BEFORE THE

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

IN THE MATTER OF

The National Grid 2011	**)**	
Distribution Adjustment	**)**	**Docket No. 4269**
Charge Filing	**)**	

DIRECT TESTIMONY OF WITNESS BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

October 12, 2011

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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, 2011,and Supplemental Testimony dated September 13, 2011 by witness John F. Nestor on behalf of the Company. More specifically, this testimony discusses all elements of the Company’s DAC calculations with the exception of the Earnings Sharing Mechanism (ESM), Pension

and Post-Retirement Benefits (PBOP), and the Capital Expenditures Tracker (CAPX)/Accelerated Replacement Program (ARP). Issues associated with the Company's ESM, PBOP, and CAPX/ARP adjustments to the DAC will be discussed in separate testimony to be filed on behalf of the Division by Mr. David Effron.

II. DISCUSSION OF ISSUES

Q. WHAT IS THE DAC RATE THAT THE COMPANY PROPOSES IN THIS PROCEEDING?

A. Attachment NG-JFN-1 to the Company's September 13, 2011 Supplemental Direct Testimony computes a **net charge** of **$0.0061** per therm. By comparison, the Company's present DAC reflects a **net charge** of **$0.0098 per therm**. Thus, the Company's proposed DAC charge in this proceeding represents a **decrease** from the currently effective DAC charge of **$0.0037 per therm**. After inclusion of ISR charges, which are differentiated by rate class, the Final DAC rates that would be applied as of November 1, 2011 (unless altered by the Commission) are:

Rate Class	Proposed November 1, 2011 Final DAC Rates (per Therm)
Res-NH	**$0.0196**
Res-NH-LI	**$0.0196**
Res-H	**$0.0130**
Res-H-LI	**$0.0130**
Small	**$0.0141**
Medium	**$0.0113**
Large LL	**$0.0108**

Large HL	**$0.0096**
XL-LL	**$0.0080**
XL-HL	**$0.0074**

As shown below the effective dollars per therm change is the same for all rate classifications, but the percentage changes in the effective per therm charges differ by rate class.

Rate Class	Current DAC Rates (per therm)	Proposed 11/1/2011 DAC Rates (per therm)	Change (per therm)	Percent Change
Res-NH	**$0.0233**	**$0.0196**	**($0.0037)**	**-15.9%**
Res-NH-LI	**$0.0233**	**$0.0196**	**($0.0037)**	**-15.9%**
Res-H	**$0.0167**	**$0.0130**	**($0.0037)**	**-22.2%**
Res-H-LI	**$0.0167**	**$0.0130**	**($0.0037)**	**-22.2%**
Small	**$0.0178**	**$0.0141**	**($0.0037)**	**-20.8%**
Medium	**$0.0150**	**$0.0113**	**($0.0037)**	**-24.7%**
Large LL	**$0.0145**	**$0.0108**	**($0.0037)**	**-25.5%**
Large HL	**$0.0133**	**$0.0096**	**($0.0037)**	**-27.8%**
XL-LL	**$0.0117**	**$0.0080**	**($0.0037)**	**-31.6%**
XL-HL	**$0.0111**	**$0.0074**	**($0.0037)**	**-33.3%**

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 (ERC) Factor
5. A Pension Costs and Post-Retirement Benefits (PBOP) Factor
6. A Capital (CAPX)/Accelerated Replacement Program (ARP) Factor
7. An On-System Margin Credits (MC) Factor
8. A Service Quality Performance (SQP) Factor

9. A Weather Normalization (WN) Factor
10. An Earnings Sharing Mechanism (ESM)
11. A Reconciliation (R) Factor
12. An Allowance for Uncollectibles

Q. HOW IS YOUR DISCUSSION OF THE ABOVE REFERENCED FACTORS ORGANIZED?

A. In Sections A through G below, each of the factors identified above will be discussed in the order listed, with the exception of the PBOP, CAPX/ARP, and ESM factors which will be addressed in the testimony of witness David Effron. In each section the data and calculations upon which the Company relies to compute its proposed DAC factors are reviewed and evaluated. The last component of the DAC is the Allowance for Uncollectibles. That allowance was last established by the Commission in its January 29, 2009 Decision and Order in Docket No. 3943. Section H addresses the composite effects of all of the DAC adjustments that National Grid proposes in this proceeding as reflected in its September 13, 2011 Update filing.

