BEFORE THE

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

IN THE MATTER OF

The National Grid 2013	**)**	
Distribution Adjustment	**)**	**Docket No. 4431**
Charge Filing	**)**	

DIRECT TESTIMONY OF WITNESS
BRUCE R. OLIVER

On Behalf of

The Division of Public Utilities and Carriers

October 4, 2013

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DIRECT TESTIMONY OF BRUCE R. OLIVER

Docket No. 4431

October 4, 2013

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, 2013,and Supplemental Testimony dated September 3, 2013 by witness Mariella C. Smith on behalf of the Company, as well as the Company’s Environmental Report Filed August 1, 2013. 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 ISR Revenue Requirement Reconciliation. Issues associated with the Company's ESM, PBOP, and ISR Revenue Requirement Reconciliation have been reviewed separately by Mr. David Effron on behalf of the Division.

II. DISCUSSION OF ISSUES

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

A. Attachment NG-MCS-1 to the Company's September 3, 2013 Supplemental Direct Testimony computes a DAC Factor (not including the ISR) which represents a **net charge** of **$0.0401 per therm** for the Residential, Small and Medium C&I classes, and a **net charge** of **$0.0092 per therm** for the Large and Extra Large C&I classes. By comparison, the Company's present DAC reflects a **net charge** of **$0.0476 per therm** for Residential, Small and Medium C&I classes and a **net charge** of **$0.0069 per therm**. Thus, the Company's proposed DAC charge in this proceeding represents a **decrease** from the currently effective DAC charge for the Residential, Small and Medium C&I classes of **$0.0075 per therm**. For the Large and Extra Large C&I classes, the DAC charge (not including the ISR) represents an **increase** of **$0.0023 per therm.** After inclusion of ISR charges, which are differentiated by rate class, the Company's proposed DAC rates are:

Rate Class	Proposed November 1, 2013 DAC Rates (per Therm)
Res-NH	$0.0197
Res-NH-LI	$0.0197
Res-H	$0.0425
Res-H-LI	$0.0425
Small	$0.0442
Medium	$0.0429
Large LL	$0.0107
Large HL	$0.0131
XL-LL	$0.0083
XL-HL	$0.0095

As shown below, the effective change in DAC rates in dollars per therm (with inclusion of ISR charges) are substantially negative for all rate classifications.

Rate Class	Current DAC Rates (per therm)	Proposed 11/1/2012 DAC Rates (per therm)	Change (per therm)	Percent Change
Res-NH	$0.1203	$0.0197	($0.1006)	-83.62%
Res-NH-LI	$0.1203	$0.0197	($0.1006)	-83.62%
Res-H	$0.0762	$0.0425	($0.0337)	-44.23%
Res-H-LI	$0.0762	$0.0425	($0.0337)	-44.23%
Small	$0.0732	$0.0442	($0.0290)	-39.62%
Medium	$0.0657	$0.0429	($0.0228)	-34.70%
Large LL	$0.0241	$0.0107	($0.0134)	-55.60%
Large HL	$0.0196	$0.0131	($0.0065)	-33.16%
XL-LL	$0.0139	$0.0083	($0.0056)	-40.29%
XL-HL	$0.0114	$0.0095	($0.0019)	-16.67%

Q. WHAT ARE THE MAJOR COMPONENTS OF THE COMPANY'S DISTRIBUTION ADJUSTMENT CHARGE (DAC) CALCULATIONS?

A. National Grid's DAC calculations comprise numerous 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. An ISR Reconciliation Factor

7. An On-System Margin Credits (**MC**) Factor
8. A Service Quality Performance (**SQP**) Factor
9. A Revenue Decoupling Adjustment (**RDA**) 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 DAC FACTORS ORGANIZED?

A. In Sections A through G below, each of the factors identified above will be discussed, with the exception of the PBOP, SQP, ISR reconciliation, and ESM factors. 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 April 1, 2013 Decision and Order in Docket No. 4323. The Allowance for Uncollectibles established in that decision is 3.18%. Section H addresses the composite effects of all of the DAC adjustments that National Grid proposes in this proceeding as reflected in its September 3, 2013 Update filing.

