STATE OF NEW JERSEY
BOARD OF PUBLIC UTILITIES

I/M/O THE VERIFIED PETITION OF	**)**	**BPU Docket No. ER14030250**
ROCKLAND ELECTRIC COMPANY	**)**	
FOR ESTABLISHMENT OF A	**)**	
STORM HARDENING SURCHARGE	**)**	

DIRECT TESTIMONY OF ANDREA C. CRANE ON BEHALF OF DIVISON OF RATE COUNSEL

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is 16 Old Mill Road, Redding, Connecticut 06896. (Mailing address: PO Box 810, Georgetown, Connecticut 06829)

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

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of Columbia. These proceedings involved electric, gas, water, wastewater, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony since January 2008 is included in Appendix A.

Q. What is your educational background?

A. I received a Master of Business Administration degree, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. On March 13, 2015, Rockland Electric Company ("RECO" or "Company") filed a Petition with the New Jersey Board of Public Utilities ("BPU" or "Board") requesting approval for an Incremental Storm Hardening and System Resiliency Program ("SHSR Program") and an associated cost recovery mechanism. The Company is seeking approval for a five-year investment program whereby RECO proposes to invest approximately $61.06 million in projects related to storm hardening and system resiliency, including expansion of its smart grid pilot program and meter upgrades that the Company states would enhance service restoration efforts in the event of outages. The Company also seeks to implement a Storm Hardening Surcharge ("SHS") to recover costs associated with the SHSR Program.

The Columbia Group, Inc. was engaged by The State of New Jersey, Division of Rate Counsel ("Rate Counsel") to review RECO's filing and to provide recommendations to the BPU with regard to cost recovery issues. Testimony is also being filed on behalf of Rate Counsel by Max Chang and Charles Salamone on the storm hardening and system resiliency components of the SHSR Program and by Tim Woolf on the proposed meter upgrade component.

III. SUMMARY OF CONCLUSIONS

Q. Please summarize your conclusions and recommendations.

A. Based on my analysis of the Company's filing and other documentation in this case, my conclusions and recommendations are as follows:

1. RECO has had, and continues to have, an obligation to provide safe and reliable utility service.
2. RECO has not justified an alternative cost recovery mechanism for the majority of the projects included in the SHSR Program.
3. If the BPU finds that an alternative cost recovery mechanism should apply to some components of the SHSR Program, then Rate Counsel recommends that projects totaling $2,943,500 be eligible for extraordinary ratemaking treatment, as discussed in the testimony of Mr. Chang and Mr. Salamone.

4. If an alternative cost recovery mechanism is adopted, then RECO should defer the return requirement and depreciation expense associated with the 2016-2018 projects identified by Mr. Chang and Mr. Salamone, in the amount of $2,193,400, until the Company's next base rate case, to be filed no later than July 1, 2018.

5. RECO should also defer the return requirement and depreciation expenses associated with the 2019-2020 projects identified by Mr. Chang and Mr. Salamone, in the amount of $750,100. These costs should be deferred for a maximum of three years.

6. The Company should not include operating costs in any deferral relating to the SHSR Program.

7. In order to recover any of the deferred costs related to these projects, the Company should demonstrate that it has maintained an adequate level of base spending.

IV. DISCUSSION OF THE ISSUES

A. Background of the Program

Q. Please provide a brief background of the SHSR Program being proposed by RECO in this proceeding.

A. RECO initially proposed a storm hardening program and associated cost recovery mechanism in November, 2013, as part of the Company's base rate case filed in BPU Docket No. ER13111135. In addition to requesting an increase in its base rates, in that filing the Company also proposed to implement various hardening and resiliency programs in response to increased major storm activity in the Company's service territory. In the base rate case, RECO also proposed a rate mechanism to recover the costs of the hardening and resiliency programs. The BPU subsequently bifurcated the examination of storm hardening proposals from the Company's base rate case. Instead, it directed that each New Jersey utility file storm mitigation programs with the BPU that would be reviewed in separate sub-dockets of the Board's generic investigation into storm mitigation efforts (BPU Docket No. AX13030197). On March 18, 2014, RECO filed certain portions of its base rate case testimony and exhibits that related to storm hardening and associated rate proposals with the BPU in response to that directive (BPU Docket No. ER14030250). No additional action has been taken on that filing. Accordingly, on March 13, 2015, RECO filed this amended petition to address the issues of storm hardening and resiliency programs as well as an associated cost recovery mechanism. This amended petition supersedes and replaces the earlier filings.

Q. What projects did RECO include in its amended petition?

A. In the amended petition, RECO included three major categories of investment: Storm Hardening Projects, Smart Grid Projects, and Meter Upgrade Projects.

With regard to Storm Hardening Projects, RECO identified five categories of projects that it proposed in an effort to enhance the ability of its infrastructure to withstand severe weather events and to reduce outages, including:

1. Selective Undergrounding – installation of underground circuits in select locations;
2. Enhanced Overhead System Construction – construction alternatives that are more resilient in the event of severe weather events;

3. Enhanced Transportation Crossings – upgraded crossings with reinforced construction and more resilient equipment;

4. Substation Flood Mitigation – flood walls and containment solutions to divert flood water; and

5. Enhanced Vegetation Management – additional vegetation management in an effort to improve system reliability during storms.

