Testimony of
William R. Richer

Direct Testimony

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I. INTRODUCTION AND QUALIFICATIONS

Q. Mr. Richer, please state your full name and business address.

A. My name is William R. Richer. My business address is 40 Sylvan Road, Waltham, Massachusetts 02451.

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

A. I am the Director of Revenue Requirements, Rhode Island and New Hampshire for National Grid USA Service Company (the "Service Company").

Q. Please describe your educational and professional background.

A. In 1985, I earned a Bachelor of Science degree in Accounting from Northeastern University. During my schooling I interned at the certified public accounting firm Pannell Kerr Forster in Boston, Massachusetts as a staff auditor and continued with this firm after my graduation. In February 1986, I joined Price Waterhouse in Providence, Rhode Island where I worked as a staff auditor and senior auditor. During this time, I earned my certified public accountants license in the State of Rhode Island. In June 1990, I joined National Grid in the Service Company (then known as New England Power Service Company) as a supervisor of Plant Accounting. Since that time I have held various positions within the Service Company including Manager of Financial Reporting, Principal Rate Department Analyst, Manager of General Accounting, Director of Accounting Services, and Assistant Controller.

Q. Have you previously testified before the New Hampshire Public Utilities Commission ("NHPUC" or "Commission")?

A. Yes. I have previously testified before the Commission in Docket DE 11-107 related to the Fiscal Year 2011 ("FY 2011") Reliability Enhancement and Vegetation Management Plan for the Company and in Docket DG 09-095 related to the Fiscal Year 2009 Cast Iron/Bare Steel Replacement Program Reconciliation for EnergyNorth Natural Gas, Inc.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of this testimony?

A. This testimony supports Granite State Electric Company d/b/a National Grid's ("Company") request for Commission approval to recover the incremental operating and maintenance ("O&M") and capital investment allowance expense associated with the Vegetation Management Program ("VMP") and Reliability Enhancement Program ("REP") implemented during fiscal year 2012 ("FY 2012") resulting from the Company's FY 2012 REP and VMP Report ("2012 REP/VMP Report") included in this filing. Specifically, the Company seeks Commission approval to provide customers a total refund of $365,969 commencing July 1, 2012 based on the following four (4) components. First, the Company seeks to refund customers $295,207 through the REP/VMP Adjustment Factor (plus interest), which represents the amount of incremental O&M expense below the base O&M amount of $1,360,000, after reimbursements of $402,693 from FairPoint Communications ("FairPoint"), as discussed later in my testimony. Second, the Company seeks to refund customers a REP Capital Investment

Allowance of $18,005, which is the revenue requirement associated with $398,239 of capital investment for FY 2012. Contributing to this refund is a prior period adjustment of $73,471 associated with increased tax deprecation related to the application of the capital repairs tax deduction and bonus depreciation which are explained in more detail later in my testimony. Third, the Company seeks to refund customers $44,492 through the REP/VMP Adjustment Factor (plus interest), representing the final over collection balance related to the REP/VMP Adjustment Factor which was in effect July 1, 2010 through June 30, 2011. Finally, the carrying charge to be refunded to customers on the interest-bearing items above is $8,265. Based on these refunds and as discussed in my testimony below, the Company also requests Commission approval to increase its annual distribution rates by $392,143 effective July 1, 2012.

Q. Are there any schedules accompanying your testimony?

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

Schedule WRR-1	Revenue Requirement
Schedule WRR-2	Rate Design
Schedule WRR-3	Reconciliation of Recovery of FY 2010 Incremental O&M Expense Above Base O&M Expense and FY 2011 Incremental O&M Expense Below Base O&M Expense
Schedule WRR-4	Typical Bill Impacts
Schedule WRR-5	Revised Tariff Pages

III. SCHEDULE SUMMARY

Q. Would you please summarize Schedule WRR-1 to your testimony?

A. Yes. Schedule WRR-1 provides the data supporting the REP/VMP Adjustment, REP Capital Investment Allowance, and net increase in annual distribution rates proposed in this reconciliation filing. In particular, Schedule WRR-1, Page 1 provides a summary of estimated rate adjustments for the Incremental VMP/REP O&M spend and REP capital investment allowance. The amounts in columns (a) through (e) represent actual data for the fiscal years 2008 through 2012. The column titled "07/01/2012" is the basis for the rate adjustment to be implemented on July 1, 2012 and shows the Company's net change of recovery from the prior year. The annual rate adjustment for FY 2013 in column (f) is illustrative only and equals the sum of the previously described annual Incremental VMP/REP O&M spend reflected on Page 2 plus the annual REP capital investment allowance reflected on Page 3. This subsequent year rate adjustment will be the subject of a future annual filing before the Commission.

