

**NARRAGANSETT ELECTRIC COMPANY  
D/B/A NATIONAL GRID -**

**REQUEST FOR APPROVAL OF  
STORM CONTINGENCY FUND REPLENISHMENT**

**RIPUC DOCKET NO. 4686**

**BEFORE THE  
RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**TESTIMONY OF DAVID J. EFFRON**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MAY 12, 2017**

RIPUC DOCKET NO. 4686  
DIRECT TESTIMONY  
OF DAVID J. EFFRON

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1 **I. STATEMENT OF QUALIFICATIONS**

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

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

5

6 **Q. What is your present occupation?**

7 A. I am a consultant specializing in utility regulation.

8

9 **Q. Please summarize your professional experience.**

10 A. My professional career includes over thirty years as a regulatory consultant, two years as  
11 a supervisor of capital investment analysis and controls at Gulf & Western Industries and  
12 two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public  
13 Accountant and I have served as an instructor in the business program at Western  
14 Connecticut State College.

15

16 **Q. What experience do you have in the area of utility rate setting proceedings?**

17 A. I have analyzed numerous electric, gas, telephone, and water filings in different  
18 jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys in  
19 case preparation, and provided assistance during settlement negotiations with various  
20 utility companies.

21 I have testified in over three hundred cases before regulatory commissions in  
22 Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky,  
23 Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota,

1 Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and  
2 Washington.

3

4 **Q. Please describe your other work experience.**

5 A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was  
6 responsible for reports and analyses concerning capital spending programs, including  
7 project analysis, formulation of capital budgets, establishment of accounting procedures,  
8 monitoring capital spending and administration of the leasing program. At Touche Ross  
9 & Co., I was an associate consultant in management services for one year and a staff  
10 auditor for one year.

11

12 **Q. Have you earned any distinctions as a Certified Public Accountant?**

13 A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores  
14 in the May 1974 certified public accounting examination in New York State.

15

16 **Q. Please describe your educational background.**

17 A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College  
18 and a Masters of Business Administration Degree from Columbia University

19

20 **II. PURPOSE OF TESTIMONY AND CONCLUSIONS**

21 **Q. On whose behalf are you testifying?**

22 A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers  
23 ("the Division").

1

2 **Q. What is the purpose of your testimony?**

3 A. On December 29, 2016, The Narragansett Electric Company d/b/a National Grid  
4 (“National Grid,” “Narragansett,” or “the Company”) submitted a request for approval  
5 to collect funds from customers to replenish its Storm Contingency Fund (“Storm Fund”).  
6 I have reviewed the Company’s application and the quantification of the storm costs for  
7 which it seeks recovery. My testimony addresses the incremental operation and  
8 maintenance (“O&M”) expenses included by the Company in the deferred storm costs  
9 eligible for recovery through the Storm Fund.

10

11 **III. INCREMENTAL O&M DEFERRED STORM COSTS**

12 **Q. What is the amount of the deficit in the Storm Fund that the Company is seeking to**  
13 **recover?**

14 A. As filed by the Company, the deficit in the Storm Fund as of November 30, 2016 was  
15 \$94.2 million.<sup>1</sup> The cumulative balance in the Storm Fund consists of charges for net  
16 incremental O&M storm expenses in excess of the per-storm deductible, less monthly  
17 contributions (recoveries from ratepayers) and credits for 50% of attachment fee  
18 revenues and insurance recoveries, plus interest on the balance.

19

20 **Q. What are the components of the incremental O&M expenses as quantified by the**  
21 **Company?**

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<sup>1</sup> On April 3, 2017, Narragansett filed a Revised Storm Fund Report that shows a deficit of \$94.9 million as of November 30, 2016, stating that the prior quantification had omitted certain costs.

1 A. The components of the incremental O&M deferred storm costs are identified in the  
2 Company's final storm cost accounting filings for storm events.<sup>2</sup> The Company includes  
3 the following components: accounts payable to outside contractors, payroll (base pay  
4 and overtime), allocations (payroll overheads such as supervision, compensated time  
5 off, employee benefits, and payroll taxes), transportation, inventory, and employee  
6 expenses. These items are reduced by materials, capitalized costs, removal costs, and  
7 the \$375,000 deductible per eligible storm event.

