Direct Testimony of

Dr. Catherine T. McDonough

and

Peter F. Altenburger

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I. INTRODUCTION AND QUALIFICATIONS

Q. Dr. McDonough would you please state your full name and business address?

A. My name is Catherine T. McDonough, and my business address is 300 Erie Blvd West, Syracuse, New York 13202.

Q. Dr. McDonough, by whom are you employed and in what position?

A. I am Director of Regulatory Compliance for Electric Distribution Operations for Granite State Electric Company d/b/a National Grid ("Granite State" or the "Company"). In my capacity as Director, I am responsible for the Company's regulatory filings and regulatory compliance related to electric distribution operations in New Hampshire and for other National Grid retail distribution companies in Massachusetts, Rhode Island, and New York.

Q. Dr. McDonough, please describe your educational background.

A. I graduated from the University of Massachusetts, Amherst in 1979. I received a Masters in Economics degree from New York University in 1987 and doctorate in Economics from New York University in 1995.

Q. Dr. McDonough, please describe your professional experience.

A. I joined National Grid (formerly Niagara Mohawk) nine years ago. Before being named to my current position in April 2008, I was a project manager directing research to support a variety of strategic decisions related to electric distribution operations, customer satisfaction and electric pricing. Prior to joining Niagara Mohawk, I served as a Finance Professor at SUNY Binghamton and Babson College following several years as a Vice President, Senior Economist with Merrill Lynch Capital Markets in New York City.

Q. Dr. McDonough, have you previously testified before the Commission?

A. No.

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

A. My name is Peter F. Altenburger and my business address is 1125 Broadway, Albany, NY 12204.

Q. Mr. Altenburger, by whom are you employed and in what position?

A. I am the Manager of the Asset Program Management group for Electric Distribution Operations for Granite State Electric Company, d/b/a National Grid ("Granite State" or the "Company"). In my capacity as Manager, I am responsible for overseeing the Reliability Enhancement Program ("REP") in New Hampshire and for other National Grid retail distribution companies in Massachusetts, Rhode Island, and New York.

Q. Mr. Altenburger, please describe your educational background?

A. I received a Bachelor of Engineering Degree in Electrical Engineering from Manhattan College, Bronx, NY in 1986 and a Master of Science Degree in Electrical Engineering from Rensselaer Polytechnic Institute, Troy, NY in 1990. I am also a licensed professional engineer in the State of New York.

Q. Mr. Altenburger, please describe your professional experience.

A. I joined National Grid (formerly Niagara Mohawk) in 1992. Before being named to my current position in September of 2006, I was Manager - Distribution Asset Management for National Grid's Eastern Division of New York in August 2005. Prior to this position, I have also held various positions within the engineering and operations groups within Niagara Mohawk. Prior to joining Niagara Mohawk, I served as a substation engineer for Pacific Gas and Electric for two years and as an overhead transmission engineer for Long Island Lighting Company for three years.

Q. Mr. Altenburger, have you previously testified before the Commission?

A. No.

II. <u>PURPOSE OF TESTIMONY</u>

Q. What is the purpose of this testimony?

A. This testimony is intended to provide the Commission with background information regarding the REP and Vegetation Management Program ("VMP") that Granite State implemented during fiscal year 2008 (April 1, 2007-March 31, 2008). Granite State received Commission approval to implement the REP and VMP as set forth in Exhibit GSE-8 of the Granite State Rate Plan approved as part of the comprehensive merger settlement agreement in Docket No. DG 06-107 ("Settlement Agreement")[1]. A copy of Exhibit GSE-8 to the Granite State Rate Plan is attached to this testimony as Exhibit 1 for ease of reference. This testimony also supports the Company's May 15, 2008 Fiscal Year 2008 REP and VMP Results and Reconciliation filing ("May 15th Reconciliation Filing"), in which the Company is seeking the Commission's approval to include a capital investment allowance of $165,840 in rates associated with $950,000 of REP capital investments made during fiscal year 2008. Detailed information regarding the calculation of the REP capital investment allowance and the associated rate impacts is set forth in the Testimony of Michael D. Laflamme.

III. OVERVIEW OF REP AND VMP PROGRAMS

Q. Please explain the purpose of the Reliability Enhancement and Vegetation Management Plans.

A. As part of the Settlement Agreement, Granite State committed to improve its reliability performance through implementation of the REP and VMP set forth in the Settlement Agreement. In general, the REP and VMP include categories of both capital and operation and maintenance expense ("O&M") spending targeted to improve reliability performance. The REP and VMP are premised on the idea that a certain amount of annual spending on both capital and O&M activities is necessary to maintain the safety and reliability of the Company's electric distribution system.

[1] See Order No. 24,777 (July 12, 2007).

Q. What kinds of activities are included in the REP and VMP plans?

A. As described in detail in Exhibit 1, the REP and VMP include the following categories of activities: feeder hardening, augmented tree-trimming and clearing, asset replacement, and inspection and maintenance.

Q. Please explain how the REP and VMP plans are supposed to work for fiscal year 2008?

A. As set forth in Exhibit 1, the Company agreed to implement aggressive REP and VMP plans for fiscal year 2008, with the understanding that fiscal year 2008 was already underway at the time that the Settlement Agreement was entered into. Specifically, for fiscal year 2008 the Company anticipated a budget of $1,950,000 for O&M activities associated with the REP and VMP and $950,000 of capital investments associated with the REP. To the extent that the Company incurred less than $1,950,000 of O&M spending from implementation of the REP and VMP plans in fiscal year 2008, the difference was to be accounted for and applied to increase the base O&M amount for the REP and VMP plans to be implemented in 2009. To the extent that actual fiscal year 2008 O&M spending exceeded $1,950,000, the Company was required to absorb those costs with no impact to customers.