With regard to Smart Grid projects, RECO proposes an expansion of its earlier Smart Grid Pilot Program. RECO proposes "to deploy remote real time monitoring and operator control systems, as well as fully automated centralized real time decision making command and control systems operating as an integrated distribution management system."[1]

Finally, with regard to meter upgrades, RECO is proposing to upgrade its meters and related infrastructure to provide "wireless two-way communication from the customer's premise to RECO systems."[2]

Q. What are the total costs of the SHSR Program being proposed by RECO?

A. RECO is proposing a five-year program, totaling $61.059 million in capital costs and $4.173 million in operating costs, as shown below:

Program	Capital Costs	Operating Costs
Storm Hardening Projects	$31,788,700	$2,656,800
Smart Grid Projects	$8,279,200	$1,516,200
Meter Upgrade Projects	$20,991,600	$0
Total	$61,059,500	$4,173,000

1 Testimony of Smart Grid Panel, page 3, lines 16-18.
2 Meter Upgrade Panel Testimony, page 3, lines 15-16.

Q. How does the Company propose to recover the costs associated with the SHSR Program?

A. The Company proposes to recover the costs of the SHSR Program through a new surcharge mechanism, the Storm Hardening Surcharge ("SHS"). The SHS would be established on an annual basis, based on the forecasted revenue requirement for the upcoming year. Each month, the Company proposes to calculate a revenue requirement based on return on net unamortized investment, depreciation/amortization expense, operation and maintenance expenses, and other charges such as uncollectible costs and income taxes. The monthly revenue requirement would be compared with actual revenues collected under the SHS, and any over/under-recoveries would be deferred to a regulatory asset or liability. Interest on over/under recoveries would accrue at a short-term (two-year Treasury plus 60 basis points) rate. The regulatory asset/liability and associated interest would be included in the subsequent year's revenue requirement.

Q. What rate of return does the Company propose to apply to the net investment associated with the SHSR Program?

A. The Company is proposing to apply the Weighted Average Cost of Capital ("WACC") approved in the last base rate case. The currently approved WACC is 7.83% (11.22%

pre-tax), based on a cost of equity of 9.75%, as shown below:

	Percent	Embedded Cost	After-Tax Weighted Cost	Pre-Tax Weighted Cost	Net-of-Tax Weighted Cost
Common Equity	50.35%	9.75%	4.91%	8.30%	4.91%
Other Capital	49.65%	5.89%	2.92%	2.92%	1.73%
Total	100.00%		7.83%	11.22%	6.64%

Q. What is the initial annual revenue requirement proposed by RECO?

A. As shown in Exhibit ARP-1 Revised, Schedule 1, which was provided in response to RCR-A-13, the initial revenue requirement is $2,561,352. RECO's proposal results in an initial SHS rate of 0.1683 cents per kWh.[3] The revenue requirement will increase each year relative to current revenues, as shown below:

2016	2017	2018	2019	2020
$2,561,352	$4,558,947	$6,083,074	$6,924,136	$7,745,568

Thus, under the Company's proposal, by 2020, annual revenues will increase by $7,745,568 relative to current revenues.

Q. What is the rate impact of the revenue increases being proposed by RECO?

A. The initial SHS would result in a monthly increase of $1.56 for a typical residential customer using an average of 925 kWh per month, an increase of 3.0% on distribution

3 The Company's testimony is based on a rate of 0.2091 cents per kWh. However, Exhibit ARP-1, Schedule 1 contained an error in the revenue requirement calculation. Based on the revised revenue requirement calculation, the rate would be 0.1683 cents per kWh.

rates and an overall increase of 0.9%. Distribution increases in subsequent years range from 0.9% to 2.3%, while overall increases in subsequent years range from 0.3% to 0.5%.

B. Evaluation of the Proposed Cost Recovery Mechanism

Q. What factors should the BPU consider as it evaluates the Company's request for approval of the SHS cost recovery mechanism?

A. The BPU should consider whether an enhanced investment program is necessary in order for the Company to meet its service obligations under severe weather conditions. If the BPU believes that incremental investment is desirable, then it must decide whether to require cost recovery through the base rate case process or to permit recovery through some other mechanism such as a deferral, rider or surcharge. In addition, it must determine the types of costs that would be eligible for recovery.

Q. Do you have any conceptual concerns with the proposed SHS recovery mechanism?

A. Yes, I do. While other Rate Counsel witnesses will address the details of the specific programs being proposed by RECO, the BPU should consider whether it wants to establish a new regulatory mechanism for the recovery of costs incurred for projects that the Company claims are not required to meet reliability and service standards. Moreover, even if the BPU finds that the SHSR Programs should be undertaken to ensure reliability in the event of a major storm, reliability is not a new concept for the Company or for the BPU. Rather, insuring reliability is an integral part of managing any utility distribution system. The regulatory compact provides that in exchange for being granted a monopoly franchise area, a utility will provide safe and reliable utility service at reasonable rates.

The obligation to provide safe and reliable service is a cornerstone of the utility's obligations. Thus, the concept of undertaking reliability improvements, when required, is not new or novel. Rather, this is a fundamental obligation of any electric distribution company.

Q. Has the Company's obligation with regard to reliability changed over the years?

A. No, it has not. While there may have been changes in certain regulations with regard to safety and reliability over the years, the utility has always had, and continues to have, an obligation to operate its business in a reliable manner. This has not changed. While several severe weather events have caused the BPU to further examine the utilities' ability to continue service in the event of a major storm, the ability to meet changing operating conditions, including possible changes in weather conditions, does not require the BPU to abandon traditional cost recovery mechanisms.

