

Revised Direct Testimony

of

David E. Tufts

TABLE OF CONTENTS

I. INTRODUCTION AND QUALIFICATIONS.....1

II. PURPOSE OF TESTIMONY2

III. INCREMENTAL REP/VMP O&M EXPENSE4

IV. REP CAPITAL INVESTMENT ALLOWANCE5

V. SUMMARY9

VI. RATE DESIGN AND RECONCILIATION10

VII. EFFECTIVE DATE, BILL IMPACT, AND TARIFF PAGES12

VIII. CONCLUSION13

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Mr. Tufts, please state your full name and business address.**

3 A. My name is David E. Tufts. My business address is 40 Sylvan Road, Waltham,
4 Massachusetts 02451.

5

6 **Q. By whom are you employed and in what position?**

7 A. I am Director, Regulatory Accounting for National Grid USA Service Company, Inc.
8 (“Service Company”). The Service Company provides engineering, financial,
9 administrative and other technical support to subsidiary companies of National Grid
10 USA. My current duties include revenue requirements oversight for National Grid
11 USA’s electric distribution and generation activities in the US, including Granite State
12 Electric Company d/b/a National Grid (“National Grid” or the “Company”).

13

14 **Q. Please provide a brief summary of your educational background.**

15 A. In 1983, I earned a Bachelor of Science degree in Accounting, from Stonehill College in
16 Easton, Massachusetts.

17

18 **Q. Please describe your professional background.**

19 A. From 1981 through April 2000, I was employed by various subsidiary companies of
20 Eastern Utilities Associates (“EUA”), including EUA Service Corporation which
21 provided accounting, financial, engineering, planning, data processing, and other services
22 to all EUA System companies. I joined EUA’s accounting department in 1983. I held

1 positions of increasing responsibility in accounting and was promoted to the position of
2 Manager of Accounting Services in 1991. The EUA System was acquired by National
3 Grid USA in early 2000, at which time I joined the Service Company. In January 2009, I
4 became Director, Electric Distribution and Generation Revenue Requirements. In April
5 2011, I became Director, Regulatory Accounting.

6
7 **Q. Have you previously testified before the New Hampshire Public Utilities**
8 **Commission (“NHPUC” or “Commission”)?**

9 A. Yes. I have previously testified before the Commission in Dockets DE 09-094 and DE
10 10-140.

11
12 **II. PURPOSE OF TESTIMONY**

13 **Q. What is the purpose of this testimony?**

14 A. This testimony supports the Company’s request for Commission approval to recover the
15 incremental operating and maintenance (“O&M”) and capital investment allowance
16 expense associated with the Vegetation Management Program (“VMP”) and Reliability
17 Enhancement Program (“REP”) implemented during fiscal year 2011 (“FY 2011”).
18 Resulting from the Company’s FY 2011 REP and VMP Report (“2011 REP/VMP
19 Report”) included in this filing, the Company is seeking to refund customers
20 ~~\$758,113~~754,284 through the REP/VMP Adjustment Provision (plus interest of
21 ~~\$18,446~~18,353), which represents the amount of incremental O&M expense below the
22 base O&M amount of \$1,360,000, or ~~\$114,015~~110,186, plus reimbursements from

1 FairPoint Communications (“FairPoint”), as discussed later in my testimony. In addition,
2 the Company is seeking to recover a REP Capital Investment Allowance of
3 ~~\$102,941~~118,888, which is the revenue requirement associated with ~~\$610,835~~697,226 of
4 capital investment for FY 2011.

5
6 The Company has calculated an annual rate adjustment of ~~\$(1,721,388)~~1,701,519
7 ~~\$(1,702,942)~~1,683,166, as shown on Schedule DET-1, Page 1, Line 9, plus interest of
8 ~~\$18,446~~18,353, as shown on Schedule DET-2, Page 3, Line 2) effective for usage on and
9 after July 1, 2011 associated with the REP Capital Investment Allowance and the
10 REP/VMP Adjustment Provision. The REP Capital Investment Allowance revenue
11 requirement of ~~\$102,941~~118,888 translates into a percentage increase of ~~0.500~~0.57 percent
12 to base distribution rates. The net incremental O&M refund to customers of
13 ~~\$776,559~~772,637 (including interest of ~~\$18,446~~18,353 as noted above) translates into a
14 proposed REP/VMP Adjustment Factor of (\$0.00083) per kilowatt-hour.

