BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

THE NARRAGANSETT ELECTRIC
COMPANY D/B/A NATIONAL GRID
– PROPOSED POWER SECTOR
TRANSFORMATION VISION AND
IMPLEMENTATION PLAN

DOCKET NO. 4780

Direct Testimony of

Ali Al-Jabir

On behalf of

The U.S. Department of the Navy
And
The Federal Executive Agencies

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BBI
BRUBAKER & ASSOCIATES, INC.
CHESTERFIELD, MO 63017

Project 10566
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Introduction

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A My name is Ali Al-Jabir and my business address is 5151 Flynn Parkway, Suite 412 C/D, Corpus Christi, Texas, 78411.

Q WHAT IS YOUR OCCUPATION?

A I am an energy advisor and an Associate in the field of public utility regulation with the firm of Brubaker & Associates, Inc. (“BAI”).

Q PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A These are set forth in Appendix A to my testimony.

Q ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A I am testifying on behalf of the United States Department of the Navy (“Navy”). The Navy is a large consumer of electricity in the service territory of the Narragansett...
Electric Company d/b/a National Grid ("National Grid" or "Company") and takes service from the Company primarily on Rate Schedule G-62. The Navy represents the Federal Executive Agencies ("FEA") for issues related to National Grid.

Q WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A My testimony addresses certain components of the Power Sector Transformation Vision and Implementation ("PST") Plan proposed by the National Grid in this proceeding before the Rhode Island Public Utilities Commission ("Commission"). Specifically, I address certain cost allocation and rate design aspects of National Grid’s proposal, along with the proposed performance incentives for achieving PST Plan goals. The fact that I am not addressing a specific issue in the Company’s application in this proceeding should not be construed as an endorsement of the Company’s position with regard to such issues.

Q PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

A My conclusions and recommendations can be summarized as follows:

1. The proposed PST rider would permit dollar for dollar recovery of incremental PST Plan costs outside of a base rate case. This raises piecemeal ratemaking concerns because the Company’s proposal would permit recovery of incremental cost increases between rate cases without considering the impact of offsetting cost reductions or revenue increases on the Company’s overall cost of service. Therefore, the Commission should reject National Grid’s request to use a rider to recover PST Plan costs. Instead, the Commission should require the Company to seek recovery of any such PST Plan costs in the context of a base rate proceeding.

2. Large customers on National Grid’s system should not be required to pay a share of certain categories of PST Plan expenditures, such as advanced metering investments, if the benefit of such investments flows exclusively to other customer classes. Therefore, the Commission should require National Grid to directly assign the cost of PST Plan initiatives to individual rate classes when they are the only beneficiaries of such PST Plan investments.

3. National Grid proposes to spread incremental PST Plan costs that are associated with investments that are outside of the Company’s core operations to all customers on an equal cents per kWh basis. From a cost allocation and rate design
perspective, it is more appropriate to allocate and to recover such PST Plan costs on a per kW (demand) basis from customer classes who possess demand metering. Consequently, I recommend that the Commission require the Company to allocate such PST Plan costs on a demand basis and to recover such costs on a per kW (demand) basis from all large customer classes who have demand meters in place.

4. The Commission should reject National Grid’s proposed PST Plan return on equity (“ROE”) performance incentives. The Company does not merit and should not receive an ROE performance bonus under the proposed PST Plan simply for meeting its obligations under the regulatory compact.

5. The additional rate uncertainty created by the PST Plan performance incentive mechanism would adversely impact customers by exposing them to a higher level of financial risk, making it more difficult for them to manage their energy budgets and to plan for future power requirements.

6. National Grid’s proposed performance incentive structure is unreasonable because it incorporates provisions for ROE shareholder rewards for exceeding the performance targets but does not include potential shareholder penalties for failing to meet these targets.

7. If the Commission permits the Company to recover performance incentives associated with the PST Plan, it should implement a balanced incentive structure that provides shareholder rewards for exceeding the established performance targets but that also imposes symmetrical financial penalties on National Grid’s shareholders for failure to meet the targets.

Overview of the PST Plan

Q HAVE YOU REVIEWED THE PST PLAN FILED BY THE COMPANY IN THIS PROCEEDING?

A Yes.

Q PLEASE SUMMARIZE THE MAJOR COMPONENTS OF THE PST PLAN.

A The PST Plan is a multi-component plan that is intended to prepare the Company’s grid for electric industry trends towards decentralized energy supply, cleaner energy sources and increased digitization of the power grid driven by technological advances. The Company asserts that many of the initiatives in the PST Plan are the product of a
collaborative stakeholder process. The major components of the PST Plan include the following:

1. Grid modernization investments;
2. Implementing advanced metering functionality;
3. An electric heat initiative;
4. An electric transportation initiative;
5. Proposals to implement energy storage and solar demonstration programs; and
6. A rewards program for income-eligible customers.