8

9 **Q. Are all of these expenses allowable charges to the Storm Fund?**

10 A. No. The Commission approved establishment of the Storm Fund in Docket No. 2509.  
11 In accepting the stipulations of the parties regarding the Storm Fund mechanism in that  
12 case, the Commission stated that it was adopting the following recommendations of  
13 Division Witness John Bell defining allowable charges to the Storm Fund:

14 Charges to the storm fund may only be made for incremental, non-  
15 capital storm related costs such as overtime pay and charges for outside  
16 contractors. Capital costs, regular time pay and overheads should not  
17 be charged to storm contingency funds because they are recovered  
18 through other means.

19

20 Docket No. 2509, Order 15360, August 19, 1997, Pages 9-10

21

22 The Commission re-iterated this limitation on allowable charges to the Storm  
23 Fund in the first ordering clause approving the stipulations regarding the Storm Fund.

24 As noted above, the Company included base pay and payroll overheads in the  
25 incremental O&M storm costs. This is clearly inconsistent with the Commission

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<sup>2</sup> The Company has identified these components for the "filed storms" included in the cumulative balance of the Storm Fund. The cumulative balance as of November 30, 2016 also includes the costs of "unfiled storms" subsequent to March 2013, for which the final accounting has not yet been filed.

1 language allowing only “incremental, non-capital storm related costs such as overtime  
2 pay and charges for outside contractors” and explicitly disallowing “regular time pay  
3 and overheads.”

4

5 **Q. How does the Company defend the inclusion of base pay and payroll overheads in**  
6 **costs charged to the Storm Fund?**

7 A. In response to Division Data Request 1-1, the Company stated that the base pay  
8 “reflects base pay of employees who supported the storm restoration effort and are  
9 employed by the Company’s affiliates which directly benefits the Company. Base pay  
10 of affiliate company personnel who performed storm-related work is an incremental  
11 cost to the Company that it would not otherwise incur but for the occurrence of the  
12 storm events and is appropriately charged to the Storm Fund.”

13 In response to Division Data Request 1-5, the Company stated that the payroll  
14 overheads “include the labor-related overheads associated with payroll of personnel  
15 who performed storm-related work and are employed by the Company’s affiliates,  
16 which directly benefits the Company. Such costs ... are incremental costs to the  
17 Company that it would not otherwise incur and are appropriately charged to the Storm  
18 Fund.”

19

20 **Q. Does the Company’s explanation justify the inclusion of base pay and payroll**  
21 **overheads in allowable Storm Fund charges?**

22 A. No. In effect, what the Company seems to be saying is that because National Grid  
23 USA’s internal accounting practices require that affiliates’ base pay and payroll

1 overheads associated with storms be charged to Narragansett Electric, these costs are  
2 eligible for recovery through the Storm Fund. Base pay and payroll overheads of  
3 affiliates do not increase incrementally as a result of storms, and these costs should not  
4 be charged to the Storm Fund.

5  
6 **Q. Have you quantified the base pay and payroll overheads charged to the Storm**  
7 **Fund?**

8 A. I have quantified those costs for storm events from 2010 through March 2013, as  
9 presented by the Company in its Final Storm Cost Accountings filed on September 6,  
10 2013 and June 30, 2016. I have summarized those costs on my Schedule DJE-1. As can  
11 be seen on this Schedule, the Company charged \$9.3 million of base pay and payroll  
12 overheads to the Storm Fund for storm from 2010 through March 2016. On December  
13 21, 2016, Narragansett filed Revised Storm Fund Reports that eliminated \$0.5 million of  
14 pension and postretirement benefit charges that were separately recovered through the  
15 Company's Pension Adjustment Mechanism, leaving \$8.8 million of base pay and  
16 payroll overheads for the storms from 2010 – March 2013.

17 A portion of the base pay and payroll overheads are charged to capital and cost  
18 of removal accounts and eliminated from the incremental O&M storm costs. Based on  
19 the relationship of capital and cost of removal to total storm costs, I estimate that  
20 approximately \$0.4 million of the base pay and payroll overheads would be excluded  
21 from the incremental O&M storm costs. After these exclusions, the net base pay and  
22 payroll overheads charged to the Storm Fund for storm events from 2010 through March  
23 2013 included in the Storm Fund come to \$8.3 million.

1

2 **Q. Are there other charges to the Storm Fund related to base pay and payroll**  
3 **overheads?**

4 A. Yes. The \$8.3 million relates to storm events from 2010 through March 2013, what the  
5 Company refers to in its Schedule NG-1 as “filed storms.” The Company also includes  
6 costs for storms from November 2103 through April 2016 (“unfiled storms”) in the  
7 total of costs for which it is seeking recovery. Based on the relationship of base pay  
8 and payroll overheads to the total costs for filed storms, I estimate that the base pay and  
9 payroll overheads for the unfiled storms would be approximately \$1.4 million.