Q. DOES YOUR REVIEW OF NATIONAL GRID'S DAC FILING RESULT IN ANY PROPOSED CHANGES IN THE DAC RATES THAT WOULD BECOME APPLICABLE TO THE COMPANY'S RHODE ISLAND CUSTOMERS AS OF NOVEMBER 1, 2011?

A. No, it does not. As I will explain below, an in-depth review of the data and calculations supporting the Company's DAC rates for all factors other than the

PBOP, CAPX/ARP, and ESM factors has been undertaken, and no adjustments to those factors are found to be required at this time.

A. System Pressure Factor

Q. WHAT IS THE PURPOSE OF THE SYSTEM PRESSURE ADJUSTMENT?

A. Since the beginning of rate unbundling for firm service customers, this Commission has recognized that a portion of the Company's use of its LNG facilities is for maintaining adequate operating pressures on the gas distribution system. Given that both sales service and transportation service customers benefit from the maintenance of system operating pressures, it is appropriate that such costs be recovered from customers in both of those service classifications. In the absence of the System Pressure Adjustment, all of the Company's LNG costs would be recovered through its Gas Cost Recovery (GCR) charges and paid for by only sales service customers. Thus, it is necessary for the Company to allocate a portion of its LNG costs to system pressure maintenance, and collect those costs through charges that are applied to both firm sales service and firm transportation service customers. The System Pressure factor within the DAC mechanism accomplishes this objective.

Q. HOW IS THE SYSTEM PRESSURE FACTOR DETERMINED?

A. National Grid has computed the System Pressure Factor in its filing in this case by applying an allocation factor to the sum of the Company's forecasted LNG Withdrawal Commodity Costs, LNG Inventory Costs, and LNG Demand Costs for the 2011-12 GCR period and then dividing that result by forecasted firm throughput for the 2011-12 GCR period. In response to concerns raised by the Division in Docket No. 4196, National Grid has updated the allocation factor that is applied to LNG costs in those calculations. The Company's "updated" allocation factor is 18.12%. The allocation factor used by the Company in its last DAC proceding (Docket No. 4196) was 16.80%.

Attachment NG-JFN-2S to witness Nestor's Supplemental provides the data from which that factor was derived. As shown therein, National Grid arrived at the 18.12% factor by dividing the amount of LNG required for Pressure Support (i.e., 3,410 Dth/hr) during a peak hour by the Company's 2010-11 Peak Hour Sendout requirement as represented by its Total Utility & Non-Utility Customer System Sendout (i.e., 18,820 Dth/hr). Thus, as computed by National Grid the System Pressure allocation factor for LNG costs equals:

3,410 Dth/hr / 18,820 Dth/hr = 18.12%

Q. WHAT IS THE SYSTEM PRESSURE FACTOR THAT NATIONAL GRID PROPOSES IN THIS DOCKET?

A. Using the 18.12% allocation factor that National Grid has computed for this proceeding, the Company proposes a **System Pressure Factor** of **$0.0026 per therm**. That System Pressure Factor results from multiplying the Company's forecasted LNG costs of **$5,159,137** by the 18.12% factor (which yields $934,836 of forecasted System Pressure costs) and dividing the forecasted System Pressure Costs by the Company's forecasted throughput for the 2011-12 GCR period

Q. DOES NATIONAL GRID'S UPDATED ALLOCATION FACTOR APPROPRIATELY REFLECT THE PORTION OF THE COMPANY'S ANNUAL LNG COSTS THAT IS USED FOR THE MAINTENANCE OF SYSTEM PRESSURE?