Q. Please explain the May 15th Reconciliation Filing.

A. By May 15, 2008, and annually thereafter for each fiscal year associated with the five-year rate plan period, the Company is required to make a reconciliation filing with the

Commission for both its REP and VMP detailing the actual amounts spent on REP and VMP activities during the prior fiscal year. As set forth in the May 15th Reconciliation Filing, the Company spent a total of $2,169,258 on O&M during fiscal year 2008. As per Exhibit 1, the Company will absorb the portion of O&M costs in excess of the $1,950,000 budgeted amounts for fiscal year 2008 with no impact to the REP/VMP Adjustment Provision defined in section (F). As detailed in section G of Exhibit 1, the Company will also request an adjustment to its delivery rates to recover the revenue requirements associated with $950,000 of capital investments made in its REP plan for fiscal year 2008. Upon review and approval of the capital investment allowance by the Commission, the Company would then adjust its delivery rates for usage on and after July 1, 2008.

Q. Please explain how the REP and VMP plans are supposed to work for fiscal years 2009-2013.

A. For fiscal years 2009 through 2013, annually by February 15th the Company is required to provide its REP and VMP plans for the subsequent fiscal year to Staff for review. The Company is required to meet with Staff in technical sessions to discuss the plans, obtain comments, and answer any questions regarding the plans to be implemented for the subsequent fiscal year. The Company will then implement the REP and VMP plans for the following fiscal year as agreed to with Staff. For each fiscal year, the Company has established a base amount of spending on O&M of $1,360,000. To the extent the Company spends less than the agreed upon base O&M budget on REP and VMP O&M activities for the given fiscal year, the difference would be credited to customers either through a refund commencing on July 1st or credited to the following year's REP and VMP O&M budget, at the Commission's discretion. Notwithstanding the base O&M amount of $1,360,000, the Company has the flexibility to propose and implement alternative plans that exceed the base O&M amount, assuming that Staff agrees to such an alternative plan. In such case, the incremental expense above the base level O&M budget amount will be included in rates, subject to the Commission's review and approval, through a uniform adjustment factor on a per kilowatt-hour basis and recovered over a twelve month period, commencing on July 1st. The Company and Staff will also agree on the amount of capital spending for each fiscal year. Assuming that the Company makes capital investments consistent with the REP agreed to with Staff, and upon review and approval by the Commission, the Company will be allowed a permanent rate increase to recover the annual revenue requirements associated with such capital spending.

Q. Did the Company reach agreement with Staff on its REP and VMP plans for fiscal year 2009?

A. Yes. For fiscal year 2009, the Company and Staff have agreed upon an optional enhanced O&M budget of $1,473,832 which includes an additional $100,000 to be allocated to the removal of hazard trees. The Company has also agreed with Staff on a budget of $500,000 to be spent on capital investments associated with the REP for fiscal year 2009. However, as set forth in Exhibit 1 at page 5, the Company acknowledges that review by Staff of the plans does not relieve the Company of its obligation to operate its business and maintain safe, reliable service through expenditures and other capital investments in the ordinary course of business that are not set forth in the plans, nor does it bind Staff to a particular position regarding the adequacy and/or effectiveness of the plans.

IV. FISCAL YEAR 2008 REP AND VMP IMPLEMENTATION

Q. Please explain the actual amounts spent on implementing the REP and VMP for fiscal year 2008.

A. As mentioned previously, the Company spent a total of $2,169,258 on REP and VMP O&M activities comprised of $1,895,517 spent on VMP O&M and $273,741 spent on REP O&M during fiscal year 2008. A breakdown of these expenses is set forth in Tables 1 and 2 on page 2 of the May 15th Reconciliation Filing. The Company also spent a total of $1,358,990 on capital investments associated with REP during fiscal year 2008. A breakdown of these costs is set forth in Table 3 at page 3 of the May 15th Reconciliation Filing.

Q. Why did the Company exceed its estimated capital budget for fiscal year 2008 REP spending?

A. The Company's actual spending on REP for fiscal year 2008 was greater than forecast because the scope of planned recloser installation projects was expanded to include additional recloser replacements. In addition, the scope of work required to harden one of the two feeders selected for hardening during fiscal year 2008 (Pelham Sub 14L1) was 16% greater than estimated. The Company has provided more detail regarding these REP activities in the responses to Staff 1-3 and Staff 1-4 of Staff's First Set of Data Requests in this docket which is attached to this testimony as Exhibit 2. Detailed information about the work performed to harden the other feeder (Spicket River 13L2) will not be available until the end of June when this project is closed out. However, the Company also mistakenly did not include the cost of removing capital assets from service in its budget estimate. Consequently, the actual capital spending totals also include removal costs of $193,972.

Q. Why did the Company exceed its estimated O&M budget for fiscal year 2008?

A. The overages associated with fiscal year 2008 activities relate primarily to increased O&M costs associated with the additional REP capital expenditures discussed above.

Q. Does the Company believe that the additional spending on REP and VMP activities during fiscal year 2008 was prudent?

A. Yes. The Company believes that the REP and VMP activities undertaken during fiscal year 2008 were necessary to improve the reliability of the distribution system and will provide both short and long term benefits to customers. Although the Company exceeded its planned budget for fiscal year 2008 REP and VMP spending, these overages were the direct result of performing work that needed to be undertaken. In addition, because the Company is limited by the terms of the settlement to recovering the revenue requirements associated with $950,000 of capital investments during fiscal year 2008, customers will receive the full benefits of these additional capital improvements immediately without experiencing the full rate impact of such expenditures until the time of the Company's next base rate proceeding.

V. CONCLUSION

Q. Does that conclude your testimony?

A. Yes it does.