

**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**

**SURREBUTTAL TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON**

ON BEHALF OF THE

**DIVISION OF
PUBLIC UTILITIES AND CARRIERS**

APRIL 29, 2019

SURREBUTTAL TESTIMONY OF DAVID J. EFFRON
on behalf of the
THE OFFICE OF THE ATTORNEY GENERAL
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1 **I. INTRODUCTION**

2 **Q. Please state your name and business address.**

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

5
6 **Q. Have you previously submitted testimony in this case?**

7 A. Yes. I submitted Direct Testimony on April 12, 2019. My qualifications and experience are
8 included with my Direct Testimony.

9
10 **Q. What is the purpose of your Surrebuttal Testimony?**

11 A. In this Surrebuttal Testimony, I respond to the Rebuttal Testimony of Company Witnesses
12 Bushmich, Little, Pini, and Crary. I am also updating my calculation of the amortization of
13 protected excess accumulated deferred income taxes (“ADIT”) for Narragansett Gas,
14 pursuant to the Company’s correction of the errors in the original filing.

15
16 **II. TREATMENT OF NOL**

17 **Q. Does the Company agree with your recommendation to amortize the net operating loss
18 (“NOL”) on the same schedule that the protected excess ADIT are amortized?**

19 A. No. The Company claims that the Parties to the Amended Settlement Agreement in Docket
20 No. 4770 (“Settlement”) did not agree upon a methodology for calculating the amortization
21 of protected excess ADIT.¹

¹ Rebuttal Testimony of Witnesses Bushmich, Little, Pini, and Crary, Pages 9-10

1 **Q. Do you have a response?**

2 A. Yes. I agree that the text of the Settlement did not specify a methodology for calculating
3 the amortization of protected excess ADIT and the related NOL. However, Article II,
4 Section C.22.a. of the Settlement, addressing the Excess Deferred Taxes True Up, makes
5 explicit reference to “the Company’s response to PUC 4-1 (Supplemental), a copy of which
6 is provided as Attachment 24 hereto.” As I stated in my Direct Testimony, the property
7 related excess deferred taxes of \$98 million in the Company’s response to PUC 4-1
8 (Supplemental) consisted of excess deferred taxes of \$113 less a Net Operating Loss of \$15
9 million (Attachment DIV 31-1) and that by amortizing the net balance of \$98 million over
10 30 years, the property related excess ADIT (both protected and unprotected) and the NOL
11 were amortized over the same 30-year period. So while the Settlement did not explicitly
12 state a methodology for calculating the amortization of protected excess ADIT and the
13 related NOL, this is the method that was presented by the Company and accepted by the
14 Parties as of the time of Settlement. *There is no dispute on this point*, and that is what I
15 meant when I said in my Direct Testimony that this is the method that was agreed to by the
16 parties to the Settlement.

17
18 **Q. Do you understand the Company’s assertion that your methodology² is not consistent
19 with how the Company would typically operate its business?**

20 A. I do not. The Company states that “if it were in a taxable income position, it would reduce
21 that taxable income to the full extent of existing NOL carryforward available to eliminate

² What the Company refers to as my methodology is, of course, the methodology originally proposed by the Company, which it used at the time of the Settlement.

1 the taxable income. The Company would not partially reduce taxable income by a portion
2 of the NOL and keep aside an amount for another year.”³ The amortization of excess
3 ADIT does not create taxable income, and the amortization of the related NOL (that is, the
4 excess in the NOL deferred tax asset balance created by the tax rate reduction) does not
5 reduce taxable income. The use of NOL carryforwards to reduce taxable income is of no
6 relevance to the determination of the appropriate net amortization of protected excess
7 ADIT.

8 Furthermore, while the Company now claims that what it refers to as my
9 methodology is not consistent with how it would typically operate its business, this is the
10 method that the Company itself used at the time of the Settlement and did not modify until
11 its March 1, 2019 filing. Not only “would the Company treat the NOL in the manner that
12 [I am] suggesting,”⁴ it, in fact, has done so.

13
14 **Q. Does this conclude your Surrebuttal Testimony?**

15 **A.** Yes.
16

³ Rebuttal Testimony of Witnesses Bushmich, Little, Pini, and Crary, Page 14

⁴ *Id.*

THE NARRAGANSETT ELECTRIC COMPANY
AMORTIZATION OF PROTECTED EXCESS ADIT
(\$)

		<u>Electric</u>	<u>Gas</u>
Property Protected Excess ADIT	(A)	67,576,451	33,713,982
Net Operating Losses	(A)	(15,617,564)	(20,468,920)
Amortization of Protected Excess ADIT	(A)	1,790,406	44,361
Amortization of Net Operating Losses	(B)	<u>(413,780)</u>	<u>(26,933)</u>
Net Amortization		1,376,626	17,428
Net Amortization per Company	(A)	<u>-</u>	<u>-</u>
Adjustment to Amortization of Excess ADIT		1,376,626	17,428
Rate Base Effect		688,313	8,714
Revenue Requirement Effect	(C)	<u>(1,708,172)</u>	<u>(21,743)</u>

Notes:

(A)	Revised 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%