As part of the PST Plan, the Company also seeks the Commission’s approval to implement a performance incentive mechanism that would reward the Company with additional ROE basis points for achieving specific performance targets that are tied to each component of the PST Plan.

Q WHAT ARE THE MAJOR COST ALLOCATION AND RATE DESIGN COMPONENTS OF THE PST PLAN PROPOSAL?

A National Grid seeks approval to implement a PST rider that would authorize the Company to recover its incremental capital and operating expenditures associated with the PST Plan, along with any associated performance rewards, between rate cases. The PST rider would incorporate a reconciliation factor that would be designed to ensure dollar for dollar recovery of the incremental PST Plan costs.

The Company proposes to differentiate the class cost allocation and recovery of PST Plan costs by Plan component. The cost of PST Plan components that are directly related to the provision of delivery service, such as advanced metering investments, would be allocated in a fashion that mirrors the class allocation of similar costs in National Grid’s most recent class cost of service study (“CCOSS”). Incremental PST Plan costs associated with investments that are outside of the Company’s core
operations, such as the electric transportation initiative, the energy storage initiative and the solar demonstration programs, would be spread to all customers on an equal cents per kWh basis.

The Company is also seeking the Commission’s approval to recover $2 million in incremental operations and maintenance (“O&M”) expenses associated with its advanced metering deployment initiative through its proposed PST Plan rider by October 1, 2018. More significantly, National Grid proposes to use the PST rider to recover much larger incremental costs associated with the PST Plan over time, as the Company incurs such costs. National Grid projects that, over the five fiscal years of 2019 through 2023, the PST Plan would require total cash flows of up to $329 million to support capital and O&M expenditures connected to Plan implementation under a Rhode Island only deployment scenario.¹

Issues of Concern with the PST Plan

Q DO YOU HAVE CONCERNS WITH CERTAIN COMPONENTS OF THE PST PLAN PROPOSAL?

A Yes. The PST Plan filing raises a number of concerns. These concerns include the proposal to recover PST Plan costs through a dedicated rider, the proposed allocation of PST Plan costs to the customer classes, the rate design of the proposed PST rider and the proposal to reward the Company’s shareholders with performance rewards for meeting certain PST Plan targets. I address each of these concerns below.

Please discuss your concerns regarding the proposed PST rider.

The proposed PST rider would permit dollar for dollar recovery of incremental PST Plan costs outside of a base rate case. This raises piecemeal ratemaking concerns because the Company’s proposal would permit recovery of incremental cost increases between rate cases without considering the impact of offsetting cost reductions or revenue increases on the Company’s overall cost of service.

Should the Commission approve the proposed PST rider in this proceeding?

No, the Commission should reject National Grid’s request to use a rider to recover PST Plan costs. Instead, the Commission should require the Company to seek recovery of any such PST Plan costs in the context of a base rate proceeding.

As a matter of policy, the Commission should limit the use of riders and tracking mechanisms because they shift regulatory risk from the Company’s investors to its customers. Moreover, such mechanisms allow the Company to recover certain components of its revenue requirement on a piece-meal basis, outside of a full base rate case. This would undermine the Commission’s ability to evaluate the sufficiency of the Company’s rates based on the totality of the utility’s costs and revenues.

Why should the Commission limit the recovery of costs outside of a base rate case?

To reflect changes in cost and revenue items in rates in a traditional base rate case, the Company must establish a base rate revenue deficiency through an examination of all of the utility’s costs and revenues. To establish a base rate revenue deficiency, the Company must account for all of its costs and revenues, including both increases and reductions, since the time its base rates were last approved. This is accomplished by
taking a snapshot of all of the utility’s costs and revenues for a designated test year, adjusted for known and measurable changes. In a full rate proceeding, no single cost or revenue item is singled out for guaranteed recovery.

The recognition of fluctuations in specific cost items through separate tracking mechanisms would circumvent the base ratemaking process by allowing the Company to adjust its rates for variations in these cost items without taking into account the possibility that increases in these costs items could be offset by reductions in other components of the Company’s cost structure or increases in revenues. Therefore, the use of tracking mechanisms to recover fluctuations associated with specific cost items on an isolated basis could allow the Company to increase its rates and earn more than its authorized rate of return, without establishing a base rate revenue deficiency in a base rate proceeding.