A. No, it does not. The formula National Grid has used has three problems.

First, to compute the System Pressure Factor in its filing in this case the Company has focused on Peak Hour data. This data does not capture the use of LNG for pressure support during times other than the system peak hour.

Second, the Company's division of LNG Required for System Pressure by total system sendout does not depict the portion of total LNG costs that is used for system pressure purposes. Since LNG costs are what is being allocated, any allocation factor used should be focused on the portion of total LNG-related costs that is attributable to System Pressure requirements.

Third, Attachment NG-JFN-2S, page 2 of 2, indicates that the peak hour sendout measure used includes requirements for "Non-Utility Customers." To the extent those requirements are non-zero, they are inappropriate for consideration in the allocation of LNG costs to utility customers. Likewise, if there are any LNG-related costs that can and should be associated with service to non-utility customers, those should be identified and excluded from LNG costs before this allocation is made to the DAC.

The LNG allocation factor should reflect the portion of total LNG requirements that is represented by the amount of LNG Required for Pressure Support. As conceived when the System Pressure Factor was first developed, the allocation percentage was intended to reflect the total annual volumes of LNG used for System Pressure purposes divided by total annual LNG sendout. I have recently requested the Company to provide additional analyses that would aid the construction of such an allocator, but that information is not yet available. Thus, the Division reserves the right to update its position on this System Pressure allocation when the requested analyses are completed.

I recognize, however, that demand-related LNG costs might be more appropriately allocated based on the ratio of peak hour LNG Required for Pressure Support to Total Peak Hour LNG Sendout Capability. Using the information provided in witness Nestor's peak hour basis that calculation would be as follows:

LNG Facility	Dedicated Vaporization Capacity	Required for Pressure Support	Ratio
Cumberland	1,333	0	
Allen's Ave (Prov)	3,958	2,999	
Exeter 750	0	411	
Portsmouth	325	0	
Total	5,616	3,410	**60.72%**

The foregoing assessment would yield a very different allocation for demand-related LNG costs than National Grid has used in its development of its System Pressure Factor.

Q. HOW DOES THE SYSTEM PRESSURE FACTOR THAT NATIONAL GRID COMPUTES FOR THIS PROCEEDING COMPARE WITH THE SYSTEM PRESSURE FACTOR THAT IS INCLUDED IN THE COMPANY'S CURRENT DAC CHARGES?

A. As shown in Attachment A to the Commission's December 21, 2010 Report and Order in Docket No. 4196, the Company's current System Pressure Factor is **$0.0024 per therm**. Thus, National Grid's proposed System Pressure Factor in this proceeding of $0.0026 represents an **increase** of **$0.0002 per therm.**

B. Advanced Gas Technology Program Factor

Q. WHAT IS THE PURPOSE OF THE ADVANCED GAS TECHNOLOGY PROGRAM FACTOR?

A. The goal of the AGT program is to promote the installation of gas technologies that increase utilization of natural gas during periods of low demand. The Advanced Gas Technology (AGT) Program Factor provides the Commission a mechanism for reflecting differences between actual expenditures for AGT program rebates and the amount of funding provided annually through base rates.

Q. AS OF JUNE 2011, WHAT LEVEL OF FUNDING WAS AVAILABLE FOR NEW AGT PROJECTS?

A. The August 1, 2011 Direct Testimony of National Grid witness Nestor indicates that the AGT program balance of available funds as of the end of June 2011 was **$1,599,537**. The balance represents an increase of **$623,935** over the comparable AGT program balance as of June 30, 2010, and reflects accumulated ratepayer contributions to the program at a rate of $600,000 annually (i.e., $300,000 through base rates and $300,000 through the DAC) plus interest on the monthly net balance for the program.

Q. DOES NATIONAL GRID REQUEST FURTHER FUNDING OF THE AGT PROGRAM IN THE COMPANY YEAR?

A. Yes. National Grid asks that the current $600,000 annual level of funding be continued. The Company submits that the increase in AGT program funding that the Commission approved in Docket No. 4196 has stimulated renewed interest in AGT programs. Although no AGT program funds have been expended over the

past year, National Grid's response to Division Data Request 2-2d indicates it is continuing to work with four customers regarding possible AGT projects.