RECO has not shown why an alternative recovery mechanism is necessary in order to undertake those investments necessary to provide safe and reliable utility service. From a cost recovery perspective, investments are either necessary in order to meet the Company's service obligation or they are not. While it would be ideal to ensure a 100% reliable utility system, 100% reliability is neither possible nor is it a cost-effective goal. I will defer to Rate Counsel's other consultants to determine the level of investment necessary to ensure that the Company meets its service obligation to ratepayers. However, for the most part, that level of investment should be recovered pursuant to the base rate case methodology that has traditionally been used by the Company to recover its cost of service.

Q. How does the recovery mechanism envisioned for the SHSR Program fundamentally differ from base rate recovery?

A. The Company's proposed SHS recovery mechanism is an accelerated recovery mechanism - one that will require ratepayers to pay for certain costs earlier than they would under traditional ratemaking. In addition, not only does the proposed SHS recovery mechanism accelerate recovery of costs that would not otherwise be recoverable until the Company filed a base rate case, but the Company's proposal further accelerates recovery by requiring ratepayers to pay for not only actual expenditures, but projected expenditures as well. The SHS rates would be based on forecasted investment each year, so ratepayers would be required to begin to pay for plant that was not yet in-service and which will not be in-service until several months into the future, if at all.

C. Impact of the SHS Cost Recovery Mechanism on Stakeholders

Q. What is the impact on shareholders of the Company's proposed SHS cost recovery mechanism?

A. Contrary to economic theory and good ratemaking practice, the proposed SHS recovery mechanism will increase shareholder return while significantly reducing risk. Shareholder return is directly proportional to the amount of investment made by the utility. Since shareholders benefit from every investment dollar that is spent by a utility, the proposed cost recovery mechanism will increase overall return to shareholders and accelerate recovery of that return.

In the Company's last base rate case, RECO's rate base was established at $172.186 million. In the response to RCR-A-13, the Company estimates that the proposed SHSR Program will increase rate base by $48.5 million by 2020, an increase of over 28%. This is in addition to other capital costs incurred by RECO during this period in the normal course of business.

Moreover, during the first five years of the program, the Company estimates that the SHSR Program will generate approximately $11.1 million of return for investors on a net-of-tax basis. Approximately 74% of this amount, or $8.2 million, relates to return on equity. While shareholders would reap the benefit of this $8.2 million electric income stream, ratepayers would have to pay the income taxes and other assessments associated with these earnings.

Therefore, instead of viewing the SHSR Program as an investment burden, investors are likely to view the SHSR Program and associated cost recovery mechanism as an opportunity to increase their returns and to reduce their risk. Regulators should not lose sight of the fact that the there are two primary ways that shareholders can increase their returns – by increasing the rate base on which a return in earned or by increasing the rate of return that is applied to that rate base. In the current interest rate environment, it would be very difficult for the Company to argue that the 9.75% return on equity that was authorized in the last base rate case should be increased. Therefore, the Company must increase its earnings by increasing the amount of investment on which it can earn a return. Every dollar of investment made by RECO results in greater earnings for shareholders. Moreover, under the Company's proposal, those earnings are virtually guaranteed.

Q. What is the impact of the Company's proposal on its customers?

A. Pursuant to the traditional ratemaking methodology, plant additions are only included in rate base, and therefore in utility rates, once the plant is completed and placed into service. Between general base rate cases, plant that is booked to utility plant-in-service is not reflected in utility rates until the Company's next base rate case.

However, under the Company's proposal, ratepayers will bear higher costs sooner, as a result of the SHSR Program. Pursuant to the SHS cost recovery mechanism, ratepayers will pay an additional surcharge each year relating to the SHSR Programs. These charges will include not only plant that has been completed to date, but also plant that is projected to be completed over the upcoming twelve months. From a financial perspective, these are serious detriments to ratepayers.

Q. Would the Company's proposal to implement a SHS surcharge also shift additional risk onto ratepayers?

A. Yes, it would. The Company's proposed mechanism would shift risk from shareholders, where it properly belongs, to ratepayers without any commensurate reduction in the Company's return on equity. In addition, the Company's proposal would require the BPU to increase rates even if the Company was earning its authorized rate of return.

The proposed cost recovery mechanism will reduce shareholder risk, in two ways. First, since the SHS mechanism will accelerate recovery, shareholders will no longer have to wait for a general base rate case to receive a return on this investment. Nor will shareholders have to wait for a general base rate case in order to begin recovery of depreciation expense or operating and maintenance expenses associated with the investment. Second, given the true-up mechanism included in the proposed SHS surcharge, recovery of and on this investment is guaranteed. Under traditional ratemaking, shareholders are awarded a risk-adjusted return on equity and given the opportunity, but not a guarantee, to earn this return. Under the true-up mechanism proposed by RECO, shareholders would be guaranteed to recover both the return on this investment as well as the return of this investment. This guarantee results from the fact that any shortfalls would be charged to ratepayers in a subsequent period. This mechanism effectively eliminates all shareholder risk involving recovery of projects funded through the SHS mechanism.