15
16 **Q. Are there any schedules accompanying your testimony?**

17 A. Yes, there are. Attached to my testimony are the following schedules:

18	Schedule DET-1	Revenue Requirement
19	Schedule DET-2	Rate Design
20	Schedule DET-3	Reconciliation of Recovery of FY 2009 and FY 2010
21		Incremental O&M Expense Above Base O&M Expense
22		
23	Schedule DET-4	Typical Bill Impacts

1 Schedule DET-5 Revised Tariff Pages

1 **III. INCREMENTAL REP/VMP O&M EXPENSE**

2 **Q. Is the Company's request to recover the incremental REP/VMP O&M expense**
3 **incurred during FY 2011 consistent with the terms of the comprehensive settlement**
4 **agreement approved by the Commission in Docket No. DG 06-107 ("Settlement**
5 **Agreement")?**

6 A. Yes. As required by the Settlement Agreement, on February 12, 2010 the Company
7 provided its proposed REP and VMP to Staff for FY 2011 for Staff's review. In addition,
8 the Company met with Staff to discuss its FY 2011 proposal. The elements that the REP
9 and VMP must include and the process for Staff review are set forth in Exhibit GSE-8 to
10 the Settlement Agreement at pages 4 and 5. The Settlement Agreement at page 5 of
11 Exhibit GSE-8 establishes a base O&M expense amount of \$1,360,000 for fiscal years
12 2009 through 2012. Actual expenses incurred by the Company in implementing the
13 O&M components of the annual REP and VMP, as agreed to with Staff, shall be
14 reconciled to the base O&M amount of \$1,360,000 and shall be subject to the REP/VMP
15 Adjustment Provision. This reconciliation is shown in column (d) on Schedule DET-1,
16 Page 2.

17
18 For FY 2011, following review and discussion, the Company and Staff agreed to a total
19 O&M budget of \$1,552,000, as shown on Page 2, Line 3, which reflects \$134,000 for
20 REP-related O&M and \$1,418,000 for VMP-related O&M. As indicated in the 2011
21 REP/VMP Report and reflected on Line 1, the Company incurred \$~~1,245,985~~1,249,814 in
22 REP/VMP O&M expenses during FY 2011. This is \$~~14,015~~110,186 less than the base

1 rate recovery amount of \$1,360,000 reflected in rates, as shown on Line 9. Partially
2 offsetting the FY 2011 spending is \$644,098 in reimbursements from FairPoint related to
3 its share of vegetation management expenses initially incurred by the Company and then
4 billed to FairPoint, which are being passed back to customers on Line 11. The Company
5 is therefore seeking recovery of the total O&M spending, net of FairPoint
6 reimbursements, or ~~\$601,887~~605,716, as shown on Line 15. This incremental O&M
7 expense is below the base recovery amount of \$1,360,000 reflected in rates, resulting in a
8 net O&M credit for FY 2011 of ~~\$758,113~~754,284 on Line 13, which the Company
9 proposes to refund to customers.

10
11 **IV. REP CAPITAL INVESTMENT ALLOWANCE**

12 **Q. Is the calculation of the FY 2011 REP Capital Investment Allowance included in the**
13 **Company's proposal consistent with the terms of the Settlement Agreement?**

14 A. Yes, it is. The Company is proposing to recover the incremental revenue requirement of
15 ~~\$102,941~~118,888 associated with ~~\$610,835~~697,226 of capital investments in FY 2011.
16 The calculation mirrors the calculation agreed to in the Settlement Agreement as shown
17 in Exhibit GSE-8, Attachment 1 of that document.

18
19 **Q. Did the Company make any changes to the revenue requirement calculation from**
20 **that contained in the Settlement Agreement?**

1 A. Yes. The Company updated the composite depreciation rate and the property tax rate to
2 reflect the actual data for calendar year 2010 (“CY 2010”). These new rates are reflected
3 in column (d) on Schedule DET-1, page 3, Lines 4 and 35, respectively.

