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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

November 5, 2007 - 10:47 a.m.
Concord, New Hampshire

DAY I

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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WITNESS PANEL: ANN E. LEARY
STEPHEN P. FRINK

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

2 CHAIRMAN GETZ: Okay. Good morning.
3 We'll open the hearing in docket DG 07-050. On April
4 11th, the Commission issued an order of notice opening an
5 investigation in connection with the appropriate
6 reconciliation methodology for KeySpan gas costs, as well
7 as appropriate levels for certain indirect costs. A
8 prehearing conference was held on May 30, subsequent to
9 which a secretarial letter was issued approving a
10 procedural schedule culminating in a hearing on the merits
11 for today. On November 11, a partial settlement agreement
12 was filed with the Commission.

13 Can we begin with appearances please.

14 MR. CAMERINO: Good morning,
15 Commissioners. Steve Camerino, from McLane, Graf,
16 Raulerson & Middleton, on behalf of KeySpan Energy
17 Delivery New England. And, also with me today, appearing
18 on behalf of the Company, is to Thomas O'Neill, Senior
19 Counsel.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. MORRISON: Good morning.

22 CMSR. BELOW: Good morning.

23 MR. TRAUM: Good morning, Commissioners.
24 Representing the Office of Consumer Advocate, Kenneth

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1 Traum.

2 CHAIRMAN GETZ: Good morning.

3 CMSR. MORRISON: Good morning.

4 CMSR. BELOW: Good morning.

5 MS. ROSS: Good morning, Commissioners.

6 Anne Ross, with the Public Utilities Commission Staff.

7 And, to my left is George McCluskey, and to his left is

8 Steve Frink.

9 CHAIRMAN GETZ: Good morning.

10 CMSR. MORRISON: Good morning.

11 CMSR. BELOW: Good morning.

12 CHAIRMAN GETZ: Well, how do the parties
13 propose we proceed this morning?

14 MS. ROSS: We would like to begin by
15 entering the Partial Settlement Agreement as an exhibit,
16 and having a panel just briefly describe the terms of the
17 Partial Settlement. And, then, we would like to move into
18 the litigated portion of this docket. And, the first
19 witness in the litigated portion would be Mr. McCluskey
20 for Staff.

21 CHAIRMAN GETZ: Okay. All right. Thank
22 you. Please proceed then. Unless, did you have something
23 else, Mr. Camerino?

24 MR. CAMERINO: No, I think we plan to

1 proceed with the panel. I did, one minor thing I just
2 noticed, is that the cover letter to the Commission with
3 the Settlement Agreement is dated November 11th for some
4 reason. I think that's a Roman Numeral actually, just
5 without the bar across the top and bottom.

6 MS. ROSS: I apologize.

7 MR. CAMERINO: But, obviously, the
8 Settlement was filed on Friday, I believe, the 2nd, and
9 was signed by the parties today. But --

10 CMSR. BELOW: Did you reach the
11 settlement on the afternoon of the 1st or the 2nd?

12 MR. CAMERINO: Both, actually. That's a
13 different story. Sorry.

14 CMSR. BELOW: So, what should we date
15 the letter, the 1st or the 2nd?

16 MR. CAMERINO: I think the letter was
17 the 2nd.

18 CMSR. BELOW: Okay.

19 MS. ROSS: The letter was filed on the
20 2nd.

21 CHAIRMAN GETZ: It's stamped as well.

22 MR. CAMERINO: So, if I understand
23 correctly, we're going to proceed with Mr. Frink and
24 Ms. Leary as a panel. So, I would ask that they take the

1 stand.

2 MS. ROSS: And, would the Commission
3 like the settlement with original signatures delivered to
4 the Clerk now?

5 CHAIRMAN GETZ: That would be fine.

6 MS. ROSS: Okay.

7 CHAIRMAN GETZ: We have copies with --

8 MS. ROSS: That's only a copy. This is
9 signed by all the parties. This is the original.

10 (Whereupon Ann E. Leary and Stephen P.
11 Frink was duly sworn and cautioned by
12 the Court Reporter.)

13 MR. CAMERINO: And, also, just for
14 housekeeping, we've agreed to premark all of the prefiled
15 testimony in this case. And, I can just quickly read
16 through the list that we gave to the clerk, if that's all
17 right? So, for identification, we've marked Ms. Noonan's
18 prefiled testimony dated June 22, 2007 as "Exhibit 3".
19 Mr. McCluskey's June 22, 2007 prefiled testimony as
20 "Exhibit 4". There's Joint Surrebuttal of Ms. Noonan and
21 Mr. McCluskey dated October 19, 2007, which we've marked
22 as "Exhibit "5 for identification. Ms. Leary had prefiled
23 testimony dated August 31, 2007, which we've premarked as
24 "Exhibit 6". Kimberly Ahern had prefiled testimony dated

[Witness panel: Leary|Frink]

1 August 31, 2007, which we've premarked as "Exhibit 7".
2 And, Ms. Leary had prefiled testimony regarding the issue
3 that is still in dispute dated November 1, 2007, and we
4 have premarked that as "Exhibit 8". And, if we could mark
5 all those for identification, we would appreciate it.

6 CHAIRMAN GETZ: Will be so marked.

7 MS. ROSS: And the Exhibit 2 is -- that
8 number was assigned to the Settlement Agreement.

9 (The documents, as described, were
10 herewith marked as Exhibits 2 through 8,
11 respectively, for identification.)

12 ANN E. LEARY, SWORN

13 STEPHEN P. FRINK, SWORN

14 DIRECT EXAMINATION

15 BY MR. CAMERINO:

16 Q. So, let me start with you, Ms. Leary. If you could
17 just state your name and business address and position
18 for the record.

19 A. (Leary) Yes. My name is Ann Leary. I work for KeySpan
20 Energy Delivery New England, 52 Second Avenue, Waltham,
21 Mass. 02451. And, I am the Manager of Rates for New
22 England.

23 Q. And, Mr. Frink, would you do the same.

24 A. (Frink) My name is Stephen Frink. I work for the New

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[Witness panel: Leary|Frink]

1 Hampshire Public Utilities Commission. My title is
2 Assistant Director of the Gas/Water Division.

3 Q. And, Ms. Leary, let me show you, and Mr. Frink the
4 same, the document that's been premarked as Exhibit 2
5 for identification. And, ask you if that's the Staff
6 and the Parties' Settlement Agreement in this
7 proceeding?

8 A. (Leary) Yes, it is.

9 A. (Frink) Yes.

10 Q. Okay. And, Ms. Leary, would you summarize the
11 agreement that the Staff and the Parties have reached
12 and the issues that it relates to?

13 A. (Leary) Okay. There are actually six issues here that
14 both Staff and the Company had agreed to. And, I'm
15 just going to walk you through those six issues right
16 now. The first issue is that the Company has agreed
17 that, for the net lag, in terms of calculating the
18 working capital, it has agreed to use 13.48 days. This
19 will become effective as of May 1st, 2007. This net
20 lag will be in effect until a different figure is
21 actually approved by the Commission.

