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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

November 8, 2007 - 9:38 a.m.
Concord, New Hampshire

DAY II

RE: DG 07-050
ENERGYNORTH NATURAL GAS, INC. d/b/a
KEYSPAN ENERGY DELIVERY NEW ENGLAND:
Indirect gas costs.

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Connie Fillion, Clerk

APPEARANCES: Reptg. KeySpan Energy Delivery New England:
Steven V. Camerino, Esq. (McLane, Graf...)
Thomas P. O'Neill, Esq.

Reptg. Residential Ratepayers:
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
F. Anne Ross, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Good morning.
3 Resume the hearing today in docket DG 07-050. And, pick
4 up with the examination of Mr. McCluskey. But, before we
5 do that, why don't we take appearances for the record, and
6 see if there's any other procedural issues.

7 MR. CAMERINO: Good morning,
8 Commissioners. Steve Camerino, from McLane, Graf,
9 Raulerson & Middleton, on behalf of KeySpan Energy
10 Delivery New England. And, with me, on behalf of the
11 Company today, is Thomas O'Neill, Senior Counsel for
12 KeySpan.

13 CMSR. BELOW: Good morning.

14 CMSR. MORRISON: Good morning.

15 CHAIRMAN GETZ: Good morning.

16 MR. TRAUM: Good morning, Commissioners.
17 Representing the Office of Consumer Advocate, Kenneth
18 Traum.

19 CHAIRMAN GETZ: Good morning.

20 CMSR. MORRISON: Good morning.

21 CMSR. BELOW: Good morning.

22 MS. ROSS: Good morning, Commissioners.

23 For the Staff of the Public Utilities Commission, Anne
24 Ross. And, to my left is Steve Frink, and to his left is

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1 Amanda Noonan, and on the witness stand is George
2 McCluskey.

3 CMSR. BELOW: Good morning.

4 CMSR. MORRISON: Good morning.

5 CHAIRMAN GETZ: Good morning. Anything
6 before we return to you, Mr. Camerino?

7 MR. CAMERINO: Well, first of all, my
8 cross-examination of Mr. McCluskey is complete. So, I'm
9 not going to have any further questions for him at this
10 time. I do think we should probably do some housekeeping
11 on exhibits and record requests that came at the end of
12 Monday, if that would make sense?

13 CHAIRMAN GETZ: Okay.

14 MR. CAMERINO: Okay. And, I'm going to
15 need Ms. Ross's help on this, because it's a little hard
16 to keep track of. I have down as a record request, which
17 we marked as "Exhibit 13", that Commissioner Below wanted
18 the six months of cost and revenue entries prior to
19 November 2005. And, so, I've got -- what I have is the
20 Summer Period 2005 cost of gas reconciliation that was
21 filed in docket DG 05-049. And, that has that information
22 in it. But it needs an explanation.

23 This is, and just for clarity, you'll
24 notice this has a cover letter dated January 30th, 2006.

1 This is actually a complete copy of what was submitted as
2 Exhibit 12 by the Staff. So, everything that's in
3 Exhibit 12 is included in here. When Ms. Leary takes the
4 stand, she can show you where the data is. But, pretty
5 simply, if we look one, two -- eight pages in, you'll see
6 in the upper right-hand corner it says "Page 1 of 5".
7 There's a Schedule 1, that's the peak period, and two
8 pages after that it says "Page 3 of 5" in the upper
9 right-hand corner, that's the off-peak period, that's
10 those six months that Commissioner Below was asking about.

11 The Staff tells us that what they think
12 Commissioner Below actually wanted is those two schedules
13 collapsed into a combined. And, I think the Staff either
14 has or will be able to create that combined into one, so
15 we can submit it today. Maybe Mr. Frink could clarify.
16 Have you done it or --

17 MR. FRINK: Yes. Mr. Wyatt is
18 developing that right now, and we should have it within a
19 half hour.

20 CMSR. BELOW: Okay.

21 MR. CAMERINO: So, maybe we could make,
22 I'll get to this in a second, but "Exhibit 15", that
23 combined document, when it comes in. But it's simply
24 going to combine those two pages so you can see the whole

1 year, both periods together.

2 MS. ROSS: Steve, could we do 16 for
3 that, because I was going to use 14 and 15?

4 MR. CAMERINO: Okay. We'll give it a
5 number when it comes in.

6 MS. ROSS: Okay.

7 MR. CAMERINO: So, just in case I've
8 managed to confuse this completely. The response to the
9 record request is going to be -- is Exhibit 13, which is
10 this January 30th document. It's a complete copy of what
11 was Exhibit 12. And, shortly, we will provide the two
12 periods collapsed into one schedule and give that a
13 separate number. So, if we could mark that for
14 identification.

15 CHAIRMAN GETZ: It will be so marked,
16 with the proviso that you provide a full list to the Clerk
17 with all of these exhibit numbers clearly identified.

18 MR. CAMERINO: We will do that.

19 (The document, as described, was
20 herewith marked as Exhibit 16 for
21 identification.)

22 CHAIRMAN GETZ: And, I may have caused
23 some confusion the other day, because I misread
24 Exhibit 10, well, actually, I read the top where it said

1 "May through October 2005", but it turns out that it goes
2 through and includes months through '06.

3 MR. CAMERINO: Yes. And, I was actually
4 going to get to that next.

5 CHAIRMAN GETZ: Okay.

6 MR. CAMERINO: The next record request
7 was Commissioner Below had asked if we could have the 12
8 months November 2005 through October of 2006 collapsed
9 into a single table. And, with regard to the Company's
10 information, that is already shown on Exhibit 10. The
11 first table at the top is the peak period subaccount, the
12 next table at the bottom of Page 1 is the off-peak period
13 subaccount. And, if you turn to the second page, that is
14 the collapsed version.

15 CMSR. BELOW: Even though it's not
16 labeled as such?

17 MR. CAMERINO: Yes. Actually, it has
18 all the accounts -- what's confusing is, the first table
19 at the top on Page 1 should say "Account 175.20". Then,
20 at the bottom table, you'll see it says "175.40". And,
21 the table on Page 2 says "175.20, 175.21 and 175.40", that
22 is the combined table. I believe that the "175.21" that's
23 referred to there is just the interest.

24 MS. ROSS: And, just for clarity, it

1 does say "Off Peak Demand and Commodity". So, I assume
2 that we would want that to say "Off Peak and On Peak
3 Demand and Commodity"?

4 MR. CAMERINO: That is correct. So,
5 that second page is the Company's portion of the response
6 to that record request.

7 CMSR. BELOW: Though, it also says "May
8 through October 2005", which is also not correct,
9 obviously?

10 MR. CAMERINO: That's correct. That --
11 you are correct. The labeling is at the top of the table.

12 MS. ROSS: And, then, if I could, for
13 Record Request 14, which was a request that the 12 months
14 be collapsed, Staff has prepared -- I'm sorry, not
15 "collapsed", combined for the two accounts, so that
16 there's a month-by-month basis showing the combined
17 accounts, Staff has prepared what we'll mark for
18 identification as "Exhibit 14", which is Staff's two
19 accounts combined into one, peak and off peak for that 12
20 month period on a month-by-month basis.

21 (The document, as described, was
22 herewith marked as Exhibit 14 for
23 identification.)

24 MS. ROSS: May I begin redirect?

[Witness: McCluskey]

1 CHAIRMAN GETZ: Well, see if we have any
2 questions up here. Did you have any questions? Cliff,
3 did you have questions?

4 CMSR. BELOW: I guess not, until I've
5 had a chance to study some of the new sheets.

6 CHAIRMAN GETZ: Okay. Redirect, then.
7 (Whereupon George R. McCluskey was
8 recalled to the stand, having been
9 previously sworn.)

10 GEORGE R. McCLUSKEY, Previously sworn

11 REDIRECT EXAMINATION

12 BY MS. ROSS:

13 Q. Good morning, Mr. McCluskey.

14 A. Good morning.

15 Q. Mr. McCluskey, I would first like you just to explain
16 to the Commission what your Exhibit 14 accomplishes,
17 and what the results of that spreadsheet show, with
18 regard to the Company's interest.

19 A. Okay. The development of this spreadsheet is very
20 simple. It's simply adding the peak and off-peak
21 subaccounts to introduce a combined. So, for example,
22 the very first number that you see for November '05,
23 beginning balance, is just the sum of the beginning
24 balances for the peak and off-peak. And, so, you do

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[Witness: McCluskey]

1 that throughout for costs, for revenues, and it
2 produces a interest -- the interesting result, we're
3 all talking about interest incurred or returned. This
4 schedule shows that implementing accrual accounting
5 beginning November '05, based on Staff's proposal,
6 would produce annual interest of \$15,000, almost
7 \$16,000 for the Company over that one year period.

8 The one thing to note with regard to
9 column "November '05", which is the really interesting
10 column, when you come to compare this schedule with the
11 Company's schedule, the line item "Reverse Prior Month
12 Unbilled", while there are entries for all of the
13 months, except November '05 is zero, in -- under the
14 Staff's proposal, and the "collected costs" in the
15 unbilled revenues, the 4.38 and the 8.63, both of those
16 quantities relate only to consumption in November '05,
17 and in no way reflect consumption in any prior or
18 future period. And, the beginning balance is also an
19 important item to think about when comparing with the
20 Company. Because, in the Staff's proposal, what's
21 called the "October unbilled revenues", which we
22 discussed the other day, are reflected, under our
23 proposal, in October of '05. The beginning balance
24 that we're showing there is reduced by that October

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[Witness: McCluskey]

1 unbilled revenue amount of \$4.4 million. So, if you
2 ask yourself "where is that?" It's actually reflected
3 in that beginning balance. We've already taken that
4 revenue out of the starting balance for November of
5 '05. So, I think those are the highlights of this
6 particular schedule.

7 MS. ROSS: Thank you, Mr. McCluskey.

8 Now, I'd like to put in one additional schedule that Mr.
9 McCluskey has prepared, and mark it as "Exhibit 15". And,
10 this is a schedule prepared by Mr. McCluskey and submitted
11 to the Company a few days ago, titled "Staff Exhibit 2
12 Alternative Page 2".

13 (The document, as described, was
14 herewith marked as Exhibit 15 for
15 identification.)

16 BY MS. ROSS:

17 Q. And, Mr. McCluskey, if you could just describe what
18 this -- what this spreadsheet does.

19 A. Okay.

20 CHAIRMAN GETZ: Please proceed.

21 MS. ROSS: Okay.

22 BY MS. ROSS:

23 Q. Could you just explain what this spreadsheet shows.

24 A. Yes. This is an alternative to the off-peak subaccount

[Witness: McCluskey]

1 only. What I was just discussing before was the
2 combined peak and off-peak, and now we're back to the
3 off-peak subaccount. And, what we do here, while Staff
4 has recommended that the October unbilled revenues,
5 October '05 unbilled revenues be reflected in October
6 to begin accrual accounting, what this schedule does,
7 it essentially says "Okay. Well, what if the
8 Commission wants us to put those revenues in November,
9 when they're actually received, rather than October?"
10 And, so, you say "Okay, let's change the off-peak
11 schedule to reflect that." So, we're showing, on Line
12 11, the \$4.46 million as being received in November of
13 '05. And, so, that's one change to this schedule.
14 And, one other thing has got to change, because we've
15 taken it out of October, we've got to change the
16 beginning balance, the beginning balance is going to be
17 higher than it was otherwise. In the prior schedule,
18 it was 1.26. So, now, the beginning balance has gone
19 up to 5.72. So, those are the two major changes to
20 this schedule. And, when you do that, and make that
21 change, of course, there was a lot of focus on the
22 appropriateness of including those unbilled revenues in
23 October. Okay, put them into November. What does it
24 do to the final interest calculation? It increases it

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[Witness: McCluskey]

1 from 30 something, I forget the number that we had, to
2 \$45,000, a difference of \$12,000. And, so, that's the
3 net effect of treating those unbilled revenues in
4 November, as opposed to October.

5 MS. ROSS: Thank you, Mr. McCluskey.

6 That concludes my redirect.

7 CHAIRMAN GETZ: Commissioner Below has a
8 question.

9 CMSR. BELOW: Okay.

10 BY CMSR. BELOW:

11 Q. At the start of your testimony today you said that the
12 accrual, under your proposal, the accrual accounting
13 begins November '05, correct?

14 A. Correct.

15 Q. But, in fact, couldn't it be considered that there's
16 one accrual entry in your proposal that occurs in
17 October, which is sort of precisely the one you just
18 pointed to in Exhibit 15, which is to take the
19 \$4,461,000 that is, I think, unbilled in October and
20 enter that at the end of October? I mean, that's sort
21 of the shift from this bills -- I think it's bills
22 rendered --

23 A. Billed revenue.

24 Q. -- billed revenue to the accrual basis.

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[Witness: McCluskey]

- 1 A. Well, I wouldn't describe it as "accrued revenue
2 accounting beginning in October", because if it did,
3 you'd only have a month of accrued revenues. What
4 you've actually got in October is a month -- month and
5 a half of revenue. Because, in October, you're still
6 under billed revenue, so you've got a full month of
7 billed revenue there. And, you take the October
8 unbilled revenue, which is received in November, and
9 put it back into that month. So, in that month, you
10 actually haven't got a match of costs and revenues,
11 you've got a mismatch. So, for that reason, I don't
12 believe accrued revenue accounting begins in October --
- 13 Q. Well, wouldn't you agree, I mean, it doesn't fully
14 begin, but that one entry represents the shift from the
15 bills -- the billed revenues to the accrued revenues?
- 16 A. It's related to the movement to accrued revenues, I
17 agree. In order to begin pure accrued revenue
18 accounting in November, you have to get out any revenue
19 associated with October out of that month. And, so,
20 that's why you have this mismatch occurring, in order
21 that you can have pure accrued revenue accounting
22 beginning in November.
- 23 Q. Okay. So, there's an adjustment that has to occur --
- 24 BY CHAIRMAN GETZ:

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[Witness: McCluskey]

1 Q. Well, actually, if I can follow up. So, moving the
2 revenue back a month, it seems to me that there's a
3 difference developing about the characterization of
4 that adjustment, and that it seems to be making a
5 difference whether, I think, according to your
6 testimony, whether we're correcting for a past error or
7 we're simply moving to a new system, without making any
8 judgment about the past, in terms of whether there was
9 an error or not. Is that -- It seems to be having a
10 determination on what we -- how we come out in making
11 the adjustment. Is that fair?

