Testimony of
David E. Tufts

Direct Testimony

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I. <u>INTRODUCTION AND QUALIFICATIONS</u>

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

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

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

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

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

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

Q. Please describe your professional background.

A. From 1981 through April 2000, I was employed by various subsidiary companies of Eastern Utilities Associates ("EUA"), including EUA Service Corporation which provided accounting, financial, engineering, planning, data processing, and other services to all EUA System companies. I joined EUA's accounting department in 1983. I held positions of increasing responsibility in accounting and was promoted to the position of Manager of Accounting Services in 1991. The EUA System was acquired by National Grid USA in early 2000, at which time I joined the Service Company. In January 2009, I became Director, Electric Distribution and Generation Revenue Requirements. In April 2011, I became Director, Regulatory Accounting.

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 Dockets DE 09-094 and DE 10-140.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of this testimony?

A. This testimony supports the Company's 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 2011 ("FY 2011"). Resulting from the Company's FY 2011 REP and VMP Report ("2011 REP/VMP Report") included in this filing, the Company is seeking to refund customers $758,113 through the REP/VMP Adjustment Provision (plus interest of $18,446), which represents the amount of incremental O&M expense below the base O&M amount of $1,360,000, or $114,015, plus reimbursements from FairPoint Communications ("FairPoint"), as discussed later in my testimony. In addition, the Company is seeking to recover a REP Capital Investment Allowance of $102,941, which is the revenue requirement associated with $610,835 of capital investment for FY 2011.

The Company has calculated an annual rate adjustment of $(1,721,388) ($1,702,942, as shown on Schedule DET-1, Page 1, Line 9, plus interest of $18,446, as shown on Schedule DET-2, Page 3, Line 2) effective for usage on and after July 1, 2011 associated with the REP Capital Investment Allowance and the REP/VMP Adjustment Provision. The REP Capital Investment Allowance revenue requirement of $102,941 translates into a percentage increase of 0.50 percent to base distribution rates. The net incremental O&M refund to customers of $776,559 (including interest of $18,446 as noted above) translates into a proposed REP/VMP Adjustment Factor of ($0.00083) per kilowatt-hour.

Q. Are there any schedules accompanying your testimony?

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

Schedule DET-1	Revenue Requirement
Schedule DET-2	Rate Design
Schedule DET-3	Reconciliation of Recovery of FY 2009 and FY 2010 Incremental O&M Expense Above Base O&M Expense
Schedule DET-4	Typical Bill Impacts
Schedule DET-5	Revised Tariff Pages

III. INCREMENTAL REP/VMP O&M EXPENSE

Q. Is the Company's request to recover the incremental REP/VMP O&M expense incurred during FY 2011 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 12, 2010 the Company provided its proposed REP and VMP to Staff for FY 2011 for Staff's review. In addition, the Company met with Staff to discuss its FY 2011 proposal. The elements that the REP and VMP must include and the process for Staff review are set forth in Exhibit GSE-8 to the Settlement Agreement at pages 4 and 5. The Settlement Agreement at page 5 of Exhibit GSE-8 establishes a base O&M expense amount of $1,360,000 for fiscal years 2009 through 2012. Actual expenses incurred by the Company in implementing the O&M components of the annual REP and VMP, as agreed to with 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 (d) on Schedule DET-1, Page 2.

For FY 2011, following review and discussion, the Company and Staff agreed to a total O&M budget of $1,552,000, as shown on Page 2, Line 3, which reflects $134,000 for REP-related O&M and $1,418,000 for VMP-related O&M. As indicated in the 2011 REP/VMP Report and reflected on Line 1, the Company incurred $1,245,985 in REP/VMP O&M expenses during FY 2011. This is $114,015 less than the base rate recovery amount of $1,360,000 reflected in rates, as shown on Line 9. Partially offsetting the FY 2011 spending is $644,098 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 $601,887, 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 2011 of $758,113 on Line 13, which the Company proposes to refund to customers.

IV. REP CAPITAL INVESTMENT ALLOWANCE

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

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

Q. Did the Company make any changes to the revenue requirement calculation from that contained in 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 2010 ("CY 2010"). These new rates are reflected in column (d) on Schedule DET-1, page 3, Lines 4 and 35, respectively.

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

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

> "The Company shall track all capital investments made in accordance with the REP for each fiscal year including FY 2008 though 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 2011 REP/VMP Report, the Company invested $610,835 in REP capital investments in FY 2011. 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 $610,835 of actual capital investment for FY 2011.