22 The Company and the Parties have also
23 agreed that, for the purposes of calculating the
24 indirect gas costs included for recovery through the

[Witness panel: Leary|Frink]

1 rates, the Company will use a bad debt percentage of
2 2.0 percent for the period November 1st, 2006 through
3 October 31st of 2007. And, we'll then use 1.75 percent
4 for the period effective November 1st, 2007, until a
5 new rate is determined in the upcoming base rate filing
6 that had been contemplated by the settlement in DG
7 06-107, which was the merger of KeySpan Corporation and
8 National Grid.

9 Number 3 is the Company will file a
10 written plan setting forth its proposed collections
11 processes on a going forward basis for review with
12 Staff. The Company will file this plan no later than
13 with its upcoming base rate filing. The parties agreed
14 that the prudently incurred costs of collections
15 process described in this plan shall be recoverable
16 through the rates set in the base rate case. The
17 Company may also include in its plan -- they may also
18 outline the issues for addressing the Staff's concerns
19 regarding the practice of using the "soft on"/"soft
20 off" process for terminating service to customers.

21 The Company will also agree to adopt the
22 Staff's accounts receivable turnover lead/lag
23 methodology described in the direct testimony of George
24 McCluskey, I think we called that "Exhibit 4" that is

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[Witness panel: Leary|Frink]

1 filed today, and as modified in his -- the Joint
2 Surrebuttal Testimony of Amanda Noonan and George
3 McCluskey filed on October 19, 2007.

4 The Company will also adopt the Staff's
5 recommendation on the methodology for calculating the
6 bad debt percentage by replacing the uncollectible
7 accounts with the actual net write-offs.

8 And, finally, the Company and the Staff
9 agree to use an independent consultant to recommend an
10 appropriate bad debt percentage for KeySpan. And, the
11 recommendation of this consultant shall be non-binding,
12 and both the Company, the Staff, and the OCA will each
13 reserve the right to argue for a different percentage
14 during the Company's base rate case proceeding.

15 Q. Ms. Leary, the net lag figure and the bad debt
16 percentages that you referred to relate to periods for
17 cost of gas rates that have already been put into
18 effect. What will the Company do to reflect the
19 adjustments, to the extent that these are different
20 than what was used for the rates that are in effect?

21 A. (Leary) Well, as you remember, in both the last year's
22 DG 06-121 and in this current DG 07-034 hearings, the
23 Commission had left open the reconciliations. So, we
24 will actually go back, recalculate what the appropriate

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[Witness panel: Leary|Frink]

1 reconciliation position should be based on using these
2 percentages.

3 Q. Okay. And, as you're aware, this docket also relates
4 to another issue, which is whether the Company should
5 use accrued or billed revenues for purposes of
6 determining its gas cost deferred balance. What does
7 this settlement or what is the Company's position with
8 regard to that issue, given that it isn't addressed in
9 the substantive part of the agreement?

10 A. (Leary) That will be the issue that will be litigated
11 today.

12 Q. Well, how about with regard to the underlying, as to
13 whether there should be a change from billed to
14 accrued?

15 A. (Leary) The Company will not be addressing whether or
16 not accrued or billed revenue. We have already decided
17 with the Staff that we would accept the outcome in the
18 Northern docket regarding using accrued versus billed
19 cost of gas revenues in its calculation of its deferred
20 gas costs. The issue we have today is how to
21 transition from using one methodology to another.

22 Q. Mr. Frink, do you have anything you'd like to add to
23 Ms. Leary's testimony?

24 A. (Frink) No, I don't.

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[Witness panel: Leary|Frink]

1 MR. CAMERINO: Thank you. That's all I
2 have.

3 CHAIRMAN GETZ: Thank you. Mr. Traum,
4 cross-examine --

5 MR. TRAUM: Thank you, sir. I think I
6 just have one question to clarify the record, and state
7 that, certainly, the OCA has been a signatory and supports
8 this settlement.

9 CROSS-EXAMINATION

10 BY MR. TRAUM:

11 Q. But one thing that I think I should add to the record
12 is, what is the expected filing date for the base rate
13 case?

14 MR. CAMERINO: Maybe I could answer
15 that. The base rate case, under the Merger Settlement
16 Agreement, is to be filed six months after the closing of
17 the merger, which I believe occurred on August 24, 2007,
18 and that would make it approximately February 24, 2008,
19 would be the date that the case would be filed.

20 MR. TRAUM: I just wanted to add that,
21 because it's referred to in Item 2 in the agreement. I
22 have nothing further to add.

23 BY CMSR. BELOW:

24 Q. Just to be clear about the bad debt issues. What

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[Witness panel: Leary|Frink]

1 makes.

2 CMSR. BELOW: Okay. Understood. Thank
3 you.

4 CHAIRMAN GETZ: Anything else for the
5 panel?

6 (No verbal response)

7 CHAIRMAN GETZ: Okay. Then, hearing
8 nothing, then you're excused for the purposes of the
9 Partial Stipulation.

10 (Whereupon George R. McCluskey was duly
11 sworn and cautioned by the Court
12 Reporter.)

13 GEORGE R. McCLUSKEY, SWORN

14 DIRECT EXAMINATION

15 BY MS. ROSS:

16 Q. Good morning, Mr. McCluskey.

17 A. Good morning.

18 Q. Just for the record, you have filed testimony in this
19 proceeding on June 22nd, marked as "Exhibit 4", and you
20 filed joint testimony with Ms. Noonan on October 19th,
21 designated as "Exhibit 5", is that correct?

22 A. That's correct.

23 Q. Mr. McCluskey, the Company, Ms. Leary and the Company
24 filed testimony on August 31st of this year, in which

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[Witness: McCluskey]

1 she makes some comments about the transition mechanism
2 were the Commission to determine that the deferred gas
3 reconciliation should be done on an accrued basis for
4 both revenues and costs. Are you familiar with that
5 testimony?

6 A. Yes, I am.

7 Q. And, in that testimony, the Company described what it
8 was concerned about, a mismatch in November regarding
9 revenue and costs. Are you familiar with the Company's
10 concerns in that testimony?

11 A. Yes. The Company simply claims that, based on their
12 understanding of how the Staff had proposed to
13 implement accrued revenue accounting, that, in the
14 first month of the change to accrued revenue
15 accounting, there would be a mismatch -- there would be
16 a mismatch of between costs and revenues. There would
17 be -- well, that's it. They said there would be a
18 mismatch.

19 Q. And, do you agree with the Company's concerns on that
20 point?

21 A. No. No, as explained in the testimony filed
22 October the 19th, I disagreed with that.

23 MS. ROSS: And, then, the Company
24 actually responded to a Staff data request, which is Staff

[Witness: McCluskey]

1 Request 3-1. And, I'm going to pass out that request,
2 together with a number of others that we're going to be
3 talking about today, and ask that it be marked as an
4 exhibit.

5 (The document, as described, was
6 herewith marked as Exhibit 9 for
7 identification.)