In summary, for FY 2012, the Company is proposing a net increase to its annual distribution rates of $392,143 commencing July 1, 2012. This increase in rates is because the proposed net refund of $365,969 is lower than the net refund provided to customers in the prior year effective July 1, 2011. The increase of $392,143 is composed of the following: (i) $444,900, as shown on Page 1, Column (e), Line 9; (ii) less a refund of $44,492, as shown on Schedule WRR-2, Page 3, Line 2; and (iii) less an interest refund of $8,265, as shown on Schedule WRR-2, Page 3, Line 3. This resulting amount is the proposed rate adjustment effective for usage on and after July 1, 2012 associated with the REP Capital Investment Allowance and the REP/VMP Adjustment Provision.

IV. INCREMENTAL REP/VMP O&M EXPENSE

Q. Is the Company's request to recover/refund the incremental REP/VMP O&M expense incurred during FY 2012 consistent with the terms of the comprehensive settlement agreement approved by the Commission in Docket No. DG 06-107 ("Settlement Agreement")?

A. Yes. As required by the Settlement Agreement, on February 15, 2011 the Company provided its proposed REP/VMP for FY 2012 to Staff for their review. In addition, the Company met with Staff to discuss its FY 2012 proposal. The Settlement Agreement at pages 4 and 5 of Exhibit GSE-8 provides the elements that must be included in the Company's REP/VMP Plan for each fiscal year and the process for Staff review. The Settlement Agreement at page 5 of Exhibit GSE-8 establishes a base O&M expense amount of $1,360,000. Actual expenses incurred by the Company in implementing the O&M components of the annual REP/VMP Plan, as supported by Staff, shall be reconciled to the base O&M amount of $1,360,000 and shall be subject to the REP/VMP Adjustment Provision. This reconciliation is shown in column (e) on Schedule WRR-1, Page 2.

For FY 2012, following review and discussion, the Company and Staff agreed to a total O&M budget of $1,556,000, as shown on Page 2, Line 3, which reflects $97,000 for REP-related O&M and $1,459,000 for VMP-related O&M. As indicated in the 2012 REP/VMP Report and reflected on Line 1, the Company actually incurred $1,467,486 in REP/VMP O&M expenses during FY 2012. This is $107,486 more than the base rate recovery amount of $1,360,000 reflected in rates, as shown on Line 9. Partially offsetting the FY 2012 spending is $402,693 in reimbursements from FairPoint related to its share of vegetation management expenses initially incurred by the Company and then billed to FairPoint, which are being passed back to customers on Line 11. The Company is therefore seeking recovery of the total O&M spending, net of FairPoint reimbursements, or $1,064,793, as shown on Line 15. This incremental O&M expense is below the base recovery amount of $1,360,000 reflected in rates, resulting in a net O&M credit for FY 2012 of $295,207 on Line 13, which the Company proposes to refund to customers.

V. <u>REP CAPITAL INVESTMENT ALLOWANCE</u>

Q. Is the calculation of the FY 2012 REP Capital Investment Allowance included in the Company's proposal consistent with the terms of the Settlement Agreement?

A. Yes, it is. The calculation mirrors the calculation agreed to in the Settlement Agreement as shown in Attachment 1 to Exhibit GSE-8. The Company is proposing to refund the net incremental revenue requirement of $18,005 associated with $398,239 of capital investments in FY 2012. Contributing to this refund is a prior period adjustment of $73,471 associated with increased tax deprecation related to the application of the capital repairs tax deduction and bonus depreciation which are explained in more detail later in my testimony.

Q. Did the Company update any component(s) of the revenue requirement calculation set forth in Attachment 1 to Exhibit GSE-8 of the Settlement Agreement?

A. Yes. The Company updated the composite depreciation rate and the property tax rate to reflect the actual data for calendar year 2011 ("CY 2011"). These new rates are reflected in column (e) on Schedule WRR-1, page 3, Lines 4 and 34, respectively. In addition, the Company has included an adjustment related to the inclusion of the repairs tax deduction and bonus deprecation in its tax deprecation calculations, as well as the relevant supporting pages.

