

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

IN THE MATTER OF

**The National Grid Annual
Gas Cost Recovery
Filing**

)
)
)

Docket No. 4872

**SURREBUTTAL TESTIMONY OF WITNESS
BRUCE R. OLIVER**

On Behalf of

The Division of Public Utilities and Carriers

October 24, 2018

TESTIMONY OF BRUCE R. OLIVER
Docket No. 4872
October 24, 2018

TABLE OF CONTENTS

	Page
I. INTRODUCTION	1
II. DISCUSSION OF ISSUES	2
A. Long-Range Planning and GCR Costs	2
B. Incremental Fixed Cost Commitments	3
C. Economic Justifications for ENGIE Agreements	5
D. National Grid's LNG Rule Curve	7
E. Portsmouth LNG Vaporization	8
F. Re-Examination of National Grid's NGPMP and GPIP	9
G. GCR Rate Impacts	12

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

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 the preparation and presentation of economic, utility planning, and regulatory policy analyses for our clients.

Q. ARE YOU THE SAME BRUCE R. OLIVER WHO HAS PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE DIVISION?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. This Surrebuttal Testimony responds to portions of the Joint Rebuttal Testimony submitted by six witnesses for National Grid on October 22, 2018.

TESTIMONY OF BRUCE R. OLIVER
Docket No. 4872
October 24, 2018

II. DISCUSSION OF ISSUES

A. Long Range Planning and GCR Costs

Q. MR. OLIVER, THE COMPANY'S JOINT REBUTTAL ASSERTS THAT ITS GCR FILING IS PREMISED ON ITS LONG-RANGE PLAN. IS THAT ACCURATE?

A. No. The LRP filed on March 30, 2018 is not the Plan that provides the foundation for the Company's 2018-19 GCR costs. As recognized by the Joint Rebuttal testimony at page 9, the Company has made substantial changes to its forecasts and its allocation of demands between capacity eligible and capacity exempt customers. It has also added fixed costs commitments (e.g. the accelerated Tennessee supply) that were not anticipated when the Long-Range Plan was developed.

Q. HAS THE COMPANY PROVIDED DOCUMENTATION OF THE ANALYSES IT HAS RELIED UPON TO MAKE ADJUSTMENTS TO ITS FORECASTS OF DESIGN DAY, DESIGN WINTER, AND DESIGN YEAR REQUIREMENTS IN THIS PROCEEDING?

A. No. In fact, when I requested workpapers to document the manner in which the Company's winter of 2017-18 experience was used to adjust National Grid's assessment of its Design Day requirements, I was told the Company had **nothing off-the-shelf** that could be provided. Given the magnitude and importance of the

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 Company's upward adjustment to its forecasted design day demands, I believe the
2 Commission should find that response, at best, unsatisfactory.

3
4 **Q. ASSUMING FOR DISCUSSION PURPOSES THAT THE COMPANY'S MARCH**
5 **30, 2018 LRP OR A MODIFICATION OF THAT PLAN HAS SERVED AS A**
6 **BASIS FOR THE COMPANY'S GCR COSTS IN THIS PROCEEDING, DOES IT**
7 **JUSTIFY THE 2018-19 COSTS FOR WHICH NATIONAL GRID SEEKS**
8 **RECOVERY IN THIS PROCEEDING?**

9 **A.** No. The Company's plan falls short of providing reasonable or appropriate
10 economic justification for the Company's GCR costs, and National Grid's filing in
11 this proceeding includes numerous costs that were not explicitly included in the
12 analyses the Company performed for its LRP.

13
14 **B. Incremental Fixed Cost Commitments**

15
16 **Q. YOUR DIRECT TESTIMONY IDENTIFIES APPROXIMATELY \$27 MILLION**
17 **DOLLARS OF NEW SUPPLIER DEMAND CHARGES THAT ARE INCLUDED IN**
18 **THE GCR COSTS THAT NATIONAL GRID INCLUDES IN ITS PROPOSED 2018-**
19 **19 GCR CHARGES. IS THERE ANYTHING IN EITHER THE COMPANY'S**
20 **LONG-RANGE PLAN OR ITS FILING IN THIS CASE THAT JUSTIFIES THE**
21 **LEVELS OF THOSE SUBSTANTIAL FIXED COST COMMITMENTS?**

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 A. No. Although National Grid represents that its LRP presents a “least-cost” plan for
2 meeting the gas supply requirements of its RI customers, **there is nothing in**
3 **National Grid’s LRP that compares the costs of its Plan to the costs of**
4 **alternative supply plans.** The Fixed Costs of the Company’s portfolio are simply
5 accepted as a “given,” and the optimization analyses performed within the
6 SENDOUT model simply seek the lowest variable costs given a set of resources
7 and fixed cost assumptions.

