THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

EXCESS DEFERRED INCOME TAX TRUE-UP
SUPPLEMENTAL COMPLIANCE FILING

RIPUC DOCKET NO. 4770

BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON

ON BEHALF OF THE

DIVISION OF
PUBLIC UTILITIES AND CARRIERS

APRIL 12, 2019

DIRECT TESTIMONY OF DAVID J. EFFRON
on behalf of the
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS
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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. What is your present occupation?

A. I am a consultant specializing in utility regulation.

Q. Please summarize your professional experience.

A. My professional career includes over thirty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant and I have served as an instructor in the business program at Western Connecticut State College.

Q. What experience do you have in the area of utility rate setting proceedings?

A. I have analyzed numerous electric, gas, telephone, and water filings in different jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys in case preparation, and provided assistance during settlement negotiations with various utility companies.

I have testified in over three hundred cases before regulatory commissions in Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maine, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Q. Please describe your other work experience.

A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for reports and analyses concerning capital spending programs, including project analysis, formulation of capital budgets, establishment of accounting procedures, monitoring capital spending and administration of the leasing program. At Touche Ross & Co., I was an associate consultant in management services for one year and a staff auditor for one year.

Q. Have you earned any distinctions as a Certified Public Accountant?

A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 certified public accounting examination in New York State.

Q. Please describe your educational background.

A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters of Business Administration Degree from Columbia University.

II. PURPOSE OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers ("the Division").

Q. What is the purpose of your testimony?

A. On March 1, 2019, The Narragansett Electric Company, d/b/a National Grid ("Narragansett" or "the Company") submitted its supplemental compliance filing to true-up the excess accumulated deferred income tax (ADIT), as provided in the Amended Settlement Agreement approved by the RIPUC on August 24, 2018 ("Settlement"). In this testimony, I address the Company's calculation of the amortization of the "protected" excess ADIT in its March 1 compliance filing.

III. AMORTIZATION OF PROTECTED EXCESS ADIT

Q. Please describe how the Company calculated the amortization of the "protected" excess ADIT in its excess deferred tax true-up.

A. The flow back of the protected balances of excess ADIT (related mainly to accelerated depreciation and bonus depreciation) to ratepayers is restricted by the Internal Revenue Code, which specifies that any flow-back must be no more rapid than the flow-back pursuant to the average rate assumption method (or "ARAM"). Therefore, the Company flows back the protected excess ADIT based on the ARAM. As explained in its testimony, the Company is also reversing, in an equal amount, the related Net Operating Loss ("NOL"). In other words, the Company's proposed amortization of the NOL zeros out the amortization of the protected excess ADIT, so that no net amortization of the protected excess ADIT will be reflected in the Company's revenue requirement until the NOL is completely amortized. This can be seen on Supplemental Compliance Attachment 31, Page 3. The protected excess ADIT balance is $67,576,451, and the related NOL is ($15,617,564). However, the annual amortization of the protected excess ADIT of $ 1,790,406 is offset by NOL amortization of the same amount, so that the net excess ADIT Protected Property Amortization is zero.

Q. Does this represent a change from the method previously used to calculate the amortization of the protected property related excess ADIT?

A. Yes. The method that had been used to calculate the amortization of the of the protected property related excess ADIT is shown on PUC 4-1 SUPPLEMENTAL, which is included as Attachment NG-1 in the Company's March 1 compliance filing. As can be seen there, property related (both protected and unprotected) excess deferred taxes of $98 million (Narragansett Electric) are amortized over 30 years, resulting in annual amortization of $3.3 million.

The property related excess deferred taxes of $98 million consisted of excess deferred taxes of $113 million less a Net Operating Loss of $15 million (Attachment DIV 31-1). By amortizing the net balance of $98 million over 30 years, the property related excess ADIT (both protected and unprotected) and the NOL were amortized over the same 30-year period. This is the method that was agreed to by the parties to the Settlement. The amortization schedule for the NOL was the same as the amortization period for the protected excess deferred taxes. The amortization of the NOL was not accelerated so as to completely offset the amortization of the protected excess ADIT, as the Company is now proposing.

Q. Has the Company offered any justification for this change in method from what was agreed to in the Settlement?

A. No. The Company states that it "has relied on several Internal Revenue Service (IRS) Private Letter Ruling (PLR) requests that concluded the NOL deferred tax asset is linked with the plant-related deferred tax liability for the difference between book and tax depreciation"[1] and attaches one of those PLRs as Attachment NG-2. The Company further states that it "consistently has applied the NOL deferred tax asset against the plant related deferred tax liability for deferred taxes assigned to rate base, as the normalization rules require. It follows that the rate change on the NOL is also linked to the rate change on protected property."[2]

This only means that the amortization of the protected excess ADIT and the related NOL should be treated consistently. This is, in fact, what was done in PUC 4-1 SUPPLEMENTAL and what the parties agreed to in the Settlement. The linking of the NOL to the rate change on protected property in no way implies that the amortization of the NOL should equal the amortization of the protected excess ADIT. There is no requirement that the amortization of the NOL zero out the amortization of the protected ADIT. If anything, the method adopted by the Company in its March 1 compliance filing treats amortization of the protected excess ADIT and the related NOL *inconsistently*, as

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[1] Direct Testimony of Witnesses Bushmich, Little, Pini, and Pieri, Page 14
[2] Id.

the NOL is amortized over a much shorter period than the protected excess ADIT in order to achieve the Company's intended net zero effect.

Q. What do you recommend?

A. The Company's "Protected Property Amortization" should be modified to comply with the method agreed to by the parties to the Settlement. That is, the NOL should be amortized on the same schedule that the protected excess ADIT are amortized. This increases the net Electric Protected Property Amortization by $1,376,626 and reduces the Electric Revenue Requirement by $1,708,172 (Schedule DJE-1). The net Gas Protected Property Amortization is increased by $51,048 and Gas Revenue Requirement is reduced by $63,686.

Q. Does this conclude your direct testimony?

A. Yes.

Schedule DJE-1

THE NARRAGANSETT ELECTRIC COMPANY
AMORTIZATION OF PROTECTED EXCESS ADIT

		Electric	Gas
Property Protected Excess ADIT	(A)	67,576,451	27,489,495
Net Operating Losses	(A)	(15,617,564)	(20,468,920)
Amortization of Protected Excess ADIT	(A)	1,790,406	199,881
Amortization of Net Operating Losses	(B)	(413,780)	(148,833)
Net Amortization		1,376,626	51,048
Net Amortization per Company	(A)	-	-
Adjustment to Amortization of Excess ADIT		1,376,626	51,048
Rate Base Effect		688,313	25,524
Revenue Requirement Effect	(C)	(1,708,172)	(63,686)

Notes:

		Electric	Gas
(A)	Supplemental Compliance Attachment 31		
(B)	Amortization on Same Schedule as Excess ADIT		
(C)	Complement of Tax Rate	79%	79%
	Uncollectibles Rate	1.30%	1.91%
	Pre-tax ROR	8.23%	8.41%