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

A. Pursuant to the terms of the Settlement Agreement, Exhibit GSE-8 at Pages 7 and 8,

> "The Company shall track all capital investments made in accordance with the REP for each fiscal year including FY 2008 through 2013. At the same time that the Company makes its reconciliation filing for the REP/VMP Adjustment reconciliation, the Company shall file a report detailing the actual amount of capital investments made in accordance with implementing the REP during the prior fiscal year. The report shall include a calculation of the revenue requirement for adding these additional capital investments into rate base, using the imputed capital structure and rates set forth in Section 3.(C) of the Rate Plan, and as illustrated on the accompanying Attachment 1. Provided that the investments were made in accordance with the REP, the Company will be allowed, subject to Commission approval, a permanent increase in its distribution rates to recover the annual revenue requirement for those investments. This permanent REP Capital Investment Allowance will take effect for usage on and after July 1, at the same time as any REP/VMP Adjustments are implemented for the preceding fiscal year as discussed in section (D) above."

As indicated in the 2012 REP/VMP Report, the Company invested $398,239 in REP capital investments in FY 2012. The Settlement Agreement provides for the recovery, subject to Commission approval, of the revenue requirement associated with actual capital investment. Therefore, the Company is basing the revenue requirement calculation on the $398,239 of actual capital investment for FY 2012.

Q. Please explain the revenue requirement calculation contained on Page 3 of Schedule WRR-1?

A. Lines 1 through 27 calculate the rate base upon which the Company's return allowance is calculated. As shown on Line 1 in column (e), the FY 2012 annual REP program spend is $398,239, as previously discussed, resulting in the cumulative amount of $3,335,317, as shown on Line 2 of that same column. Lines 4 through 21 calculate the deferred tax reserve based on the cumulative depreciation expense timing difference between book and tax depreciation expense. The cumulative book/tax timing difference is $1,920,203 as shown on Line 18. The cumulative deferred tax reserve equals the cumulative book/tax timing difference times the effective federal and state tax rate, incorporating a 8.5 percent state rate, of 40.53 percent, or $778,162 on Line 21. The composite book depreciation rate was based on actual data for CY 2011 and equals 3.72 percent. Tax depreciation expense reflects the anticipated tax depreciation expense that will be reflected on the Company FY 2012 tax return which is expected to be filed in December 2012. Tax depreciation expense for FY 2012 is made up of four components: (1) a capital repairs tax deduction; (2) bonus depreciation; (3) tax depreciation based on the

Internal Revenue Service's ("IRS") Modified Accelerated Cost-Recovery System ("MACRS") rates for 20 year utility property, and (4) a one-time true-up related to the inclusion of the capital repairs tax deduction and bonus depreciation for fiscal years 2008 through 2011.

Q. Please describe the calculation of tax depreciation expense for FY 2012.

A. The calculation of the components of tax depreciation expense described above on FY 2012 annual REP program spending is shown on Page 8 of Schedule WRR-1. The capital repairs deduction component of tax depreciation is shown on Lines 1 through 4 of Page 8. During 2009, the IRS issued guidance, under Internal Revenue Code (IRC) Section 162, related to certain work considered to be repair and maintenance expense, and eligible for immediate tax deduction for income tax purposes, but capitalized by the Company for book purposes. This tax deduction has the effect of increasing deferred taxes and lowering the revenue requirement that customers will pay under the REP. It is estimated that approximately 24.70 percent of REP capital work performed during FY 2012 is eligible for the capital repairs deduction on the Company's pending FY 2012 tax return, as shown on Line 3 of Page 8, which is applied to the REP capital additions to derive the capital repairs deduction.

Bonus depreciation is then calculated on the REP capital additions, net of additions subject to the capital repairs deduction. During 2008, Congress passed the Economic Stimulus Act of 2008 which established a 50 percent bonus depreciation deduction for certain eligible plant additions. Congress has passed further laws which have extended and changed the bonus depreciation rate at different periods of time. The bonus depreciation deduction rate is 100 percent for capital additions eligible for bonus depreciation for the period April 1, 2011 to December 31, 2011, while that rate is 50 percent for capital additions during the remainder of FY 2012. The calculation of bonus depreciation expense is shown on Lines 6 through 21 on Page 8.

Any capital additions not subject to the capital repairs deduction or bonus depreciation are then subject to 20 Year MACRS depreciation rates as calculated on Lines 23 through 29 of Page 8. Total tax depreciation for the three components is summed on Line 31 of Page 8.