Q. DOES YOUR REVIEW OF NATIONAL GRID'S DAC FILING RESULT IN ANY RECOMMENDED CHANGES IN THE DAC RATES THAT WOULD BECOME APPLICABLE FOR THE COMPANY'S RHODE ISLAND CUSTOMERS AS OF NOVEMBER 1, 2013?

A. No, not at this time. However, there are matters for which further time to finalize our assessment is required. If those further analyses are completed prior to hearings, the positions set forth in this testimony will be update as appropriated. If completion of the referenced analyses requires time beyond the scheduled hearing date, the Division's positions can be updated when completed and reflected in the Division's presentation with respect to the Company's next DAC filing.

<u>A. System Pressure Factor</u>

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 LNG and the facilities used to supply LNG serve to maintain adequate operating pressures on the Company's 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 both sales and transportation service customers. In the absence of the System Pressure Factor, all of the Company's LNG costs would be recovered through National Grid's Gas Cost Recovery (GCR) charges and thus only sales service customers would bear those costs. To more appropriately apportion responsibility for System Pressure costs, the Commission has determined that the Company should allocate a portion of its LNG costs to system pressure maintenance, and it should collect those costs through the DAC. The System Pressure factor within the DAC is intended to accomplish that objective.

Q. HOW WAS THE SYSTEM PRESSURE FACTOR CALCULATED?

A. In the October 31, 2012 Settlement Agreement accepted by the Commission in Docket No. 4339, it was determined that in the calculation of the Company's annual DAC Reconciliation, beginning in November 2012, the Company will assign 75.77% of the NGLNG Lease Payment to the DAC. The NGLNG Lease Payments for the period of November 2012 to October 2013 is $1,964,880. After applying 75.77% the dollar amount assigned to the DAC is $1,488,789. That dollar amount, divided by the forecasted firm throughput for the 2013-2014 GCR year of 38,500,653 Dth, produces a system pressure factor of $0.0380 per Dth, or **$0.0038 per therm**.

Q. HAVE YOU VERIFIED THAT THE SYSTEM PRESSURE FACTOR THAT THE COMPANY HAS INCLUDED IN THE SUPPLEMENTAL TESTIMONY OF

WITNESS SMITH IN THIS PROCEEDING IS COMPUTED IN A MANNER CONSISTENT WITH THE SETTLEMENT AGREEMENT IN DOCKET NO. 4339?

A. Yes, I have. The supporting detail for the Company's System Pressure Factor has been reviewed and found consistent with the provisions of the Settlement Agreement accepted by the Commission in Docket No. 4339

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 2013, WHAT LEVEL OF FUNDING WAS AVAILABLE FOR NEW AGT PROJECTS?

A. The August 1, 2013 Direct Testimony of National Grid witness Smith indicates that the AGT program balance of available funds as of the end of March 2013 was **$2,461,303**. The balance represents a decrease of **$238,478** over the comparable AGT program balance as of the end of June 2012.

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

A. No. The Company continues to collect $300,000 annually in base rates but seeks no further funds through the AGT DAC factor.

Q. HAS NATIONAL GRID USED ANY AGT PROGRAM FUNDS OVER THE LAST YEAR?

A. Yes. The Company has issued rebates totaling **$269,172** for the past year. These rebates are for a Natural Gas Vehicle project. In response to Division data request 2-2, the Company estimated that the rebate amount per vehicle is $4,353.

Q. HAS THE COMPANY IDENTIFIED ANY FUTURE AGT PROJECTS?

A. Yes. The most ambitious AGT project identified is the installation of two cogeneration units projected to have an annual incremental gas usage of 6,349,418 therms. The Company's plans to provide **$1.8 Million** of funding for this project between 2013 and 2016 was reviewed and accepted by the Commission in Docket No. 4397.

The Company also indicates that there are two potential cogeneration projects that are in the study phase that would potentially involve a further **$571,490** in rebates collectively. The Company has not established a timeline for when it expects to issue these additional rebates.

Q. IS THE COMPANY'S TREATMENT OF INTEREST EARNED FROM THE AGT ACCOUNT IN ACCORDANCE WITH SETTLEMENT AGREEMENT FROM DOCKET NO. 4339?

