BEFORE THE

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

IN THE MATTER OF

The National Grid 2014	**)**	
Distribution Adjustment	**)**	**Docket No. 4514**
Charge Filing	**)**	

DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

October 6, 2014

TABLE OF CONTENTS

Page

I. INTRODUCTION 1

II. REVIEW OF NATIONAL GRID'S DAC ADJUSTMENTS 2

A. General Assessment of the Company's Proposed DAC Charges 2

B. Specific Issues and Concerns 7

1. Environment Response Cost Factor 7

2. On-System Margin Credits 8

3. Reconciliation Factor 13

4. Revenue Decoupling Adjustment 17

III. DAC FACTOR RECOMMENDATIONS 22

DIRECT TESTIMONY OF BRUCE R. OLIVER

Docket No. 4514

October 6, 2014

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, 2014 and Supplemental Testimony dated August 29, 2014 by witness Yi-An Chen on behalf of the Company, as well as the Company’s Environmental Report Filed August 1, 2014. It also includes consideration of the Gas Revenue Decoupling Mechanism testimony filed by

National Grid witnesses Suhila N. Nutile and Melissa A. Little on August 1, 2014. This testimony discusses my review of the elements of the Company's DAC calculations with the exception of Pension Adjustment Factor (PAF) and the Earnings Sharing Mechanism (ESM). Issues associated with the Company's PAF and ESM will be discussed in separate testimony to be filed on behalf of the Division by Mr. David Effron.

II. REVIEW OF NATIONAL GRID'S DAC ADJUSTMENTS

Q. HAVE YOU REVIEWED THE CALCULATIONS UNDERLYING NATIONAL GRID'S PROPOSED DAC CHARGES IN THIS PROCEEDING?

A. Yes, I have. With the exceptions noted above, I have reviewed the details of each of the elements of National Grid's proposed DAC factors in this proceeding, as well as the overall DAC charges that the Company seeks to implement. I have also reviewed the Company's responses to data requests submitted to the Company by the Division.

A. General Assessment of National Grid's Proposed DAC Charges

Q. WHAT IS YOUR OVERALL ASSESSMENT OF THE COMPANY'S FILINGS IN THIS PROCEEDING AND THE DAC CHARGES NATIONAL GRID IS PROPOSING TO IMPLEMENT?

A. Many of the elements of the Company's DAC presentation appear to be reasonable and accurately computed. However, certain areas of concern have been identified. In addition, it would be helpful if for future filings the reconciliation periods for the DAC and the RDM are synchronized.

The areas of concern to which I refer relate to:

(1) An un-reflected credit against the Company's claimed Environmental Response Costs;

(2) The Company's inaccurate and incomplete recognition of curtailment penalties and gas costs for customers who failed to comply fully with curtailment requests during the winter of 2013-14 as part of its assessment of On-System Margin Revenues;

(3) Comparatively large, unexplained reporting of **negative** service volumes in certain months for the **Large** C&I Low Load Factor and for **Extra Large** C&I Low Load Factor customers, as well as recently reported **negative actual** service volumes for Default Service for May and July of 2014 (shown in the Attachment the Company's response to Division Data Request 1-15); and

(4) A need for consistent recognition of planned transfers of greater than 3,000 customers from the Residential Non-Heating class to the Residential Heating class, including recognition of the impacts of those transfers on forecasted Residential Non-Heating usage by month.

Q. WHAT ARE THE SPECIFIC DAC CHARGES THAT NATIONAL GRID PROPOSES TO APPLY FOR THE PERIOD NOVEMBER 1, 2014 THROUGH OCTOBER 31, 2015?

A. Attachment YC-1S to the August 29, 2014 Supplemental Direct Testimony of National Grid witness Yi-An Chen computes a DAC Factor (not including the ISR) which represents a **net credit** (i.e., a DAC Factor of **($0.0309)** per therm) for the Company's Residential, Small C&I and Medium C&I classes. It also shows the development of **net charge** of **$0.0029 per therm** for customers in the Large and Extra Large C&I classes. By comparison, the Company's present DAC is a **net charge** (not including the ISR) of **$0.0351 per therm** for Residential, Small C&I and Medium C&I customers, and a **net charge** (not including the ISR) of **$0.0044 per therm** for Large and Extra Large C&I customers. Thus, the Company's proposed DAC charges in this proceeding (not including the ISR) represent decreases from the currently effective DAC charges (not including the ISR).