Q. HAS THERE BEEN ACTIVITY IN THE AGT PROGRAM IN RECENT YEARS?

A. No AGT project has been funded over the last three years. The last reported expenditure of AGT program funds was $12,916 in February 2008 (i.e., more than three-and-half years ago). In the context of the total level of funding that has been provided for the AGT program over the last four years, the reported $12,916 expenditure appears somewhat trivial.

My review of the Company's forecasted sales and throughput through 2017 (provided in the Company's response to Division Data Request 2-11) suggests that little, if any, improvement in overall gas use per customer is foreseen by the Company over that forecast period.

Q. DOES THE DIVISION SUPPORT FURTHER FUNDING OF NATIONAL GRID'S AGT PROGRAM AT THIS TIME?

A. Based on the Company's representations of renewed interest in the program, and the potential that one or more new projects being considered could warrant funding in excess of $500,000, the Division supports one more year of funding for the AGT program at the current $600,000 annual funding rate. This rate of funding will give the Company the largest pool of funds it has ever had to pursue such programs, and could be sufficient to facilitate two or more large projects over the next year.

However, after three years of inactivity during a time when economic stimulation was needed, the Division suggests that the level of funding for National Grid's AGT program be earmarked for further review in the Company's next annual DAC filing. Another year of limited or no activity under the AGT program should cause the Commission to question the propriety of its continuance as currently configured.

C. Low Income Assistance Program Factor

Q. WHAT IS THE PURPOSE OF THE LOW INCOME ASSISTANCE PROGRAM (LIAP) FACTOR?

A. The Low Income Assistance Program (LIAP) Factor performs a function similar to that of the AGT Factor. It provides a mechanism for the Commission to adjust the funding of the Company's Low Income Heating Assistance Program (LIHEAP) and Low Income Weatherization Program activities outside the context of a base rate proceeding.

Q. WHAT IS THE LEVEL OF FUNDING PROVIDED FOR NATIONAL GRID'S LOW INCOME ASSISTANCE PROGRAMS THROUGH ITS BASE RATE CHARGES?

A. As set forth in the Company's tariff, Section 3, Distribution Adjustment Charge, Schedule A, Sheet 4, paragraph 3.3, the LIAP funding presently embedded in base rates for National Grid is **$1,785,000** per year. That amount includes $1,585,000 for LIHEAP and $200,000 for Low Income Weatherization Program activities.

Q. DOES NATIONAL GRID SEEK ADDITIONAL LIAP FUNDING THROUGH ITS PROPOSED LIAP FACTOR IN THIS PROCEEDING?

A. No, it does not. Therefore, the LIAP factor in the Company's DAC calculations remains at $0.0000 per therm. Witness Nestor also notes that recent legislation signed into law will establish a state fund that will provide an additional $6.5 to $7.5 million of annual funding for LIHEAP eligible electric and gas customers through a LIHEAP Enhancement Plan charge rate.

Q. IS CONTINUATION OF THE CURRENT LEVEL OF FUNDING SUPPORT FOR LIAP PROGRAMS REASONABLE?

A. Yes. With the recent legislation and proposed reductions in both National Grid's GRC and DAC, the effective amount of LIAP funding is substantially increased. Thus, continuation of the current LIAP factor appears reasonable, and the LIAP factor included in the Company's DAC calculations should remain at $0.0000 per therm.

D. Environment Response Cost Factor

Q. PLEASE DESCRIBE THE PURPOSE OF THE ENVIRONMENTAL RESPONSE COST (ERC) FACTOR?

A. The primary function of the ERC Factor is to provide the Company a means of recovering "reasonable and prudently incurred" environmental response costs while limiting impacts on customers' bills. Costs subject to recovery through the ERC Factor include:

(1) Costs for evaluation, remediation and clean-up of sites associated with National Grid's ownership and operation of manufactured gas plants, manufactured gas storage facilities, and manufactured gas plant-related off-site waste disposal locations;

(2) Costs for removal and disposal of mercury regulators and meters;

(3) Costs for acquiring property associated with the clean up of such sites; and

(4) Litigation costs, claims, judgments, and settlements associated with environmental clean up activities.