12 A. Could you give me that again, Commissioner.

13 Q. Well, it seems like some of the thrust, we have the
14 independent issue of moving from billed to -- the
15 change from accrued to billed -- or, billed to accrued.

16 CHAIRMAN GETZ: You got that, Steve?

17 BY CHAIRMAN GETZ:

18 Q. But part of your adjustment seems to be driving us
19 toward the issue of "are we correcting for a past
20 error?" And, why we make this adjustment, then go into
21 Commissioner Below's issue of "when does it really
22 start?" It seems like we're, in some respect, we're
23 getting into the philosophy of the change and what's
24 underlying how we got there in the first place, and

[Witness: McCluskey]

1 almost are we -- is there a penalty involved, which I
2 think is what -- kind of what the Company's position is
3 in the way the transition is happening?

4 A. I don't believe there is a penalty involved.

5 Q. Or a lost opportunity or something.

6 A. I don't believe there's a lost opportunity. The
7 treatment of the October unbilled revenues that -- all
8 we're doing is moving it out of the month of November
9 and putting it into October. That half month of
10 revenues is needed to, in the prior period, prior six
11 month period, you'll see in the schedules, in order to
12 have a matching of six months of costs and six months
13 of revenues, there's no penalty involved in moving that
14 back. And, I'm saying, even if -- even if you decided
15 not to move it back, and just to -- from a interest
16 calculation standpoint, include it in November, the
17 impact is only \$12,000. So, it's not the -- what was
18 the figure? The 471,000 that the Company is claiming.

19 BY CMSR. BELOW:

20 Q. To sort of focus on that, if we look at Exhibit 15, the
21 adjustment at Line 11 is treated as if it's occurring
22 at the end of November '05, essentially, at the end of
23 the day on November 30th, in terms of the interest
24 calculation, is that correct?

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[Witness: McCluskey]

- 1 A. No. Because what actually happens is that's reflecting
2 revenues received within that month, and it produces a
3 ending balance, the Company calculates the interest on
4 the average balance over that period.
- 5 Q. And, I guess that's my point, and I don't understand
6 your answer. Because isn't the interest calculated the
7 interest that's shown at Line 31 by applying the
8 interest at Line 29 to the average of Line 3 and Line
9 25?
- 10 A. That's correct.
- 11 Q. That's correct. Okay. So, to achieve that average,
12 you would treat Line 3 as the beginning balance, at the
13 beginning of November 1st, right?
- 14 A. Correct.
- 15 Q. And, you would treat the ending balance, on Line 25, as
16 the balance at the end of the day on November 30th,
17 correct?
- 18 A. Uh-huh. Yes.
- 19 Q. So, the average is simply those two summed and divided
20 by two, --
- 21 A. Right.
- 22 Q. -- which is shown on Line 27, right?
- 23 A. Correct.
- 24 Q. And, so, in effect, you could think of Line 11 as

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[Witness: McCluskey]

1 having that adjustment as having occurred at the end of
2 the day on November 30th. You know, where those
3 revenues are actually received or billed is sort of
4 irrelevant, from the way this average is calculated, it
5 is, in effect, occurring, that adjustment occurs at the
6 end of the month, in terms of the way your interest is
7 calculated on this spreadsheet. Is that a fair
8 characterization?

9 A. I don't believe so. I recall you asking this question
10 in a prior proceeding, and I forget what the answer was
11 now.

12 Q. Well, this seems to me, it's a one-time adjustment to
13 reflect the transition from billed revenues, in terms
14 of when they're accounted for, versus when they're
15 accrued?

16 A. It is. That's correct, because November '05 is not a
17 pure accrual accounting calculation.

18 Q. Right. Nor would, if you make that adjustment at the
19 end of October, nor would October be a pure billed
20 revenue?

21 A. That's correct.

22 Q. Right. So, it has to occur in one period or the other,
23 and it's a transitional adjustment to realign the
24 accounting, right?

[Witness: McCluskey]

1 A. That's correct. It has to occur in one or the other,
2 because we believe you cannot just drop \$4.4 million in
3 revenue. It's got to be addressed somewhere.

4 Q. Right. So, if one were to treat it, because this
5 adjustment is occurring as the very first transaction
6 in the month of November, you made the journal entry on
7 the first second of the first minute of the first hour
8 of November 1st. And, then, if you actually calculated
9 the month's average balance on a per hour or per minute
10 or per day basis, you would actually be calculating the
11 month's interest on Line 25, rather than the average of
12 Line 3 and 25, is that correct?

13 A. I agree, depending on how you treat that entry on Line
14 11, that's correct. You can come out with a different
15 interest calculation.

16 CMSR. BELOW: Okay. I guess that's all
17 for now.

18 MR. CAMERINO: I'm going to have some
19 questions on this exhibit, Mr. Chairman.

20 CHAIRMAN GETZ: Okay. I wonder if it
21 makes sense at this point to recess to do the prehearing
22 conference in 07-101?

23 MR. CAMERINO: We had a discussion about
24 that. Although that's expected to be quite brief, we

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[Witness: McCluskey]

1 don't see any intervenors here. And, so, it's the same
2 players. And, might, just because of the complexity of
3 the subject, be helpful to just continue on, if that would
4 be all right?

5 CHAIRMAN GETZ: That's fine.

6 MS. ROSS: We don't object to that.

7 MR. TRAUM: Either way works.

8 CMSR. BELOW: Well, maybe I'll just go
9 ahead and ask one more question just to get it all out.

10 BY CMSR. BELOW:

11 Q. If you turn back to Exhibit 10, it seems like there's
12 one other significant -- oh, I'm sorry.

13 (Atty. Ross handing document to the
14 witness.)

15 WITNESS McCLUSKEY: Thank you.

16 BY CMSR. BELOW:

17 Q. It seems like, other than this question of when to
18 adjust the unbilled revenues at the end of October for
19 the off-peak demand and commodity, that the other major
20 difference between your approach and KeySpan's approach
21 can be seen on Exhibit 10, Line 10, the line entitled
22 "Reverse Prior Month Unbilled".

23 A. On the peak account?

24 Q. Yes, for the peak account November '05.

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[Witness: McCluskey]

1 A. Yes.

2 Q. The \$4.465 million. Correct?

3 A. That's correct.

4 Q. And, why do you think that that -- why did you not do
5 that adjustment? Why do you disagree with what they
6 proposed there?

7 A. Okay. Because the -- I'll explain by starting with
8 December of '05. They have got a reverse prior month
9 unbilled figure of 8.6, which I have no problem with.
10 And, why do they have that? Because the first item,
11 under Row 10, the 18.345, has revenues in it related to
12 November consumption. And, so, that line item "reverse
13 prior period unbilled" is reversing that out. Going
14 back to November of '05, we found, as a result of
15 discovery, that neither the revenue item 4.38 or 8.63
16 has anything to do with October '05 consumption.
17 Hence, it's -- there's nothing to reverse out
18 associated with that prior month. And, for that
19 reason, in fact, the Company stated in a response to
20 discovery that the 4.46 relates to October consumption.
21 So, there's nothing to reverse out. And, all that item
22 is doing is reducing the accrued revenues for the month
23 of November.

24 Q. And, so, the result of that, when it's carried through

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[Witness: McCluskey]

1 on the spreadsheet is to increase the subsequent month
2 beginning balance and ending balance, compared to your
3 calculation, so it flows through to a significant
4 difference in interest?

5 A. It flows through every month, you see that effect still
6 in there, right through October '06, and in the future
7 you'll see it.

8 Q. Definitely in the future?

9 A. Definitely in the future.

10 CMSR. BELOW: Okay. That's all now.

11 CHAIRMAN GETZ: Mr. Camerino.

12 MR. CAMERINO: Thank you.

13 RECROSS-EXAMINATION

14 BY MR. CAMERINO:

15 Q. Mr. McCluskey, I have some questions for you on this
16 Exhibit 15. The first is, this is not combined showing
17 both the revenues and costs for the peak and off-peak
18 period, correct? This is just showing the off-peak
19 subaccount?

20 A. That's correct.

21 Q. Okay. You could generate a document like this that
22 would show the activity in the peak account --
23 subaccount as well, couldn't you?

24 A. The --

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[Witness: McCluskey]

1 Q. For the same period of time?

2 A. An alternate peak account?

3 Q. In other words, we've been looking, up until now, we've
4 been focusing on a month of gas costs and a month of
5 gas revenues in every month of the year, right?

6 A. We have.

7 Q. And, you can really only see that in the shoulder
8 months by showing the combined account, right?

9 A. I don't necessarily agree that you have to just look at
10 the combined account, but that's one way of looking at
11 it.

12 Q. If I look at November on here, I'm only seeing half of
13 the activity, right, because there's activity over in
14 the peak account for the same time period?

15 A. That's correct.

16 Q. Right. So, I have to look at the two together to see,
17 over the course of the year, the 12 months of revenues
18 and the 12 months of costs, right? If I look at just
19 one, I won't see all of the revenues and all of the
20 costs?

21 A. That's correct.

22 Q. And, they won't match up?

23 A. Well, I'm not sure what you mean by "they won't match
24 up". But, if you want to see a combined, including

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[Witness: McCluskey]

1 this alternative off-peak account, we can do that.

2 MR. CAMERINO: Okay. That's what I
3 would like to ask for. If I could make a record request
4 that, just as with the other numbers we've been looking
5 at, if we could have this exhibit completed, so that we
6 have the peak, the off-peak, and the combined, I'd
7 appreciate that.

8 CMSR. BELOW: And, I'm curious as to
9 whether you're asking for, in making that combination,
10 that the peak account be as previously analyzed by Mr.
11 -- or proposed by Mr. McCluskey, or are you asking him to
12 make a similar sort of parallel adjustment in how you
13 treat the beginning balance?

14 MR. CAMERINO: If I understand the
15 question, I'm looking for him to do it on the same basis
16 that he did it in Exhibit 15. And, maybe I could ask him
17 a question that would show why that would be helpful.

18 CMSR. BELOW: Okay.

19 BY MR. CAMERINO:

20 Q. If we combined those, under your new approach,
21 Exhibit 15, we would see six weeks of revenues in
22 November on a combined basis, right, rather than four
23 weeks of revenues? The issue that we had in
24 October 2005 before would simply have been moved over

[Witness: McCluskey]

1 one month to November of 2005, is that correct? That's
2 what that will show?

3 A. I believe that's the case. But, until I do the
4 combined and think about it, I do not want to say for
5 definite.

6 MS. ROSS: Why don't we have George do
7 the combined on a break, and then he'll be available to
8 answer. And, just for clarification, the combined will be
9 his existing peak account treatment, which is already
10 shown in Exhibit -- on a couple of exhibits, Exhibit 2 to
11 his testimony, which is actually Exhibit 5, and it's also
12 shown in the combined spreadsheets, which we've marked
13 today as "Exhibit 14". And, what the Company has asked
14 him to do is to change his off-peak account to the
15 alternative, which he just proposed in Exhibit 15, which
16 would be to shift the revenue into November from the
17 October consumption and run that as a combined spreadsheet
18 with this peak account. So, that's what we'll do. And,
19 we can mark that, I think the next exhibit number would be
20 17.

21 (The document, as described, was
22 herewith marked as Exhibit 17 for
23 identification.)

24 MR. CAMERINO: Let me try and --

[Witness: McCluskey]

1 CHAIRMAN GETZ: Does that conform?

2 MR. CAMERINO: I'm not sure, and maybe I
3 could just state it in my own way, and see if Mr.
4 McCluskey understands what we're requesting.

5 BY MR. CAMERINO:

6 Q. You're not proposing, with your proposal in Exhibit 15,
7 you're not proposing to make any change to the peak
8 subaccount, correct?

9 A. All I can say at the moment is I believe there will be
10 no change. However, two accounts, the treatment of one
11 has to be consistent with the treatment of the other.
12 And, until I do it and think about it, I can't say for
13 definite whether the peak account will change.

14 Q. So, is we stand here today, you're not actually exactly
15 sure what your proposal is under Exhibit 15, you need
16 to work with it some more?

17 A. No. The Exhibit 15 is -- it's not actually my
18 proposal, it's the exhibit was saying, "if you were to
19 treat the October unbilled revenues in this way, this
20 is the result." Our proposal is that they be included
21 in October.

22 CHAIRMAN GETZ: Well, let me try to
23 interject here. Because I'm taking it, you've asked him
24 to do a further calculation, I think he has agreed to do

[Witness: McCluskey]

1 the calculation. And, I think now, though, you're asking
2 him what the result would be of that proposed adjustment,
3 and he's not prepared to make that -- deliver that opinion
4 until he's actually run it out, which I think is fair.
5 And, if we have a -- well, I mean, you offered, is this
6 realistic, Ms. Ross, that we could take a break and this
7 could be done over a short break?