After inclusion of ISR Reconciliation Factor and the currently effective ISR Factor (which are differentiated by rate class), the Final DAC rates that that the Company proposes in this proceeding are:

Rate Class	Proposed Final DAC Rates ($/Therm) To Be Effective November 1, 2014
Res-NH	$0.0002
Res-NH-LI	$0.0002
Res-H	($0.0132)
Res-H-LI	($0.0132)
Small	($0.0127)
Medium	($0.0170)
Large LL	$0.0140
Large HL	$0.0137
XL-LL	$0.0058
XL-HL	$0.0069

As shown below, the Company's proposed DAC charges and the effective changes in those charges (in terms of dollars per therm) vary by rate class with Residential Non-Heating and Residential Heating customers receiving the largest effective rate reductions. However, the proposed DAC charges yield large percentage rate reductions for all classes.

Rate Class	Current DAC Rates (per therm)	Proposed DAC Rates Eff. 11/1/2014 (per therm)	Change (per therm)	Percent Change
Res-NH	$0.1211	$0.0002	($0.1209)	(99.8%)
Res-NH-LI	$0.1211	$0.0002	($0.1209)	(99.8%)
Res-H	$0.0770	($0.0132)	($0.0902)	(117.1%)
Res-H-LI	$0.0770	($0.0132)	($0.0902)	(117.1%)

Small	**$0.0740**	**($0.0127)**	**($0.0867)**	**(117.2%)**
Medium	**$0.0665**	**($0.0170)**	**($0.0835)**	**(125.6%)**
Large LL	**$0.0249**	**$0.0140**	**($0.0109)**	**(43.8%)**
Large HL	**$0.0204**	**$0.0137**	**($0.0067)**	**(32.8%)**
XL-LL	**$0.0147**	**$0.0058**	**($0.0089)**	**(60.5%)**
XL-HL	**$0.0122**	**$0.0069**	**($0.0053)**	**(43.4%)**

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 Factor (**ERCF**)
5. A Pension Adjustment Factor (**PAF**)
6. An On-System Margin Credits (**MC**) Factor
7. A Reconciliation (**R**) Factor
8. A Service Quality Performance (**SQP**) Factor
9. An Earnings Sharing Mechanism (**ESM**)
10. An Allowance for Uncollectibles
11. A Revenue Decoupling Adjustment (**RDA**)
12. A Revenue Decoupling Adjustment Reconciliation Factor

Q. WHAT ARE THE ELEMENTS OF THE COMPANY'S DAC FILING WITH WHICH YOU HAVE CONCERNS?

A. My concerns focus primarily on the Company's Environmental Response Cost Factor (**ERCF**), the On-System Margin Credits Factor (**MC**), and Reconciliation Factor (**R**). However, issues identified regarding National Grid's development of its forecasted sales and throughput volumes may affect the denominators that are used throughout the Company's filing to translate costs into dollars per therm charges. I find **no specific problems** with the cost determinations that underlie the Company's System Pressure (**SP**) Factor, the Advanced Gas Technology Program (**AGT**) Factor, the Low Income Assistance Program (**LIAP**) Factor, and the Service Quality Performance (**SQP**) Factor.

B. Specific Issues and Concerns

1. Environment Response Cost Factor

Q. PLEASE EXPLAIN THE NATURE OF THE CONCERN YOU HAVE IDENTIFIED WITH RESPECT TO NATIONAL GRID'S EVIRONMENTAL RESPONSE COST FACTOR?

A. The Company's response to Division Data Request 1-6, part b., indicates that a credit against its claimed environmental costs for the 170 Allens Avenue Project should have been included in reported costs for the fiscal year ended March 31, 2014 but was not properly credited in that period. As shown in a revised version of Schedule YC-4R attached to the National Grid's response to Division Data Request 1-6, that credit of **$1,482,810** reduces the Company's costs in excess of the base rate embedded funding and lowers slightly the ERCF that should be included in the DAC that is scheduled to become effective November 1, 2014. As originally set forth in Exhibit YC-4, the net cost in excess of the embedded base rate ERC funding to be recovered through the DAC was $568,913. After recognition of this additional credit (amortized over a ten year period), the net cost to be recovered through the Company's proposed DAC declines to $420,632. This revision lowers the Company's ERCF from $0.0014 per therm to **$0.0011** per therm.