Q. WHAT IS THE ERC FACTOR THAT NATIONAL GRID PROPOSES IN THIS PROCEEDING?

A. Witness Nestor's Supplemental Direct Testimony, filed on September 13, 2011 proposes an ERC Factor of **$0.0001** per Dth (or $0.001 per therm).

Q. HOW ARE REASONABLE AND PRUDENTLY INCURRED ENVIRONMENTAL RESPONSE COSTS RECOVERED THROUGH THE ERC FACTOR?

A. According to the terms of the settlement approved by this Commission in Docket No. 3401, Environmental Response Costs shall be recovered through a 10-year straight-line amortization, subject to the restriction that the ERC Factor shall be limited to an increase of no more than $0.10 per dekatherm (i.e., $0.01 per therm) in any annual DAC filing. Moreover, the ERC Factor is computed to reflect an adjustment to the $1,310,000 of Environmental Response Costs that is presently included in National Grid's base rate charges. Thus, the dollar amount subject to recovery through the ERC Factor in any year reflects the sum of all applicable 10-year ERC amortizations less the $1,310,000 of budgeted base rate recoveries, and the ERC Factor reflects that net dollar amount divided by forecasted firm throughput.

Q. IN THIS PROCEEDING, WHAT IS THE NET DOLLAR AMOUNT THAT NATIONAL GRID PROPOSES FOR RECOVERY THROUGH ITS ERC FACTOR?

A. As originally filed on August 1, 2011, in Attachment NG-JFN-4, National Grid seeks net recovery of a net of **($27,029)**. This net dollar amount reflects:

1. A 10-year amortization of $12,510,252 of net ERC costs incurred through the end of FY 2002;

2. A 10-year amortization of ($6,012,673) of net ERC costs for FY 2003;

3. A 10-year amortization of ($472,960) of net ERC costs for FY 2004;

4. A 10-year amortization of $136,707 of net ERC costs for FY 2005;

5. A 10-year amortization of $436,020 of net ERC costs for FY 2006;

6. A 10-year amortization of ($758,291) of net ERC costs for FY 2007;

7. A 10-year amortization of ($45,755) of net ERC costs for FY 2008 and adjustment for FY 2007;

8. A 10-year amortization of $1,844,698 of net ERC costs for FY 2009;

9. 10-year amortization of $2,088,264 of net ERC costs for FY 2010;

10. 10-year amortization of $1,337,029 of net ERC costs for FY 2011; and

11. An annual deduction of $1,310,000 for ERC costs embedded in base rates.

Q. WHAT IS THE NET BALANCE OF THE ENVIRONMENTAL REMEDIATION COSTS THAT REMAIN TO BE RECOVERED THROUGH THE COMPANY'S ERC FACTOR?

A. In its August 1 filing, the Company reported a net balance of unrecovered Environmental Response Costs at the end of FY 2011 of **$2,344,330**. That represents an decrease of roughly $885,000 or 27% from the net balance of **$3,229,062** reported at the end of FY 2010.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2011?

A. In the Company's August 1, 2011 DAC filing, National Grid claimed a net Environment Response Cost for FY 2010 of $4,522,947. That amount represented $4,578,360 of new environmental expenditures less $55,413 of Insurance Settlement proceeds. National Grid had nine (9) active projects for which expenditures were reported, plus $602,506 of insurance recovery expenditures. As shown below, two of those projects accounted for over 75% of the total new Environmental Response Costs incurred by National Grid during the twelve months ended June 30, 2011. A breakdown of the Company's 2011 expenditures is provided below:

➢ Project --	Thames & Wellington	$ 1,895,610	41.4%
➢ Project 379	Petroleum Site	$ 952,237	20.8%
➢ Project 782	Tidewater	$ 598,383	13.1%
➢ Insurance Recovery		$ 602,506	13.1%
➢ All Other Projects		$ 529,588	11.6%
Total		$ 4,578,360	100.0%

Q. HAVE YOUR REVIEWED SUPPORTING DETAIL FOR THE ENVIRONMENTAL RESPONSE COSTS THAT THE COMPANY CLAIMS FOR THE TWELVE MONTHS ENDED JUNE 2011?