8 MS. ROSS: Let me check with George. I
9 didn't mean to put him --

10 (Atty. Ross conferring with Witness
11 McCluskey.)

12 MS. ROSS: We could do it over a lunch
13 break, during an hour lunch break.

14 CHAIRMAN GETZ: Okay. Well, that raises
15 different issues. Are there other questions for Mr.
16 McCluskey at the moment?

17 MR. CAMERINO: Yes. And, one of my
18 concerns here is, I don't want to spend a lot of time
19 creating -- it's inevitably going to create some
20 confusion, asking about a document that nobody's proposing
21 anything be done with. So, I'm not clear on whether this
22 is a new Staff proposal or whether it's supposed to
23 illustrate a point. But it's, frankly, I am hearing him
24 change his testimony from yesterday, where I thought we

[Witness: McCluskey]

1 were talking about an error that needed to be corrected,
2 and now I guess I'm not quite sure. Are you saying that
3 we -- I'll ask the witness.

4 BY MR. CAMERINO:

5 Q. Are you saying that we're doing this for some reason
6 other than correcting an error? Because, on Monday, I
7 thought you said, and I can show you the transcript,
8 that the reason you needed the extra two weeks of
9 revenue was "to correct a prior error". Have I got
10 that wrong?

11 A. No, that's correct.

12 Q. Okay. So, if there was an error, I don't want to try
13 and get into a lot of other complexities, if no error
14 ever occurred, then there's no need to correct. Have I
15 got that right? Let me read you what you said on
16 Monday.

17 A. Okay.

18 Q. Because, really, this is very complex topic, and I
19 don't want to start going down roads that we don't need
20 to go down, okay? And, so, here's your big chance to
21 change what you said if you want to, all right? All
22 right. This is the end of the day on Monday, all
23 right? My question to you: "You say "while it seems
24 reasonable to assume that the use of billed revenues

[Witness: McCluskey]

1 began when the above referenced orders became
2 effective, the same can not be said for the half month
3 issue." Okay? So, there it sounds like you're not --
4 you're not talking about when cost of gas
5 reconciliation began, but rather when the -- what I'll
6 call the "shoulder month revenues" --

7 MS. ROSS: Can you give me the page and
8 line please?

9 MR. CAMERINO: Yes, starting on the
10 bottom of Page 67.

11 BY MR. CAMERINO:

12 Q. -- were between peak and off-peak, right? Answer:
13 That's correct. Question: Okay. And, is that what
14 your testimony meant on Page 6, at the bottom, your
15 surrebuttal? When you said "The inclusion of the extra
16 revenue in October corrects an error made when the
17 billed revenue accounting methodology was first
18 implemented, namely, the inclusion of only a half
19 month's revenue in the initial month." Answer: That's
20 correct. Question: So, those are saying the same
21 thing? Answer: That's correct. Question: So, you
22 are not referring to 1975, when cost of gas -- the cost
23 of gas adjustment mechanism began, but rather to when a
24 single month of revenue was allocated between the two

[Witness: McCluskey]

1 different subaccounts? Answer: That's correct.
2 Question: Okay. And, so, if that occurred at the time
3 of the revenue neutral rate redesign in 2001, that's
4 the error you're referring to? Answer: That's
5 correct. Question: And, the reason it would be an
6 error in your mind is that only a half a month of
7 revenue was recognized, correct? Answer: That's
8 correct. Question: But, if a full month of revenues
9 was recognized, there would be no error, correct?
10 Answer: That's correct."

11 You're not changing that testimony,
12 right?

13 A. No, I'm not.

14 Q. And, so, if the Company can submit documents that show
15 that a full month of revenues was booked at that time,
16 not two weeks as you believe, there would be no error
17 to correct for, is that right?

18 A. Well, until I see the Company's documents, I can't
19 comment on that.

20 Q. If it shows that the error didn't happen, then it
21 wouldn't need to be corrected for, would it?

22 A. It's my position that this revenue that we're talking
23 about, the October unbilled revenue, has to be
24 accounted for.

[Witness: McCluskey]

1 Q. Which revenue?

2 A. The October unbilled revenue of \$4.4 million.

3 Q. It has to be accounted for, not for some accounting
4 reason, but because you're correcting an error, right?

5 A. No, it has to be accounted for. You can't just
6 eliminate it.

7 Q. Are you -- Do you have an accounting background?

8 A. I'm not an accountant by training, but I've been
9 involved in a lot of accounting as a result of my
10 ratemaking expertise.

11 Q. See, what keeps catching my ear is, you referred, even
12 in answers to Commissioner Below, that "these revenues
13 were received in November of 2005", but actually they
14 were recognized in November of 2005, right? They're
15 billed revenues, there was no cash received. It was
16 recognized?

17 MS. ROSS: I think the witness has
18 indicated that he's not an expert in accounting. So, if
19 you want to define what you mean by "received" and
20 "recognized", maybe he can then respond.

21 MR. CAMERINO: Okay.

22 BY MR. CAMERINO:

23 Q. "Received", I'm thinking of "cash in the door", as
24 opposed to being booked?

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[Witness: McCluskey]

1 A. Cash in the door in November?

2 Q. You don't know what came in the door in November. This
3 tells you what the Company booked for revenues on an
4 accounting basis, right?

5 A. Well, I am assuming that customers paid their bills in
6 November. If you're saying that they didn't pay their
7 bills, is that the distinction that you're making?

8 Q. You don't know what bills got paid. That entry doesn't
9 tell you what bills were paid, right? It tells you
10 what revenue was recognized for accounting purposes.

11 A. I understand the distinction. I'm assuming, when I
12 state "received", that customers actually paid their
13 bills in November.

14 Q. In the same month that they're billed?

15 A. I stand corrected.

16 Q. Okay.

17 A. If they were billed at the beginning of the month, they
18 may not have received those dollars, the cash, in
19 November.

20 MR. CAMERINO: If I could just have one
21 second please.

22 (Short pause.)

23 MR. CAMERINO: Thank you. I'm finished.

24 CHAIRMAN GETZ: Redirect, Ms. Ross?

[Witness: McCluskey]

1 Well, actually, I assume there's a pending request for a
2 record response. Let's address that over a break. And,
3 then, we'll give the opportunity for redirect, once we get
4 that document produced.

5 At this point then, we would -- we're
6 back to, do we want to take care of the prehearing
7 conference or go to -- is it Ms. Leary that you're
8 planning to put on?

9 MR. CAMERINO: Yes. And, I also think,
10 you had asked about the record request before, I'm pretty
11 confident, just during whatever break we have, we can work
12 out with Staff what it is they would produce. And, I
13 noticed at some point Mr. Wyatt came in and delivered one
14 of other documents we were waiting for.

15 CHAIRMAN GETZ: Well, I would suggest,
16 looks like we've got new people in the room that may want
17 to go about other business, maybe we'd just do the
18 prehearing conference and then take up the continuation of
19 this hearing after that. So, let's recess this hearing.

20 (Recess taken at 10:24 a.m. and the
21 hearing reconvened at 11:33 a.m.)

22 CHAIRMAN GETZ: Okay. We're back on the
23 record in docket DG 07-050. And, I believe the next step
24 is to hear from Ms. Leary, is that correct?

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[Witness: Leary]

1 MR. CAMERINO: I believe so.

2 CHAIRMAN GETZ: Please proceed.

3 MR. CAMERINO: The Company calls Ann
4 Leary.

5 MS. ROSS: We, before Ms. Leary starts,
6 wanted to put in Exhibit 16, which was a request from the
7 Commission for combined accounts for the six months prior
8 to November 5th ['05?]. And, this has been produced by
9 Mr. Wyatt and reviewed by the Company. And, at this
10 point, I believe the Company agrees with the schedule?

11 MR. CAMERINO: Actually, we haven't had
12 a chance to review the numbers. We agree with the
13 presentation. And, if it had any concern, we would notify
14 the Staff and the Commission. But, I think, for working
15 purposes, we can assume it's correct.

16 CHAIRMAN GETZ: Okay. Mr. Camerino.
17 (Whereupon Ann E. Leary was recalled to
18 the stand, having been previously
19 sworn.)

20 ANN E. LEARY, Previously sworn

21 DIRECT EXAMINATION

22 BY MR. CAMERINO:

23 Q. Okay. Just let me know when you're ready, Ms. Leary.

24 Ms. Leary, we had previously marked for identification

{DG 07-050} [Day II] (11-08-07)

[Witness: Leary]

1 Exhibit 6, which was your August 31, 2007 prefiled
2 testimony, and Exhibit 8, which was your November 1,
3 2007 prefiled testimony regarding the transition issue.
4 And, I'd like to ask you if, subject to any corrections
5 you're about to make, are those true and correct to the
6 best of your knowledge and belief?

7 A. Yes, they are.

8 Q. Okay. Could you identify any corrections that you have
9 to that testimony.

10 A. Yes. In Exhibit 8, which was my prefiled testimony
11 filed on November 1st, I'd like to make three changes.
12 First of all, on Page 3, the heading should be "Summary
13 of Testimony".

14 Q. And, I take it the reason for that change is that
15 testimony was originally filed in a different docket?

16 A. That is correct.

17 Q. All right. And, the other changes?

18 A. The other change is on Page 13, Line 8, it should read
19 "to establish a special transition account to address",
20 not "addresses". And, then, also on Line 11, we would
21 like to delete the word "However", and begin with "As",
22 capitalizing the "A".

23 Q. Okay. And, with that change, that testimony is true
24 and correct to the best of your knowledge and belief?

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[Witness: Leary]

- 1 A. Yes, it is.
- 2 Q. Grammatically so as well?
- 3 A. Yes, it is.
- 4 Q. What I'd like to do, Ms. Leary, is rather than spend a
5 lot of time on the cost of gas mechanism itself, is
6 take you right to a couple of things that Mr. McCluskey
7 testified about today and on Monday. First of all, can
8 you just describe, for clarity of the record, what is
9 your understanding of what the Company is seeking in
10 the record request that was discussed just before the
11 break?
- 12 A. What we're looking to do is we want Mr. McCluskey to,
13 just as he did in Exhibit -- Exhibit 14, we want him to
14 combine his peak and the off-peak account --
- 15 Q. I think, if I can just stop you, I think you're
16 referring to Exhibit 15, which was his alternative
17 calculation?
- 18 A. I'll get there.
- 19 Q. Okay. Sorry.
- 20 A. What we want to do is we want to take the format in
21 Exhibit 14, and all we're looking for him to do is to
22 substitute in from Exhibit 15, which is his alternative
23 for the off-peak account, and then to combine the peak
24 and the off-peak.

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[Witness: Leary]

1 Q. And, if he does that, what is it -- your expectation
2 that that record request response will show?

3 A. Just on a high level, what we're anticipating is that,
4 when you look at Exhibit 14 that he submitted, the big
5 difference will be on Line 11. Right now, on his
6 Exhibit 14, Line 11, he shows collected cost of
7 "\$4,380,801". By then including the alternative for
8 the off-peak period, that he will add in the
9 \$4.46 million. And, now, the "Less: Collected Cost"
10 in that line item will be \$8,842,166. By making that,
11 when we go down to Line 13, which shows the total
12 accrued revenue, will now sum to \$17,474,827.

13 CMSR. BELOW: Excuse me, I think she
14 just said "Line 13", do you mean "Line 14"?

15 WITNESS LEARY: Excuse me, I meant "Line
16 14", correct.

17 CMSR. BELOW: Okay. And, what was that
18 number again?

19 WITNESS LEARY: The Line 14 will now sum
20 to \$17,474,827.

21 BY THE WITNESS:

22 A. And, that's just to give you an idea of how we figure
23 how this will impact the collected and the total
24 accrued revenues. Mr. McCluskey will then carry this

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[Witness: Leary]

1 through in his calculation and show how the interest
2 will be impacted.

3 BY MR. CAMERINO:

4 Q. And, so, in that case, how would the gas costs and the
5 gas revenues for the month of November of '05 compare?

6 A. Now what would happen is, you would end up with six
7 weeks of revenue and only four weeks of gas costs.
8 And, it's pretty clear, because you're going to see
9 that your total accrued revenue is now 17.4 million,
10 where, if you look up above, on Line 5, your actual gas
11 costs are only approximately 13.1 million. So, now, we
12 have a mismatch with our revenues and our gas costs.

13 Q. Now, you heard Mr. McCluskey's testimony that that
14 mismatch is appropriate to "correct for an error", do
15 you recall that?

16 A. Yes, I do.

17 Q. Okay. During the break between Monday and this
18 morning, did you have an opportunity to consult with
19 others at the Company who were involved in cases -- in
20 the case where the Company began prorating or
21 allocating November billings between the peak and
22 off-peak account?

23 A. Yes, I did.

24 Q. Okay. And, in particular, is there somebody at the

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[Witness: Leary]

1 Company that you consulted with who was involved in the
2 case where that occurred?

3 A. Yes, I consulted with Mr. Silvestrini.

4 Q. And, did you find any testimony from Mr. Silvestrini
5 that addressed this issue?

6 A. Yes, I did.

7 Q. Okay. I want to show you a copy of Mr. Silvestrini's
8 prefiled testimony in docket DG 02-045, and direct you
9 to Page 8 of that. And, ask you if you'd read into the
10 record --

11 MS. ROSS: May we have a copy?

12 MR. CAMERINO: Yes, I gave you a couple
13 right here, actually.

14 BY MR. CAMERINO:

15 Q. Just read into the record the question and answer
16 there.

17 A. Yes. The question: "Would you please describe the
18 prior period adjustments listed above." His answer:
19 "The prior period adjustment of \$1,253,137 consists of
20 a credit of \$1,253,137, which is one half of the gas
21 cost revenue billed in November 2001 for gas service
22 rendered during October 2001. As a result of the
23 revenue neutral rate design proceeding, the Company
24 began last summer to bill gas costs on a service

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[Witness: Leary]

1 rendered basis, instead of an "as billed" basis. This
2 credit is a result of the transition to the new billing
3 method."