Also reflected on Page 8, Line 33 is the FY 2012 Safe Harbor True Up. During 2011, the IRS issued final rules for electric utilities regarding eligibility for capital repairs deductibility, which was the basis for the 24.70 percent capital repairs rate used for FY 2012. The FY 2012 Safe Harbor True Up credit amount of ($62,493) on Line 33 of Page 8 represents the comparison of tax depreciation including capital repairs deductions actually taken on REP capital investment during FY 2008 through FY 2011 as compared to tax depreciation including capital repairs deductions for those years at the FY 2012 rate of 24.70 percent rate, as calculated on Page 10 of Schedule WRR-1. Line 31 and Line 33 of Page 8 are summed to derive the net FY 2012 tax depreciation, which is carried forward to Line 10, column (e) on Page 3 of Schedule WRR-1. Finally, FY 2012 tax depreciation also includes MACRS depreciation expense on REP capital investment from FY 2008 through FY 2011. These amounts are shown on Lines 6 through 9 on Page

3, column (e) and were derived on the tax depreciation calculations for those years at Pages 4 through 7 of Schedule WRR-1. Total FY 2012 tax depreciation of $373,242 is summed on Line 12 of Page 3. When the tax deprecation is compared to book depreciation on a cumulative basis, the resulting deferred tax reserve by which rate base is reduced is $778,162.

Q. Please describe the remainder of the revenue requirement calculation on Page 3 of Schedule WRR-1.

A. The Company's year-end net rate base of $2,148,042, upon which the Company's return allowance is calculated, is shown on Line 27 and consists of the cumulative REP capital investment through FY 2012, or $3,335,317, less accumulated book depreciation of $409,113 and accumulated deferred tax reserves of $778,162, as shown on Lines 24 through 26, respectively.

As agreed to in the Settlement Agreement, the return allowance for the REP capital investment allowance for each July 1 rate adjustment is based on the prior fiscal year-end rate base times the stipulated pre-tax weighted average cost of capital from the Settlement Agreement as shown on Lines 44 through 49 of Page 3 of Schedule WRR-1, or 11.91 percent. The resulting return allowance equals the fiscal year-end rate base of $2,148,042 times the stipulated pre-tax return rate of 11.91 percent, or $255,786, as shown on Line 32. Annual depreciation expense of $124,074 and property taxes of $110,318, on Lines 33 and 34, respectively, are added to the return amount to arrive at the total revenue requirement of $490,178 on Line 35. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2011 applied to the fiscal year-end net plant in service, or the sum of Lines 24 and 25. For FY 2012, the revenue requirement has been adjusted to reflect the cumulative impact of the capital repairs tax deduction and bonus depreciation related to the FY 2008 through FY 2011 REP capital investment. The cumulative impact is a reduction of ($73,471) and is calculated in footnote (d) on Page 3 of Schedule WRR-1.

Q. Please describe the calculation of the ($73,471) adjustment in footnote (d) on Page 3 of Schedule WRR-1.

A. Footnote (d) compares the annual revenue requirement calculations for FY 2008 through FY 2011, as recalculated to reflect the capital repairs tax deduction and bonus depreciation, to the actual annual revenue requirement amounts reflected for FY 2008 through FY 2011 for the REP capital component as previously filed with the Commission for those years. The annual revenue requirement calculations for FY 2008 through FY 2011 are shown in columns (a) through (d) of Page 3 of Schedule WRR-1 and the tax depreciation expense amounts for those years have been revised to incorporate the capital repairs tax deductions and bonus depreciation actually reflected on the Company's tax returns for FY 2008 through FY 2011. The calculation of tax depreciation for FY 2008 through FY 2011 reflecting the capital repairs tax deduction and bonus deprecation are shown on Pages 4 through 7 of Schedule WRR-1. The calculation of tax depreciation expense on these pages is similar to that described previously for the calculation of FY 2012 tax depreciation expense on Page 8.

Q. What is the amount of the incremental revenue requirement for FY 2012 REP capital investment?

A. The incremental FY 2012 revenue requirement refund amount of ($18,005) is equal to the cumulative revenue requirement, including the tax depreciation true up, less the previous year's cumulative revenue requirement, and is shown on Line 41 in column (f).

Q. What is reflected in the subsequent columns, or columns (f) and (g), shown on Page 3 of Schedule WRR-1?

A. The Company provided its proposed REP/VMP Plan for fiscal year 2013 ("FY 2013") to Staff on February 15, 2012, which included the Company's proposed REP and VMP activities and budgets. Staff had no changes to the REP/VMP Plan. The REP capital investment target for FY 2013 is $855,000. This reflects the amount of REP capital investment supported by Staff of $730,000, plus $125,000 of incremental carryover investment for Feeder Hardening. The Feeder Hardening project was completed at the end of FY 2012, and the invoices for these associated charges will not be received until FY 2013. As such, the plant associated with these costs will not be considered placed in service until the invoices have been paid. The calculation of the cumulative revenue requirement which was previously described for FY 2012 (excluding the one-time tax depreciation true up) was repeated for FY 2013, with incremental rate adjustments in subsequent fiscal years shown on Line 41.