Q. WAS THE REVISION THAT NATIONAL GRID NOTED IN ITS RESPONSE TO DIVISION DATA REQUEST 1-6, PART B, REFLECTED IN ITS SUPPLEMENTAL DIRECT TESTIMONY AND SCHEDULES IN THIS PROCEEDING?

A. No. The Company's data request response which contained this revision was not provided until after National Grid had submitted its Supplemental Direct Testimony and was not reflected in that filing. Therefore, an adjustment to the DAC that the Company reflects in that filing is required.

2. On-System Margin Credits

Q. ARE YOU SATISFIED WITH NATIONAL GRID'S ASSESSMENT OF COSTS AND REVENUES THAT UNDERLIE ITS DETERMINATION OF ON-SYSTEM MARGIN CREDITS FOR THE FISCAL YEAR ENDED MARCH 31, 2014?

A. Not entirely. My review of the detail of that exhibit has identified a number of errors and inconsistencies in the information presented therein, particularly as it relates to billing adjustments and charges for unauthorized gas use during periods of gas curtailments.

First, on pages 4 through 7 of Schedule YC-6, the Company provides detail regarding the computation of margin credits derived from each non-firm customer for each month of the fiscal year ended March 31, 2014. In the far right-hand column on that page, under the heading "Comment," we find seven entries which indicate "Curtailment" and give a number of therms. The therm amounts listed are apparently intended to reflect volumes of **unauthorized gas** use by the non-firm customer during a period in which the Company called for curtailment of gas use by non-firm customers. In Division Data Requests 1-21 and 3-2, additional information regarding such curtailments was requested. However, the responses to those requests reflect a number of inconsistencies. As a result, the following problems have been identified with respect to the billing adjustments that National Grid reflects for customers having unauthorized gas use:

1. The gas costs associated with unauthorized gas use in Schedule YC-6 have been incorrectly computed;

2. The measures of unauthorized gas use in therms reported in Schedule YC-6 are inconsistent with those shown in the Company's response to Division Data Request 1-21a;

3. The Company has inappropriately reduced the customer's applicable distribution charges when billing adjustments were computed by the amount of unauthorized gas use;

4. The Company's response to Division Data Request 3-2 identifies greater numbers of customer billing months that involved instances in which non-firm customers failed to comply fully with curtailment requests than Schedule YC-6 reflects, and therefore, the full impact of non-firm customers' failures to comply with curtailment requests is not known.

Q. ON WHAT DO YOU BASE YOUR FINDING THAT THE GAS COSTS ASSOCIATED WITH UNAUTHORIZED GAS USE IN SCHEDULE YC-6 HAVE BEEN INCORRECTLY COMPUTED?

A. The Company's tariff provides that the charge for unauthorized gas use "*will be equal to the NFS service customer charge plus Gas Usage at a penalty of five (5) times the Daily Index*." The gas costs shown for unauthorized gas use (i.e., curtailment therms) reflect the Daily Index multiplied by a factor of ten (10). Thus, an incorrect factor has been applied in Schedule YC-6 to compute the gas costs attributable to Unauthorized Gas Use. In addition, Division Data Request 1-21.a.iii. asked the Company to: "*Provide the computation of any and all penalties of excess use charges for unauthorized gas used for each customer during each period of* *service curtailment or interruption*." The Company's response to that request identifies Daily Index rates for each instance of unauthorized gas use during the months of November and December of 2013 that are different from those indicated in Schedule YC-6. Why those Daily Index rates for Unauthorized Gas Use do not match is not explained.

Q. HAS THE COMPANY BILLED CHARGES FOR UNAUTHORIZED GAS USE IN OTHER MONTHS OF ITS FISCAL YEAR ENDED MARCH 31, 2014 THAT ARE NOT SHOWN IN SCHEDULE YC-6?