4 **Q. How has the Company determined the capital investment amount included in the**
5 **REP Capital Investment Allowance revenue requirement calculation contained on**
6 **Schedule DET-1?**

7 A. Pursuant to the terms of the Settlement Agreement, Exhibit GSE-8 at Page 7,
8 “The Company shall track all capital investments made in accordance with
9 the REP for each fiscal year including FY 2008 through 2013. At the same
10 time that the Company makes its reconciliation filing for the REP/VMP
11 Adjustment reconciliation, the Company shall file a report detailing the
12 actual amount of capital investments made in accordance with
13 implementing the REP during the prior fiscal year. The report shall
14 include a calculation of the revenue requirement for adding these
15 additional capital investments into rate base, using the imputed capital
16 structure and rates set forth in Section 3.(C) of the Rate Plan, and as
17 illustrated on the accompanying Attachment 1. Provided that the
18 investments were made in accordance with the REP, the Company will be
19 allowed, subject to Commission approval, a permanent increase in its
20 distribution rates to recover the annual revenue requirement for those
21 investments. This permanent REP Capital Investment Allowance will take
22 effect for usage on and after July 1, at the same time as any REP/VMP
23 Adjustments are implemented for the preceding fiscal year as discussed in
24 section (D) above.”

25
26 | As indicated in the 2011 REP/VMP Report, the Company invested \$~~610,835~~697,226 in
27 REP capital investments in FY 2011. The Settlement Agreement provides for the
28 recovery, subject to Commission approval, of the revenue requirement associated with
29 actual capital investment. Therefore, the Company is basing the revenue requirement
30 | calculation on the \$~~610,835~~697,226 of actual capital investment for FY 2011.

1 **Q. Would you please walk through the revenue requirement calculation contained on**
2 **Page 3 of Schedule DET-1?**

3 A. Certainly. Lines 1 through 28 calculate the rate base upon which the Company's return
4 allowance is calculated. As shown on Line 1 in column (d), the FY 2011 annual REP
5 program spend is \$~~610,835~~697,226, as previously discussed, resulting in the cumulative
6 amount of \$~~2,937,078~~3,023,469, as shown on Line 2 of that same column. Lines 4
7 through 22 calculate the deferred tax reserve based on the depreciation rate timing
8 difference between book and tax depreciation rates. The composite book depreciation
9 rate was based on actual data for CY 2010 and equals 3.73 percent. The tax depreciation
10 rate reflects the MACRS 20 year utility property year 1 rate of 3.75 percent, year 2 rate of
11 7.22 percent, year 3 rate of 6.68 percent, and year 4 rate of 6.18 percent. The resulting
12 cumulative book/tax timing difference is \$~~148,531~~148,546 on Line 19. The cumulative
13 deferred tax reserve equals the cumulative book/tax timing difference times the effective
14 federal and state tax rate, incorporating a 8.5 percent state rate, of 40.53 percent, or
15 \$~~60,192~~60,198 on Line 22. The Company's year-end net rate base of
16 \$~~2,591,847~~2,675,007, upon which the Company's return allowance is calculated, is
17 shown on Line 28 and consists of the cumulative REP capital investment through FY
18 2011, or \$~~2,937,078~~3,023,469, accumulated book depreciation of \$~~285,039~~288,264, and
19 accumulated deferred tax reserves of \$~~60,192~~60,198, as shown on Lines 25 through 27,
20 respectively.