4 MR. CAMERINO: Okay. And, if we could,
5 rather than taking administrative notice of something in
6 another docket, I thought it might be easier to have the
7 actual document. So, if we could mark as "Exhibit 18"
8 that prefiled testimony.

9 CHAIRMAN GETZ: It will be so marked.
10 (The document, as described, was
11 herewith marked as Exhibit 18 for
12 identification.)

13 BY MR. CAMERINO:

14 Q. Okay. These are Mr. Silvestrini's words about what the
15 Company did. But would there be somewhere in a
16 document filed with this Commission where the actual
17 booking of the revenues for cost of gas purposes would
18 be shown?

19 A. That is correct. In the actual schedules that we
20 supply as part of the reconciliation filing each year.

21 Q. Okay. Well, let me show you --

22 MR. CAMERINO: If we could mark for
23 identification as "Exhibit 19" the Summer 2001 cost of gas
24 results from DG 01-037.

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[Witness: Leary]

1 CHAIRMAN GETZ: So marked.
2 (The document, as described, was
3 herewith marked as Exhibit 19 for
4 identification.)

5 BY MR. CAMERINO:

6 Q. Do you have a copy of that, Ms. Leary? Do you need a
7 copy?

8 A. Yes.

9 Q. All right. This would be the period that covered --
10 that included May 2001 that Mr. Silvestrini was
11 referring to?

12 A. That is correct.

13 Q. Okay. Is there somewhere in this reconciliation that
14 you can point to where the splitting between the two
15 subaccounts is reflected?

16 A. No, it's actually the next period filing.

17 Q. Okay. And, can you just very briefly explain why we
18 would be looking at the next one, if the change
19 occurred in May of 2001?

20 A. Although the change occurred and began proration
21 because of the revenue neutral rate case in May 2001,
22 back in April of '01, that was before the revenue
23 neutral rate case, that was still considered a summer
24 month. As part of the revenue rate redesign, we had

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[Witness: Leary]

1 gone from five winter months, seven summer months, to a
2 split of six and six. So, you're actually, because
3 April was a summer month, you wouldn't see this
4 reallocation between the peak and the off-peak until
5 really November of '01.

6 MR. CAMERINO: Okay. And, so, if we
7 could mark for identification as "Exhibits 20" and "21"
8 the reconciliations for the following summer, what was
9 then called "summer" and "winter periods", we call them
10 now "off-peak" and "peak periods". Exhibit 20 would be
11 the Summer 2002 cost of gas results for DG 02-045 and
12 Exhibit 21 would be the 2001-02 winter period cost of gas
13 reconciliation from docket DG 01-181.

14 BY MR. CAMERINO:

15 Q. Are those the reconciliations that you're referring to?

16 A. Yes, I am.

17 Q. Can you show the Commission, by looking at these, how
18 they can see that, when this transition occurred, one
19 month of revenues was booked rather than two weeks of
20 revenues?

21 MS. ROSS: I'm sorry, what are we
22 looking at?

23 MR. CAMERINO: The two reconciliations
24 that I just handed out.

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[Witness: Leary]

1 (Atty. Camerino conferring with Atty.
2 Ross.)

3 CHAIRMAN GETZ: Let me just note that
4 Exhibits 20 and 21 are marked for identification as
5 described by Mr. Camerino.

6 (The documents, as described, were
7 herewith marked as Exhibit 20 and
8 Exhibit 21, respectively, for
9 identification.)

10 MR. CAMERINO: Excuse me?

11 CHAIRMAN GETZ: Just taking care of
12 housekeeping.

13 MR. CAMERINO: Okay. Sorry.

14 CHAIRMAN GETZ: You continue what you're
15 doing.

16 BY MR. CAMERINO:

17 Q. So, looking at --

18 MR. CAMERINO: I now want to make sure I
19 have the right numbers, so I don't get lost.

20 BY MR. CAMERINO:

21 Q. If you look at Exhibits 20 and 21, would you explain to
22 the Commission how looking at that they can see that
23 there's one month of revenues booked on a combined
24 basis and not two weeks, as Mr. McCluskey said, when he

[Witness: Leary]

1 described the error.

2 A. Okay.

3 MR. CAMERINO: And, just if you take one
4 pause, I want to just confer with Ms. Ross for one second.
5 Maybe the Clerk could just indicate for the record, so
6 that the witness and the parties are clear which exhibit
7 is 20 and which is 21 please?

8 CHAIRMAN GETZ: Well, let's do this.
9 There's a multipage document with a heading "EnergyNorth
10 Natural Gas, Inc. Summer 2002 Cost of Gas Results Docket
11 DG 02-045" that's marked for identification as "Exhibit
12 Number 20". And, there's a multipage document with a
13 cover letter dated July 29, 2002, in docket DG 01-181 that
14 is marked for identification as "Exhibit Number 21".

15 MR. CAMERINO: Thank you.

16 BY MR. CAMERINO:

17 Q. Do you have the question in mind?

18 A. Yes. No, I'm all set. All right.

19 Q. Fourth time's the charm.

20 A. I want to go through these three exhibits. I actually
21 want to go through Exhibit 19, quickly 20 and 21. So,
22 maybe we can have all three spread out. And, I
23 apologize, when we made these filings back then, they
24 weren't as -- they were a little more convoluted, they

[Witness: Leary]

1 weren't as clear as I think they're, you know, we've
2 improved over the years. So, I guess the first thing I
3 want to show you, if we go to Exhibit 19, and just look
4 at the front page, you're going to see that they say
5 the total over/under, which is at the very bottom, on
6 the middle column, shows that we under collected
7 \$784,222. So, that was our position in our off-peak
8 period, for the off-peak account 175.40.

9 Now, I'm going to ask you to take
10 exhibit -- I'm going to look at 20 and 21 together.
11 Twenty-one, you can leave -- excuse me. Yes, 20 you
12 can leave at the front page, that begins with -- it
13 says "Summer 2002 Cost of Gas DG 02-045", leave that at
14 the first page. Take Exhibit 21, go in about eight
15 pages, and you'll see a schedule that's very similar to
16 what we've been looking already today in Exhibit 14,
17 15, shows kind of the reconciliation. Okay. What
18 we're saying here --

19 CHAIRMAN GETZ: I'm sorry, Ms. Leary,
20 what's the heading on that? Is that the --

21 WITNESS LEARY: Well, it should read --
22 it says "EnergyNorth November 2001 through April 2002
23 Account 175.20 balance Schedule 1 Winter Demand and
24 Commodity".

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[Witness: Leary]

1 CHAIRMAN GETZ: Yes. Thank you.

2 BY THE WITNESS:

3 A. Okay. If we look at, excuse me, Exhibit 20 first,
4 you're going to see that, in the "actual" column,
5 again, I apologize, it was a little convoluted back
6 then, we show a beginning balance under the "actual"
7 column of \$2,145,532.

8 MS. ROSS: Which one are you on?

9 WITNESS LEARY: Exhibit 20.

10 CMSR. BELOW: And, that's actually a
11 negative number because --

12 WITNESS LEARY: Oh, excuse me. You're
13 right. It's a credit. I apologize. All set? Okay.

14 BY THE WITNESS:

15 A. Now, in the filing as we just had shown you, the ending
16 balance that we just showed was "\$784,222" for the
17 period ending October of '01. What -- The way we get
18 from that number, up to the 2.1 million over collected
19 that we show, is because we're reflecting in some
20 interest for the period of November through April, and
21 we're putting in that prior period adjustment is half a
22 month of revenues. So, there's half of the month that
23 we're booking to the off-peak account.

24 Now, if you look at Exhibit I think this

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[Witness: Leary]

1 is 21, and you go down and you look at Line 15, we also
2 have collected cost in that exhibit, too. And, you're
3 going to see we have 1,563,561. So, we have collected
4 costs in both the peak account and the off-peak
5 account, but it represents one month of cost of gas
6 revenues.

7 BY MR. CAMERINO:

8 Q. And, so, was there ever a period when the Company
9 booked less than a full month of revenues?

10 A. No, we did not.

11 Q. So, there was no error to correct for?

12 A. That is correct.

13 Q. Okay. Now, the Company has itself proposed a way to
14 make the transition so that there is no booking of an
15 extra two weeks of revenue, correct?

16 A. That is correct.

17 Q. Can you show the Commission where that proposed
18 transition method is?

19 A. It is actually, if we look at my original testimony,
20 which is Exhibit 6, and we turn to Schedule 2. And, I
21 apologize, I think Ms. Ross had passed out -- did you
22 enlarge that schedule?

23 MS. ROSS: Yes, I did.

24 WITNESS LEARY: Did we give it a

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[Witness: Leary]

1 different exhibit number?

2 MR. CAMERINO: Yes. I think, if you
3 want, you can refer to Exhibit 10.

4 WITNESS LEARY: Okay.

5 MR. CAMERINO: Which is the identical
6 document, and that may be easier to work with.

7 BY THE WITNESS:

8 A. I think it's easier if we go -- the Company, you know,
9 has agreed with the Commission, in that we will begin
10 booking in the calculation of the deferred gas cost
11 calculation accrued revenues in November of '05. So, I
12 think the easiest way to look at this is to actually
13 look at Page 2 of 2. Let's look at the two accounts
14 combined, in order to, you know, not get confused by
15 looking at the two subaccounts. And, if we look at
16 Line 11, that's what we're showing when we say "less
17 collected costs", that's the amount that we currently
18 billed in the month of November. So, you can see from
19 that we billed \$8.8 million.

20 What we want to do now is, actually, the
21 whole point of accrual, as I said earlier, is just to
22 -- it's to realign the month, to realign the billing to
23 a calendar month, so that your gas costs and your
24 revenues agree. So, what we're saying is, in order to

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[Witness: Leary]

1 do that correctly, on a total basis, what we want to do
2 is, we'll reflect that additional unbilled for the half
3 a month of the 8.8 million, but we need to take out of
4 the billed revenue the piece that was in the month of
5 November. So, in total, the net, in the month of
6 November, we're going to reflect a net number of
7 accrued revenues of \$13 million. And, that's what's
8 important to the Company. So, we've always billed on a
9 -- had one month of revenues and one month of gas
10 costs, and we need to maintain that.

11 Q. Now, is the presentation on AEL-2, is that done in line
12 with booking revenues on an accrual basis?

13 A. Yes, it is.

14 Q. And, if the Company's methodology is adopted for the
15 transition, would that negate the impact of switching
16 from billed to accrued?

17 A. No, it would not.

18 Q. Okay. What would be the savings to customers on an
19 annual basis, I guess using the first year as an
20 example, of shifting from billed to accrued revenues,
21 consistent with the transition method the Company has
22 proposed?

23 A. If you look at Exhibit -- Schedule 1, a few pages
24 forward of my testimony, we have shown that, if we book

[Witness: Leary]

1 -- begin booking accrued revenues in November of '05,
2 we will reduce the interest for the period November '05
3 through October '06 by \$119,302. So, there will be a
4 savings to customers by going to the accrued revenues.

5 Q. Now, I want to take you to one more thing in Mr.
6 McCluskey's testimony, going to his surrebuttal
7 testimony, which is Exhibit 5. And, you'll notice, on
8 Page 4, he has a footnote. And, the statement in his
9 testimony is "The sole purpose of replacing billed
10 revenues in the reconciliation calculation with accrued
11 revenues is to eliminate the mismatch between gas costs
12 and gas revenues caused by the billing cycle." Do you
13 see that?

14 A. Yes, I do.

15 Q. Okay. Now, it's not clear to me whether this is
16 referring to the underlying issue of whether to use
17 billed or accrued or to the transition?

18 MS. ROSS: Which page was that?

19 MR. CAMERINO: Page 4.

20 BY MR. CAMERINO:

21 Q. But, in the event that it relates to the transition and
22 not the underlying issue, I'd like you to address the
23 footnote where it says "The Company is compensated for
24 the costs of the billing cycle mismatch through a

[Witness: Leary]

1 separate rate mechanism." Do you see that?

2 A. Yes, I do.

3 Q. Okay. What is that referring to and what's your
4 understanding of that?

5 A. After reading the order that came out in the docket DG
6 07-033, the Commission's order, I'm making some
7 inferences as to what he's referring to here, and again
8 this is my assumption. I think he's talking about the
9 lead/lag days in the working capital calculation. And,
10 if he is, he had made reference in that order about an
11 extra 15 days in the lead versus the lag. And, I want
12 to kind of just take a couple seconds and step through
13 those calculations.

14 Q. Yes. And, just to be clear, if his discussion here
15 relates to the underlying accrued versus billed, then
16 is this a concern of the Company in this proceeding?

17 A. No.

18 Q. Okay. Only if it relates to the transition?

19 A. Correct. And, we weren't sure by his testimony.

20 MS. ROSS: We would offer that this does
21 not relate to the transition. It relates to the
22 underlying issue of whether the working capital allowance
23 compensates the Company for timing issues.

24 MR. CAMERINO: Okay. As the Company has

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[Witness: Leary]

1 made clear, it is prepared to accept the ultimate outcome
2 of the other docket. And, we don't need more complexity
3 in this one, and so I'll withdraw the question.