Q PLEASE EXPLAIN WHY RIDER MECHANISMS UNREASONABLY SHIFT RISK FROM UTILITY INVESTORS TO CUSTOMERS.

A A policy that permits a utility to adjust its rates for individual cost items outside of a base rate case shifts regulatory risk from utility investors to customers by providing investors with accelerated recognition of specific cost adjustments in utility rates. Moreover, this change in the Company’s risk profile would occur without a corresponding reduction to its rate of return to recognize the reduced business risks faced by the utility.

Q WHAT ARE THE RAMIFICATIONS OF TRANSFERRING THIS REGULATORY RISK FROM INVESTORS TO RATEPAYERS?

A When investors bear the risk of regulatory lag, the utility’s management has a strong incentive to control cost escalations. This is the case because any cost increases damage the utility’s bottom line until the next base rate case. When the risk of cost
increases between rate cases is shifted to customers through the use of rider mechanisms, the utility’s motivation to control costs is significantly reduced. This change in the incentive structure can lead to higher rates for electricity customers over time.

Q PLEASE DESCRIBE YOUR CONCERNS WITH NATIONAL GRID’S PROPOSED COST ALLOCATION AND RATE DESIGN OF THE PST RIDER.

A National Grid proposes to allocate the cost of PST Plan components that are directly related to the provision of delivery service, such as advanced metering investments, in a fashion that mirrors the allocation of similar costs in National Grid’s most recent CCOSS. While this approach may be reasonable for grid investments that broadly benefit the entire system, it appears that the Company is not proposing to directly assign the cost of PST Plan initiatives to individual rate classes when such rate classes are the only beneficiaries of specific Plan investments. This is problematic because certain PST Plan initiatives such as advanced metering functionality would be expected to narrowly benefit the residential and small commercial classes. In general, large customers such as those taking service under Rate G-62 already have advanced interval metering functionality at their locations and would therefore not be expected to benefit from such components of the PST Plan. Consequently, large customers should not be required to pay a share of such Plan investments when the benefits of such investments flow exclusively to other customer classes. Therefore, the Commission should require National Grid to directly assign the cost of PST Plan initiatives to individual rate classes when they are the only beneficiaries of certain PST Plan investments.

Moreover, National Grid proposes to spread incremental PST Plan costs that are associated with investments that are outside of the Company’s core operations to
all customers on an equal cents per kWh basis. As noted above, examples of this approach include the proposed electric transportation initiative, the energy storage initiative and the solar demonstration programs. This approach ignores the fact that the cost of the Company’s delivery service functions generally consist of fixed poles and wires investments that vary with the demands imposed on the system rather than the amount of energy consumption. Therefore, from a cost allocation and rate design perspective, it is more appropriate to allocate and to recover such PST Plan costs on a per kW (demand) basis from customer classes who possess demand metering. Consequently, I recommend that the Commission require the Company to allocate such PST Plan costs on a demand basis and to recover such costs on a per kW (demand) basis from all larger customer classes who have demand meters in place.

Q  DO YOU OBJECT TO THE COMPANY’S PROPOSED PST PLAN PERFORMANCE INCENTIVES?
A  Yes. National Grid’s proposal incorporates ROE basis point incentives that are associated with meeting various performance targets that are linked to different components of the PST Plan. For example, the PST Plan includes proposed incentive rewards for meeting targets associated with certain aspects of providing interconnection support services to customers, including the accuracy of the interconnection cost estimates provided to customers and the amount of time required to provide the customer with an executable Interconnection Service Agreement.

This proposal is problematic because it would potentially allow the Company to earn an overall ROE that would be above the level needed to provide the Company with an opportunity to earn a reasonable rate of return on its operations. Moreover, such an ROE bonus is not justified in a regulated ratemaking context where the Company is undertaking these investments in order to satisfy its legal obligation to
provide quality delivery service to its customers and is recovering the cost of its grid investments, plus a reasonable rate of return, through regulated rates. In other words, the Company does not merit and should not receive an ROE performance bonus simply for meeting its obligations under the regulatory compact.

Q  DO YOU HAVE ANY ADDITIONAL CONCERNS WITH THE PROPOSED PERFORMANCE INCENTIVES?

A  Yes. The performance incentive mechanism would allow National Grid to impose rate increases on customers to recover the associated financial rewards. The magnitude of the awarded incentive would fluctuate, depending on the actual performance of the Company relative to the numerous different targets set forth in the PST Plan. The additional rate uncertainty created by this incentive mechanism would adversely impact customers by exposing them to a higher level of financial risk, making it more difficult for them to manage their energy budgets and to plan for future power requirements.