A. Apparently it has. National Grid's response to Division Data Request 3-2 identifies nine instances of Unauthorized Gas Use by Non-Firm customers during the months of January, February, and March of 2014 for which no recognition of charges for such gas use during periods of service curtailments is reflected in Schedule YC-6. As stated in the Company's response to Division Data Request 1-21.a.iii., "*The Company will supplement the details for January through March 2014 once the billing has been completed*." This statement is a bit troubling given that it was provided in September 2014 more than five months after the close of the Company's fiscal year. The schedule for National Grid's annual DAC filings has been in a manner that provides the Company four months after the end of each fiscal year to close its books and incorporate appropriate adjustments in its annual filings. However, in this case it appears that billing for service provided within the fiscal year ended March 31, 2014 is yet to be completed, and the information presented regarding the Company's billing of Unauthorized Gas Use during its most recently completed fiscal year is at best incomplete.

Q. ARE THERE OTHER INCONSISTENCIES BETWEEN THE DATA PROVIDED IN THE COMPANY'S RESPONSE TO DIVISION DATA REQUEST 1-21.A AND THE INFORMATION PRESENTED IN SCHEDULE YC-6?

A. Yes. The curtailment volumes reflected in Schedule YC-6 for instances of Unauthorized Gas Use do not match the therms of "Curtailment Use Billed" that are shown in the Company's response to Division Data Request 1-21a.

Q. HAS NATIONAL GRID SUBSEQUENTLY BILLED OR RE-BILLED ANY UN-AUTHORIZED GAS USE THAT OCCURRED DURING ITS FISCAL YEAR ENDED MARCH 31, 2014?

A. Yes. According to information provided in Attachment 1-21b to its response to Division Data Request 1-21, there have been at least five instances in which Unauthorized Gas Use during the months of November 2013 and December 2013 were re-billed during the June-July period of 2014, but those re-billed amounts were not reflected in Schedule YC-6. The Company also has indicated informally that charges for Unauthorized Gas Use during the months of January, February and March of 2014 have been billed subsequent to the end of the fiscal year. However, date no documentation of those billings has been provided.

Q. WHEN CUSTOMERS ARE BILLED FOR UNAUTHORIZED GAS USE, WHAT ON-SYSTEM MARGIN IS DERIVED FROM AMOUNTS BILLED FOR SUCH USE?

A. None. As suggested by the calculations presented in Schedule YC-6, no distribution charges are assessed of customers for Unauthorized Gas Use volumes, and all penalty charge amounts are credited to gas costs. Thus, under the Company's application of its tariff, each instance in which the Company has re-billed a Non-Firm customer for Unauthorized Gas Use results in a reduction of the customer's On-System Margin contribution.[1]

Q. IS IT APPROPRIATE TO EXEMPT UNAUTHORIZED GAS USE FROM THE PAYMENT OF DISTRIBUTION CHARGES?

A. No. All gas volumes that flow through the Company's distribution system should contribute to the Company's costs of owning and operating the facilities used to deliver gas to the customers' facilities. If the Company's interpretation of its tariff is that Unauthorized Gas Use volumes that are subject to substantial penalties should not also be billed distribution charges, then a portion of the penalties assessed equal to the amount of the otherwise applicable distribution charge multiplied by the number of therms of Unauthorized Gas Use should be credited to On-System

[1] The Company's presentation of this information in Schedule YC-6 is inconsistent. In some instances Unauthorized Gas Use (i.e., curtailment volumes), are shown in the re-bill data as explicit reductions to the "Usage (therms)" to which the Distribution Charge is applied. In other instances, the adjustment to billed distribution volumes is embedded in the calculation of the "Distribution Charge," but not shown explicitly.

Margin revenue to ensure equitable treatment of Firm Transportation service and Sales service customers.

3. The Company's Reconciliation (R) Factor

Q. DO YOU HAVE ANY CONCERNS REGARDING NATIONAL GRID'S DETERMINATION OF ITS RECONCILIATION (R) FACTOR?

A. Yes, I do. I have two concerns. First, the reconciliation period for the DAC does not provide for a clear final reconciliation of DAC components. Second, although the reconciliation calculations presented in Schedule YC-7, appear to be accurate, the Company's reconciliation period includes significant reported **negative** throughput volumes for certain classes of customers. Since it is not physically possible for the Company to provide negative service volumes to either a customer or a class of customers, such results raise a number of questions that cannot be resolved on the basis of the information the Company has provided to date.