4 CHAIRMAN GETZ: Thank you.

5 MR. CAMERINO: That concludes my direct.

6 CHAIRMAN GETZ: Mr. Traum.

7 MR. TRAUM: Thank you, sir.

8 CROSS-EXAMINATION

9 BY MR. TRAUM:

10 Q. I guess I want to try to understand some of the
11 differences here. If I look at Exhibit -- your
12 Exhibit 10, and on Page 2, at the end of November of
13 '05, the ending balance, and that's the ending balance
14 for both peak and off-peak combined, is 10,451,000?

15 A. That is correct.

16 Q. And, that is under the Company's accrual approach?

17 A. That is correct.

18 Q. Now, what would the number have been had there not been
19 a movement to accrued, if we stayed with billed
20 revenues?

21 A. It would have been 14 -- barring the fact that I would
22 have to recalculate the interest, and I can't do that?

23 Q. That's fine.

24 A. Okay. It would be \$14,619,275. Under billed

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[Witness: Leary]

1 accounting, is that -- that was your question?

2 Q. So, the difference is four plus million dollars?

3 A. Correct.

4 Q. And, Mr. McCluskey is also talking about a difference,
5 from going from billed to accrued of also four point
6 something million dollars.

7 A. But don't be confused, it's just a coincidence. Those
8 aren't the same \$4 million.

9 Q. Okay. Could explain why it's only a coincidence?

10 A. It happens to be a coincidence because we're talking
11 about looking at the difference between what was billed
12 in the month of November, which was in total the
13 8.8 million, versus what we would have -- what would
14 have been billed under accrued, which we claim is
15 13 million. So, we're saying that we would have booked
16 an additional 4 million. Depending on which
17 alternative you're talking about with Mr. McCluskey,
18 whether the original filing or the one from Staff, I
19 mean, from Exhibit --

20 Q. Fourteen?

21 A. -- 15, the alternative, he would have shown something
22 to the effect of \$17 million in the cost of gas
23 revenues.

24 Q. Mr. McCluskey's base case, as I understand it, is

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[Witness: Leary]

1 Exhibit 14.

2 A. Okay.

3 Q. And, in Exhibit 14, am I correct that he's showing a
4 balance under his method for accrued of the peak and
5 off-peak combined, as of the end of November, of about
6 \$5.9 million?

7 A. Correct. Versus mine, which shows it at \$10.4 million.
8 Because then, in his exhibit, under 14, he actually
9 reflected that extra half a month of revenues in the
10 month of October, and he reduced the beginning balance.
11 Where I began with the beginning balance that was last
12 approved by the Commission.

13 MR. TRAUM: Okay. Thank you. I have
14 nothing else.

15 MS. ROSS: Could we have ten minutes?
16 This is the first we've actually heard the Company explain
17 that transition back in 2001. And, it may affect Staff's
18 position. So, it's new testimony, and we're just trying
19 to -- I apologize, but we just haven't heard it before.

20 MR. CAMERINO: We don't have any
21 objection to taking a break. And, it may be the first
22 time it's on the record, I do have to say that there have
23 been many, many off-the-record discussions, and I think
24 we've tried to explain this previously. But any time the

[Witness: Leary]

1 Staff needs is fine.

2 CHAIRMAN GETZ: Well, I'd ask the
3 question whether ten minutes is enough to take care of
4 this. And, we have a -- we're unavailable from 1:00 to
5 2:00, basically. Would it make sense to break until then?
6 What's the recommendation or pleasure of the parties at
7 this point?

8 MR. CAMERINO: Our situation is this.
9 We have a fairly important technical session on the
10 Concord lateral project. And, the Company personnel could
11 be working on that during any break. I am a little bit
12 concerned about that I think Mr. Frink and Mr. McCluskey
13 are really involved in both matters. So, it's really up
14 to them how much time they need.

15 MS. ROSS: I think we can promise you 15
16 minutes.

17 CHAIRMAN GETZ: Okay. Let's --

18 MS. ROSS: And, we apologize. And,
19 there may have been general discussions, but this was the
20 first time we've actually walked through the numbers and
21 seen it demonstrated.

22 CHAIRMAN GETZ: Okay. Let's take 15
23 minutes and see where we are.

24 MS. ROSS: Thank you.

[Witness: Leary]

1 (Recess taken at 12:05 p.m. and the
2 hearing reconvened at 12:33 p.m.)

3 CHAIRMAN GETZ: Okay. We're back on the
4 record in 07-050. And, Ms. Ross.

5 MS. ROSS: Thank you. Good afternoon,
6 Ms. Leary.

7 WITNESS LEARY: Good afternoon,
8 Ms. Ross.

9 BY MS. ROSS:

10 Q. I would like to pick up with your Exhibits 19, 20 and
11 21, and try to understand exactly what happened and why
12 it happened. And, your testimony earlier I believe was
13 that you conferred with another employee of the
14 Company, Mr. Silvestrini, to get an understanding of
15 this issue, is that correct?

16 A. That is correct.

17 Q. Okay. So, at this point, do you feel you thoroughly
18 understand the credit of \$1,253,137 that was shown in
19 Exhibit 20?

20 A. Yes, I do.

21 Q. Okay. Thank you. That's what I'd like to talk to you
22 about. First of all, I believe your testimony was that
23 this adjustment was the result of going from a bills
24 rendered basis of doing your reconciliations to a

[Witness: Leary]

1 service rendered basis, is that correct?

2 A. That is as a result of proration, as a result of the
3 service rendered bills, that 1,253,000 represents what
4 we prorated in the month of November, yes.

5 Q. Okay. Let's try to define our terms.

6 A. Okay.

7 Q. What would a bills rendered approach have looked like
8 for the month of November 2002?

9 A. The only difference between bills rendered and service
10 rendered is, let's take an example, would be probably
11 the easiest way to go through it. Let's assume on
12 November 15th we sent out a bill. Under bills
13 rendered, what we would do is all the volume from that
14 month, let's say the prior month's last meter reading
15 was October 15th, the only difference would be, on a
16 bills rendered basis, all of that volume would be
17 billed at whatever rate was approved in the month of
18 November. So, let's say, in the month of November, the
19 rate was a dollar. All the volumes billed from
20 October 15th to November 15th would be at a dollar. On
21 a service rendered basis, you still have the same
22 volume, but now what you're going to do is you're going
23 to try to allocate how much of those volumes occurred
24 in the prior month, which would have been October, how

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[Witness: Leary]

1 much of those volumes occurred in November. And, once
2 you allocate how many volumes occurred in October, you
3 will apply whatever the October rate was in effect.
4 So, you still have a month of revenues, it's just that
5 half the month is billed at October's rate, half the
6 month is billed at November's rate, and that's really
7 the only difference between a service rendered and a
8 billed rendered basis. You still have a month of
9 revenues.

10 Q. And, just to build on your hypothetical, since usually
11 the summer rate has been lower than the winter rate,
12 let's assume that, in October, the rate was 50 cents.
13 Now, tell me -- explain please why you would need a
14 credit when the Company makes that change from bills
15 rendered to service rendered in its billing?

16 A. All this credit is doing initially is -- is to show
17 this prior period adjustment that we show on Exhibit 20
18 of 1.2 million is to represent the bills that were
19 billed in November, but represented October's usage.

20 Q. And, why were you pulling that usage out of this summer
21 cost of gas reconciliation? Let's try it a different
22 way. How was that credit developed? How was the
23 number arrived at?

24 A. That actual number is arrived at I guess a settlement

[Witness: Leary]

1 at a technical session between the Company and the
2 Staff, in terms of determining the exact -- the
3 1.2 million.

4 Q. Do you know the methodology that was used to arrive at
5 that number?

6 A. No, I do not. But I just want to, just to make clear,
7 all we're doing here is allocating a month of
8 collections between the peak account and the off-peak
9 account. That's all we're doing here with this
10 proration adjustment. We're putting -- there's still a
11 month of revenues, we're just putting part in the
12 winter, in the peak account, which is the 175.20, and
13 another piece in the off-peak account, which is your
14 175.40.

15 Q. When you moved, though, from a service -- bills
16 rendered to a service rendered, you would have had a
17 batch of bills, let's say, in your hypothetical in the
18 first 15 days of November, that would have included
19 October consumption billed at twice the October rate in
20 our hypothetical, correct?

21 A. That is correct. But, remember, any time you bill a
22 cost of gas, it's always a projection, and it's always
23 reconciled against actual gas costs. So, no matter
24 what we -- this is what we actually billed the

[Witness: Leary]

1 customer, it totally gets reconciled with your actual
2 gas costs. So, regardless of whatever the factor was,
3 they're both projected back to in both the off-peak
4 from October or the peak for November, that gets
5 reconciled against your actual bills.

6 Q. What was the purpose of this prior period adjustment
7 then? What were you trying to accomplish?

8 A. It really isn't -- we call it a "prior period
9 adjustment", I think it would have been, if we --
10 unfortunately, if we had actually shown you, and it
11 wasn't included as part of the original filing. So, if
12 you look at Exhibit 21, had we shown you -- you can see
13 in Exhibit 21, we only had provided the Account 175.20.

14 Q. Hold on. I've got to get to the right schedule. What
15 page would that be?

16 A. Oh, that's about -- it's about the eighth page in.

17 CMSR. BELOW: It's the first time the
18 attachment turns sidewise.

19 MS. ROSS: Okay. I've got it.

20 CMSR. BELOW: To landscape.

21 BY MS. ROSS:

22 Q. Now, what happened with that credit? What actually --

23 A. Okay. I guess what I'm saying is, had we provided the
24 format of the filing like we do right now, you would

[Witness: Leary]

1 have seen the 175.20 schedule that we show here, and
2 you would have seen the corresponding off-peak account,
3 just like this, just like we make now. But, back then,
4 we had only supplied in the official filing. So, had
5 we done that, you would have then seen the 175.40
6 account laid out, and you would have seen the beginning
7 balance that we had talked about from Exhibit 19, which
8 began with a credit of \$784,000. And, then, you would
9 have seen us applying the collections. So, what we're
10 saying is, November was the first month that we went to
11 the proration, because we recognized those off-peak
12 collection -- we recognized the collections in November
13 that related to the prior month of October, but we put
14 them in the off-peak subaccount 175, to not get too
15 confused with the terminology.

16 Q. And, you put them in in what month?

17 A. We put them in the month of November.

18 Q. So, you didn't change the timing that those revenues
19 were recognized in your accounting system. What you
20 did was to change the account that they were shown in?

21 A. We just allocated them, correct, to the off-peak
22 account.

23 Q. And, so, it isn't really -- it may be a credit to one
24 account, but it's an opposite entry to the other

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[Witness: Leary]

1 account, correct? The money is moved out of the peak
2 account in this case, and into the off-peak account?

3 A. It's just a -- All we're doing is reallocating between
4 the two accounts. You still have a month of revenues,
5 we still have a month of billed revenues, not to get
6 confused when we talk about billing customers on a
7 bills rendered or a service rendered basis.

8 Unfortunately, some of the terminology is overlapping,
9 can be a little confusing.

10 Q. Because if it's, in layman's terms anyway, if this
11 adjustment were to take into account that change, it
12 would be looking at that rate differential and trying
13 to determine where that rate differential should go,
14 correct? That being the difference between the winter
15 rate and the summer rate?

16 A. Would -- Depending on when you booked the accrued
17 revenues, that's correct.

18 Q. Are you saying then that this particular credit or
19 reallocation of revenues between the two accounts has
20 nothing to do with changing from bills rendered to
21 service rendered?

22 A. I'm saying that, when we went to service rendered, what
23 we've done now is, because we know those revenues were,
24 that are billed in November are, we're going to -- we

[Witness: Leary]

1 know what those -- we know the volumes associated with
2 the billed revenues in November that apply to October,
3 and we apply the October cost of gas, we then recognize
4 them and put them in the subaccount of the 175.40, the
5 off-peak subaccount. And, then, we put those revenues
6 that related to November usage and applied the November
7 cost of gas into the peak account. But, anyway, we
8 still had a month of revenues.

9 Q. Right. Now, what I'd like to do is move into your --
10 into some of your schedules. And, first of all, I want
11 to confirm the Company's position on the Staff's
12 recommended transition mechanism. Should the Company
13 move to accrual accounting for both costs and revenues
14 in its cost reconciliation, you stated, in response to
15 Staff DR 4-1 that "the problems and concerns with the
16 transition from billed to accrued revenues relates to
17 the Off-Peak subaccounts." Is that correct?

18 A. Based on the schedules that the Staff had provided,
19 yes.

20 Q. And, in that case, you agree with Mr. McCluskey's
21 Schedule 2 to his October 19th testimony -- I'm sorry,
22 to his June 22nd testimony?

23 A. Could I have a --

24 Q. It's Exhibit 2, Page 1. Yes, that's actually Exhibit

[Witness: Leary]

1 --

2 CHAIRMAN GETZ: Mr. McCluskey's, his
3 June testimony?

4 MS. ROSS: Yes.

5 CHAIRMAN GETZ: I think that's
6 Exhibit 4.

7 MS. ROSS: Yes, it's Exhibit 4. I'm
8 sorry, it's the surrebuttal testimony, which is Exhibit 5.

9 BY MS. ROSS:

10 Q. And, his peak reconciliation is shown on Page 1 of 2.
11 So, I'm just trying to confirm. Staff's Exhibit 2,
12 Page 1 of 2, is attached to Exhibit 5, which is the
13 surrebuttal testimony.

14 CMSR. MORRISON: Dated which date?

15 MR. McCLUSKEY: October 19th.

16 MR. CAMERINO: When we're straight on
17 the document, if we could just have the question restated,
18 so it's clear for the witness.

