb-13	$ 201,062	$ 31,465	$ 282,490	$ 515,017
Mar-13	$ 109,212	$ 30,562	$ 282,490	$ 422,264
Apr-13	$ 105,291	$ 29,692	$ 289,123	$ 424,106
May-13	$ 109,212	$ 37,142	$ 289,123	$ 435,477
Jun-13	$ 108,710	$ 43,345	$ 289,123	$ 441,178
Jul-13	$ 115,127	$ 42,393	$ 289,123	$ 446,643
Aug-13	$ 115,127	$ 41,442	$ 289,123	$ 445,692
Sep-13	$ 110,994	$ 43,700	$ 289,123	$ 443,817
Oct-13	$ 115,499	$ 43,840	$ 289,123	$ 448,462
Total	$ 2,056,338	$ 452,976	$ 3,436,311	$ 5,945,625
System Balancing Factor	63.21%	63.21%	60.72%	
GCR Costs Allocated to DAC	$ 1,299,811	$ 286,326	$ 2,086,528	$ 3,672,665
Firm Throughput (Dth)				36,155,589

National Grid - Gas

Docket 4346

DAC Factor Comparison (not including ISR component) for November 2012 - October 2013

Ln No	Description	Company Proposed Factor		Division Recommended Factor	
		Residential/Small /Medium C&I	Large/ X-Large	Residential/Small /Medium C&I	Large/ X-Large
1	System Pressure (SP)	$ 0.0030	$ 0.0030	$ 0.0102	$ 0.0102
2	Advanced Gas Technology Program (AGT)	$ 0.0008	$ 0.0008	$ -	$ -
3	Low Income Assistance Program (LIAP)	$ -	$ -	$ -	$ -
4	Environmental Response Cost (ERC)	$ (0.0019)	$ (0.0019)	$ (0.0019)	$ (0.0019)
5	Pension and Post-Retirement Benefits (PBOP)	$ 0.0056	$ 0.0056	$ 0.0056	$ 0.0056
6	Capital Expenditures Tracker (CAPX)	$ 0.0005	$ 0.0005	$ 0.0005	$ 0.0005
7	On-System Margin Credits (MC)	$ (0.0021)	$ (0.0021)	$ (0.0021)	$ (0.0021)
8	Service Quality Performance (SQP)	$ (0.0004)	$ (0.0004)	$ (0.0004)	$ (0.0004)
9	Reconciliation Factor (R)	$ 0.0014	$ 0.0020	$ 0.0014	$ 0.0020
10	Earnings Sharing Mechanism (ESM)	$ -	$ -	$ -	$ -
11	Subtotal	$ 0.0069	$ 0.0075	$ 0.0133	$ 0.0139
12	Uncollectible Percentage	2.46%	2.46%	2.46%	2.46%
13	Dac factors grossed up for uncollectible	$ 0.0071	$ 0.0077	$ 0.0136	$ 0.0142
14	Revenue Decoupling Mechanism (RDM)	$ 0.0413	$ -	$ 0.0413	$ -
15	DAC Factor	$ 0.0484	$ 0.0077	**$ 0.0549**	**$ 0.0142**

National Grid - Gas

Docket 4339

DAC Rate Comparison By Rate Class (including ISR)

Rate Class	Company Proposed DAC Rates ($ per therm)	Division Recommended DAC Rates ($ per therm)	Difference ($ per therm)	Percent Difference (%)
Res-NH	$ 0.1211	$ 0.1276	$ 0.0065	5.4%
Res-NH-LI	$ 0.1211	$ 0.1276	$ 0.0065	5.4%
Res-H	$ 0.0770	$ 0.0836	$ 0.0066	8.5%
Res-H-LI	$ 0.0770	$ 0.0836	$ 0.0066	8.5%
Small	$ 0.0740	$ 0.0805	$ 0.0065	8.9%
Medium	$ 0.0665	$ 0.0730	$ 0.0065	9.8%
Large LL	$ 0.0249	$ 0.0315	$ 0.0066	26.3%
Large HL	$ 0.0204	$ 0.0270	$ 0.0066	32.2%
XL-LL	$ 0.0147	$ 0.0212	$ 0.0065	44.5%
XL-HL	$ 0.0122	$ 0.0187	$ 0.0065	53.6%