Q. WHAT IS THE BASIS FOR YOUR ASSESSMENT THAT THE DAC RECONCILIATION THAT NATIONAL GRID PRESENTS DOES NOT PROVIDE FOR A CLEAR FINAL RECONCILIATION OF COSTS?

A. The Direct Testimony of witness Chen at page 16 of 21, states:

> "*The reconciliation component of the DAC allows for the reconciliation of actual amounts approved to be reflected in the DAC factors and revenue billed through the DAC, along with* ***a true-up for those items requiring a forecast of their balances*** *at October 31 in order to calculate the DAC factors for November 1*." (Emphasis Added.)

Due to the requirement for use of forecasted balances, the costs for a period ended October 31 can never be fully reconciled to actual results. A similar process was used in the past for the GCR, but as abandoned several years ago in preference for a use of a fully historic reconciliation period. The process is also further complicated by the fact that different reconciliation period (i.e., the twelve months ended January 31, 2014) is used in this proceeding for the determination of revenue decoupling adjustments. Given the limited time provided for review of the Company's DAC and GCR filings, the use of different reconciliation periods and the use of a partially forecasted DAC reconciliation period add considerable complexity to the overall reconciliation process.

Presently, GCR reconciliations are premised on the Company's fiscal year which ends March 31, and the Company is provided three months after the close of its fiscal year to prepare and file its GCR cost and revenue reconciliations.

Q. WHY IS THE COMPANY'S REPORTING OF NEGATIVE SERVICE VOLUMES PROBLEMATIC?

A. When negative service volumes are reported for an entire class for any period of time, it must be presumed that either a significant data problem exists or the Company is reflecting large negative adjustments to the throughput volumes billed for the class. Where billing adjustments for individual customers within a class are so large that they more than offset the total actual gas use by the entire class for a month, they are most likely a reflection of negative adjustments to volumes billed in prior periods. Such comparatively large billing adjustment warrant explanation and documentation of: (1) the amount of the adjustment; (2) the manner in which the magnitude of the dollar and/or therm adjustments were determined; (3) the billing month(s) to which such adjustments were applicable; and (4) the reasons for each significant billing adjustment applied during the month. However, the Company has offered no explanation or documentation for major billing adjustments applied to Large, Extra Large, or Default Service customers in recent periods. Without such explanations and documentation it is impossible for the Division to verify that the billing adjustments applied for individual customers within a class are reasonable and appropriate and that the impacts of such adjustments on prior period billings and prior reconciliations are properly understood and reflected within the DAC rate.

Q. CAN YOU CITE EXAMPLES WHICH ILLUSTRATES YOUR CONCERNS REGARDING LARGE UNEXPLAINED BILLING ADJUSTMENTS?

A. Yes. Data for actual throughput volumes provided in National Grid's response to Division Data Request 1-15 indicate that, within the Company's last fiscal year and its current fiscal year to date, **negative** service volumes have been recorded for the Extra Large Low Load Factor class for the months of May 2013, June 2013, July 2013, and July 2014. In addition, the Company reports negative volumes for customers using Default Service for the months of May 2014 and July 2014. To illustrate this point further, I observe that for May 2013 National Grid shows throughput of **-64,639 Dth** for the Large C&I Low Load Factor class. The response to Division Data Request 1-15 also indicates that the Company's forecasted throughput for the Large C&I Low Load Factor class for the month of May 2013 was **47,910 Dth**. Thus, it appears that the actual magnitude of billing adjustments applied in that month could have been **in excess of 100,000 Dth**.

Q. MUST THERM USE FOR A CLASS BE NEGATIVE FOR SIGNIFICANT BILLING ADJUSTMENTS TO HAVE OCCURRED IN A MONTH?

A. No. Situations in which a class is found to have negative reported actual throughput volumes are easily identified but capture only what may be characterized as extreme results. Large billing adjustments can also be embedded in data for months for which positive throughput volumes are reported.