8 BY MS. ROSS:

9 Q. Could you describe -- Could you describe the Company's
10 position in that response.

11 A. Yes. Response to Staff 3-1, which is actually attached
12 to the October 19th testimony as "Staff Exhibit 1". My
13 reading of that response was that the Company now
14 believes that the mismatch would actually occur one
15 month earlier, in October of 2005, rather than
16 November 2005.

17 Q. And, do you agree with the Company's revised position,
18 Mr. McCluskey?

19 A. Yes, I do. As a result of moving to accrual
20 accounting, what are called the "October unbilled
21 revenues", which are revenues that are received in
22 November relating to October consumption, those
23 typically are taken out of the off-peak period and put
24 into the -- sorry, taken out of the peak period and put

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[Witness: McCluskey]

1 into the off-peak account. And, they are typically
2 recognized in November. And, because of a move to
3 accrual accounting, we are recommending that they be
4 included in the month of October, which, when added to
5 the already one month October revenues, would produce a
6 month and a half of revenues matching with the month of
7 costs. So, yes, there would be a mismatch in that
8 particular month.

9 Q. And, the Company claims that moving those revenues that
10 are actually billed in November relating to October
11 consumption back into October, it creates an interest
12 cost. Do you believe that interest cost is appropriate
13 to the Company?

14 A. I believe it's appropriate to make that change to
15 October. And, I don't view, as I stated in my
16 testimony, I don't view that as a penalty.

17 Q. And, I probably didn't phrase that very artfully,
18 because it's not actually an interest cost, is it? It
19 would be a reduction in the interest that the Company
20 would receive on deferred balances?

21 A. That's correct.

22 Q. Did you file exhibits that reflect your view of how
23 accrued revenue accounting should be implemented, Mr.
24 McCluskey?

[Witness: McCluskey]

1 A. Yes. Attached to my October 19th testimony, actually,
2 Joint Testimony with Amanda Noonan, Staff Exhibit 2,
3 Pages 1 and 2, show -- Page 1 shows, for the first year
4 of the change to accrued revenue accounting, --

5 Q. Mr. McCluskey, could you hold up a minute. I just want
6 to make sure everyone is looking at the correct
7 exhibit. That would be what we've marked for
8 identification as "Exhibit 4" -- I'm sorry, not
9 "Exhibit "4, excuse me, "Exhibit 5", and that will be
10 found at the back of the packet. And, I assume the
11 Commission has copies there?

12 CHAIRMAN GETZ: I think it's in the
13 front of the packet. But, yes, for us, we're all set.

14 MS. ROSS: Okay.

15 BY MS. ROSS:

16 Q. And, it actually says "Staff Exhibit 2", we've got
17 Page 1 of 2, is that the page you're referring to?

18 A. Page 1 of 2 is the peak account?

19 Q. Yes.

20 A. And, Page 2 is the off-peak account.

21 Q. Okay. And, you're referring to which page now?

22 A. I'm referring to -- I'm starting with Page 1 of 2.

23 Q. Okay. Go ahead.

24 A. And, so, what this is, this is a 12-month schedule.

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[Witness: McCluskey]

1 It's the first 12 months of the reconciliation
2 calculation for the peak period using accrued revenue
3 accounting. And, what this -- the net result of this
4 implementation of accrued revenue accounting is, for
5 the year as a whole, interest of a negative \$16,544,
6 which is shown in the far right column under "total"
7 right at the bottom.

8 Q. And, could you explain the November 2005 numbers. And,
9 again, this is using the actual reported numbers that
10 the Company filed in its cost of gas filings, correct?

11 A. That's correct.

12 Q. Okay.

13 A. You're asking for the difference between what Staff --

14 Q. Well, I wanted -- Yes. I thought you might start by
15 explaining the first column, and then you can
16 distinguish your November '05 from Ms. Leary's November
17 '05, because I believe that's where the two schedules
18 differ.

19 A. Okay. Using November '05, each month is essentially
20 the same, the same calculation is going on, so we'll
21 use November '05 as an example. The month starts with
22 the beginning balance, which could be an over or
23 undercollection. Then, the Company would record actual
24 accrued costs in that month. I believe the next two

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[Witness: McCluskey]

1 items, which are small, ancillary items. And,
2 offsetting the costs, because we're now talking --
3 we're now implementing accrued revenue accounting, we
4 need to determine what the accrued revenues are, i.e.
5 the revenues related to consumption in that month, in
6 the current month, that's the definition of "accrued
7 revenue". And, there's two items that we have there.
8 One is referred to as the collected cost, that's the
9 revenue associated with the consumption in November,
10 that is actually billed in November. The next item,
11 what's called the "unbilled revenue", is the estimated
12 revenue that relates again to November consumption,
13 but, because of the Company's billing cycle, would
14 typically be received in the next month of December.
15 So, that's called "unbilled revenue". The sum of those
16 two equal the accrued revenue. So, that accrued
17 revenue, which we're showing there of just over
18 \$13 million, would offset the approximately \$13 million
19 of costs in the month. And, the net of those two would
20 be applied against the beginning balance. I'm leaving
21 out the other small items, in order to make the
22 calculation understandable.

23 And, so, you finish the month with an
24 ending balance, and the interest calculation is the

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[Witness: McCluskey]

1 Company calculates an average balance between the
2 beginning and the ending balance, and applies to that
3 average monthly balance an interest rate, which results
4 in the interest applied. And, the Company does that
5 each month and results in coming out of this period,
6 October '06, and the new under/overcollection, plus
7 total interest either to be received or to be paid to
8 customers.

9 Q. Thank you, Mr. McCluskey. I'm going to show you now
10 the Company's Exhibit AE-2 [AEL-2?], which are
11 spreadsheets that were attached to Ms. Leary's
12 testimony on October 31st.

13 MS. ROSS: And, I'd like this to be
14 marked as an exhibit.

15 BY MS. ROSS:

16 Q. Mr. McCluskey, if you could, would you take a look now
17 at Ms. Leary's peak account for November '05, and show
18 the Commission how her spreadsheet differs. And, this
19 again is Ms. Leary's attempt to show an accrual
20 approach, correct, to the reconciliation?

21 A. Yes.

22 CHAIRMAN GETZ: Let me just get the --
23 the exhibit number is, for this, what are we up to?

24 MS. ROSS: This would be 10.

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[Witness: McCluskey]

1 CHAIRMAN GETZ: Ten. Okay. We'll mark
2 for identification the two-page document from Ms. Leary's
3 -- it's from her testimony?

4 MS. ROSS: From her August 31st
5 testimony. And, I apologize, I've doubled the size to
6 assist those of us --

7 CHAIRMAN GETZ: The elderly.

8 MS. ROSS: -- who are challenged in
9 reading these spreadsheets.

10 CHAIRMAN GETZ: Thank you.

11 (The document, as described, was
12 herewith marked as Exhibit 10 for
13 identification.)

14 WITNESS McCLUSKEY: Okay?

15 BY MS. ROSS:

16 Q. Go ahead.

17 A. Okay. So, what we are looking at is just the top
18 block, which is the Company's calculation of how
19 accrued revenue accounting would be implemented. And,
20 essentially, the only difference between what I
21 described in Staff Exhibit 2, Page 1 of 2 and the top
22 block in Ms. Leary's testimony is in November '05, and
23 it has an item under the -- a revenue item which is
24 referred to as "Reverse prior month unbilled".