19 MS. ROSS: Sure.

20 BY MS. ROSS:

21 Q. I just asked the witness to refer to Staff Exhibit 5,
22 Staff's -- I'm sorry, Exhibit 2 to the docket
23 Exhibit 5, which is a two-page document. The first
24 page of which shows the peak account. And, I'm trying

[Witness: Leary]

1 to confirm that the Company has indicated that it
2 doesn't have problems with the Staff's transition on
3 the peak account, it only has issues with the Staff's
4 transition on the off-peak account?

5 A. Well, to be honest, the Company is concerned by looking
6 at this on a total basis. So, I would say, you know,
7 we actually -- we look at this from the total of peak
8 and the off-peak. So, I don't really want to say that
9 we agree with either of these accounts at this point.

10 Q. So, I guess what I'm asking you then if you are
11 changing your response to Staff 4-1, the response I
12 just read you?

13 A. Could you read my response again please.

14 Q. "Based on Staff's current proposal", and this response
15 was November 2nd, 2007, "Based on Staff's current
16 proposal as understood by the Company and explained in
17 Ms. Leary's testimony filed on November 1st, 2007, the
18 problem and concerns with the transition from billed to
19 accrued revenues relates to the Off-Peak subaccounts."

20 A. It relates to the off-peak right now. But, if you make
21 any changes to the off-peak, I can't go back and say "I
22 agree with the peak account", as reflected in
23 Exhibit 5, Staff Exhibit Number 2, Page 1 and 2.

24 Q. So, this is no longer your position?

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[Witness: Leary]

1 MR. CAMERINO: She has answered the
2 question.

3 MS. ROSS: I'd like to mark for Exhibit
4 -- never mind, you've heard the testimony.

5 BY MS. ROSS:

6 Q. All right. Let's begin with your schedule, which is
7 AEL-2. We're going to look at the peak account first,
8 so that will be Page 1 of 2.

9 CHAIRMAN GETZ: We're now in Exhibit 8,
10 the November testimony?

11 MS. ROSS: Yes.

12 BY MS. ROSS:

13 Q. Ms. Leary, in your testimony filed on August 31st,
14 2007, you indicate, at Page 5, Lines 5 through 11, that
15 Staff's suggested transition mechanism would
16 inappropriately reduce the interest due on
17 reconciliation balances by \$471,230. Correct?

18 A. That is correct.

19 Q. In order to understand the differences between Staff's
20 proposed transition mechanism and the Company's, I'm
21 going to ask you some questions relating to your
22 Schedule AEL-2, which is contained in the exhibits to
23 your testimony filed on August 31st, 2007. And, I
24 believe it's also marked as "Exhibit 10" and copied in

[Witness: Leary]

1 a larger size for the Commission's convenience. Just
2 for orientation, Schedule AE-2 [AEL-2?] is a schedule
3 prepared by you, correct?

4 A. That is correct.

5 Q. Also for clarification, does this schedule represent
6 the Company's proposed implementation of accrued
7 revenue accounting?

8 A. What this schedule is, and I think we've stated this in
9 our testimony, is we are quite concerned that, when we
10 look at Page 2 of 2 of this exhibit, that that is our
11 -- that is our proposal for adoption of accrued
12 accounting. However, we had said before, and I had
13 said in my testimony, that we would work with Staff, if
14 they -- in terms of the allocation between the two
15 subaccounts.

16 Q. Okay. And, looking at Page 1 of 2, it has
17 November 2005 through October 2006 shown in two
18 separate spreadsheets, one above the other, correct?

19 A. Correct.

20 Q. And, the top spreadsheet deals with the peak demand and
21 commodity and the bottom deals with the off-peak demand
22 and commodity, correct?

23 A. Correct.

24 Q. Let's just focus on the peak account for a moment.

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[Witness: Leary]

1 And, let me direct your attention to Line 10 of the top
2 spreadsheet. Can you explain what the number for
3 November 2005 of "4,380,801" represents?

4 A. That is the amount that was billed in the month of
5 November that reflected November's usage.

6 Q. November consumption then, correct?

7 A. November's consumption.

8 Q. Okay. Just to further clarify, the number for
9 November 2005, Line 10, of "4,380,801" does not include
10 any revenue billed in November related to October
11 consumption, correct?

12 A. Correct.

13 Q. And, the number "4,380,801" is in parentheses because
14 it represents revenue and is subtracted from costs,
15 correct?

16 A. Correct.

17 Q. Now, can you explain the next number in November 2005,
18 under Line 11, which is "8,632,661" and is titled
19 "unbilled"?

20 A. That represents the amount of revenue based on the
21 customers' consumption for the part of November that
22 has not yet been billed.

23 Q. So, that would be November only consumption?

24 A. Correct.

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[Witness: Leary]

1 Q. Turning now to the next number in the November 2005
2 Line 10 segment, which is "4,464,581", titled "Reverse
3 Prior Month Unbilled", can you explain this entry?

4 A. Yes. This represents the amount of gas that was
5 consumed in the month of October, but billed in the
6 month of November. And, the reason we have reflected
7 it in this line item is, again, as I had mentioned
8 earlier, it's important for us to look at these -- not
9 to look at these subaccounts, but to look in total.
10 And, if we did not reverse those October revenues that
11 were billed in the month of November, we would have
12 ended up with six and a half weeks of revenue and only
13 four weeks of gas costs.

14 Q. Now, Ms. Leary, you testified a moment ago that the
15 first two numbers, the "4,380,801" and the "8,632,661",
16 did not include any revenue billed in November related
17 to October consumption. And, yet, you added back a
18 reversal for this prior month unbilled revenues.
19 Doesn't this adjustment understate the accrued revenues
20 for November?

21 A. No, because we're not -- because, again, you're only
22 looking at the one subaccount 175.20. If you looked at
23 the subaccounts below, in the 175.30, you will see we
24 sent out -- we collected -- I shouldn't say

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[Witness: Leary]

1 "collected", we billed in the month of November for
2 \$4.4 million. And, we assigned that or allocated that
3 amount to the off-peak account.

4 Q. Nonetheless, you've got a number here in your peak
5 account that appears to be overstated by 4,464,000,
6 don't you?

7 A. And, if we didn't reflect that, then I would have
8 overstated in total, for the total deferred gas costs,
9 the total revenues by that \$4.4 million.

10 Q. And, doesn't this adjustment in the peak account have
11 the effect of increasing the end balances in the peak
12 demand account for November by 4,464,581 through each
13 of the subsequent months?

14 A. Again, if you're just looking at the -- off into the
15 peak account, yes. But, if you look at it in total,
16 which is the Company's position, then, no, I disagree.

17 Q. We will get to that.

18 A. Okay.

19 Q. Turning now to the off-peak account, I would like to
20 show you an exhibit showing the ending balance of the
21 off-peak account, and just confirm with you that the
22 ending balance is "1,262,973"? And, I'm referring now
23 to Exhibit -- Exhibit 12, which I'll show you. Do you
24 have it with you?

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[Witness: Leary]

1 (Atty. Ross handing document to the
2 witness.)

3 BY MS. ROSS:

4 Q. Now, going back to your Schedule AEL-2, and referring
5 to the Off-Peak Demand and Commodity spreadsheet, I
6 would like to focus on the beginning balance for
7 November 2005, which is Line 3, which is "5,724,337".
8 Would you please explain how that number is derived.

9 A. That is the October 2005 ending a balance.

10 Q. But the summer period ending balance is "1,262,973"?

11 A. No, because what we did in this case is, we actually
12 included -- we actually included those November
13 collections that are billed in the month of November
14 that relate to October. And, the reason we do that is
15 because, when we are doing this cost of gas filing,
16 we're submitting this reconciliation for the end of the
17 period October. That factor will go into your COG
18 factor beginning in the following May. So, it would
19 begin in May of '06. And, we're looking to actually
20 have what the balance would be at the end of April, in
21 terms of our refunding that or charging that to the
22 ratepayers.

23 Q. If, as you say, the 5,724,337 represents the balance in
24 the off-peak account as of November 1st, 2005, it can't

[Witness: Leary]

1 include the revenues received in November associated
2 with October consumption, correct?

3 A. It does not include those revenues. Is that what you
4 said?

5 Q. Right.

6 A. It does not include those revenues. The 5,724,000 does
7 not include the revenues that were billed in the month
8 of November.

9 Q. So, where in your off-peak account are those revenues
10 reflected?

11 A. Those revenues are reflected in -- well, actually, and
12 again, I go back and I say we are looking at this from
13 a total company perspective, not into the peak and the
14 off-peak. So, we actually reflected those, on our
15 schedule, we actually reflected those in the off-peak
16 period, in the off-peak account.

17 Q. So, that would be Line 11?

18 A. That would be Line 11.

19 Q. So, Ms. Leary, you just testified that the number
20 4,461,365 relates to October consumption. So, why are
21 you showing it in a November accrued revenue account?

22 A. Because we weren't under accrued revenues in the month
23 of October of '05, so why would I move it back into the
24 month of October?

{DG 07-050} [Day II] (11-08-07)

[Witness: Leary]

- 1 Q. And, yet, in an accrued accounting system, wouldn't you
2 agree that October revenues would be shown in October,
3 if they related to October consumption?
- 4 A. Would you repeat that question.
- 5 Q. Under accrued accounting, October revenues relating to
6 October consumption would be shown in October, wouldn't
7 they?
- 8 A. That is correct.
- 9 Q. Now, let's look at your combined accounts. And, again,
10 we're going to -- we're going to focus on November '05,
11 because that is the transition month that contains some
12 of the entries that are problematic to Staff. The very
13 first entry is your beginning balance. And, could you
14 just indicate what amount that is?
- 15 A. That is \$9,876,571.
- 16 Q. And, can you tell me exactly what components are in
17 that number?
- 18 A. That is the ending balance for October of '05 that
19 includes both the peak accounts, the 175.20, and the
20 off-peak accounts, 175.40.
- 21 Q. So, that number does not include the 4,464,000 of
22 revenues that were -- relate to consumption in October,
23 correct?
- 24 A. That is correct.

{DG 07-050} [Day II] (11-08-07)

[Witness: Leary]

- 1 Q. And, then, if we go to the next line, you have an
2 actual cost of 13 million and something?
- 3 A. That is correct.
- 4 Q. And, then some miscellaneous items, which are smaller.
5 And, then, your next line is "collected costs", and
6 it's in parens, so it's a revenue. And, what is the
7 amount of that number?
- 8 A. In the month of November, we billed customers
9 \$8,842,163.
- 10 Q. And, that relates to consumption in what month?
- 11 A. That would be consumption in both the months of October
12 and November.
- 13 Q. So, that number includes the 4.64 -- 4,464,000?
- 14 A. It includes, yes, the page before, it includes
15 \$4,461,365, yes.
- 16 Q. Okay. And, then, your next entry is titled "unbilled",
17 and could you indicate the amount of that?
- 18 A. The unbilled for that month would have been \$8,632,661.
- 19 Q. Okay. And, then, the next entry says to "Reverse Prior
20 Month Unbilled".
- 21 A. That is correct.
- 22 Q. And, what is that?
- 23 A. That amount is \$4,464,581.
- 24 Q. And, that amount reverses the collected cost item

{DG 07-050} [Day II] (11-08-07)

[Witness: Leary]

1 above, the 8,842,000?

2 A. That is correct.

3 Q. Because that relates to October consumption, correct?

4 A. That's correct.

5 Q. Okay. Let me ask you something now. Your beginning
6 balance also included, didn't it -- I'm sorry, your
7 beginning balance failed to include those -- the
8 4,464,000, which was billed in November, but related to
9 October consumption, isn't that correct?

10 A. That is correct.

11 Q. So, you've double counted it. You've already built in
12 a higher balance, because it's not included, and then
13 you've reversed it out below. It appears that you're
14 overstating your balance by that 4,464,581, in your
15 combined account now?

16 A. No, we are not. As I said, the beginning balance is
17 the amount at the end of October. We have -- The
18 Company has always, in the past, has billed a month of
19 revenues and a month of gas costs. So, we're saying
20 that that was our balance at the end of October. What
21 we're reflecting now is, and what we're showing you,
22 what should be, under accrued accounting, our accrued
23 revenues.

24 Q. And, where does that money come into your schedule

{DG 07-050} [Day II] (11-08-07)

[Witness: Leary]

1 then?

2 A. The total comes in at \$13 million.

3 Q. Where does the 4,464,581 come into your schedule as
4 revenue received?

5 A. It's right in, it's included in the \$8.8 million. And,
6 then --

7 Q. And, then it's reversed just below. It's included and
8 reversed.

9 A. Because we can only have a month of gas -- a month of
10 COG revenues and a month of gas costs. If we do what
11 the Staff wants us to do, we will end up with a month
12 and a half.

13 Q. When are you ever going to recognize the
14 \$4,464,381 [\$4,464,581?]?

15 A. It's really recognized in the net. The net, I mean, we
16 will recognize -- it's already in, it's in there with
17 the collections. It's in there with our cost of gas
18 collections.

19 Q. And, it's pulled out again. It's reversed. It's in
20 the 8,842,165, and then it's reversed. So, we just
21 want to know where it is, where it actually comes in,
22 because it's revenue that the Company does collect?

23 A. But it's actually now part of the unbilled. You're
24 getting this by moving to the unbilled.

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[Witness: Leary]

1 Q. Where is it shown in the unbilled?

2 A. Well, I mean, you're moving --

3 Q. Can you show me on your schedule please?

4 A. What we're trying to state is, in the first month of
5 November of '05, what we're going to show is a month
6 under accrued accounting. So, we're saying, in total,
7 under accrued accounting, you are going to -- we're
8 going to recognize \$13 million, which equates to what
9 the gas costs will be, approximately \$13 million. So,
10 we're saying, at that point, we're on accrued revenues
11 and accrued gas costs.