Q. IS YOUR CONCERN REGARDING LARGE UNDOCUMENTED AND UNEXPLAINED BILLING ADJUSTMENTS INTENDED TO SUGGEST THAT SUCH ADJUSTMENTS ARE NECESSARILY ERRONEOUS OR INAPPROPRIATE?

A. No. The focus of my concern is the Division's inability to verify the appropriateness of such adjustments and assess the impacts of reported adjustments on past cost reconciliations and/or other related cost reconciliations. Whether any significant adjustment to the Company's DAC reconciliation would result from an examination of supporting information for the subject billing adjustments cannot be determined at this time. However, adjustments of the magnitude suggested by the Company's reported actual therm usage measures should not be considered a "normal" part of the Company's billing and collections activities, and such comparatively large adjustments should be identified, explained, and documented as part of the Company's presentation for any DAC reconciliation period in which such large adjustments are found.

<u>4. Revenue Decoupling Adjustment</u>

Q. HAVE YOU REVIEWED THE TESTIMONY AND SCHEDULES THAT WITNESSES NUTILE AND LITTLE PRESENT ON BEHALF OF NATIONAL GRID TO ADDRESS THE COMPANY'S PROPOSED REVENUE DECOUPLING ADJUSTMENT CALCULATIONS?

A. Yes, I have.

Q. WHAT OBSERVATIONS DO YOU OFFER WITH RESPECT TO THE COMPANY'S REVENUE DECOUPLING ADJUSTMENT TESTIMONY AND SCHEDULES?

A. The Direct Testimony of witness Nutile at pages 11 and 12, discusses analyses that the Company has performed regarding the reasons for increased winter period gas use by the Residential Non-Heating class. Witness Nutile notes that the referenced analyses were performed in response to observations offered by the Division nearly two years ago in Docket No. 4346, National Grid's 2012 GCR proceeding. On the basis of its analyses, National Grid concludes that over 3,000 current Residential Non-Heating customers need to be reclassified and billed under Residential Heating service rates (Rates 12 and 13) as opposed to Residential Non-Heating rate schedules (Rates 10 and 11). Thus, more than 10% of the roughly 26,000 customers presently included in the Residential Non-Heating class are misclassified.

The results of the Company's investigation of this matter represent an important step toward re-establishing the greater off-peak nature of Residential Non-Heating gas use and maintaining the integrity of rate distinctions that have been established over time to address differences in the usage patterns of Residential Heating and Residential Non-Heating customers. However, it is important that the reclassification of customers from Residential Non-Heating service to Residential Heating service be consistently reflected in the Company's DAC and GRC presentations. At this point in time, consistency in the recognition National Grid's planned transfer of customers is not evident.

Q. DO YOU ACCEPT THAT, FOR THE PURPOSES OF THE REVENUE DECOUPLING ADJUSTMENT, THE PLANNED TRANSFER OF CUSTOMERS

FROM RESIDENTIAL NON-HEATING SERVICE TO RESIDENTIAL HEATING SERVICE HAS A "MINIMAL IMPACT" ON THE COMPANY'S RDA FACTOR?

A. Yes. I have reviewed the calculations presented by witness Nutile in Schedules SLN-5 and SLN-6, and I agree that the proposed transfer of customers is likely to have only a small impact (i.e., about 0.5%) on the Company's RDM adjustment revenue.

Q. CAN YOU IDENTIFY OTHER SITUATIONS IN WHICH THE TRANSFER OF CUSTOMERS TO RESIDENTIAL HEATING FROM THE RESIDENTIAL NON-HEATING CLASS MIGHT HAVE MORE IMPORTANT CONSEQUENCES?

A. Yes. In the development of the Company's GCR rate determinations, Residential Non-Heating customers have been grouped in recent years with High Load Factor C&I Large and C&I Extra Large customers to reflect the greater proportion Residential Non-Heating gas use that is expected to occur in off-peak months. However, with growing numbers of customers in the Residential Non-Heating class using natural gas for heating purposes, the ratio of winter period gas use to total annual gas use for the Residential Heating class has risen noticeably. That increase in winter period gas use for the Residential Non-Heating class had two impacts. First, it caused the Division to question the continued appropriateness of including Residential Non-Heating service with C&I High Load Factor classes for GCR determination purposes. Second, greater winter period usage for the Residential Non-Heating class caused all High Load factor customers, including those in the C&I

Large and C&I Extra Large classes to receive greater allocations of costs and higher rates under the GCR than they might have otherwise experienced. As noted above, the realignment of customers in the Residential Heating and Residential Non-Heating classes should help to restore the more heavily off-peak nature of Residential Non-Heating gas use.