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[Witness: McCluskey]

1 Q. Which is part of Item 10, correct?

2 A. That's correct. It's part of the revenue components in
3 the calculation. And, it's shown there as
4 "\$4.464 million". And, because that's a positive,
5 whereas all the other revenue items are shown as
6 negatives, it has the effect of reducing the revenue in
7 that month. And, in my calculation, I eliminate that
8 particular item. And, that, essentially, is the only
9 difference between the two.

10 Q. And, that translates into an interest difference,
11 doesn't it? If you were to look down at Line 26 of the
12 Company's schedule, you would see two interest amounts?

13 A. It does. Essentially, what it does is it, because it's
14 an offset to the revenues, it results in a higher
15 ending balance for that month, and hence a higher
16 average balance. And, the effect is to -- that higher
17 balance gets carried to the next month and gets carried
18 to the next month and the next month. So, it has a
19 compounding effect. And, two, I believe -- I believe
20 the results of the Company's calculations are in the
21 two ending columns. We don't show a net amount. They
22 show a total for November and April and total for May
23 and October. I believe it's the sum of those two.
24 They have another column headed "Total May and

[Witness: McCluskey]

1 October", with a different total for that column. But
2 I believe the -- by the inclusion of that \$4.46 million
3 in November, the Company is calculating total interest
4 for the 12 month period of approximately \$320,000.

5 Q. Thank you. Now, if we could just refer to the off-peak
6 account, and perhaps you could begin by explaining the
7 Staff's schedule, and then go ahead and distinguish it
8 from the Company's?

9 A. Yes. Staff's implementation of accrued revenue
10 accounting for the off-peak period are shown on Page 2
11 of 2. And, again, you have the same 12 month period.
12 And, unlike the price schedule, because the off-peak is
13 essentially addressing the summer period, almost all of
14 the activity is in that period May through October.
15 Whereas, in the prior schedule, most of the activity is
16 in the period November through April. The only
17 difference -- there is actually two changes from
18 Staff's schedule, compared to the Company's. And,
19 again, it relates to November of '05. The Company
20 shows a starting balance of 5. -- approximately
21 \$5.7 million. We have a balance of 1.26 million. And,
22 the Company shows revenues of \$4.46 million, and we
23 show revenues of zero. And, the net effect is Staff's
24 calculation is a total interest of approximately

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[Witness: McCluskey]

1 \$32,000. And, I believe the Company's equivalent
2 number is the sum of the last two columns, which is
3 approximately \$45,000.

4 Q. And, the difference then is where Staff has placed
5 accrued revenues in the month that they accrued, which
6 was October, which then reduced the starting balance
7 for November 1 to the million two, whereas the Company
8 has applied those revenues in a month of November, so
9 that the balance for the Company's spreadsheet isn't
10 reduced until December 1, is that correct?

11 A. That's correct. On the Company's schedule, the
12 \$4.46 million, based on discovery, the Company stated
13 that that revenue relates to October, October '05
14 consumption. Hence, under accrued revenue accounting,
15 it would have no place in the "November" column. So,
16 we took -- we took that and applied it to October.
17 And, that has the effect of reducing the starting
18 balance to \$1.26 million.

19 MR. CAMERINO: Mr. Chairman, this is not
20 an objection, it's getting to having the question read
21 back, but that was a rather long leading question to which
22 Mr. McCluskey said "yes". And, given the nature of the
23 subject matter, I have no problem with the question. But
24 I would be interested in having it read back, so we can

[Witness: McCluskey]

1 get a clear understanding of what it was that he just
2 agreed to. I expect that may happen again. And, I think
3 it's just necessary, in terms of the complexity of what
4 we're dealing with.

5 (Whereupon the Court Reporter read back
6 the last question asked by Atty. Ross.)

7 MR. CAMERINO: Okay. Thank you.

8 BY MS. ROSS:

9 Q. Just as a final question, Mr. McCluskey, after
10 reviewing the Company's spreadsheets, is Staff still
11 comfortable that Staff's transition mechanism and the
12 spreadsheets which show it are appropriate and correct?

13 A. Whose spreadsheets?

14 Q. Staff's?

15 A. Staff's? Staff believes that its implementation of
16 accrued accounting is correct.

17 MS. ROSS: Thank you. I have no further
18 questions at this time. The witness is available for
19 cross-examination.

20 CHAIRMAN GETZ: Mr. Traum.

21 MR. TRAUM: Thank you, sir.

22 CROSS-EXAMINATION

23 BY MR. TRAUM:

24 Q. Mr. McCluskey, I'm going to try to make my questions at

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[Witness: McCluskey]

1 the 10,000 foot level, as opposed to digging into the
2 nitty-gritty of the numbers here, looking more at the
3 theory of accrued versus billed revenue, the change of
4 it. But, first, I think there's an issue that I want
5 to -- hopefully, can put aside, and that's the issue of
6 service rendered versus bills rendered. It's my
7 understanding the Company today is on a service
8 rendered basis?

9 A. That's correct.

10 Q. Service rendered or bills rendered?

11 A. I believe it's service rendered.

12 Q. And, next month they will be on the same service
13 rendered basis?

14 A. That's correct.

15 Q. Okay. So, can we rule out that that's an issue in
16 this? From this month to next month, that's not going
17 to change?

18 A. That's correct. Since the Company was doing service
19 rendered prior to implementation of accrued accounting,
20 they haven't began that, but I understand that's
21 subject to a rehearing request. But, assuming that
22 were to be the case, I believe they would still
23 practice service rendered billing.

24 Q. Okay. So, with that aside, let's look at the concept

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[Witness: McCluskey]

1 of billed versus accrued revenues. And, what you're
2 saying is, if we were going to start from scratch,
3 institute a CGA mechanism for the first time, under a
4 billed revenue approach, in the first month of a
5 brand-new clause, would the Company book a month of
6 costs, but only half a month of revenues?

7 A. For reconciliation purposes?

8 Q. For the first month.

9 A. For reconciliation?

10 Q. Brand-new clause for the first month, are they going to
11 be booking 30 days of costs, but only 15 days of
12 revenues under a billed revenue concept?

13 A. For -- My question is, I need clarification, you're
14 talking about the reconciliation calculation?

15 CHAIRMAN GETZ: Are you saying that
16 there's nothing to reconcile, because we're starting from
17 day one?

18 MR. TRAUM: On day one, it's zero. So,
19 for the month, let's say it's the month of November of the
20 year 2007, brand-new clause from day one.

21 CHAIRMAN GETZ: Assuming away a
22 transition?

23 MR. TRAUM: Correct.

24 BY THE WITNESS:

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[Witness: McCluskey]

1 A. And, we're under accrued revenue accounting, is that
2 your question?

3 BY MR. TRAUM:

4 Q. No, I'm going to start with billed revenues.

5 A. Okay.

6 CHAIRMAN GETZ: Well, let me just make
7 sure I haven't pushed you down the wrong path. I just
8 want to make sure I'm understanding what your question is.