12 Q. That's fine. But that 4,464,381 [4,464,581?] is in
13 your starting balance, and it's not credited anywhere.
14 So, somehow you've got to recognize that revenue. You
15 don't want to recognize it in October, as Staff does,
16 but somewhere it needs to be recognized.

17 A. But then we would be recognizing a month and a half of
18 revenue and only a month of gas costs, and that would
19 be confiscatory to the Company, in terms of calculating
20 the interest.

21 Q. And, any time you accelerate the recognition of receipt
22 of revenues, and you have a breakpoint between periods,
23 one where it's allowed to be delayed and one where it's
24 accelerated, you're going to have an overlap, aren't

[Witness: Leary]

1 you? Whenever you transition, at some point you have
2 to have an overlap?

3 A. And, that's our issue here today, correct.

4 Q. You should never experience an overlap. That's your
5 issue?

6 A. I'm saying, from the -- the Company should not be
7 penalized for this overlap, for this transition.

8 Q. And, even if you move them, the revenues into November,
9 as you suggested, and run the spreadsheets as the Staff
10 does, you're still not -- you still feel that's
11 confiscatory?

12 A. Yes, I do.

13 Q. And, why is that?

14 A. For the same reasons. Instead of having the month and
15 a half of cost of gas revenues in the month of October,
16 they're moved to the month of November. We just say --
17 I guess what we are arguing is, we will move over and
18 we will adopt the accrual accounting, we just want to
19 make sure that, when this transaction occurs, the
20 Company is not financially hurt by it, by having to
21 recognize an extra half a month of revenues in its
22 calculation of deferred gas costs.

23 MS. ROSS: I have no further questions
24 for this witness. Thank you.

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[Witness: Leary]

1 BY CMSR. BELOW:

2 Q. Looking at Exhibit 12, the spreadsheet for Off-Peak
3 Demand and Commodity, you find that? Okay. That is
4 one half of the totals that are shown in Exhibit 16, is
5 that -- no, that's not correct. Is that correct? Yes.
6 I'm sorry. Is that correct?

7 CHAIRMAN GETZ: Pick one, Ms. Leary.

8 BY CMSR. BELOW:

9 Q. Yes or no.

10 A. Let me get Exhibit 16 for a minute. Okay. I'm sorry,
11 could you repeat the question.

12 Q. The schedule that's shown on the last page of
13 Exhibit 12, those numbers are reflected, combined with
14 other numbers, to create Exhibit 16 for May '05 through
15 October '05, is that correct?

16 A. Yes. On Exhibit 12, we've combined the, I guess,
17 Page 1 of 5 and Page 3 of 5, the two peak and the
18 off-peak accounts to create Exhibit 16.

19 Q. And, where's the Peak Demand and Commodity schedule?

20 A. If you'll look at Exhibit 12, it's about the -- about
21 the eighth page in.

22 Q. I think that's what I've seemed to have misplaced.

23 MR. CAMERINO: I wonder if we're not
24 referring to Exhibit 13.

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[Witness: Leary]

1 WITNESS LEARY: Do I have the wrong
2 exhibit?

3 CHAIRMAN GETZ: Yes, Exhibit 12 is only
4 like four pages.

5 MR. CAMERINO: This is what you're
6 referring to, right? This document?

7 WITNESS LEARY: Yes.

8 MR. CAMERINO: Do you have it?

9 WITNESS LEARY: Yes, I have it in front
10 me. I thought it was 12.

11 MR. CAMERINO: Exhibit 13 should be the
12 complete copy of Exhibit 12.

13 CMSR. BELOW: Okay.

14 BY CMSR. BELOW:

15 Q. Okay. Now, and where is that exactly?

16 A. Like about the eighth page in.

17 Q. Okay. Yes, I had misplaced that. So, I guess I'm
18 still confused about something. On Exhibit 10, for
19 November '05, in the first schedule for peak demand,
20 and the third subline of Line 10, "Reverse Prior Month
21 Unbilled", there's a number "\$4,464,581", correct?

22 A. Correct.

23 Q. How does that number relate to the number on Line 11 on
24 the next schedule, for off-peak demand and commodity,

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[Witness: Leary]

1 the "\$4,461,365"?

2 A. The one up above was an estimate. It should have been
3 very close, which it is. It's very close to the number
4 on Line 11.

5 Q. So, you're saying essentially they represent the same
6 thing?

7 A. The same, correct.

8 Q. And, where does that number -- I guess my question is,
9 why is it on both schedules?

10 A. Because here's the -- the issue is here's what we were
11 discussing about the transition. When you look at Page
12 2 on here, in total, we're concerned that you end up
13 booking in the month of November, you -- really, what
14 you're trying to do is reflect what revenues do we
15 think occurred between November 1st and November 30th,
16 in the month of November, if you want to begin booking
17 accrued revenues in November. So, what we're showing
18 here is, if you look in -- you know, we show kind of
19 the details, the collections, the less unbilled, less
20 reverse the prior. But, in total, we're saying the
21 revenues for the month of November are \$13,010,245.
22 That represents what is the -- if we want to book now
23 on an accrued basis, that's what represents your
24 accrued revenues for the month of November, so that

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[Witness: Leary]

1 they can match up with the accrued gas costs for the
2 month of November.

3 Q. Where does the \$4,464,581 figure show up on in
4 Exhibit 13?

5 A. It's not in Exhibit 13, because we're booking on a
6 billed based in Exhibit 15 -- excuse me, Exhibit 13.

7 Q. Okay. So, though the \$4,461,365 does show up in
8 Exhibit 12 and 13, on the off-peak demand schedule, the
9 corresponding number for the peak demand doesn't show
10 up in the peak demand schedule, is that correct?

11 WITNESS LEARY: Can you read that back
12 to me? Sorry.

13 (Whereupon the Court Reporter read back
14 the last question asked by Cmsr. Below.)

15 BY THE WITNESS:

16 A. It shows up, and make sure we're talking about the
17 right exhibit, I think it shows up in Exhibit 13,
18 because we reflect the month of November, we show
19 November in that schedule. Is that what you're
20 referring to?

21 BY CMSR. BELOW:

22 Q. Yes. But I don't see it. That's the one marked
23 "Page 1 of 5", "Peak Demand and Commodity".

24 A. It's on Page 3 of 5. We show it in the month of

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[Witness: Leary]

1 November of '05.

2 Q. That's the Off-Peak Demand schedule.

3 A. Correct.

4 Q. So, it doesn't show up on the Peak Demand schedule for
5 either October '05 or November '05 in Exhibit 13, but
6 it does show up in November of '05 in Exhibit 10?

7 A. Right. And, I guess we put it here, and I think that I
8 kind of at the onset I had said, when we put these
9 schedules together, we were really concerned with
10 looking at the total combined accounts, not in the off
11 -- not looking at the subaccounts. We reflected it
12 here. But, you know, we're willing to work with Staff
13 on however we want to reflect it. What we're concerned
14 with is really the total, which is on the second page,
15 not trying to get confused with the two subaccounts.

16 Q. Okay. So, you could move it, on Exhibit 10, you could
17 move it from the third line -- subline of Line 10, down
18 onto the third line -- subline of Line 11 in the
19 Off-Peak Demand schedule?

20 A. You could.

21 Q. Okay.

22 A. Or move an allocation or a piece of it, however you
23 would like to transition to this methodology. We're
24 just concerned with, in total, we still have a month of

[Witness: Leary]

1 revenue and a month of gas costs.

2 Q. I think we've used some terms, I've heard some terms
3 today that might be sort of convenient. So, I just
4 want to clarify a couple of concepts. The method you
5 have been using of booking revenue when billed is
6 actually an accrual form of accounting, is that
7 correct?

8 A. Let me just take a quick step back to make sure that
9 we're all talking about the same terminology. We kind
10 of mix -- we talk about "billed basis", "service
11 rendered basis", then we talk about "billed cost of
12 gas" and "accrued cost of gas". Okay? So, when we're
13 talking about "billed basis", all we're talking about
14 is, whether it's service rendered or billing the
15 customers on a billed basis, we're going to recognize,
16 in total, and again, you know, which account is
17 irrelevant, we're going to recognize the revenues that
18 we billed in that current month. We may allocate a
19 piece for proration to the different subaccounts, but
20 we recognize what we billed.

21 Q. I understand what you're saying.

22 A. Okay.

23 Q. My question is, I mean, you're familiar with the
24 accounting concepts of "cash basis" versus "accrual

[Witness: Leary]

1 basis" of accounting, right?

2 A. I'm not an accountant, but kind of. Yes, I understand.

3 Q. Okay. But none of this is cash basis accounting,
4 because you're not recognizing the revenue when you
5 have cash in hand, you're basing it on some basis of
6 when -- you're accruing it either on the basis of when
7 you bill for it, regardless of what rate applies,
8 whether it's service rendered or bills rendered, but
9 you're accounting for it, you're booking the income
10 based on when you bill for it currently. And, the
11 proposed change is that you -- we might call it going
12 from a partial accrual to a full accrual, where you're
13 trying to attribute all the income that is attributable
14 to that period, whether it's billed or not, into that
15 period?

16 A. Correct.

17 Q. That would be reasonable?

18 A. Correct.

19 Q. Okay. So, the transition we're dealing with is not
20 going from cash to accrual. It's going from one form
21 of accrual to a different form of accrual, which one
22 might -- might reasonably characterize as "full
23 accrual" is where the parties have agreed to end up,
24 fully accruing the income or revenue when it's -- to

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[Witness: Leary]

1 the period that it's attributable to?

2 A. Correct. And, trying to just realign the revenues, so
3 it agrees with the same period that's in for the gas
4 costs.

5 CMSR. BELOW: Okay. That's all.

6 CHAIRMAN GETZ: Okay. Well, we have
7 competing goals here. One of which, we're late for a
8 meeting at 1:00, another is the technical session in the
9 -- was it 07-101, and then completing the examination here
10 today. We have to take a recess. We can come back at
11 2:00. And, I guess there's also some folks would have a
12 competing goal of actually having lunch. Is there a
13 preference on what you want to do at or after 2:00?

14 MR. CAMERINO: Well, a couple of
15 thoughts. First of all, just in terms of what we have
16 left here --

17 CHAIRMAN GETZ: Well, you have the
18 opportunity for redirect.

19 MR. CAMERINO: I have like two
20 questions, just about a mathematical principle. And,
21 then, it would depend on whether there is any further
22 questioning or whether we're just doing a closing very
23 briefly. So, subject to what Ms. Ross is about to say, it
24 could be that we would be done in here within, you know,

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[Witness: Leary]

1 ten minutes. We have ordered lunch for the technical
2 session for everybody. So, I think those of us who are
3 participating in that will be here, either in this room or
4 the next room, and so we're available if you needed to
5 break and come back. Also, I think the only person who
6 doesn't carry over is Ms. Leary, but I'm sure she'd be
7 happy to stay. So, I think we have a lot of flexibility
8 in terms of what the Commission's needs are.

9 CHAIRMAN GETZ: Ms. Ross, anything?

10 MS. ROSS: I think Staff is pretty
11 comfortable with the information we've been able to get
12 from Ms. Leary, in terms of the new testimony. So, I
13 don't feel a need to put George back on, unless you all?
14 So, I think we're pretty close to wrapping up, too.

15 CHAIRMAN GETZ: All right. And, I guess
16 there's always a possibility we'll think of more
17 questions. But we'll be back at 2:00 to --

18 MR. CAMERINO: Actually, we have one, if
19 it would work for the Commission, we have one person who
20 is important to the Concord lateral discussion who needs
21 to leave at 3:00. And, so, I think the Staff does have
22 questions for him. And, so, if we could reconvene here at
23 3:00, if that worked for you, that would be better than
24 2:00.

[Witness: Leary]

1 CHAIRMAN GETZ: That's fine. Let us
2 know.

3 (Laughter.)

4 CHAIRMAN GETZ: And, we'll take a recess
5 until later this afternoon.

6 (Lunch recess taken at 1:21 p.m. and the
7 hearing reconvened at 3:06 p.m.)

8 CHAIRMAN GETZ: Okay. Good afternoon.
9 We're back on the record in docket DG 07-050. And,
10 turning to redirect?

11 MR. CAMERINO: Yes.

12 REDIRECT EXAMINATION

13 BY MR. CAMERINO:

14 Q. Ms. Leary, there has been a lot of discussion about
15 focusing on the combined 12 months of the cost of gas
16 reconciliation versus looking separately in the peak
17 and off-peak periods. And, I just want to ask you,
18 from a mathematical standpoint of -- solely, a
19 mathematical standpoint of calculating the interest
20 that will be charged to customers or credited to
21 customers, does it make any difference whether a dollar
22 is booked or credited to one subaccount or another, as
23 long as, on a combined basis, the dollars are correct?

24 A. No, it does not.

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[Witness: Leary]

1 Q. The interest would be the same?

2 A. The interest would be the same.

3 MR. CAMERINO: Okay. Thank you.

4 CHAIRMAN GETZ: Anything else for
5 Ms. Leary?

6 MS. ROSS: I have no further questions.
7 Thank you.

8 CHAIRMAN GETZ: Hearing nothing, then
9 you're excused. Thank you. Anything else that we should
10 address, besides I guess dealing with the exhibits and
11 opportunity for closings? Is there any more in the way of
12 presentations that the parties would like to make?