Moreover, under the Company's proposal, not only are shareholders guaranteed a return on and of their investment between base rate cases, but they are also guaranteed that the Company will recover its operating and maintenance expenses and certain other costs, such as uncollectible costs and taxes. Since RECO intends to include these costs in its SHS revenue requirement, then recovery of these operating costs is also guaranteed between base rate cases.

The SHS mechanism also results in rate uncertainty for ratepayers. These annual rate increases will make it difficult for customers to anticipate their charges for electric utility service or to assess the accuracy of their bills. Rate stability can be especially important to residential and small commercial customers. Permitting these costs to be recovered between base rate cases will also reduce the Company's incentive to control and manage these costs. If the Company is required to file a base rate case to recover these costs, it is likely to work harder to keep costs down between base rate cases by investing in the most efficient projects and by managing construction of such projects effectively.

Adoption of a cost recovery surcharge mechanism also puts the BPU in the position of pre-approving rate increases without knowing the exact magnitude of those increases. Moreover, these rate increases would occur even if the Company were earning more than its currently authorized rate of return.

Q. Is this an appropriate time to place millions of dollars of additional costs on ratepayers?

A. No, it is not. While the economy has improved in New Jersey over the past two years, especially the unemployment rate, ratepayers are still facing high income taxes, high property taxes, and flat salaries. Ratepayer resources, like Company resources, are not unlimited and now is not the time to impose significant new utility costs on ratepayers for programs that may not be necessary to provide safe and reliable utility service or make us more storm resilient. In addition, the BPU has not examined important issues such as gradualism, rate stability, and the avoidance of rate shock, issues which should be thoroughly explored prior to implementing an SHS cost recovery mechanism.

Q. Is the Company proposing any reduction to its cost of equity to reflect the lower risk inherent in the SHSR Program?

A. No, it is not. In spite of the fact that the SHSR Program will reduce shareholder risk, and will transfer that risk to ratepayers, the Company has not proposed any reduction to the cost of equity to be paid by ratepayers. As stated earlier, RECO is proposing that the return authorized in its last base rate case be used to calculate the revenue requirement associated with the SHS mechanism. However, since this return will be accelerated, the impact to shareholders is an increase in the earned return on equity between base rate cases even though there is virtually no risk of cost recovery. Thus, the SHS mechanism provides exactly the wrong movement in return on equity that one would expect, given the significant reduction in shareholder risk.

Q. Don't shareholders bear the risk of having the BPU deny recovery in a future prudence review?

A. In my opinion, the SHSR Program is essentially risk-free to shareholders. Since the BPU will have already approved the sub-programs, there is virtually no risk of disallowance unless actual spending varies greatly from what is projected. Moreover, the BPU does not have a history of disallowing costs incurred under approved surcharge mechanisms. The fact is that disallowance of costs recovered through a rider or surcharge mechanism is extremely rare.

Q. Could the SHS cost recovery mechanism change the process currently used by RECO to prioritize distribution projects?

A. Yes, it could. The SHS mechanism could reduce the Company's incentive to undertake reliability projects based on identified need, and instead could provide an incentive to spend up to a pre-approved, arbitrary allowance, knowing that shareholders will earn a return on any such expenditures and that recovery of such expenditures is guaranteed. Under the present regulatory mechanism, RECO has to prioritize not only its total expenditures, but also the expenditures earmarked for reliability projects. Therefore, the Company must make choices about how much to spend and how to spend it, while meeting its mandate to provide safe and reliable utility service. If, however, certain projects will be subject to accelerated recovery, RECO will have much less incentive to prioritize capital investment based on actual need and more incentive to undertake specific projects pre-approved in this proceeding, which are subject to an accelerated cost recovery mechanism.

Q. Does the Company's proposal result in single-issue ratemaking?

A. Absolutely. The Company's proposal clearly constitutes single-issue ratemaking since it proposes to increase rates for one component of the ratemaking equation without consideration of the overall revenue requirement or income levels being earned by RECO. Single-issue ratemaking violates the regulatory principle that all components of a utility's ratemaking equation be considered when new rates are established. The SHS mechanism would permit the Company to impose increases each year on captive customers without regard for other ratemaking components.

Q. Hasn't the BPU approved similar single-issue cost recovery mechanisms in other cases?

A. Yes, however, it is my understanding that the vast majority of single-issue cost recovery mechanisms approved by the BPU related either to significant costs that are largely outside of the Company's control (e.g., fuel), to legislative mandates (previous infrastructure investment programs, solar programs, etc.), or to specific programs that were the subject of a Stipulation. None of those conditions apply in this case. Moreover, in my view, the existence of these other surcharge recovery mechanisms makes it more critical, not less critical, for the BPU to move away from single-issue ratemaking and to return to base rate cases as the vehicle for establishing rates to New Jersey ratepayers.

Over the past few years, there have been numerous programs approved for recovery through a surcharge mechanism. In addition to base rates, RECO ratepayers are currently paying a Societal Benefits Charge, which includes a Demand Side Management and Clean Energy Program Surcharge, a Universal Service Fund Surcharge, and a Lifeline Surcharge; a Regional Greenhouse Gas Initiative Charge, which includes an Energy Efficiency Stimulus Program Surcharge and a Low Income Audit II Program Surcharge; a Transmission Surcharge; and a Basic Generation Service Charge.