1 **Q. Please continue.**

2 A. As agreed to in the Settlement Agreement, the return allowance for the REP capital
3 investment allowance for each July 1 rate adjustment is based on the prior fiscal year-end
4 rate base times the stipulated pre-tax weighted average cost of capital from the Settlement
5 Agreement as shown on Lines 43 through 49, or 11.91 percent. The resulting return
6 allowance equals the fiscal year-end rate base of ~~\$2,591,847~~2,675,007 times the
7 stipulated pre-tax return rate of 11.91 percent, or ~~\$308,634~~318,536, as shown on Line 33.
8 Annual depreciation expense of ~~\$109,645~~112,870 and property taxes of ~~\$89,945~~92,723,
9 on Lines 34 and 35, respectively, are added to the return amount to arrive at the total
10 revenue requirement of ~~\$508,183~~524,130 on Line 36. The property tax amount is based
11 on the actual ratio of municipal tax expense to net plant in service for CY 2010 applied to
12 the fiscal year-end net plant in service, or the sum of Lines 25 and 26. The incremental
13 FY 2011 revenue requirement amount of ~~\$102,941~~118,888, representing the cumulative
14 revenue requirement less the previous year's cumulative revenue requirement, is then
15 shown on Line 40 in column (e).

16

17 **Q. What is reflected in the subsequent columns, or columns (e) and (f), shown on Page**
18 **3 of Schedule DET-1?**

19 A. The Company provided its proposed REP and VMP budgets and plan for fiscal year 2012
20 ("FY 2012") to Staff on February 15, 2011, to which the Staff agreed. The REP capital
21 investment target for FY 2012 is \$689,000. The calculation of the cumulative revenue

1 requirement which was previously described for FY 2011 was repeated for FY 2012, with
2 incremental rate adjustments in subsequent fiscal years shown on Line 40.

3 **V. SUMMARY**

4 **Q. Would you please summarize Schedule DET-1 to your testimony?**

5 A. Yes. Schedule DET-1, Page 1 provides a summary of estimated rate adjustments for the
6 Incremental VMP/REP O&M spend and REP capital investment allowance. The
7 amounts in columns (b) through (e) represent actual data for the years 2008 through
8 2011. The column titled "07/01/2011" is the basis for the rate adjustment to be
9 implemented on July 1, 2011. The annual rate adjustment for FY 2012 in column (f) is
10 illustrative only and equals the sum of the previously described annual Incremental
11 VMP/REP O&M spend reflected on Page 2 plus the annual REP capital investment
12 allowance reflected on Page 3. This subsequent year rate adjustment will be the subject
13 of a future annual filing before the Commission.

14
15 In summary, for FY 2011, the incremental annual revenue requirement to be refunded
16 through the Company's distribution rates commencing July 1, 2011 amounts to
17 \$~~1,702,942~~635,396, as shown on Page 1, Column (e), Line 9, plus interest of
18 \$~~18,446~~18,353, as shown on Schedule DET-2, Page 3, Line 2.

1 **VI. RATE DESIGN AND RECONCILIATION**

2 **Q. Is the procedure for adjusting distribution rates for the REP Capital Investment**
3 **Allowance and REP/VMP Adjustment Provision consistent with the terms of the**
4 **Settlement Agreement?**

5 A. Yes. The rate design in Schedule DET-2 of my testimony is consistent with the terms of
6 the Settlement Agreement and is the same procedure used to adjust base distribution
7 charges for the rate reductions, pursuant to the Settlement Agreement, which took place
8 for usage on and after August 11, 2007 and for usage on and after January 1, 2008. It is
9 also the same procedure used to adjust base distribution rates associated with the REP
10 Capital Investment Allowance implemented for usage on and after August 1, 2009 and
11 for usage on and after July 1, 2010 following Commission approval of the Company's
12 REP Capital Allowance for fiscal year 2009 ("FY 2009") in Order No. 24,998 in Docket
13 DE 09-094 and for fiscal year 2010 in Order No. 25,126 in Docket DE 10-140.

14

15 **Q. Please describe the procedure for adjusting distribution rates for the REP Capital**
16 **Investment Allowance.**

17 A. The procedure for adjusting distribution rates is presented in Schedule DET-2. As
18 presented on Page 1 of Schedule DET-2, the Company simply divides the capital
19 investment allowance related to the REP on Line (1) by the forecasted annual distribution
20 revenue for the twelve month period ended June 30, 2012 on Line (2) to calculate the
21 percentage increase on Line (3) which is then applied to each of the Company's base

1 distribution charge components. The calculation of the forecasted annual distribution
2 revenue is presented on Page 2 of Schedule DET-2.