For the reasons set forth above, the Commission should reject National Grid’s proposed PST Plan performance incentives.

Q  DO YOU ALSO OBJECT TO THE STRUCTURE OF THE PROPOSED PERFORMANCE INCENTIVES?

A  Yes. National Grid’s proposed performance incentive structure is unreasonable because it incorporates provisions for ROE shareholder rewards for exceeding the performance targets but does not include potential shareholder penalties for failing to meet these targets. This asymmetrical approach is biased in favor of National Grid’s shareholders at the expense of its customers. Therefore, if the Commission permits the Company to recover performance incentives associated with the PST Plan, it should implement a balanced incentive structure that provides shareholder rewards for
exceeding the established performance targets and also imposes symmetrical financial penalties on National Grid’s shareholders for failure to meet the targets.

Q DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A Yes.
Qualifications of Ali Al-Jabir

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
A Ali Al-Jabir. My business address is 5151 Flynn Parkway, Suite 412 C/D, Corpus Christi, Texas, 78411.

Q WHAT IS YOUR OCCUPATION AND BY WHOM ARE YOU EMPLOYED?
A I am a consultant in the field of public utility regulation with the firm of Brubaker & Associates, Inc. (“BAI”).

Q PLEASE STATE YOUR EDUCATIONAL BACKGROUND.
A I am a graduate of the University of Texas at Austin (“UT-Austin”). I hold the degrees of Bachelor of Arts and Master of Arts in Economics, both from UT-Austin. I have also completed course work at Harvard University. I received my B.A. degree with highest honors, and I am a member of the Phi Beta Kappa Honor Society.

Q PLEASE STATE YOUR EXPERIENCE.
A I joined BAI in January 1997. My work consists of preparing economic studies and economic policy analysis related to investor-owned, cooperative, and municipal utilities. Prior to joining BAI, I was employed at the Public Utility Commission of Texas (“Texas Commission”) since 1991, where I held various positions including Policy Advisor to the Chairman. As Policy Advisor, I advised the Chairman on policy decisions in numerous rate and rulemaking proceedings. In 1995, I advised the Texas Legislature on the development of the statutory framework for wholesale competition in the Electric Reliability Council of Texas (“ERCOT”), and I was involved in subsequent rulemakings.
at the Texas Commission to implement wholesale open access transmission service in
the region.

During my tenure at the Texas Commission and in my present capacity, I have
reviewed and analyzed several electric utility base rate and fuel filings in Texas. I have
also worked on utility rate, fuel, and merger proceedings and rulemakings in Virginia,
Missouri, Colorado, Indiana, Alberta, Pennsylvania, North Carolina, South Carolina,
Michigan and Nova Scotia. In addition to my work on such proceedings, I have drafted
policy papers and comments regarding electric industry restructuring and competitive
policy issues in Texas, Alabama, Louisiana, Georgia, and Delaware, as well as before
the Federal Energy Regulatory Commission. I have been an invited speaker at several
electric utility industry conferences, and I have presented seminars on utility regulation
and industry restructuring.

BAI and its predecessor firms have been active in utility rate and economic
consulting since 1937. The firm provides consulting services in the field of public utility
regulation to many clients, including large industrial and institutional customers, some
competitive retail power providers and utilities and, on occasion, state regulatory
agencies. In addition, we have prepared depreciation and feasibility studies relating to
utility service. We assist in the negotiation of contracts and the solicitation and
procurement of competitive energy supplies for large energy users, provide economic
policy analysis on industry restructuring issues, and present seminars on utility
regulation. In general, we are engaged in regulatory consulting, economic analysis,
energy procurement, and contract negotiation.

In addition to our main office in St. Louis, the firm also has branch offices in
Corpus Christi, Texas and Phoenix, Arizona.
Q HAVE YOU PREVIOUSLY FILED TESTIMONY IN CONTESTED UTILITY PROCEEDINGS?

A Yes, I have filed written testimony in the following dockets:

1. Texas Docket No. 10035 – Application of West Texas Utilities Company to Reconcile Fuel Costs and for Authority to Change Fixed Fuel Factors;

2. Texas Docket No. 10200 – Application of the Texas - New Mexico Power Company for Authority to Change Rates;

3. Texas Docket No. 10325 – Application of the Central Texas Electric Cooperative, Inc. for Authority to Change Rates;

4. Texas Docket No. 10600 – Application of the Brazos River Authority for Approval of Rates;

5. Texas Docket No. 10881 – Application of the New Era Electric Cooperative, Inc. for Authority to Change Rates;


7. Texas Docket No. 11271 – Application of Bowie-Cass Electric Cooperative, Inc. for Authority to Change Rates;

8. Texas Docket No. 11567 – Application of Kaufman County Electric Cooperative, Inc. for Authority to Change Rates;

9. Texas Docket No. 18607 – Application of West Texas Utilities Company for Authority to Reconcile Fuel Costs;

10. Texas Docket No. 20290 – Application of Central Power & Light Company for Authority to Reconcile Fuel Costs;

11. Virginia Case No. PUE980814 – In the matter of considering an electricity retail access pilot program: American Electric Power – Virginia;