Ratemaking is supposed to be a substitute for competition. In a competitive marketplace, a company is not guaranteed to recover costs and shareholders are not guaranteed to earn a specific level of profit. The entire regulatory paradigm appears to be at risk as utilities have successfully argued that the base rate case recovery mechanism, which provides incentives for effective management and permits shareholders the opportunity to earn a reasonable return, should be discarded in place of a myriad of surcharges that guarantee recovery, reduce shareholder risk, and remove incentives for effective cost control.

Q. Has the Company demonstrated that the proposed SHS is necessary in order to meet its service obligations to New Jersey ratepayers?

A. No, it has not. RECO has not demonstrated that the accelerated recovery mechanism proposed in the filing is necessary for the projects included in the filing. Nor has the Company demonstrated that its financial condition warrants an accelerated recovery mechanism. There is no evidence that RECO has had difficulty in the past attracting the capital necessary to invest in reliability projects. The Company has not provided any evidence that it has had, or will have, difficulty attracting capital if the proposed surcharge mechanism is not approved. In this case, there is no evidence that either operational issues or financial issues necessitate implementation of a new accelerated recovery mechanism for distribution reliability projects. Thus, RECO has not demonstrated that its financial integrity will be jeopardized if the proposed SHS mechanism is rejected by the BPU.

Q. Should the Board approve a new cost recovery mechanism for all of the storm hardening, smart grid, and meter upgrade projects included in the Company's filing?

A. No, it should not. If the BPU finds that an additional level of investment is required, then the associated costs should be recovered by RECO through the existing base rate case process. Use of a surcharge mechanism for these projects will result in a guaranteed return to shareholders, a transfer of risk from shareholders to ratepayers, and a further erosion of the integrity of the regulatory process. I recommend that the BPU reject the

Company's proposal to accelerate recovery of costs associated with the projects that are the subject of this proceeding.

The SHS mechanism results in single-issue ratemaking, provides a disincentive for utility management to control costs, and shifts risk from shareholders to ratepayers. The SHS mechanism also puts a further (and unnecessary) burden on ratepayers. Accordingly, the Company's request for an extraordinary recovery mechanism for the majority of the storm hardening, smart grid, and meter upgrade projects proposed by the Company should be denied.

D. Modifications to the Cost Recovery Mechanism

Q. Are there any projects included in the Company's filing that may warrant special ratemaking treatment?

A. Yes. As discussed in the testimony of Mr. Chang and Mr. Salamone, there are a few storm hardening projects that the Board may consider incremental and storm related, and thereby eligible for recovery outside the normal base rate case process. These projects are summarized below:

$000

	2016 ($000)	2017 ($000)	2018 ($000)	2019 ($000)	2020 ($000)	Total ($000)
Harrington Park – Harriot Ave.			$830.0			$830.0
Harrington Park – Harings Center			$731.8			$731.8
Old Tappan Road – Reconductor			$331.6			$331.6
Old Tappan Road – Blanche Ave.				$750.1		$750.1
Muscle Wall	$300.0					$300.0
Total	$300.0	$0	$2,193.5	$750.1	$0	$2,943.5

Q. If the BPU does approve an extraordinary recovery mechanism for the projects listed above, should they authorize the SHS as proposed by the Company?

A. No, they should not. I have several concerns about the specific cost recovery mechanism proposed by SHS. Therefore, in the event that the BPU finds that the projects listed above should be subject to some extraordinary cost recovery mechanism, then I recommend the following:

1. Recovery should not be permitted between base rate case proceedings. Instead, if the BPU believes that some extraordinary ratemaking treatment is necessary, it should permit the Company to defer recovery between base rate cases.

2. Deferred recovery should be limited to the return on the net investment in the projects that have been completed and placed into service, as well as related depreciation expense.

3. Deferred recovery should be limited to the return requirement and depreciation expenses associated with the $2,943,55 of project costs identified by Mr. Chang and Mr. Salamone.

4. If the BPU includes additional projects in any deferral, then the BPU should also examine if the 9.75% return on equity agreed to among the parties in the last base rate case is still reasonable, or if some other return on equity is appropriate.

5. In order to defer recovery, the Company should demonstrate that it has maintained its base level of capital expenditures.

6. The Company should not be permitted to defer operating expenses.

Q. Have you quantified the impact of your recommendations?

A. Yes, at Schedule ACC-1, I have estimated the annual revenue requirement associated with projects that Rate Counsel finds <u>may</u> qualify for special rate treatment. For purposes of this schedule, I have utilized the rate of return authorized in the Company's last base rate case, although as noted that return may no longer be appropriate. I have utilized a depreciation rate of 1.81%, the rate included in the Company's filing for distribution projects, as the annual depreciation rate. In determining annual depreciation expense, I assumed that on average, one-half of the year's annual expenditures were in-service.

As shown on Schedule ACC-1, I estimate that the 2016-2018 projects discussed by Mr. Chang and Mr. Salamone for non-traditional rate treatment would result in a deferral of $339,466, while the 2019-2020 projects would result in a deferral of $736,986.

Q. Did you include an offset for accumulated deferred income taxes ("ADIT") in your rate base calculation?

A. No, I did not. The ADIT calculation is very complex and I did not have sufficient information to make this calculation. Therefore, I did not include an ADIT offset. The actual annual rate base, and the resulting annual revenue requirement, will be lower than the amounts shown in Schedule ACC-1. Accordingly, my estimated rate impacts are conservative.