VI. RATE DESIGN AND RECONCILIATION

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

A. Yes. The rate design in Schedule WRR-2 of my testimony is consistent with the terms of the Settlement Agreement and is the same procedure used to adjust base distribution rates associated with the REP Capital Investment Allowance in the Company's prior REP/VMP reconciliation filings. *See* Order No. 24,998 (July 31, 2009); Order No. 25,126 (June 30, 2010); Order No. 25,245 (June 30, 2011).

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

A. The procedure for adjusting distribution rates is presented in Schedule WRR-2. As presented on Page 1 of Schedule WRR-2, the Company simply divides the capital investment allowance related to the REP on Line 1 by the forecasted annual distribution revenue for the twelve month period ended June 30, 2013 on Line 2 to calculate the percentage increase on Line 3 which is then applied to each of the Company's base distribution charge components. The calculation of the forecasted annual distribution revenue is presented on Page 2 of Schedule WRR-2.

Q. Please describe the procedure for calculating the REP/VMP O&M Adjustment Factor.

A. The procedure for calculating the REP/VMP O&M Adjustment Factor is also presented in Schedule WRR-2. As presented on Page 3 of Schedule WRR-2, the Company first adds the incremental O&M expense below Base O&M expense for FY 2012 of ($295,207) and the final over collection balance of ($44,492) related to the REP/VMP Adjustment Factor which was designed to recover FY 2010 Incremental O&M expense. Next, the Company simply divides this sum, including interest, on Line 5, by the Company's estimated kWh deliveries for the twelve month period ended June 30, 2013 on Line 6 to calculate the adjustment factor of ($0.00037) on Line 7 which is then applied to all kWh's billed to customers. The calculation of interest is presented on Page 4 of Schedule WRR-2. The calculation of the new base distribution rates is presented on Page 5 of Schedule WRR-2.

Q. Has the Company included a reconciliation of the REP/VMP O&M Adjustment Factor which was in effect July 1, 2010 through June 30, 2011?

A. Yes. Pursuant to the Settlement Agreement, this reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is presented on Page 1 of Schedule WRR-3. Of the $1,047,770 of FY 2010 incremental O&M expense above base O&M expense to be collected through the REP/VMP Adjustment Factor of $0.00125 per kWh, $1,122,982 was collected through June 2011, resulting in an over collection. The Company is proposing to refund this over collection balance of $44,492 through the REP/VMP Adjustment Factor proposed effective July 1, 2012.

Q. Has the Company included a reconciliation of the existing REP/VMP O&M Adjustment Factor from the prior year?

A. Yes. Pursuant to the Settlement Agreement, this reconciliation is only associated with the recovery (or refund) of approved incremental O&M expense. This reconciliation is presented on Page 2 of Schedule WRR-3. Of the $758,113 of FY 2011 O&M expense below base O&M expense to be refunded through the currently effective REP/VMP Adjustment Credit Factor of ($0.00083) per kWh, $581,448 has been refunded through April 2012. Any remaining balance after the end of the recovery period, positive or negative, will be reflected as an adjustment in the calculation of a future proposed REP/VMP Adjustment Factor.

VII. EFFECTIVE DATE, BILL IMPACT, AND TARIFF PAGES

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

A. Consistent with the Commission's rules on the implementation of rate changes, the Company is proposing that these distribution rate changes be made effective for usage on and after July 1, 2012.

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

A. Yes. These bill impacts are included as Schedule WRR-4. Schedule WRR-4, Page 1, shows that for a typical residential 500 kilowatt-hour Default Service customer, the bill impact of the rates proposed for July 1, 2012, as compared to rates in effect today, is a bill increase of $0.21, or 0.3 percent, from $60.33 to $60.54. In addition, a bill comparison for a Default Service residential customer with an average kilowatt-hour usage of 661, which is the average monthly usage over the 12 months ending April 2012, has been included on Page 1 of Schedule WRR-4. For a Default Service residential customer using 661 kilowatt-hour, the total bill impact of the rates proposed in this filing, as compared to rates in effect today, is a bill increase of $0.27, or 0.3 percent, from $80.44 to $80.71. For other customers, increases range from 0.3 percent to 0.5 percent.

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

A. Yes. The revised tariff pages are set forth in Schedule WRR-5.

VIII. <u>CONCLUSION</u>

Q. Does that conclude your testimony?

A. Yes, it does.