8
9 Q. **DO YOU HAVE ANY COMMENTS REGARDING THE COMPANY’S RESPONSE**
10 **TO THE INSURANCE ANALOGY YOU OFFERED IN YOUR DIRECT**
11 **TESTIMONY WHEN DISCUSSING THE COMPANY’S COMMITMENTS TO**
12 **SUBSTANTIALLY INCREASED FIXED SUPPLIER DEMAND (RESERVATION)**
13 **CHARGES?**

14 A. I do. The auto insurance comparison the Company offers total misses the
15 essential elements of such insurance arrangements. A key element of auto
16 insurance is protection against large personal injury or property damage liabilities.
17 Even customers who are assessed to represent comparatively high-risk drivers
18 only pay insurance premiums that equate to a small fraction of the potential claims
19 to which they could be exposed. A driver can pay auto insurance premiums for
20 many years and never reach a cumulative level of insurance premium payments
21 that equals the driver’s potential liabilities if a major accident occurs. By
22 comparison, the fixed supplier demand costs to which National Grid has committed

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 represent a very high percentage of the costs to which the Company might
2 otherwise be exposed.

3
4 **C. Economic Justification for the ENGIE Agreements**

5
6 **Q. WOULD THE COMMISSION'S REVIEW OF THE COSTS OF THE ENGIE**
7 **AGREEMENTS THAT NATIONAL GRID ENTERED INTO IN JANUARY 2018**
8 **CONSTITUTE AN INAPPROPRIATE HINDSIGHT REVIEW?**

9 **A.** No. The ENGIE contracts were not presented to the Commission until after the
10 Company had committed to substantial fixed cost payments under those
11 agreements. The Commission had no opportunity to opine on either those
12 commitments or the decision-making process that led to those commitments
13 before they were entered into.

14
15 **Q. THE COMPANY'S JOINT REBUTTAL SUGGESTS THAT THE COMPANY'S**
16 **COMMITMENTS UNDER THE ENGIE AGREEMENTS ENTERED INTO LAST**
17 **JANUARY WERE JUSTIFIED BY THE TESTIMONY OF WITNESS CULLIFORD**
18 **IN HER JANUARY 29, 2018 INTERIM TESTIMONY IN DOCKET NO. 4719. DO**
19 **YOU AGREE?**

20 **A.** No. The testimony of Witness Culliford in National Grid's Interim filing in Docket
21 No. 4719 only described those contracts. It provided no economic justification for
22 the levels of the fixed charges to which the Company committed.

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1

2 **Q. DID THE COMMISSION'S AUGUST 24, 2018 ORDER ON THE COMPANY'S**
3 **INTERIM GCR RATES SPECIFICALLY APPROVE THE COMPANY'S ENGIE**
4 **AGREEMENTS?**

5 A. No. The only discussion of those agreements in the Commission's order
6 essentially repeats the description of those agreements that was presented in
7 Witness Culliford's January 29, 2018 testimony. Nothing in that Order either
8 explicitly approves those contracts or opines regarding the reasonableness of the
9 costs of those contracts.

10

11 **Q. DID YOU RECOGNIZE THAT THE COMPANY ENTERED INTO TWO**
12 **AGREEMENTS WITH ENGIE IN JANUARY OF 2018?**

13 A. Yes. However, given that those two agreements were entered into by the same
14 parties on the same date, I viewed them as a single arrangement. National Grid
15 has provided no evidence that those agreements were negotiated independently,
16 nor has the Company made any representation regarding the extent to which
17 ENGIE's agreement to either of those two arrangements may have been
18 dependent upon acceptance of the other.

19

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

D. National Grid's LNG "Rule Curve"

Q. DO YOU HAVE ANY COMMENTS REGARDING THE LNG INVENTORY "RULE CURVE" TO WHICH THE COMPANY REFERS IN ITS JOINT REBUTTAL TESTIMONY AT PAGE 21, LINE 12?