Q. When would the Company actually recover the costs shown in Schedule ACC-1?

A. Pursuant to the Stipulation in the last base rate case, RECO is required to file a base rate case by July 1, 2018. Assuming that RECO makes the filing on July 1, 2018, I assume that the 2016-2018 plant additions would be reflected in rates resulting from that case. Costs incurred in 2019 and 2020 would be deferred until the Company's first base rate case after the 2018 case.

Q. Are you recommending any limit on the amount of time that costs could be deferred?

A. Yes, I am. In order to minimize the possibility of RECO being permitted to defer costs for an extended period without the benefit of a full rate review, I recommend that costs associated with 2019-2020 plant additions be deferred for no more than three years. If the Company fails to file a base rate case by 2023, then RECO should not permitted to recover deferred costs associated with the 2019-2020 plant additions, although prospective costs associated with these additions would be eligible for review and recovery in a future base rate case.

Q. What is the impact on rates of the deferrals discussed above?

A. As shown in Schedule ACC-2, I estimate that the deferral of 2016-2018 costs would add about $0.22 per month to the typical residential customer's bill. This would result in a rate increase of approximately 0.12% on the total bill, or 0.42% on the distribution portion of the bill. Costs associated with 2019-2020 plant additions would add about $0.47 per month (0.27% overall and 0.91% on distribution revenues) to the typical residential customer's bill. Again, given that I did not include ADIT in my rate base calculation, the actual rate impacts should be slightly lower than those shown in Schedule ACC-2.

Q. Are you recommending that the Company receive any interest on these deferrals?

A. No, I am not. As noted, the deferrals are relatively small and I recommend that any such deferral terminate after three years. Therefore, I am not recommending any additional interest or carrying charges on the deferred balances. The Company is already receiving extraordinary ratemaking treatment by being authorized to earn a return on this plant between base rate cases and to defer depreciation expenses. I don't believe that additional interest or carrying charges are either necessary or appropriate.

Q. What rate of return should be utilized for any deferrals associated with the Programs?

A. For illustrative purposes, I have adopted the rate of return agreed to by the parties in the Company's last base rate case. Since Rate Counsel is recommending that non-traditional rate treatment be utilized for only a small number of the Company's proposed projects, the rate of return does not have a significant impact on the amount of any deferral. However, if the BPU were to include additional projects in any deferral, or to approve a surcharge mechanism for RECO, then the BPU should also examine the Company's currently authorized return to determine if it is still reasonable.

Q. If a deferral mechanism is approved, why should the BPU ensure that the any SHSR Program investment is incremental to the annual investment that would normally be made by the Company in the absence of the Program?

A. The BPU should ensure that RECO does not shift capital resources that would otherwise be invested in the utility into the SHSR Program because of the more attractive rate treatment afforded the SHSR Program. RECO should be required to continue to undertake investments that are necessary for the provision of safe and reliable utility service regardless of whether the proposed SHSR Program is approved. To ensure that the Company meets its service commitments, I recommend that deferral of any costs associated with the SHSR Program be contingent upon the Company continuing to make a reasonable level of investment in the utility through the traditional rate recovery process. Therefore, if the BPU approves a SHSR Program, it should require that the Company maintain an annual base level of spending that is at least commensurate with the levels incurred by the Company over the past several years.

Q. Why do you recommend that operating expenses be excluded from any deferrals?

A. I recommend that operating expenses be excluded because of the difficulty of tracking and verifying that expenses identified with the SHSR Program are truly incremental. It is virtually impossible to audit and ensure that such expenses are in fact incremental and are not already being recovered through base rates. Moreover, the Company indicated that it intended to include not only direct operating expenses but administrative costs as well in its SHS. Given the normal movement of employees within a utility, as well as operating cost savings that can result from capital upgrades, it is it is very difficult to accurately identify incremental operating costs and to attribute such costs to a particular project. Therefore, if the BPU approves a deferral mechanism for certain components of the SHSR Program, I recommend that it exclude operating and maintenance costs from the deferral.

Q. Please briefly summarize your recommendations.

A. The majority of the projects proposed by the Company do not warrant a non-traditional approach to cost recovery. If the BPU decides that a cost recovery mechanism other than the base rate process is appropriate, then such recovery should be limited to $2.93 million of projects identified by Mr. Chang and Mr. Salamone.

Moreover, instead of the SHS proposed by RECO, the Company should be permitted to defer the return and depreciation expense associated with these projects until the Company's next base rate case. Costs that are not reflected in the next base rate case should continue to be deferred and recovered in a subsequent base rate case, provided that these additional costs are not deferred for a period of more than three years. The BPU should also ensure that the Company continues to make a reasonable level of other electric distribution investments.