Q. DOES THE ANALYSIS PRESENTED IN SCHEDULES SLN-5 AND SLN-6 THAT ACCOMPANY WITNESS NUTILE'S TESTIMONY SUPPORT A CONCLUSION THAT THE CUSTOMERS TO BE TRANSFERRED FROM RESIDENTIAL NON-HEATING SERVICE TO RESIDENTIAL HEATING SERVICE ARE MORE APPROPRIATELY CLASSIFIED AS RESIDENTIAL HEATING CUSTOMERS?

A. Yes, it does. The 3,000 customers removed from the Residential Non-Heating class had an actual annual margin of $1,580,803 or nearly **$527** per customer. That is almost identical to the **$528** per average annual margin computed for Residential Heating customers. On the other hand, after the transfer of 3,000 customers from Residential Non-Heating service to Residential Heating service, the customers that remain in the Residential Non-Heating class have an average annual margin per customer of **$262** or roughly half the average margin for Residential Heating customers. These data suggest that the usage of the 3,000 transferred customers in that analysis is more closely aligned with average margin and usage of the Residential Heating class than with the remaining Residential Non-Heating customers.

Q. DO THE SALES FORECASTS UPON WHICH THE COMPANY RELIES TO DEVELOP THE DIVISORS FOR ITS DAC FACTORS AND RDA REFLECT THE TRANSFER OF CUSTOMERS FROM RESIDENTIAL NON-HEATING TO RESIDENTIAL HEATING SERVICE?

A. No, they do not. As a result, the forecasted Residential Non-Heating service volumes appear to be noticeably overstated while forecasted Residential Heating volumes are understated.

Q. SHOULD THE COMMISSION SUPPORT NATIONAL GRID'S PROPOSED TRANSFER OF MORE THAN 3,000 CUSTOMERS FROM RESIDENTIAL NON-HEATING SERVICE TO RESIDENTIAL HEATING SERVICE?

A. National Grid has provided no information from which the Division can assess the appropriate number of customers to be transferred. However, the analyses the Company presents support a conclusion that there are a significant number of customers currently included in the Residential Non-Heating class that would be more appropriately billed under Residential Heating service rates. Moreover, I have examined the differences in the current Residential Non-Heating and Residential Heating rates, and I find no reason to anticipate that customers shifted from Residential Non-Heating service to Residential Heating service are likely to experience significant adverse bill impacts as a result of the proposed transfer.

III. DAC FACTOR RECOMMENDATIONS

Q. DO YOU SUPPORT COMMISSION APPROVAL OF THE DAC FACTORS THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. I do, with two provisos. First, the Company's proposal should be updated to include the revised Environmental Cost Recovery Factor (ERCF) calculations presented in Schedule YC-4R attached to National Grid's response to Division Data Request 1-6. Second, the Commission should require the Company to document and allow the Division greater opportunity to investigate all individual customer billing adjustments made within the Company's last fiscal year (i.e., the twelve months ended March 31, 2014 and its current fiscal year to date which involve: (1) an adjustment to monthly volumes for a class that equal or exceed 10% to the forecasted monthly volumes for the class in the month in which the adjustment is billed; and/or (2) an adjustment to revenue for the class of $10,000 or more.

Q. DO YOU RECOMMEND ANY CHANGES IN FUTURE DAC FILINGS?

A. Yes. I recommend that National Grid be required to transition to the used of a fully historical period for future DAC reconciliations where the fully historic period employed is the Company's fiscal year. This change will provide uniformity in the time periods for which future DAC, RDA, and GCR reconciliations are performed. It will also avoid reliance on forecasted data in the reconciliation process, and thereby, facilitate a more complete reconciliation of actual costs and revenues.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.