9 MR. TRAUM: Sure. And, it sounds like I
10 better try to restate it.

11 CHAIRMAN GETZ: All right.

12 BY MR. TRAUM:

13 Q. We're starting with a brand-new clause. There's never
14 been, hypothetically, there's never been a CGA
15 mechanism in place for this company. The Commission
16 decides that November 1, 2007 we are going to implement
17 a brand-new clause.

18 A. Uh-huh.

19 Q. And, we're going to implement it on a billed revenue
20 basis. So, on November -- usage on November 1, if a
21 customer is billed on November 1, they would only see
22 the CGA for the usage on the first day of November?

23 A. That's correct.

24 MR. CAMERINO: I'd have to object to

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[Witness: McCluskey]

1 this question and additional follow-up questions on it,
2 only because I don't understand what probative value it
3 would have, unless we understand a lot of other things
4 that would be going on at the same time. And, I'm very
5 concerned that this will create confusion about an already
6 complex issue.

7 If Mr. Traum has questions about what
8 has actually happened, which is what we're trying to
9 address, that would be one thing. But to create
10 hypotheticals about today, I'm just very concerned we're
11 going to be confusing a very difficult issue.

12 CHAIRMAN GETZ: Well, I'm hoping he's
13 clarifying by putting a hypothetical out there dealing
14 with the underlying principles. And, I would allow this
15 line of questioning.

16 MR. TRAUM: Thank you. And, that's what
17 I am attempting to do.

18 BY MR. TRAUM:

19 Q. Again, maybe if I can simplify it. What I'm trying to
20 establish is, is the difference in the first month,
21 under a brand-new clause, using billed revenues, would
22 there be different level of revenues booked by the
23 Company under a billed revenue approach, as opposed to
24 an accrued revenue approach?

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[Witness: McCluskey]

1 A. Yes.

2 Q. And, would that equate to roughly 15 days or half a
3 month of revenue difference?

4 A. In the first month of this?

5 Q. Correct.

6 A. Yes, it would.

7 Q. And, is that basically the 15 days concept that's at
8 issue in this case?

9 A. It's -- The billing cycle is part of the cause of the
10 mismatch between revenues and accrued costs.

11 Q. So, when there are -- or, when there is a change from a
12 billed revenue concept to an accrued revenue concept,
13 that 15 days or half a month of revenues somehow has to
14 dealt with, is that correct?

15 A. That's correct. It has to be corrected, and that's the
16 transition issue.

17 Q. And, that's what you're trying to deal with here?

18 A. That's correct.

19 MR. TRAUM: Thank you. I have nothing
20 else.

21 CHAIRMAN GETZ: Mr. Camerino.

22 MR. CAMERINO: Thank you. Mr.
23 McCluskey, I'm going to try and go really slowly for my
24 own benefit, maybe coincidentally for other people's

[Witness: McCluskey]

1 benefit here. So, let me know if I'm going too fast for
2 you. I will certainly let you know if you're going too
3 fast for me.

4 BY MR. CAMERINO:

5 Q. Just for background, before there was a cost of gas
6 adjustment, is it your understanding that rates in the
7 gas industry, for this company's predecessors, were
8 what I'll call a "bundled rate" on a traditional basis?
9 And, by that, I mean that all of the Company's costs,
10 including the gas costs, were in a single rate. And,
11 if it was under recovering, it came in for a rate case.
12 If it was over recovering, it was called in for a rate
13 case, before there was a CGA.

14 A. That's correct, before the CGA, and, certainly,
15 unbundling of rates is quite a recent concept. So, it
16 is correct that the Company's rates, until fairly
17 recently, were bundled. And, prior to the cost of gas
18 mechanism, which I believe was in the '70s, the Company
19 would utilize base rate proceedings to adjust its rates
20 to match its costs.

21 Q. And, then, there came a time, in the '70s, as you
22 indicated, where, because of a very volatile gas cost
23 market, and in order to avoid frequent rate
24 adjustments, the Commission created the cost of gas

[Witness: McCluskey]

1 adjustment mechanism, is that correct?

2 A. That's my understanding, yes.

3 Q. And, that mechanism, the purpose was to allow the
4 Company, as well as for the benefit of the customers,
5 to come in periodically and either increase or decrease
6 its rates to reflect the changing gas costs and
7 reconcile any prior period over or under collection?

8 A. That's my understanding, yes.

9 Q. And, the Staff --

10 MR. CAMERINO: I'm going to mark this
11 for identification.

12 BY MR. CAMERINO:

13 Q. The Staff responded to some data requests from the
14 Company last week on a very rapid turnaround basis.
15 And, you actually provided citations to the three
16 orders where the CGA mechanism was first adopted for
17 KeySpan's predecessors, is that correct?

18 A. That's correct.

19 Q. Do you have a copy of that in front you or would you
20 like me to --

21 A. I do.

22 MR. CAMERINO: Okay. Mr. Chairman, if
23 we could mark for identification the Staff's responses to
24 the Company's Set 3, and I think that would be Exhibit 11.

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[Witness: McCluskey]

1 CHAIRMAN GETZ: Be so marked.

2 (The document, as described, was
3 herewith marked as Exhibit 11 for
4 identification.)

5 MR. CAMERINO: I do -- The Company does
6 very much appreciate the Staff's quick turnaround on
7 those, and that's why they don't have the same formal
8 appearance as normal responses to data requests.

9 BY MR. CAMERINO:

10 Q. Okay. And, so, if I look at the bottom of the second
11 page, which has a "1" on it, those are the three orders
12 that apply to the Company's predecessors?

13 A. That's correct.

14 Q. Okay. And, just to be clear, as Ms. Leary indicated,
15 and I assume you agree with this, that KeySpan has
16 never actually had a docket in which the issue of
17 whether to use accrued or billed revenues for cost of
18 gas reconciliation purposes was determined, is that
19 correct?

20 A. That's correct.

21 Q. Your understanding is the Company has agreed to accept
22 the outcome of -- ultimate outcome of that in the
23 Northern docket DG 07-033?

24 A. That's correct.

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[Witness: McCluskey]

1 Q. When is the first time that you understand that the
2 Staff provided a written explanation of how the
3 transition from accrued to -- from billed to accrued
4 revenues should be carried out?

5 A. I don't recall my testimony in, what was it, DG 07-033,
6 in the Northern case. I believe it would be in that
7 testimony, if addressed at all.

8 Q. Okay.

9 A. It's been a while since I've looked at that.

10 Q. Is it fair to say, and let me be clear where I'm headed
11 with this, you said a number of times "the Company has
12 changed its position." Is it fair to say that the
13 Company has been trying to guess a little bit at
14 exactly what the Staff's intention was with regard to a
15 transition?

16 MS. ROSS: Objection. I don't think the
17 witness is knowledgeable about what the Company was trying
18 to do. Maybe you could rephrase that.