A. Yes. I have reviewed the calculations supporting its requested ERC Factor, the full detail of the Company's August 1, 2011 Annual Environmental Report, and National Grid's responses to a number of Division data requests for further supporting detail for its actual FY 2011 Environmental Costs.

Q. DO YOU FIND ANY REASON TO QUESTION THE PRUDENCE OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID INCURRED DURING THE 12 MONTHS ENDED JUNE 30, 2011?

A. No. Through discovery the Division sought and the Company has provided considerable additional detail to support its costs claims in the form of invoices for amounts paid, copies of studies and reports provided by contractors, and explanations of work performed. Although the Division's review of this material does not constitute a full audit of those expenditures, I generally find the Company's expenditures (other than the $602,506 of Insurance Recovery expenditure) to be reasonable and well-documented.

Q. PLEASE DISCUSS THE $602,506 OF INSURANCE RECOVERY EXPENSE THAT IS INCLUDED IN THE COMPANY'S CLAIMED ENVIRONMENTAL EXPENSE FOR THE TWELVE MONTHS ENDED JUNE 2011?

A. As noted at pages 11-12 of witness Nestor's August 1, 2011 testimony in this proceeding, the only insurance payment reflected in the Company's Environmental Response costs for the twelve months ended June 30, 2011 is $55,413, and that amount represents "*the last insurance payment under the $4 million environmental cap from the merger*" (e.g., the last payment from Southern Union to National Grid). The claimed $602,506 expenditure is targeted toward new insurance settlements, and relate to a legal proceeding that is yet to be resolved. National Grid's response to Division Data Request 2-7 shows that the vast majority of the claimed $602,506 (roughly 99%) reflects attorneys' fees associated for litigation of a case in which the Company is seeking recovery of environmental costs associated with the Tidewater and Woonsocket sites. In that context, it does not appear that the reasonableness and prudence of the Company's claim for $602,506 of Insurance Recovery expense can be assessed at this time.

Yet, my review of prior Annual Environmental Response Reports from National Grid finds no previous instance in which National Grid has included Insurance Recovery expense in its annual claim for environmental cost recovery. Although the Company's response to Division Data Request 2-7c indicates, "The Company is seeking to recover all amounts it is legally entitled to recover from the

insurance carriers up to the applicable policy limits." That response also notes that the case involves several layers of coverage, policies that are applicable to periods from 1945 to 1986, complicated issues of fact and law, and uncertain amounts of future site-related expenditures. As a result, the exact amount of the Company's claims cannot be quantified at this time. Nor is it possible at this time to predict either the Company's total costs for pursuing these claims or the likely amount of any final payment under those claims. Thus, the Commission may wish to reserve the right to further assess the prudence of the Company's claimed Insurance Recovery expenditures until an ultimate resolution of the pending litigation is known.

Q. EXCLUDING THE INSURANCE RECOVERY EXPENSES DISCUSSED ABOVE, DO YOU FIND ANY REASON TO QUESTION THE ACCURACY AND RELIABILITY OF THE COMPANY'S ERC FACTOR COMPUTATIONS IN THIS PROCEEDING?

A. No, I do not. I can state that the updated ERC Factor computations are mathematically accurate and appear to be performed in a manner consistent with the tariff and this Commission's prior determinations relating to rate treatment of such costs. Further the claimed costs are supported in considerable detail by documentation (such as environmental reports, studies, and invoices) which was provided in response to the Division's discovery requests.