13 (No verbal response)

14 CHAIRMAN GETZ: Okay. Hearing nothing,
15 then is there any objection to striking the
16 identifications and entering the exhibits as full
17 exhibits?

18 MS. ROSS: Staff has no objection.

19 CHAIRMAN GETZ: Okay. Hearing no
20 objection --

21 CMSR. BELOW: I have a question -- this
22 is not an objection, this is a question.

23 CHAIRMAN GETZ: Well, then, before your
24 question, let me admit them into evidence. Okay. They're

1 admitted.

2 CMSR. BELOW: What is Exhibit 9?

3 MR. CAMERINO: I have as Exhibit 9 a
4 package of responses that the Company gave to Staff Data
5 Requests, Set 3.

6 CMSR. BELOW: Oh. Okay. I have that.
7 It was unnumbered.

8 CHAIRMAN GETZ: Okay. Anything else,
9 before opportunity for closings?

10 (No verbal response)

11 CHAIRMAN GETZ: Hearing nothing, then,
12 Mr. Traum.

13 MR. TRAUM: Actually, if it's okay with
14 the Commission, where I was tied up in the Concord lateral
15 discussions, Ms. Ross offered to -- graciously to precede
16 me.

17 MS. ROSS: And, I guess my only question
18 is, who is the moving party here? Because, typically, the
19 moving party goes last.

20 CHAIRMAN GETZ: Well, I guess that you
21 had the first witness, so you get the last say in
22 closings. Mr. Camerino. Does that not comport with your
23 procedural understandings?

24 MR. CAMERINO: Are you asking me to

1 proceed or are you asking me whether I would agree with
2 that statement?

3 CHAIRMAN GETZ: Well, take the latter
4 first.

5 MR. CAMERINO: Yes, that would comport
6 with my understanding.

7 CHAIRMAN GETZ: So, would you like to
8 make a closing?

9 MR. CAMERINO: Maybe I misunderstood,
10 but it was my understanding that the Staff was proposing a
11 method of transition, and that is why their witness went
12 first.

13 CHAIRMAN GETZ: Yes.

14 MR. CAMERINO: And, so, they would go
15 first.

16 CHAIRMAN GETZ: Then, we would allow
17 them to make the last statement, in terms of closings.

18 MR. CAMERINO: Oh, okay. All right.
19 Apologize for being dense. I think it's important to try
20 to focus on specifically what the Staff is proposing and
21 why they're proposing it, because there's a lot of
22 complexity here and you can get dragged down into a lot of
23 different explanations. And, the Staff witness, Mr.
24 McCluskey, agreed that normally each month you should

1 recognize one month of revenues and one month of gas
2 costs. And, that makes perfectly good sense, because,
3 regardless of what you book, the Company is only going to
4 bill each month for 30 days of gas usage and it's only
5 going to recognize 30 days of gas usage. And, by the same
6 token, it should only be booking one month of gas costs.
7 And, those two need to match. And, if they don't match,
8 at some point somebody is going to be short. So, in the
9 end, there should be one month of gas costs and one month
10 of revenues.

11 The Staff says that, in order to
12 transition to the use of accrued revenues, rather than
13 billed revenues, for booking purposes, that, instead of
14 merely, in the first month when you transition, booking
15 the accrued revenues instead of what the billed revenues
16 would have been, that you've got to also book an
17 additional half month of revenues. Now, I just want to
18 stop there and say the Company does some booking and
19 backing out, but that's in order to book the accrued
20 revenues and back out the billed revenues. But the
21 Company's transition is to book one month of revenues,
22 continuing in November of '05. The Staff says, to make
23 the transition, either in November of '05 or October of
24 '05, you've got to make a change and add an extra half

1 month in. And, that's where the parties disagree. That
2 the Company says, "in order to transition, you don't book
3 an extra half month of revenues", and the Staff says "you
4 do". That is the dispute.

5 So, when asked, and then the Staff
6 agrees that that mismatch exists. What the disagreement
7 on is why the mismatch should or should not happen. And,
8 the answer to that is very simple. The Staff is clear:
9 You need to book an extra two weeks of revenues to correct
10 an error that was previously made. That is their
11 position. And, so, they were asked "Tell us when that
12 error occurred." And, they said "The error occurred when
13 you changed to proration and splitting the bill between
14 the peak and the off-peak period." They don't have any
15 evidence and couldn't supply any that that error had
16 occurred. And, it's fundamental to the hearing process
17 that, if you're going to say that something happened,
18 you've got to offer some evidence that it did happen. Mr.
19 McCluskey wasn't here when it occurred, other Staff
20 members were. For whatever reason, the Staff is not able
21 to produce any evidence that this error occurred. The
22 error supposedly being that two weeks of revenue were
23 missed when that transition occurred back in 2001.

24 The Company did provide evidence. The

1 Company, from the Commission's records, can provide, did
2 provide the reconciliations that show that both halves
3 were booked. There's testimony from a witness at the time
4 as to how the revenues were split between the peak and
5 off-peak periods. And, on a combined basis, for that
6 transition month at the time, the full month of revenues
7 was booked. It's really that simple. You can get down
8 into a lot of complicated accounting. You can look at the
9 subaccounts separately. But, when you look at them
10 together and look at the booked revenues, you see a full
11 month of revenue was booked.

12 The Company can only respond to the
13 argument that the Staff puts forth. And, frankly,
14 sometimes it feels like it's responding to a moving
15 target. But, in this case, we had very clear testimony
16 from Mr. McCluskey, not once, but twice, that it's to
17 "correct an error". He's specified what the error is.
18 That error is very clear on the record. The Staff
19 produced no evidence that the error occurred. I
20 understand intellectually why they think it might have
21 occurred. The Company, in the intervening two days, was
22 able to go to the files of the Commission, and actually it
23 came from the Company's files, but it's the same
24 information that's in the Commission's files, and showed,

1 at the point in time that Mr. McCluskey identified, no
2 such error occurred.

3 I don't know if they're going to have
4 some other explanation now or in the future as to why this
5 should be done. And, if that's the case, we'll need to
6 address that. But, for the moment, our understanding is
7 this is a correction of an error, they were clear in their
8 written testimony, they were clear in their oral
9 testimony, and we have shown that that error did not
10 occur.

11 CHAIRMAN GETZ: Thank you. Ms. Ross.

12 MS. ROSS: Thank you, Commissioners.
13 First, Staff would like to thank the Company and the
14 Office of Consumer Advocate for their work on this docket,
15 and for the compromises they have been willing to make on
16 our Partial Settlement. Staff supports the Partial
17 Settlement as a fair resolution of the issues covered,
18 which are bad debt percentages and net lag days, as well
19 as methodologies for calculating both. Staff recommends
20 the Commission approve the Partial Settlement as
21 consistent with the public interest.

22 With regard to the transition issues,
23 should the Commission uphold its order in DG 07-033,
24 requiring Northern to move to accrual accounting for both

1 costs and revenues in its cost of gas reconciliations,
2 Staff recommends that KeySpan make the transition as set
3 out in George McCluskey's spreadsheets, Exhibit 2, to his
4 October 19th testimony, which is marked in this docket as
5 "Exhibit 5". And, as further set out in Mr. McCluskey's
6 combined peak and off-peak spreadsheet, marked as
7 "Exhibit 14" in this docket.

8 Commissioner Below may have aptly
9 characterized this as "a transition from partial accrual
10 accounting for revenues to full accrual accounting for
11 revenues." Keep in mind that, when we make an accounting
12 change as to when revenues are recognized, we do not
13 change the actual timing of the Company's receipt of
14 revenues, nor the actual timing of its payment of costs.
15 Instead, for reconciliation purposes, when we treat
16 revenues on a fully accrual basis, rather than a billed
17 basis, we accelerate the recognition of the revenue by 15
18 days approximately. The practical effect of that
19 accounting change is to decrease the amount of interest
20 the Company earns, because we decrease the running balance
21 of undercollections in the cost of gas reconciliation.
22 And, that decrease is demonstrated if you compare
23 Mr. McCluskey's Exhibit 14 to the Company's Exhibit 10.

24 Under Staff's proposed transition, all

1 revenues received by the Company are recognized. Under
2 the Company's proposal, shown in Ms. Leary's spreadsheets
3 at Exhibit 10, \$4.464 million of revenue are received for
4 October 2005 consumption, but are never recognized for
5 purposes of the gas reconciliation. The Company's claim
6 that it recognized a full month of revenues in two
7 different accounts in 2001, when it moved to service
8 rendered treatment for the cost of gas reconciliation
9 appears correct. That does not, however, mean that the
10 Company may assume away \$4.464 million in revenues when
11 moving from partial revenue accrual accounting or billed
12 revenue accounting to full revenue accrual accounting.
13 These accounting changes only effect the timing of
14 recognition of revenues, and should have no impact on the
15 Company's total revenue received.

16 As a result, the Staff continues to
17 support its proposed transition mechanism as set forth in
18 Mr. McCluskey's Exhibit 5 and 14. Thank you.

19 CHAIRMAN GETZ: Thank you. Exhibit 17
20 was --

21 MS. ROSS: That was Mr. McCluskey's
22 proposed Alternative Combined Peak and Off-Peak, where he
23 moves the October revenues into November.

24 CMSR. BELOW: Thank you.

1 CHAIRMAN GETZ: All right. Mr. Traum.

2 MR. TRAUM: Thank you, sir. The OCA
3 supports the Partial Settlement that had been provided
4 what seems like days and days ago. And, we do support
5 Staff's recommendation. The issue here, actually, is I
6 think quite straightforward. And, it really doesn't have
7 anything to do with an error, and I think that was just an
8 unfortunate use of words. What it has to do with, and as
9 Ms. Leary had stated in her testimony in Exhibit 8, on
10 Page 6, that, under the Commission's order, this same
11 methodology will be continued to be used, but gas
12 utilities will be required to book customer revenues when
13 gas is consumed by customers, rather than when a bill is
14 generated. This will have the effect of accelerating the
15 booking of revenues relative to the current methodology.
16 So, the issue is simply the accelerating of the booking of
17 revenues. And, that number -- that acceleration number,
18 if we go back to October/November '05 time frame, I
19 believe is roughly \$4.4, \$4.5 million.

20 The Company is taking the position, as I
21 understand it, that the acceleration is fine, but forget
22 about the \$4.4 million, as it would mean booking a half a
23 month of revenues.

24 Now, I'm looking at it from a consumer

1 viewpoint. On a month-to-month basis, the consumers are
2 basically going to be paying the same rates, absent some
3 slight change in interest. But what happens if the CGA
4 mechanism ends? What happens if all customers go to
5 choice at some point in time? That \$4.4 million all of a
6 sudden disappears, customers do not get the credit of
7 that.

8 MR. CAMERINO: Your Honor, there's been
9 no testimony on this point. I know Mr. Traum is not the
10 lawyer, but he's testifying about matters that -- he's
11 testifying basically at this point.

12 CHAIRMAN GETZ: Well, I'm taking that's
13 an objection to considering what appeared to me to be
14 argument.

15 MR. CAMERINO: Well, he's describing --
16 I mean, I apologize, and I apologize to Mr. Traum, because
17 I don't like to interrupt a closing, but he is testifying
18 as to what will happen in a certain event. That is
19 testimony, that's not argument. And, we've already got a
20 problem in this case of -- there was one reason put
21 forward for the issue we're talking about, and now we've
22 had others. And, I just think it's inappropriate.

23 CHAIRMAN GETZ: Well, I'm going to allow
24 it, because it seems to me it's argument about what we

1 should consider in the event something happens to an
2 existing cost of gas adjustment mechanism. And, I think
3 that's fairly within the realm of a closing argument.

4 MR. TRAUM: Thank you, sir. I think I
5 just, really, I wanted to raise that concern. And, with
6 that, I'll close. Thank you.

7 MS. ROSS: I have one housekeeping
8 matter. I think I may have neglected to hand out both
9 Exhibit 17 and Exhibit 15, which are spreadsheets that Mr.
10 McCluskey did, I believe at the Company's request as to
11 17. And, perhaps I could just make them available. I
12 don't think they had any questions --

13 CMSR. BELOW: I seem to have 15, but not
14 17.

15 MS. ROSS: Okay.

16 CHAIRMAN GETZ: Yes, I see 15.

17 MS. ROSS: You want to number it
18 yourself? Seventeen should be titled "Alternative Peak
19 and Off-Peak", and it's Mr. McCluskey's spreadsheet with
20 the revenues relating to October consumption shown in
21 November. And, it actually goes with Exhibit 15, which
22 was just showing that off-peak account. This is combining
23 the two accounts. Apologize.

24 CMSR. BELOW: Excuse me. And, just to

1 be clear, there is no exhibit that has the alternative
2 on-peak account that, when added to Exhibit 15, would
3 create Exhibit 17, is that correct?

4 MS. ROSS: Yes, there is. That would be
5 Mr. McCluskey's 14. Oh, I'm sorry, that's a combined one.
6 That would be Mr. McCluskey's Exhibit 5, there is a
7 separate spreadsheet in there for the peak account.

8 CMSR. BELOW: Okay. So, it doesn't
9 change in the alternative case?

10 MS. ROSS: Right. The peak account
11 stays in Mr. McCluskey's spreadsheet, and the off-peak
12 account is varied, consistent with 15, and then combined
13 with his peak for 17.

14 CMSR. BELOW: Okay. Thank you.

15 CHAIRMAN GETZ: Okay. Is there anything
16 further?

17 (No verbal response)

18 CHAIRMAN GETZ: Hearing nothing, then
19 we'll close the hearing and take the matter under
20 advisement. Thank you.

21 (Whereupon the hearing ended at 3:24
22 p.m.)

23

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