12. Texas Docket No. 21111 – Application of Entergy Gulf States Inc. for Authority to Reconcile Fuel Costs and to Recover a Surcharge for Under-Recovered Fuel Costs;

13. Virginia Case No. PUE990717 – Application of Virginia Electric and Power Company to Revise Its Fuel Factor Pursuant to Virginia Code Section 56-249.6;

15. Texas Docket No. 22350 – Application of TXU Electric Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA Section 39.201 and Public Utility Commission Substantive Rule 25.344 (Phase III);

16. Texas Docket No. 22352 – Application of Central Power and Light Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA Section 39.201 and Public Utility Commission Substantive Rule 25.344 (Final Phase);

17. Texas Docket No. 22353 – Application of Southwestern Electric Power Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA Section 39.201 and Public Utility Commission Substantive Rule 25.344 (Final Phase);

18. Texas Docket No. 22354 – Application of West Texas Utilities Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA Section 39.201 and Public Utility Commission Substantive Rule 25.344 (Final Phase);


20. Texas Docket No. 22349 – Application of Texas-New Mexico Power Company for Approval of Unbundled Cost of Service Rates Pursuant to PURA Section 39.201 and Public Utility Commission Substantive Rule 25.344 (Final Phase);


22. Texas Docket No. 24468 – Staff’s Petition to Determine Readiness for Retail Competition in the Portions of Texas Within the Southwest Power Pool;

23. Texas Docket No. 24469 – Staff’s Petition to Determine Readiness for Retail Competition in the Portions of Texas Within the Southeastern Electric Reliability Council;


25. Texas Docket No. 27035 – Application of Central Power and Light Company for Authority to Reconcile Fuel Costs;

27. Virginia Case No. PUE-2000-00550 -- Appalachian Power Company d/b/a American Electric Power: Regional Transmission Entities;

28. Texas Docket No. 29408 – Application of Entergy Gulf States, Inc. for the Authority to Reconcile Fuel Costs;

29. Texas Docket No. 29801 – Application of Southwestern Public Service Company for: (1) Reconciliation of its Fuel Costs for 2002 and 2003; (2) A Finding of Special Circumstances; and (3) Related Relief;


32. Texas Docket No. 32795 – Staff’s Petition to Initiate a Generic Proceeding to Re-Allocate Stranded Costs Pursuant to PURA Section 39.253(f);

33. Texas Docket No. 33309 – Application of AEP Texas Central Company for Authority to Change Rates;

34. Texas Docket No. 33310 – Application of AEP Texas North Company for Authority to Change Rates;

35. Michigan Case No. U-15245 – In the Matter of the Application of Consumers Energy Company for Authority to Increase its Rates for the Generation and Distribution of Electricity and for Other Rate Relief;

36. Texas Docket No. 34800 – Application of Entergy Gulf States, Inc. for Authority to Change Rates and to Reconcile Fuel Costs;

37. Texas Docket No. 35717 – Application of Oncor Electric Delivery Company LLC for Authority to Change Rates.

38. RIPUC Docket No. 4065 – Application of the Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electric Base Distribution Rates Pursuant to R.I.G.L. Sections 39-3-10 and 39-3-11;

39. RIPUC Docket No. 4323 – Application of the Narragansett Electric Company d/b/a National Grid for Approval of a Change in Electric and Gas Base Distribution Rates Pursuant to R.I.G.L. Sections 39-3-10 and 39-1-3-11;

40. Oregon Docket No. UE 283 -- In the Matter of Portland General Electric Company’s Request for a General Rate Revision;

41. Washington Docket No. UE-141368 – In the Matter of the Petition of Puget Sound Energy to Update Methodologies Used to Allocate Electric Cost of Service and for Electric Rate Design Purposes;

43. RIPUC Docket No. 4568 – In Re: Review of the Narragansett Electric Company d/b/a National Grid's Rate Design Pursuant to R.I. General Laws Section 39-26.6-24;


45. RIPUC Docket No. 4770 – The Narragansett Electric Company d/b/a National Grid – Application for Approval of a Change in Electric and Gas Base Distribution Rates.