Q. Does this conclude your testimony?

A. Yes, it does.

The Columbia Group, Inc., Testimonies of Andrea C. Crane

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Rockland Electric Company	E	New Jersey	ER14030250	9/15	Storm Hardening Surcharge	Division of Rate Counsel
El Paso Electric Company	E	New Mexico	15-000-99-UT	8/15	Certificate of Public Convenience - Ft. Bliss	Office of Attorney General
Southwestern Public Service Company	E	New Mexico	15-00083-UT	7/15	Approval of Purchased Power Agreements	Office of Attorney General
Westar Energy, Inc.	E	Kansas	15-WSEE-115-RTS	7/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	15-KCPE-116-RTS	5/15	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR14101099-1120	4/15	Cable Rates (Form 1240)	Division of Rate Counsel
Liberty Utilities (Pine Buff Water)	W	Arkansas	14-020-U	1/15	Revenue Requirements	Office of Attorney General
Public Service Electric and Gas Co.	E/G	New Jersey	EO14080897	11/14	Energy Efficiency Program Extension II	Division of Rate Counsel
Black Hills/Kansas Gas Utility Company	G	Kansas	14-BHCG-502-RTS	9/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Public Service Company of New Mexico	E	New Mexico	14-00158-UT	9/14	Renewable Energy Rider	Office of Attorney General
Public Service Company of New Mexico	E	New Mexico	13-00390-UT	8/14	Abandonment of San Juan Units 2 and 3	Office of Attorney General
Atmos Energy Company	G	Kansas	14-ATMG-320-RTS	5/14	Revenue Requirements	Citizens' Utility Ratepayer Board
Rockland Electric Company	E	New Jersey	ER13111135	5/14	Revenue Requirements	Division of Rate Counsel
Kansas City Power and Light Company	E	Kansas	14-KCPE-272-RTS	4/14	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Comcast Cable Communications	C	New Jersey	CR13100885-906	3/14	Cable Rates	Division of Rate Counsel
New Mexico Gas Company	G	New Mexico	13-00231-UT	2/14	Merger Policy	Office of Attorney General
Water Service Corporation (Kentucky)	W	Kentucky	2013-00237	2/14	Revenue Requirements	Office of Attorney General
Oneok, Inc. and Kansas Gas Service	G	Kansas	14-KGSG-100-MIS	12/13	Plan of Reorganization	Citizens' Utility Ratepayer Board
Public Service Electric & Gas Company	E/G	New Jersey	EO13020155 GO13020156	10/13	Energy Strong Program	Division of Rate Counsel
Southwestern Public Service Company	E	New Mexico	12-00350-UT	8/13	Cost of Capital, RPS Rider, Gain on Sale, Allocations	New Mexico Office of Attorney General
Westar Energy, Inc.	E	Kansas	13-WSEE-629-RTS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	13-115	8/13	Revenue Requirements	Division of the Public Advocate
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-447-MIS	8/13	Abbreviated Rate Filing	Citizens' Utility Ratepayer Board
Jersey Central Power & Light Company	E	New Jersey	ER12111052	6/13	Reliability Cost Recovery Consolidated Income Taxes	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	13-MKEE-447-MIS	5/13	Transfer of Certificate Regulatory Policy	Citizens' Utility Ratepayer Board
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	13-MKEE-452-MIS	5/13	Formula Rates	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	12-450F	3/13	Gas Sales Rates	Attorney General
Public Service Electric and Gas Co.	E	New Jersey	EO12080721	1/13	Solar 4 All - Extension Program	Division of Rate Counsel

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Public Service Electric and Gas Co.	E	New Jersey	EO12080726	1/13	Solar Loan III Program	Division of Rate Counsel
Lane Scott Electric Cooperative	E	Kansas	12-MKEE-410-RTS	11/12	Acquisition Premium, Policy Issues	Citizens' Utility Ratepayer Board
Kansas Gas Service	G	Kansas	12-KGSG-835-RTS	9/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power and Light Company	E	Kansas	12-KCPE-764-RTS	8/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Woonsocket Water Division	W	Rhode Island	4320	7/12	Revenue Requirements	Division of Public Utilities and Carriers
Atmos Energy Company	G	Kansas	12-ATMG-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

Company	Utility	State	Docket	Date	Topic	On Behalf Of
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

Appendix B

Schedule ACC-1

Rockland Electric Company
Incremental Storm Hardening and System Resiliency Programs
Financial Summary - At Company's Proposed Return

		2016	2017	2018	2019	2020
	Expenditures					
1	Plant Additions (A)	$300,000	$0	$1,893,400	$750,100	$0
2	Cumulative Plant Additions	$300,000	$300,000	$2,193,400	$2,943,500	$2,943,500
3	Plant in Service	$300,000	$300,000	$2,193,400	$2,943,500	$2,943,500
4	Accumulated Depreciation (B)	2,715	8,145	30,710	77,199	130,477
5	Net Plant	$297,285	$291,855	$2,162,690	$2,866,301	$2,813,023
6	Accumulated Deferred Tax	-	-	-	-	-
7	Rate Base	$297,285	$291,855	$2,162,690	$2,866,301	$2,813,023
8	Pre-Tax Return Requirement (C)	$33,355	$32,746	$242,654	$321,599	$315,621
9	Depreciation Expense (D)	$2,715	$5,430	$22,565	$46,489	$53,277
10	Revenue Requirement	$36,070	$38,176	$265,219	$368,088	$368,899

Sources:
(A) Testimony of Mr. Chang and Mr. Salamone.
(B) Prior Year Accumulated Depreciation plus current year Depreciation Expense.
(C) For illustrative purposes, reflects Company's claimed pre-tax return of 11.22%, per Exhibit ARP-1, Schedule 2.
(D) Assumes depreciation rate of 1.81% and half-year convention.