19 MR. CAMERINO: Maybe we could have the
20 question read back, if not I can rephrase it. I'll
21 restate it then.

22 BY MR. CAMERINO:

23 Q. In your testimony, and I'm just trying to get at what
24 the parties are trying to accomplish here, in your

[Witness: McCluskey]

1 testimony you said that "the Company has changed its
2 position". And, all I'm trying to understand is, isn't
3 it true that until the order was issued by the
4 Commission in the Northern docket, there really was no
5 statement of how the transition was to be carried out?

6 A. Well, I did use that phrase "changed its position" in
7 my testimony filed October 19th. And, I was
8 specifically referring to Ms. Leary's testimony. She
9 states very clearly that the mismatch occurs in
10 November. And, based on the discovery response
11 referred to, Ms. Leary appears now to be saying it
12 occurs in October. That's what that phrase was
13 referring to, the mismatch.

14 Q. Okay. So, you're saying that her understanding then
15 may have been flawed?

16 A. She did qualify it, her testimony, by saying her
17 understanding is Staff's proposal, that's correct.

18 Q. Okay. And, is it your testimony then that what she's
19 saying now, whether it's a change in position or not,
20 what she described in her November 1 testimony, is a
21 correct characterization of what's occurring?

22 A. I believe, as I've said, there will be a mismatch in
23 October, with regard to costs and revenues under
24 Staff's proposed implementation.

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[Witness: McCluskey]

- 1 Q. Your disagreement is whether that's the right outcome
2 or not, but her description of what's occurring you
3 don't disagree with?
- 4 A. You're going to have to explain to me when you say
5 "what's occurring".
- 6 Q. Okay. I just want to try to narrow down as we go along
7 where the disagreement between the Staff and the
8 Company are. So, you're not disagreeing with her
9 description of the accounting that's occurring and how
10 the revenues are being treated in Staff's proposal.
11 What you're saying is, it's the Staff's position that
12 that is a proper outcome, it's not punitive to the
13 Company, versus the Company's position that that is not
14 a proper outcome, but the description of what is
15 occurring, there's agreement on?
- 16 A. I still don't understand what you're saying. I
17 certainly take the position that treating the November
18 -- the October unbilled revenues, recognizing them in
19 October, is appropriate. And, that certainly does
20 change the interest calculation. I believe that change
21 is appropriate. That's all I'm saying.
- 22 Q. Okay. And, while we're on that then, in its simplest
23 form, what the Staff is saying is you should take half
24 -- approximately half of the revenues that the Company

{DG 07-050} [Day I] (11-05-07)

[Witness: McCluskey]

1 booked for November, and instead book them in October?

2 A. For implementation of accrual accounting purposes,
3 that's correct.

4 MS. ROSS: Could we clarify that
5 question?

6 MR. CAMERINO: Sure.

7 MS. ROSS: We have two accounts, a peak
8 and an off-peak, and that somewhat complicates both the
9 question and the answer.

10 MR. CAMERINO: Okay.

11 BY MR. CAMERINO:

12 Q. The Staff wants to take approximately half of all of
13 the revenues that the Company booked in November,
14 regardless of the account. If you totaled them up,
15 there's two subaccounts that they total into one
16 account, correct?

17 A. That's correct.

18 Q. The Staff wants to take approximately half of the
19 revenues in that combined account and book them in
20 October, correct?

21 A. And recognize them in October for accrual accounting
22 purposes.

23 Q. Without any other adjustment to October?

24 A. That's correct.

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[Witness: McCluskey]

1 Q. And, it happens to be the case, to follow up on
2 Ms. Ross's question, that the half are the revenues
3 that were booked to the off-peak subaccount, right?

4 A. The November is typically a peak month. But, because
5 the revenues that we're referring to are actually
6 October unbilled revenues, received in November, the
7 Company today, under billed revenue accounting,
8 transfers those revenues to the off-peak account, and
9 actually recognize them in November. Staff is saying
10 that, because we are transitioning to accrual
11 accounting starting November, those revenues cannot be
12 in the "November" column under accrual accounting,
13 because they relate to October consumption. So, we
14 have to move them back into the month of October.

15 Q. All right. I'm trying to stick on the "what" right
16 now. And, we're going to get to the "why", all right?

17 A. Okay.

18 Q. But I've got to understand the "what" first. So, my
19 understanding is that, in the month of November, the
20 Company books a month of revenues, correct?

21 A. That's correct.

22 Q. And, those are currently to its reconciliation account,
23 correct?

24 A. The Company does book a month of revenues -- we're now

[Witness: McCluskey]

1 going into reconciliation?

2 Q. Well, it books a month of gas costs -- of gas revenues
3 in the month of November, correct?

4 A. That's correct.

5 Q. All right. And, it then splits, for rate purposes, it
6 splits those in November, about half into the off-peak
7 subaccount and half into the peak subaccount, correct?

8 A. That's correct. You said "for rate purposes", and you
9 mean "reconciliation", which is a ratemaking mechanism,
10 I agree.

11 Q. It has a ratemaking consequence?

12 A. That's correct.

13 Q. And, it is the half that's been booked to the off-peak
14 subaccount that the Staff wants to move over and book
15 in October, correct?

16 A. That's correct.

17 Q. All right. Now, Ms. Ross showed you what I think was
18 -- I don't know whether she marked it separately, but
19 I'm going to refer to it, it's Staff Exhibit 2 attached
20 to your October 19th testimony. And, so, you're
21 October 19th testimony is "Exhibit 5". Have you got
22 that in front of you?

23 A. Yes.

24 Q. And, it looks to me like, for every month in that year,

[Witness: McCluskey]

- 1 you've got a month of revenues, four weeks of revenue
2 and four weeks of gas costs, is that a fair statement?
- 3 A. For clarification, are we talking about the peak or the
4 off-peak account?
- 5 Q. I am looking at the peak.
- 6 A. Okay.
- 7 Q. All right.
- 8 A. And, could you just give me the question again?
- 9 Q. And, if you look at the peak period in there, November,
10 December, right through May?
- 11 A. Yes.
- 12 Q. Am I correct that, for every month you have a month of
13 revenues and a month of gas costs? I'm sorry, through
14 April, not through May.
- 15 A. Yes.
- 16 Q. In other words, the peak period?
- 17 A. That's correct.
- 18 Q. All right.
- 19 A. That's the intent here, to have a month of gas costs
20 and a month of accrued revenues.
- 21 Q. And, that's the norm, right? When you're not doing
22 anything special, normally you would expect to have a
23 month of revenues and a month of gas costs?
- 24 A. That's the idea, yes.

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[Witness: McCluskey]

1 Q. And, if we go back to the beginning of the CGA
2 mechanism and there had been an accrued revenue
3 methodology in place, the Staff's position would be you
4 would start with one month of revenues and one month of
5 gas costs, right?

6 A. That's correct.

7 Q. Okay. So, that's essentially the goal, is to match
8 those two?

9 A. That's certainly Staff's goal, to have the matching to
10 be more accurate than it has been in the past.

11 Q. Okay. And, the reason to try to have the matching be
12 more accurate, as I understand it, is that, if you book
13 the revenues on a billed basis, the revenues actually
14 lag how the gas costs are being recorded, is that a
15 fair statement?