A. Yes, the Company calculated $21,597 of interest on positive cash balances in the AGT Fund for the nine-month period from July 2012 through March 2013. Consistent with the settlement agreement this amount is credited to all customers through the Reconciliation factor, and can be verified in schedule MCS-7S, page 1 of 10, line 11.

<u>C. Low Income Assistance Program Factor</u>

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**.

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

A. Yes. In the context of legislated changes in LIHEAP funding, 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 Smith's Direct Testimony, filed on August 1, 2013 proposes an ERC Factor of (**$0.0001)** 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, 2013, National Grid proposes a net requirement of **$72,515**. This net dollar amount reflects:

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

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

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

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

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

6. A 10-year amortization of $965,754 of net ERC costs for FY 2009;

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

8. 10-year amortization of $4,522,947 of net ERC costs for FY 2011;

9. 10-year amortization of $5,583,936 of net ERC costs for FY 2012;

10. 10-year amortization of $1,368,521 of net ERC costs for FY 2013; 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 Environmental Response Costs to recovered through the DAC during the 2013-2014 DAC year is **$72,515**. That net balance reflects $1,382,515 in environmental costs for the 2013-2014 DAC year (based on the above the amortization schedule) less the $1,310,000 collected annually through base rates. Dividing $72,515 by the forecasted firm throughput for the 2013-2014 DAC year yields the Company's proposed ERC Factor of **($0.0001) per therm**.

Q. WHAT ARE THE MAJOR ELEMENTS OF THE ENVIRONMENTAL RESPONSE COSTS THAT NATIONAL GRID CLAIMS FOR FY 2013?

A. In the Company's August 1, 2013 DAC filing, National Grid claimed a net Environment Response Cost for FY 2012 of $1,368,521. National Grid had eight (8) active projects for which expenditures were reported, plus $45,464 of insurance recovery expenditures. Unlike the Environmental Response Costs from Docket No. 4339 that had a single project that accounted for over 77% of the total new Environmental Response Costs for the 2012-2013 DAC year, the Environmental Response Costs in this proceeding saw a large decrease in in the overall new costs and no single project accounting for more then 27.4% of total costs incurred by

National Grid during the twelve months ended June 30, 2013. A breakdown of the Company's 2013 expenditures is provided below:

➢	907 & 908 Allens Ave.	$ 329,478	24.1%
➢	Project 379 -- Petroleum Site	$ 374,298	27.4%
➢	Project --Thames & Wellington	$ 217,992	15.9%
➢	Insurance Recovery	$ 45,464	3.3%
➢	All Other Projects	$ 401,288	29.3%
	Total	$1,368,520	100.0%

Q. HAVE YOU REVIEWED SUPPORTING DETAIL FOR THE ENVIRONMENTAL RESPONSE COSTS THAT THE COMPANY CLAIMS FOR THE TWELVE MONTHS ENDED JUNE 2013?

A. Yes. I have reviewed the calculations supporting its requested ERC Factor, the full detail of the Company's August 1, 2013 Annual Environmental Report as well as extensive materials (i.e., reports, contractor invoices, receipts, etc.) that National Grid has provided in response to Division data requests which detail the Company's claimed FY 2013 environmental expenditures.

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, 2013?

A. No. Through discovery the Division sought, and the Company has provided, considerable additional detail to support its costs claims. Although the Division's review of this material does not constitute a full audit of those expenditures, the Company's expenditures appear to be reasonable and well-documented.

E. On-System Margin Credits

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

A. The role of the On-System Margin Credit (MC) factor was changed as part of the Commission's determinations in the Company's last base rate case. Prior to the Commission's decision in Docket No. 4323, the On-System Margin Credit Factor was used to identify deviations between the margin revenue collected from all Firm and Non-Firm dual fuel customers and the margin revenue assumed to be derived from those customers in the setting of the Company's base rates for distribution service. In its decision in Docket No. 4323, the Commission accepted a change in National Grid's On-System Margin Credit determinations such that, subsequent to that decision, those determinations only apply to revenues derived from Non-Firm service customers.