E. On-System Margin Credits

Q. WHAT IS THE ROLE OF THE ON-SYSTEM MARGIN CREDIT (MC) FACTOR?

A. The current On-System Margin Credit (MC) factor is designed to distribute to firm customers margin revenue collected from sixty-four (64) Dual Fuel customers in excess of the annual margin target for such customers of $2,816,000 that was established in the Company's last base rate case (Docket No. 3943).

Q. DID NATIONAL GRID ACHIEVE MARGINS DURING FY 2011 THAT EXCEEDED THE $2,816,000 THRESHOLD?

A. Yes. Attachment NG-JFN-7S shows a total margin to be distributed to National Grid's RI customers through the On-System Margin Factor of $778,043.

Q. HAVE YOU ASSESSED THE REASONABLENESS OF NATIONAL GRID'S FY 2011 MARGIN REVENUE DETERMINATIONS?

A. Yes. I have reviewed in detail the margin revenue calculations that National Grid has presented in Attachment NG-JFN-7S for both Firm and Non-Firm Dual Fuel customers as well as the Company's responses to Division data requests regarding the data supporting its On-System Margin determinations. Based on that review, I find the Company's margin revenue determinations to be mathematically correct and free of significant analytic or data shortcomings.

F. Service Quality Performance (SQP) Factor

Q. DESCRIBE THE PURPOSE OF THE SERVICE QUALITY PERFORMANCE FACTOR?

A. The Service Quality Performance factor is used to credit customers any penalties reflected in the Company's annual Service Quality Report**.**

Q. WHAT PENALTY AMOUNTS WERE APPLICABLE TO THE COMPANY BASED ON ITS PERFORMANCE DURING FY 2011?

A. No penalties are reflected in the Company's FY 2011 Annual Report on Service Quality. Therefore, the SQP Factor is set at **$0.0000 per therm**.

G. Weather Normalization Factor

Q. WHAT IS THE INTENDED ROLE OF NATIONAL GRID'S WEATHER NORMAL-IZATION FACTOR?

A. The Weather Normalization (WN) Factor provides a mechanism for moderating the impacts of weather on the Company's base revenue. When winter weather, as measured in Heating Degree Days (HDDs), is warmer than normal, National Grid's collection of fixed costs through its charges for distribution service declines below the level anticipated under normal weather conditions. If the resulting decline in heating degree days is significant, a positive Weather Normalization Factor is

computed for the subsequent DAC period to compensate the Company for a portion of the revenue foregone due to reduced system throughput. On the other hand, colder than normal winter weather causes system throughput and distribution charge revenue to increase relative to expected revenue levels under normal weather conditions. If recorded HDDs are greater than anticipated normal degree day levels, a negative Weather Normalization Factor (credit) returns a measure of excess revenue collections to customers during the subsequent DAC period.

However, the Weather Normalization Factor only addresses heating degree days recorded for each year that are more than 2% above or below normal heating degree day levels when accumulated over the defined winter season (i.e., the months of November through April). If recorded actual HDDs are within plus or minus 2% of normal levels for the winter season, no adjustment to revenue is permitted and the Weather Normalization Factor for the subsequent DAC period is zero. On the other hand, if total HDDs for the winter season are beyond the range defined by normal HDD expectations plus or minus 2%, each heating degree day beyond that range is multiplied by $9,000 per degree day to obtain the total dollar amount to be recovered from, or credited to, customers through the Weather Normalization Factor.

Q. ARE THERE ANY CHANGES IN THE METHODOLOGY THAT NATIONAL GRID HAS USED IN ITS CALCULATION OF ITS PROPOSED WEATHER NORMAL-

IZATION FACTOR FOR THE 2010-2011 WINTER PERIOD WHEN COMPARED WITH THE METHODS USED IN ITS PRIOR DAC FILINGS?

A. Yes, there is one change.

With the Commission's approval of a statutorily-mandated Revenue Decoupling Mechanism ("RDM") for National Grid's Gas service in Rhode Island, the Company's Weather Normalization mechanism was terminated. Given the April 1, 2011 effective date for the RDM, the Weather Normalization adjustment for the winter of 2010-11 was only applicable through March of 2011. As a result, the calculations presented in Attachment NG-JFN-8S filed with Mr. Nestor's September 13, 2011 Supplemental Testimony reflect zero values for actual and normal heating degree days for the month of April 2011.