16 A. The revenues actually lag how the costs have been
17 incurred.

18 Q. And, later in the period, they tend to lead it. But,
19 in other words, there isn't as much of a synching up of
20 the costs and the revenues, over the 12 -- let me try
21 it a different way, sorry. Over the 12 month period,
22 you've got both the gas costs and the revenues that are
23 attributable to that period, but the bills tend to
24 follow the gas, the way that the Company incurs the gas

[Witness: McCluskey]

1 costs, is that what you're saying?

2 A. That's correct. Regardless of season, there's also a
3 lag of revenues relative to costs.

4 Q. And, so, even though you may have the right amount of
5 costs and revenues over the entire 12 months, because
6 the way that the costs lag at first and then catch up
7 later, you have more interest than you would if you did
8 it on a billed basis, is that a fair statement?

9 A. Well, whether you -- any time that you have a
10 difference, whether there's more revenues relative to
11 costs or less revenues relative to costs, there's going
12 to be an interest calculation. And, when you say
13 "more", it depends on who you're referring to. More
14 receipts of interest, more payments of interest, yes,
15 that's going to happen.

16 Q. But the difference is in the interest, it's not that
17 the Company is recovering costs that it, you know, gas
18 costs that it shouldn't recover or not reflecting
19 revenues that it shouldn't reflect, it's a timing issue
20 that causes the Company, according to the Staff, to
21 recover too much interest, not the underlying costs, is
22 that right?

23 A. Yes, Staff has never claimed that the Company is over
24 recovering its costs.

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[Witness: McCluskey]

1 Q. Okay. Now, I want to ask you some very specific
2 questions about your surrebuttal testimony. On Page 4,
3 --

4 A. This is Exhibit 5?

5 Q. Yes, it is. And, first, I'm going to ask you, starting
6 at Line 12, that answer. Tell me when you're ready.

7 A. Yes.

8 Q. Okay. So, what the Staff is trying to accomplish is to
9 eliminate a mismatch between gas costs and revenues, is
10 that right?

11 A. That's the general idea, yes.

12 Q. Okay. And, in order to accomplish that, you need to
13 take out the billed revenues and replace them with
14 accrued revenues, correct?

15 A. Yes. But I just want to clarify that we're never going
16 to have a perfect match, because there are other
17 reasons why revenues are going to differ from costs.
18 But we're trying to eliminate the mismatch that's
19 caused by the billing cycle.

20 Q. Right. They should be fairly close, although the costs
21 and the revenues in any given month won't be exactly
22 the same, right?

23 A. It will not be the same, because the rates do not
24 reflect actual costs in a month, that's correct.

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[Witness: McCluskey]

- 1 Q. In fact, that's part of why we need the whole
2 reconciliation process?
- 3 A. That's one of the reasons, yes.
- 4 Q. And, that change that you're describing of going from
5 the use of billed revenues to accrued revenues, if the
6 Commission's order in the Northern docket stands, is to
7 be effective November 1 of 2005, correct?
- 8 A. That's the intent.
- 9 Q. Okay. So, what the Staff wants the company to do is,
10 effective November of 2005, stop using billed revenues
11 and begin inserting in these tables accrued revenues
12 instead, right?
- 13 A. That's correct.
- 14 Q. Okay. And, that's a fairly simple thing. You can just
15 do the same table, but put the accrued figure in
16 instead of the billed figure, right?
- 17 A. It's not a simple matter to get the estimate of accrued
18 revenues accurate, as we found out with one of the
19 electric companies who made this transition. There's a
20 little bit more to it than that, but the concept is
21 simple.
- 22 Q. So, once you have that number, and it may be a hard --
23 I didn't mean to oversimplify it, once you have what
24 that accrued revenue figure should be for a given

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[Witness: McCluskey]

1 month, if we have the schedule for the period November
2 '05 to October of '06, we would take what the Company
3 had previously filed, we would subtract out the billed
4 revenue figure, we would put in the accrued revenue
5 figure, and we would recalculate the interest?

6 A. Yes.

7 Q. Okay. But you go one step further, right? You say
8 "That's not good enough. You can't stop there. You
9 have to also look before November 1 of 2005 and change
10 the balance"?

11 A. That's not correct. By including the November -- the
12 October billed revenues in November, you are not
13 implementing accrued accounting, because, by
14 definition, that revenue relates to October
15 consumption. It has no place in the "November" column
16 of accrued accounting. So, we're not going any
17 further. We're actually -- it's the correct approach.

18 Q. Let's go back over again, maybe I didn't understand
19 your answer. I thought what we were going to do was
20 take out, in order to begin adopting an accrued revenue
21 methodology effective November 1, we need to remove the
22 revenues that were actually shown, which were on a
23 billed basis?

24 A. Uh-huh.

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[Witness: McCluskey]

1 Q. And substitute instead accrued revenues?

2 A. That's correct.

3 Q. You then want to do one thing further. You want to go
4 back to October, the month before the change occurs,
5 and make a change to the gas cost balance, isn't that
6 correct?

7 A. That's correct.

8 Q. All right. But the order says that "the change is to
9 occur November 1, 2005", why would you go to a prior
10 period to make an adjustment, when you can shift to
11 accrued revenues by simply correcting it beginning in
12 November of 2005?

13 A. For a very simple reason. If those November -- those
14 October unbilled revenues received in November are not
15 in the "November" column under an accrued accounting
16 concept, you have to put them somewhere. So, you have
17 to adjust the beginning balance. If you don't adjust
18 the beginning balance, that \$4.4 million of revenue is
19 in the Company's pocket and is not reflected in any way
20 in the schedules.

21 Q. Well, but now aren't you -- you're now reflecting new
22 revenues that weren't in the Company -- that aren't
23 actually in the Company's pocket, are they? It doesn't
24 have any more dollars, this is all an accounting entry.

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[Witness: McCluskey]

- 1 A. But the beginning balance that the Company starts with
2 does not recognize this \$4.4 million. And, Staff is
3 taking those, that \$4.4 million out of the "November"
4 column, and we have to account for them somewhere.
5 And, the only place to account for them is in the
6 beginning balance. We -- Staff is essentially saying
7 "we are recognizing that the Company has received these
8 revenues or will receive them in November, and hence
9 it's got to include them in this reconciliation
10 calculation. And, the way to do it is to reduce the
11 starting balance."
- 12 Q. Well, let me try it a different way. You agree, you've
13 already said you agree, that, as a general matter,
14 every month there should be a month of revenues and a
15 month of gas costs, correct? The only place where
16 there's a difference is with regard to whether there
17 should be a variation for the transition, correct?
- 18 A. There -- I'm agreeing, although I don't believe I used
19 the word in any testimony that I filed, I agree there's
20 a transition issue. And, essentially, the transition
21 issue is this issue that we're talking about now. How
22 do we recognize, in these schedules, this \$4.4 million
23 of revenue received by the Company in November?
24 There's no question that they receive it. It needs to

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[Witness: McCluskey]

1 be reflected in the transition, and the place to
2 reflect that is in the starting balance.