Q. HOW IS THAT CHANGE IN ON-SYSTEM MARGIN CREDIT DETERMINATIONS REFLECTED IN NATIONAL GRID'S FILING IN THIS PROCEEDING?

A. As a result, of the change in methodology for MC factor determinations adopted by the Commission in Docket No. 4323, the Company's on-system margin calculations for the nine-month (July 1, 2012 through March 31, 2013) reconciliation period in this proceeding are presented in two parts. For the first seven months of the reconciliation period (i.e. prior to effective date of the Commission's decision in Docket No. 4323), on-system margin credits are computed for all (Firm and Non-Firm) Dual Fuel customers based on an annual revenue threshold of $2,816,000. For the two-month period comprising February and March of 2013, the new methodology for determining on-system margin credits that was approved by the Commission in Docket No. 4323 is applied. That new methodology applies only to Non-Firm service and the applicable annual revenue threshold for the determination of margin credits is set at $1.8 million. Since each component of the Company's On-System Margin Credit determinations is applicable for less than a full twelve-month period, the threshold under each methodology is prorated to reflect the number of months during the reconciliation period that each methodology was in effect.

Q. DID NATIONAL GRID ACHIEVE REVENUE MARGINS DURING NINE-MONTH RECONCILIATION PERIOD ENDED MARCH 31, 2013 THAT EXCEEDED ITS PRORATED REVENUE THRESHOLDS?

A. Yes. Attachment MCS-6 indicates that National Grid realized Total Dual Fuel Margins for the twelve months ended March 31, 2013 of $2,404,728. National Grid computed that the sum of the two prorated threshold amounts applicable for the reconciliation period was $1,942,667. Thus, National Grid collected a total of $426,061 in excess of the combined prorated revenue threshold for the reconciliation period, and those excess revenue collections form the basis for a net revenue credit to be applied to customer's bills through the Company's proposed On-System Margin Factor in this proceeding.

Q. HAVE YOU ASSESSED THE REASONABLENESS OF NATIONAL GRID'S FY 2012 MARGIN REVENUE DETERMINATIONS?

A. Yes. I have reviewed in detail the margin revenue calculations that National Grid has presented in Attachment MCS-6 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 that the Company has not properly adjusted its revenue thresholds to reflect migration of dual fuel customers from Non-Firm to Firm Service for the period subsequent to the test year in Docket No. 4323. I also find that a number of elements of the data used in the Company's on-system margin determinations warrant further examination. Subject to the receipt of further information from the Company regarding those open matters, the Company's proposed MC Factor of **($0.0012) per therm** appears reasonable.

Q. HOW SHOULD THE COMPANY HAVE ADJUSTED ITS MARGIN REVENUE THRESHOLDS USED IN ITS ON-SYSTEM MARGIN CREDIT DETERMINATIONS FOR THE RECONCILIATION PERIOD IN THIS PROCEEDING?

A. In response to Division Data Request 2-7, part e, the company identifies four duel fuel customers that have migrated from Non-Firm to Firm service since the test year in Docket No. 4323 and one Dual-Fuel Customer that left the system. The Company's response to Division Data Request 2-7e also acknowledges that the identified customer migrations should have resulted in adjustments to the applicable on-system margin thresholds of $1.8 Million and $2.816 Million that were applicable for the first seven month and the last two month of the reconciliation period for this proceeding. The Company's response further computes that the required adjustments represent only a small increase of in the amount of the On-Peak Margin Credit (e.g., **$5,707**), and that amount is not sufficient to alter the MC Factor of ($0.0012) that is computed in Schedule MCS-6, page 1 of 11. I will attempt to verify the computations underlying the $5,707 amount prior to hearings.

Q. ARE THERE OTHER ELEMENTS OF THE COMPANY'S ON-SYSTEM MARGIN CREDIT DETERMINATIONS THAT WARRANT FURTHER CONSIDERATION?

A. Yes. First, The Company's response to Division Data Request 2-7e further indicates that an error was identified in the Company's billings for a Duel Fuel customer (Assigned # 57 in Schedule MCS-6) for the period July 2012 through January 2013, but the impact of corrected billings for that customer are yet to be determined. Second, my review of the customer-by-customer detail supporting the Company's on-system margin credit determinations finds a number of elements within that analysis which require further explanation. Depending on the answers received to requests for further explanation and/or documentation for those elements of the Company's On-System Margin Credit determination, an adjustment to those determinations may be appropriate. I have contacted witness Smith, and she is investigating several questions relating to those determinations. In the absence of the additional information I have requested, it is not possible at this time to determine whether any of the remaining questions, or combination thereof the resolution of those matters with the items identified in National Grid's response to Division Data Request 2-7e, will result in the computed revenue credits that are sufficient to justify a change in the Company's computed On-System Margin Factor.