Q. WAS THE 2010-2011 WINTER SEASON SUFFICIENTLY WARMER OR COLDER THAN NORMAL TO TRIGGER THE COMPUTATION OF A NON-ZERO WEATHER NORMALIZATION FACTOR FOR NATIONAL GRID?

A. Yes. As shown in Attachment NG-JFN-8S filed by witness Nestor on September 13, 2011, the actual number of heating degree days (HDDs) for the months of November 2010 through March 2011 was **4,628**. That was 333 HDDs colder than normal and **247 HDDs** above the 2% colder than normal threshold for a Weather Normalization adjustments.

Q. WHAT IS THE MAGNITUDE OF THE REVENUE ADJUSTMENT THAT NATIONAL GRID COMPUTES ON THE BASIS OF THE REPORTED HIGHERTHAN NORMAL HEATING DEGREE DAYS FOR THE 2010-2011 WINTER SEASON?

A. Based on 247 HDDs in excess of the colder than normal threshold for revenue adjustments, the Company proposes a credit of $2,223,000 for its RI customers. The $2,223,000 amount equates to 247 HDD degree day excess (above the 2% threshold) multiplied by the established revenue adjustment of $9,000 per HDD. Dividing that result by the Company's forecasted firm throughput for the 2011-12 DAC year, Attachment NG-JFN-8S shows a computed WN Factor of **($0.0061) per therm**.

Q. DO YOU FIND ANY BASIS FOR QUESTIONING THE COMPANY'S DEGREE DAY CALCULATIONS FOR THE WINTER OF 2010-11?

A. No, I do not. I have independently verified the heating degree day measures used by National Grid, as well as the mathematical accuracy of the calculations the Company presents in support of its proposed WN Factor.

H. Reconciliation Factor

Q. HOW IS THE RECONCILIATION (R) FACTOR COMPUTED?

A. The Reconciliation (R) Factor component of the Company's DAC adjusts for differences between revenue collections associated with each component of DAC

and either actual costs or budgeted revenue by component, adjusted for interest on deferred balances. In this proceeding, the R Factor computations include reconciling adjustments for Advanced Gas Technology, Low Income Assistance, Environmental Response Costs, System Pressure Costs, On-System Margin Credits, Weather Normalization, Earnings Sharing, and the previous Reconciliation Factor. It also includes a one-time adjustment for Lost Revenue associated with the timing of the rate increase implemented at the conclusion of Docket No. 3943.

Q. WHAT IS THE RESULT OF NATIONAL GRID'S "R" FACTOR COMPUTATIONS?

A. Updated Attachment NG-JFN-9S, page 1 of 1, indicates that in aggregate the Company's reconciliations reflect an over-collection of $255,063. That over-collected balance results in a computed Reconciliation Factor **credit** of **($0.0007) per therm** for application during the Company's 2011-2012 DAC period.

Q. HAVE YOU REVIEWED THE COMPANY'S SUPPORT FOR ITS RECONCILIATION FACTOR COMPUTATIONS?

A. Yes, I have reviewed the full detail of the computations provided in Attachment NG-JFN-9S filed on September 13, 2011.

Q. DO YOU QUESTION THE REASONABLENESS OF ANY ELEMENT OF THE COMPANY'S COMPUTED RECONCILIATION ADJUSTMENTS?

A. No. I do not. I find the Company's reconciliation analyses to be mathematically accurate and appropriately constructed.

I. Distribution Adjustment Charge Summary

Q. PLEASE SUMMARIZE THE CHANGES THAT YOU PROPOSE TO THE COMPANY'S FILED DAC?

A. At this time I recommend no changes to the Company's DAC calculations. However, I reserve the right to update my position regarding National Grid's System Pressure Factor determinations.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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