3
4 **Q. Please describe the procedure for calculating the REP/VMP Adjustment Factor.**

5 A. The procedure for calculating the REP/VMP Adjustment Factor is also presented in
6 Schedule DET-2. As presented on Page 3 of Schedule DET-2, the Company simply
7 divides incremental O&M expense related to the REP and VMP, including interest on
8 Line (3), by the Company's estimated kWh deliveries for the twelve month period ended
9 June 30, 2012 on Line (4) to calculate the adjustment factor on Line (5) which is then
10 applied to all kWh's billed to customers. The calculation of interest is presented on Page
11 4 of Schedule DET-2. The calculation of the new base distribution rates is presented on
12 Page 5 of Schedule DET-2.

13
14 **Q. Has the Company included a reconciliation of the existing REP/VMP Adjustment**
15 **Factor which was in effect August 1, 2009 through June 30, 2010?**

16 A. Yes. Pursuant to the Settlement Agreement, this reconciliation is only associated with
17 the recovery (or refund) of approved incremental O&M expense. This reconciliation is
18 presented on Page 1 of Schedule DET-3. Of the \$113,832 of FY 2009 incremental O&M
19 expense above base O&M expense to be collected through the REP/VMP Adjustment
20 Factor of \$0.00014 per kWh, \$111,332, was collected through June 2010. The remaining
21 balance of \$5,629 is reflected as an adjustment in the reconciliation of the currently
22 effective REP/VMP Adjustment Factor in the month of July 2010.

1 **Q. Has the Company included a reconciliation of the existing REP/VMP Adjustment**
2 **Factor?**

3 A. Yes. Pursuant to the Settlement Agreement, this reconciliation is only associated with
4 the recovery (or refund) of approved incremental O&M expense. This reconciliation is
5 presented on Page 2 of Schedule DET-3. Of the \$1,047,770 of FY 2010 incremental
6 O&M expense above base O&M expense to be collected through the currently effective
7 REP/VMP Adjustment Factor of \$0.00125 per kWh, \$894,060 has been collected through
8 April 2011. Any remaining balance after the end of the recovery period, positive or
9 negative, will be reflected as an adjustment in the reconciliation of the proposed
10 REP/VMP Adjustment Factor in the month of July 2011.

11

12 **VII. EFFECTIVE DATE, BILL IMPACT, AND TARIFF PAGES**

13 **Q. How and when is the Company proposing that these rate changes be implemented?**

14 A. Consistent with the Commission's rules on the implementation of rate changes, the
15 Company is proposing that these distribution rate changes be made effective for usage on
16 and after July 1, 2011.

17

18 **Q. Has the Company determined the impact of these rate changes on customer bills?**

19 A. Yes. These bill impacts are included as Schedule DET-4. Schedule DET-4 shows that
20 for a typical residential 500 kilowatt-hour Default Service customer, the bill impact of the
21 rates proposed for July 1, 2011, as compared to rates in effect today, is a bill decrease of
22 ~~\$0.95~~0.94, or 1.5 percent, from \$63.77 to ~~\$62.82~~62.83. In addition, a bill comparison for

1 a Default Service residential customer with an average kilowatt-hour usage of 681, which
2 is the average monthly usage over the 12 months ending April 2011, has also been
3 included on Page 1 of Schedule DET-4. The total bill impact of the rates proposed in this
4 filing, as compared to rates in effect today, is a bill decrease of \$~~1.28~~1.27 or ~~1.51~~1.4
5 percent, from \$87.65 to \$~~86.37~~86.38. For other customers, decreases range from ~~1.41~~1.3
6 percent to ~~2.22~~2.1 percent.
7

8 **Q. Has the Company prepared revised tariff pages reflecting the proposed rates?**

9 A. Yes. The revised tariff pages are set forth in Schedule DET-5. The Company anticipates
10 proposing additional rate changes for July 1, 2011. Consequently, the Company is not
11 providing a revised Summary of Rates tariff page 84 in this filing. Once the Commission
12 has rendered a decision on all rate changes proposed for July 1, 2011, the Company will
13 file a compliance Summary of Rates tariff page 84 that reflect all approved rates.
14

15 **VIII. CONCLUSION**

16 **Q. Does that conclude your testimony?**

17 A. Yes, it does.