A. Yes. The "rule curve" to which the Company refers is premised on an assumed distribution of design winter heating degree days over the days, weeks and months of a winter. (See National Grid's Response to Division Data Request 1-19.) That rule may be a useful guide under some conditions, but it does not need to be viewed as a hard and fast relationship. The Company's "Design Winter" distribution upon which the Company's LNG inventory "rule curve" is premised does not address the potential for the actual distribution of HDDs over the days, months, and weeks of winter to vary significantly from the Company's assumed design year distribution. The Company's "rule curve" is, thus, a static tool which lacks the ability to adjust for unexpected early winter or late winter cold snaps. In fact, the distribution of HDDs that the Company uses to portray its "Design Winter" rarely, if ever, occurs.

National Grid offers no evidence of the relationship between the timing of a cold snap and the magnitude of the Winter Season LNG requirements that it can expect. Rather, it appears that the early occurrence of a cold snap caught the Company off-guard with no plan regarding how to respond to such an event.

TESTIMONY OF BRUCE R. OLIVER
Docket No. 4872
October 24, 2018

1 E. Portsmouth LNG Vaporization

2
3 Q. WHAT IS YOUR RESPONSE TO THE COMPANY'S JOINT REBUTTAL
4 REGARDING THE DEVELOPMENT OF LNG VAPORIZATION CAPABILITIES
5 AT THE OLD MILL LANE GATE STATION IN PORTSMOUTH?

6 A. Many inconsistencies remain in the Company's representations regarding that
7 facility. As explained in the Company's Joint Rebuttal at page 37, lines 7-12, its
8 plan to install and operate LNG equipment at the Company's Old Mill Lane property
9 in Portsmouth is a "**temporary**" measure "*to provide **backup supply during***
10 *repairs to the Aquidneck Island area transmission pipeline.*" Yet, as I noted in my
11 Direct Testimony at page 41, National Grid's response to Division Data Request
12 1-10.f. in Docket No. 4816 indicates that "*the Company has started the process of*
13 *establishing a **permanent** portable LNG site at the Old Mill Lane Gate Station in*
14 *Portsmouth.*" (Emphasis Added.)

15 After years of no need for LNG vaporization for the Aquidneck Island area,
16 National Grid now seems to be proposing to maintain its LNG facility at the Naval
17 Base in its rate base, while also developing a new facility at Old Mill Lane.
18 However, except for the possible need for a temporary facility during repairs to the
19 Algonquin transmission line that serves Aquidneck Island, National Grid has
20 demonstrated no on-going need for LNG vaporization in that area, and certainly
21 not the need for maintenance of two LNG vaporization facilities.

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 F. Re-Examination of National Grid's NGPMP

2
3 Q. DOES ANYTHING IN YOUR DIRECT TESTIMONY RECOMMEND ABAN-
4 DONING THE CURRENT NGPMP?

5 A. No. Any such determination is pre-mature at this point. My recommendation with
6 respect to the NGPMP is that the parameters of the market for capacity resources
7 and the parameters of the NGPMP should be re-examined in an effort to maximize
8 the benefits the program provides for the Company's ratepayers. If the structure
9 of the market has changed, there may be more effective means of utilizing the new
10 market structure to enhance the value of the NGPMP for ratepayers.

11 It is, however, troublesome that as the Company's fixed cost commitments
12 have risen, its success in re-marketing capacity when it exceeds RI customers'
13 needs has declined. Intuitively I would expect that as the Company's portfolio of
14 marketable assets increases, the revenues from NGPMP activities would also tend
15 to increase. But, that is not what we have observed over the last couple years.

16 I am also concerned that elements of the Company's testimony that appear
17 to be in conflict. On one hand, the Company represents that the New England
18 area is capacity constrained.¹ On the other hand, the Company suggests that
19 changing market conditions have impeded National Grid's efforts to maintain past
20 levels of NGPMP benefits. In general, we should expect that, as capacity markets

¹ National Grid's Joint Rebuttal at page 9, line 20, through page 10, line 1, states, "*The Company's ability to procure the additional needed resources has been exacerbated by the fact that the two interstate pipelines feeding the Company's Rhode Island distribution system are **constrained**.*" (Emphasis Added.)

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 tighten (i.e., available capacity declines relative to the demand for capacity),
2 revenues from NGPMP activities should increase. But in this instance we appear
3 to observe just the opposite. That is, under tight capacity market conditions,
4 NGPMP revenues have fallen. This seeming contradictory relationship needs to
5 be better understood.