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

A. Certainly. Lines 1 through 28 calculate the rate base upon which the Company's return allowance is calculated. As shown on Line 1 in column (d), the FY 2011 annual REP program spend is $610,835, as previously discussed, resulting in the cumulative amount of $2,937,078, as shown on Line 2 of that same column. Lines 4 through 22 calculate the deferred tax reserve based on the depreciation rate timing difference between book and tax depreciation rates. The composite book depreciation rate was based on actual data for CY 2010 and equals 3.73 percent. The tax depreciation rate reflects the MACRS 20 year utility property year 1 rate of 3.75 percent, year 2 rate of 7.22 percent, year 3 rate of 6.68 percent, and year 4 rate of 6.18 percent. The resulting cumulative book/tax timing difference is $148,531 on Line 19. 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 $60,192 on Line 22. The Company's year-end net rate base of $2,591,847, upon which the Company's return allowance is calculated, is shown on Line 28 and consists of the cumulative REP capital investment through FY 2011, or $2,937,078, accumulated book depreciation of $285,039, and accumulated deferred tax reserves of $$60,192, as shown on Lines 25 through 27, respectively.

Q. Please continue.

A. 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 43 through 49, or 11.91 percent. The resulting return allowance equals the fiscal year-end rate base of $2,591,847 times the stipulated pre-tax return rate of 11.91 percent, or $308,634, as shown on Line 33. Annual depreciation expense of $109,645 and property taxes of $89,945, on Lines 34 and 35, respectively, are added to the return amount to arrive at the total revenue requirement of $$508,183 on Line 36. The property tax amount is based on the actual ratio of municipal tax expense to net plant in service for CY 2010 applied to the fiscal year-end net plant in service, or the sum of Lines 25 and 26. The incremental FY 2011 revenue requirement amount of $102,941, representing the cumulative revenue requirement less the previous year's cumulative revenue requirement, is then shown on Line 40 in column (e).

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

A. The Company provided its proposed REP and VMP budgets and plan for fiscal year 2012 ("FY 2012") to Staff on February 15, 2011, to which the Staff agreed. The REP capital investment target for FY 2012 is $689,000. The calculation of the cumulative revenue requirement which was previously described for FY 2011 was repeated for FY 2012, with incremental rate adjustments in subsequent fiscal years shown on Line 40.

V. SUMMARY

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

A. Yes. Schedule DET-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 (b) through (e) represent actual data for the years 2008 through 2011. The column titled “07/01/2011” is the basis for the rate adjustment to be implemented on July 1, 2011. The annual rate adjustment for FY 2012 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 2011, the incremental annual revenue requirement to be refunded through the Company’s distribution rates commencing July 1, 2011 amounts to $1,702,942, as shown on Page 1, Column (e), Line 9, plus interest of $18,446, as shown on Schedule DET-2, Page 3, Line 2.

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

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 DET-2. As presented on Page 1 of Schedule DET-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, 2012 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 DET-2.

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

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

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

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 DET-3. Of the $113,832 of FY 2009 incremental O&M expense above base O&M expense to be collected through the REP/VMP Adjustment Factor of $0.00014 per kWh, $111,332, was collected through June 2010. The remaining balance of $5,629 is reflected as an adjustment in the reconciliation of the currently effective REP/VMP Adjustment Factor in the month of July 2010.

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

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 DET-3. Of the $1,047,770 of FY 2010 incremental O&M expense above base O&M expense to be collected through the currently effective REP/VMP Adjustment Factor of $0.00125 per kWh, $894,060 has been collected through April 2011. Any remaining balance after the end of the recovery period, positive or negative, will be reflected as an adjustment in the reconciliation of the proposed REP/VMP Adjustment Factor in the month of July 2011.

VII. <u>EFFECTIVE DATE, BILL IMPACT, AND TARIFF PAGES</u>

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, 2011.

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

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

Service residential customer with an average kilowatt-hour usage of 681, which is the average monthly usage over the 12 months ending April 2011, has also been included on Page 1 of Schedule DET-4. The total bill impact of the rates proposed in this filing, as compared to rates in effect today, is a bill decrease of $1.28 or 1.5 percent, from $87.65 to $86.37. For other customers, decreases range from 1.4 percent to 2.2 percent.

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

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

VIII. CONCLUSION

Q. Does that conclude your testimony?

A. Yes, it does.