Rockland Electric Company
Incremental Storm Hardening and System Resiliency Programs
Impact of Deferral

		2016-2018	2019-2020
1	Deferral Balance (A)	$339,466	$736,986
2	Billing Determinants (kWh) (B)	1,521,739,837	1,521,739,837
3	Deferral per kWh ($ per kWh) (C)	$0.00022308	$0.00048431
4	Averge Annuallized Monthly Usage (kWh) (D)	975	975
5	Monthly Impact (E)	$0.2175	$0.4722
6	Total Monthly Bill Increase (F)	0.12%	0.27%
7	Monthly Distribution Increase (G)	0.42%	0.91%

Sources:
(A) Schedule ACC-1.
(B) Derived from Company Filing, Accounting and Rate Filing Testimony, page 10. Company developed a rate of .2091 cents per kWh, assuming revenue requriement of $3,181,958, which assumes usage of 1,521,739,837 kWh.
(C) Line 1 / Line 2.
(D) Accounting and Rate Filing Testimony, page 10.
(E) Line 3 * Line 4.
(F) Based on an average current bill of $176.05, per Exhibit ARP-1, Revised, Schedule 1.
(G) Based on an average distribution bill of $51.87, per Exhibit ARP-1, Revised, Schedule 1.

Company Name: Rockland Electric Company
Case Description: Storm Hardening Surcharge
Case: ER14030250

Response to Rate Counsel Interrogatories – Set RCR-1
Date of Response: May 11, 2015
Responding Witness: Accounting and Rate Panel

Question No. : RCR-A-13

Regarding Exhibit ARP-1, Schedule 1, please confirm that the amounts shown for years 2017-2020 in the line "Revenue Requirement before Gross Up" are actually amounts that have been grossed up for taxes. If this is not correct, then please explain why these amounts are the same as the "Revenue Requirement after Gross Up" amounts.

RESPONSE:

The Company has revised Exhibit ARP-1, schedule 1 to reflect a gross-up calculation for only Rate Base additions and not for Depreciation and O&M expenditures. Please see attached excel file with formula's intact.

Rockland Electric Company
Incremental Storm Hardening and System Resiliency Programs
Financial Summary

Capital Structure (See Schd. 2)						
Equity Component	50.35%					
Equity Return	9.75%					
Before -Tax WACC	11.22%					
After -Tax WACC	6.64%					
Effective Tax Rate	40.85%					
Interest Expense	2.92%					
	2016	**2017**	**2018**	**2019**	**2020**	**Cumulative**
Expenditures						
Plant Additions (See Schd. 3)	$16,349,965	$14,136,962	$11,371,612	$10,528,735	$8,672,391	$61,059,665
Plant in Service	15,885,565	29,129,727	39,608,539	49,244,474	57,488,465	
Accumulated Depreciation	(421,425)	(440,510)	(174,144)	260,394	1,328,828	
Net Plant	16,306,990	29,570,237	39,782,683	48,984,081	56,159,637	
Accumulated Deferred Tax (See Schd. 4)	(1,484,276)	(3,284,996)	(4,914,478)	(6,303,837)	(7,615,551)	
Rate Base	14,822,714	26,285,242	34,868,205	42,680,244	48,544,086	
Return Requirement (Rate Base x After-Tax WACC)	984,065	1,745,051	2,314,865	2,833,498	3,222,793	
Revenue Multiplier (See Schd. 7)	1.69367	1.69367	1.69367	1.69367	1.69367	
Rate Base Revenue Requirement after Gross Up	1,666,677	2,955,532	3,920,607	4,798,999	5,458,333	
Depreciation Expense (See Schd. 5)	42,975	873,714	1,159,167	1,327,337	1,496,835	$4,900,028
O&M Expenditures (See Schd. 6)	851,700	729,700	1,003,300	797,800	790,400	$4,172,900
Total Revenue Requirement	2,561,352	4,558,947	6,083,074	6,924,136	7,745,568	

	2016	2017	2018	2019	2020	Cumulative
Total Bill Imacts #						
Present	$176.05	$177.99	$178.84	$179.77	$180.38	
Proposed	177.61	178.84	179.77	180.38	180.89	
$ Change	1.56	0.85	0.93	0.61	0.51	$4.46
% Change	0.9%	0.5%	0.5%	0.3%	0.3%	2.5%
Distribution Only Bill Impacts*						
Present	$51.87	$53.43	$54.66	$55.59	$56.20	
Proposed	53.43	54.66	55.59	56.20	56.71	
$ Change	1.56	1.23	0.93	0.61	0.51	$4.84
% Change	3.0%	2.3%	1.7%	1.1%	0.9%	9.0%

SC No. 1 Customers Using an Average of 925 kWh per month.

* Distribution Bill Impacts excludes transmission, supply, and all other surcharges except for the SHS.

Case ER13111135
Docket PUC 17625-2013N

Rockland Electric Company
Incremental Storm Hardening and System Resiliency Programs
Consolidated Capital Structure
For Twelve Months Ending March 31, 2014

($ 000's)

	Amount ($000's)	Ratio	Cost Rate	Weighted Average Ratio	Before Tax Weighted Average Ratio	After Tax Weighted Average Ratio
LT/ST Debt	$ 603.6	49.65%	5.89%	2.92%	2.92%	1.73%
Common Equity	$ 612.2	50.35%	9.75%	4.91%	8.30%	4.91%
Total	$ 1,215.8	100%		7.83%	11.22%	6.64%