6 If changes in the market have eroded incentives for the Company to re-
7 market capacity resources when they are not required to serve RI customers loads,
8 the Commission needs to understand the factors that are limiting opportunities
9 and/or eroding incentives. It is also possible that the last set of changes in the
10 NGPMP incentive structure may have had unexpected negative consequences.

11
12 **Q. AT PAGE 43 OF NATIONAL GRID'S JOINT REBUTTAL, THE COMPANY**
13 **ASSERTS, "A PROBABILITY WEIGHTED AVERAGE WOULD NOT PROTECT**
14 **RATEPAYERS. DO YOU AGREE?**

15 **A.** Only in part. The Commission must push the Company to find reasonable balance
16 between alternative means of assuring supply under extreme weather conditions
17 and the costs of providing such assurance. The Company's position, as
18 expressed in its Joint Rebuttal is that National Grid **bears no accountability** for
19 the levels of costs it incurs to ensure the availability of supply under severe weather
20 conditions. That position must not be accepted if natural gas service in Rhode
21 Island is to remain affordable.

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 **Q. THE COMPANY’S JOINT REBUTTAL TESTIMONY AT PAGE 23 RESPONDS**
2 **TO YOUR ASSERTIONS REGARDING THE COMPANY’S COMMITMENTS TO**
3 **PHYSICAL PIPELINE CAPACITY AND ITS COMMITMENTS TO FIXED**
4 **DELIVERY CHARGES FOR RESERVATION OF GAS PURCHASES. DO YOU**
5 **ACCEPT THE COMPANY’S REPRESENTATIONS IN ITS RESPONSE TO**
6 **YOUR POSITION?**

7 **A. No. The differences in the marketability of pipeline capacity and reservations of**
8 gas purchases are substantial. While in concept either type of asset could be re-
9 marketed, the reality is that when National Grid does **not** need reserved gas
10 purchases, others in the market place do not need to pay reservation charges to
11 obtain gas supplies. Thus, the value of such assets in the market place when
12 National Grid does not need them is generally quite low, if not negative.²

13
14 **G. GCR Related Rate Impacts**

15
16 **Q. DOES YOUR TESTIMONY SUGGEST THAT TYPICAL RESIDENTIAL**
17 **HEATING CUSTOMERS’ BILLS WILL INCREASE BY 20% FOR COMPAR-**
18 **ABLE LEVELS OF USAGE FOR THE FIRST FOUR MONTHS OF THE 2018-19**
19 **GCR YEAR?**

² If, for example, the price at which National Grid can purchase reserved gas volumes is based on the NYMEX plus an adder and a third party can obtain equal volumes of gas at or below the established indexed price, National Grid might need to both absorb the full reservation charge plus provide a commodity price discount to re-market unused reserved gas purchase volumes. Any discounting of the commodity price would effectively imply a negative contribution to fixed cost recovery for National Grid’s customers.

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 A. Yes, it does. That is an error on my part. The statement was addressing the
2 analysis that I present in Attachment DIV-GCR-4 which assesses impacts on the
3 **gas costs** that customers in various rate classes would pay. The 20% figure
4 reflects the gas cost increase typical residential heating customers will experience,
5 not the impact on such customers' total bills. My statement that it represented an
6 increase in residential heating customers' total bills was incorrect.

7
8 Q. YOUR DIRECT TESTIMONY DISCUSSED LARGE INCREASES THE
9 COMPANY HAS PROPOSED IN CHARGES APPLICABLE TO MARKETERS.
10 DOES THE COMPANY'S JOINT REBUTTAL ADDRESS THOSE INCREASES?

11 A. No. Although those increases are particularly large and could negatively impact
12 customers who have elected to use transportation service options, National Grid's
13 Joint Rebuttal has chosen not to address those increases. As noted in my Direct
14 Testimony at page 3, lines 19-22, and Attachment DIV-GCR-4, the Company's
15 proposals will dramatically increase FT-2 Marketer Demand Charges and Storage
16 and Peaking Charges. FT-2 Marketer Demand Charges will increase by **more**
17 **than 90%** while the Storage and Peaking Charge applicable to marketers will
18 increase by **more than 140%**. These are not increases that should be treated
19 casually. These increases are driven by the Company's increases in Fixed Costs,
20 particularly Supplier Demand (or Reservation) Charges, and the magnitude of
21 those increase could cause noticeable market dislocations.

TESTIMONY OF BRUCE R. OLIVER

Docket No. 4872

October 24, 2018

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**

3

4

5

6

7

8

9

10

11

12

13

14

15

16