10 Further, Narragansett accrues interest on the balance in the Storm Fund. I  
11 estimate that the incremental interest accrued on the base payroll and payroll overheads  
12 from 2010 through November 2016 is at approximately \$0.9 million.

13 Thus, including the estimated base pay and payroll overheads in the unfiled  
14 storms and the estimated interest on the base pay and payroll overheads, I calculate that  
15 inclusion of the base pay and payroll overheads in incremental storm O&M has  
16 increased the storm fund balance by about \$10.6 million as of November 30, 2016.

17

18 **Q. What do you recommend?**

19 A. The Company should be required to quantify the actual base pay and payroll overheads  
20 charged to the storm fund, net of capitalized costs, for all storms – both filed and unfiled  
21 - from March 2010 through November 2016. Those base payroll and payroll overhead  
22 costs should be eliminated from the recoverable storm costs, with the exception of any  
23 payroll overheads that vary directly with employee overtime (for example, payroll

1 taxes). The recoverable storm fund balance as of November 30, 2016 should then be  
2 re-calculated to reflect the necessary corrections to eliminate base pay and payroll  
3 overheads. The Company should not be allowed to charge base pay and payroll  
4 overheads to recoverable storm costs for any storms subsequent to November 30, 2016  
5 (again, except for any payroll overheads that vary directly with storm costs.)  
6

7 **Q. Should the Company's proposed storm replenishment factor be modified based**  
8 **on this recommendation?**

9 A. Yes. The Company has calculated that the supplemental contribution necessary to  
10 replenish the Storm Fund over four years is \$84.3 million. I have estimated that  
11 elimination of base pay and payroll overheads would reduce the recoverable storm  
12 costs by \$10.6 million, which is approximately 12.6% of the supplemental contribution  
13 of \$84.3 million calculated by the Company. Reducing the Company's proposed Storm  
14 Fund Replenishment Factor of \$0.00288 per kWh by 12.6% results in a factor of  
15 approximately \$0.0025 per kWh. Therefore, I recommend that the Storm Fund  
16 Replenishment Factor be reduced to \$0.0025 per kWh. When the Company completes  
17 the re-calculation of the Storm Fund balance to reflect the elimination of base pay and  
18 payroll overheads, there should be a review to determine whether the factor should be  
19 modified.  
20

21 **Q. Does this conclude your direct testimony?**

22 A. Yes.

## Schedule DJE-1

The Narragansett Electric Company  
d/b/a National Grid  
Request for a Storm Fund Replenishment Factor  
Base Pay and Payroll Overheads 2010 - 2013 Storms

		<u>Base Pay</u>	<u>Payroll Overheads</u>	<u>Total</u>
March 2010 Flood	(A)	79,647	203,621	283,268
September 2010 Hurricane Earl	(A)	15,516	46,397	61,913
August 2011 Tropical Storm Irene	(A)	889,853	2,453,394	3,343,247
October 2011 Snowstorm	(A)	32,580	159,062	191,642
January 2012 Snow/Wind Storm	(B)	6,353	16,364	22,717
July 2012 Lightning Storm	(B)	39,930	103,295	143,225
October 2012 Hurricane Sandy	(B)	(475,459)	1,821,881	1,346,422
November 2012 Snowstorm	(B)	97,531	443,145	540,676
February 2013 Nor'easter (Nemo)	(B)	341,538	2,871,364	3,212,902
February 2013 Coastal Storm	(B)	3,186	17,678	20,864
March 2013 Snowstorm	(B)	<u>83,325</u>	<u>74,433</u>	<u>157,758</u>
Totals		1,114,000	8,210,634	9,324,634
Correction 12/21/2016	(C)	<u>-</u>	<u>(542,370)</u>	<u>(542,370)</u>
Adjusted Base Pay and Overheads		1,114,000	7,668,264	8,782,264
Estimated Capital and Removal	5%	<u>55,700</u>	<u>383,413</u>	<u>439,113</u>
Net Charged to Deferred Storm Costs		1,058,300	7,284,851	8,343,151
Estimate for Unfiled Storms				1,400,000
Estimated Effect on Interest				<u>900,000</u>
Total Effect on Storm Fund Balance 11/30/2016				<u><u>10,643,151</u></u>

## Sources:

- (A) Final Storm Cost Accounting: 2010 and 2011 Storm Events
- (B) Final Storm Cost Accounting: January 2012 and through March 2013 Storm Events
- (C) Revised Annual Storm Fund Reports for 2013 - 2015, December 21, 2016