F. Revenue Decoupling Adjustment Factor

Q. WHAT IS THE PURPOSE OF THE COMPANY'S REVENUE DECOUPLING ADJUSTMENT (RDA) FACTOR?

A. In Docket 4206, the Commission approved a Revenue Decoupling Mechanism (RDM) for the Residential, Small Commercial, and Medium Commercial rate classes. The approved RDM provides for an annual reconciliation of the Company's actual base revenues with its approved test year base revenue (on a revenue-per-customer basis) as approved in the Company's most recent base rate case.

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

A. Witness Smith's Direct Testimony, filed on August 1, 2013, indicates that a reconciling adjustment of **$7,490,077** is required to offset under-recoveries of approved test year revenue for the Company's Residential, Small Commercial, and Medium Commercial rate classes for the twelve months ended March 31, 2013. Based on the computed **$7,490,077** under-recovery, the witness Smith's Direct Testimony calculates a uniform RDA Factor for application to all Residential, Small C&I and Medium C&I customers of **$0.0280 per therm**.

Q. IS THE COMPANY'S PROPOSED RDA FACTOR IN THIS PROCEEDING PROPERLY COMPUTED?

A. Yes. After reviewing Attachment MCS-8 and the supporting workpapers, adjustment amount of $7,490,077 and the forecasted throughput for the Residential, Small C&I, and Medium C&I classes of 26,725,365 Dth are properly computed.

Q. HOW DOES THE COMPANY COMPUTE ITS RDA FACTOR FOR RESIDENTIAL, SMALL C&I, AND MEDIUM C&I CUSTOMERS?

A. For each applicable rate class, the difference between the Benchmark revenue-per-customer and Actual base revenue-per-customer for each month of the period from April 2012 to January 2013 is multiplied by the number of customers for each month. This determines the Monthly Under/(Over) Recovery amount. The total of the Monthly Under/(Over) Recovery amount is summed for each rate class. The total of the Residential, Small, and Medium Commercial classes was an under-recovery of

$7,490,077. This amount is divided by the forecasted throughput for the applicable classes (e.g., 26,725,365 Dth). That calculation results in a RDA Factor of $0.0280 per Dth or **$0.0028 per therm.**

<u>G. Reconciliation Factor</u>

Q. WHAT IS THE PURPOSE OF THE RECONCILIATION (R) FACTOR THAT NATIONAL GRID INCLUDES IN ITS DAC RATE DETERMINATIONS?

A. The Reconciliation (R) Factor 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.

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

A. Updated Attachment MCS-7S, page 1 of 10, indicates that in aggregate the Company's reconciliations reflect a net under-collection of $1,607,481. That under-collected balance results in a computed Reconciliation Factor of **$0.0041 per therm** for application during the Company's 2013-2014 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 MCS-7S filed on September 3, 2013, and I find that the Company's proposed Reconciliation Factor for this preceding is almost three time larger then in Docket No. 4339, the prior year DAC docket. The reconciliation factor from Docket No. 4339 was $0.0014 per therm compared to the $0.0041 per therm proposed in this proceeding. The two most important drivers of this change are the new method of determining the System Pressure Factor and the more then doubling of the ARP Tracker amount.

H. Summary

Q. PLEASE SUMMARIZE YOUR FINDINGS WITH RESPECT TO THE COMPANY'S DAC RATE DETERMINATIONS IN THIS PROCEEDING?

A. At this point, I find no need for adjustment of the Company's proposed DAC rates. My assessment finds that National Grid has properly reflected the agreements included in the settlement agreement accepted by the Commission in Docket No. 4339 as they related to: (1) the determination of the System Pressure Factor; and (2) crediting through the Reconciliation factor earned interest earned on the accumulated balance of AGT funds. However, some matters remain unresolved as of this time and will require additional analyses. Among the matters that remain open is the Company's determination of On-System Margin Credits and the treatment of certain revenue amounts within those determinations. As previously noted, the Division reserves the right to update its position as further analyses are completed.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.