3 Q. Here's what I'm trying to get at. Before we get to
4 this transition point, the October/November 2005 time
5 frame, the Company was booking a month of revenues and
6 a month of costs, correct?

7 A. It effectively did that, yes.

8 Q. And, after the transition inflection point, it's
9 booking a month of revenues and a month of costs,
10 right?

11 A. That's correct.

12 Q. So, if you've got that side-by-side match, right, with
13 a month of revenues and a month of costs before and
14 after, aren't you ending up with an extra half month,
15 if, at that inflection point right in between, you
16 decide to push revenues that you would have booked, if
17 you were under the old method and push them back to a
18 prior period?

19 A. Under the old method, you used the term "booked", and
20 I'd like to, for reconciliation purposes, I'd like to
21 use the word "recognize", they recognize the revenues
22 under the current method, because we haven't
23 transitioned yet. Under the current method, we would
24 recognize this disputed \$4.4 million in November.

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[Witness: McCluskey]

1 Staff is saying that you can't do that going forward
2 under accrual accounting. And, so, it raises the
3 question, and this is the transition issue, "where do
4 we recognize that \$4.4 million?" And, the only place
5 to recognize them, as far as we're concerned, is in the
6 starting balance for this new period beginning of
7 November of '05.

8 Q. Well, is there actually -- I mean, I guess what I'm
9 confused about, you're not saying that the Company is
10 actually receiving an extra half month of revenues, are
11 you? They bill every month, for 30 days, they receive
12 the revenues on that. They're not actually billing an
13 extra two weeks of revenue?

14 A. I haven't suggested that, they're receiving or billing
15 an extra month of revenue.

16 Q. But now we're --

17 A. What's at issue is, "how do we account for this real
18 revenue of \$4.4 million?"

19 Q. Well, that's what I'm trying to get at, is whether it
20 is real. If the Company every month bills a month of
21 revenues, and it's been recording those, and it
22 suddenly starts recording the revenues in a different
23 way, that shouldn't create two extra weeks of revenue
24 on the books, should it?

[Witness: McCluskey]

1 A. It shouldn't and it doesn't.

2 Q. But you agree that, before we get to the inflection
3 point, the Company was booking a month of revenue and a
4 month of gas costs, and afterwards it was booking a
5 month of revenue and a month of gas costs, there is no
6 month where it was failing to book a full month of
7 revenues, is there?

8 A. That's correct. But, in this transition, there's a
9 danger that it does not recognize, in either the ending
10 of the billed revenue accounting or the beginning of
11 accrual accounting, revenues that it actually receives.
12 And, that is what is in dispute.

13 Q. But that's what I'm getting at. It never does actually
14 receive the extra two weeks of revenue, does it?

15 A. Well, according to the Company's own schedules, it
16 does.

17 Q. Where do you see that?

18 A. In the -- The Company actually files reconciliation
19 papers with the Commission. And, we have -- we will
20 introduce as an exhibit this 4.4 that it says is actual
21 revenue.

22 Q. Is it not in the record now? Is there nothing I can
23 look at that has it?

24 WITNESS McCLUSKEY: Anne, do you have

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[Witness: McCluskey]

1 that?

2 MS. ROSS: Well, it's shown in two
3 places.

4 MR. CAMERINO: You know what, I don't
5 mind, we're going to get to a break at some point, if you
6 want to spend some break time on this and I can move onto
7 the next subject. Would that -- let me check with your
8 attorney.

9 (Atty. Camerino conferring with Atty.
10 Ross.)

11 CHAIRMAN GETZ: Well, just for planning
12 purposes, I guess our proposal is to break around quarter
13 of one, because we have another meeting, and then I guess
14 take the lunch hour at that point. Because I assume we're
15 going to be with Mr. McCluskey for a while, and then
16 turning to Ms. Leary, is that correct?

17 MR. CAMERINO: Yes. Just to be clear,
18 and I'm not quite sure how to deal with this, Ms. Leary's
19 testimony, this whole issue, is the same as is the subject
20 of a rehearing request in the Northern docket. Since
21 nothing has occurred there, we feel that, in order to
22 protect the Company's position, we've got to go through
23 this here, so --

24 CHAIRMAN GETZ: Is there any objection

[Witness: McCluskey]

1 to that procedure?

2 MS. ROSS: No, we have no objection.

3 We're happy to try to thrash these issues out today.

4 BY MR. CAMERINO:

5 Q. Okay. Now, Mr. McCluskey, I think where we were is you
6 said there was an extra \$4 million of revenue that has
7 to be recognized?

8 A. I didn't say it was "extra". I said there was
9 \$4.4 million of revenue that the Company actually
10 receives that needs to be recognized in this
11 transition.

12 Q. And, does this document help tell you where it is?

13 A. Yes. The --

14 MR. CAMERINO: Excuse me. Let's just
15 give it a number.

16 MS. ROSS: It's 12.

17 MR. CAMERINO: Exhibit 12 for
18 identification please.

19 CHAIRMAN GETZ: It's so marked.

20 (The document, as described, was
21 herewith marked as Exhibit 12 for
22 identification.)

23 BY MR. CAMERINO:

24 Q. It's a letter to the Commission from Ann Leary, four

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[Witness: McCluskey]

1 pages, Bates stamped with Pages 54, 55, 56, and 63,
2 dated January 30, 2006.

3 A. That's correct. And, what the Company typically does,
4 Commission, is that the Company makes a filing
5 initially for any cost of gas period, which is a
6 forecast of costs and revenues for some future period.
7 And, eventually, it will adjust or reconcile that
8 forecast with the actual incurrence of costs and
9 revenues. And, what the Company is filing here on
10 January the 30th, 2006, the actual costs and revenues
11 for the period May '05 through October '05, that's the
12 typical summer period. And, there's a "November"
13 column which I'll get into in a moment. So, what it's
14 showing here is the actual costs and the actual
15 revenues on a billed revenue, we're not at accrued
16 accounting, obviously, at this point, so these are
17 billed -- revenues on a billed revenue basis.

18 And, so, if you could just -- it begins
19 this period, this summer off-peak period with a
20 starting balance of negative 87 or 88,000
21 approximately. So, that is a overcollection, I
22 believe. And, it finishes the October, this summer
23 period, with a ending balance of \$5.7 million. And,
24 that's the same \$5.7 million that the Company had, by

{DG 07-050} [Day I] (11-05-07)

[Witness: McCluskey]

1 the way, in its schedules for the off-peak period.
2 And, then, it makes an adjustment to that ending
3 balance for revenues that were actually received in
4 November, but relate to October consumption. That's
5 why they have that extra column there. You say "Oh, we
6 need to recognize \$4.4 million of revenue that we'll
7 receive in November, but relates to October
8 consumption." In order to -- why did they do that? In
9 order to have a match of six months of costs and six
10 months of revenues. If they didn't add that extra \$4.4
11 million of revenue, you would have five and a half
12 months of revenues matching six months of costs. So,
13 that's what the -- typically, this is what the Company
14 does. And, that has the effect of bringing the ending
15 balance for this off-peak period down to \$1.26 million.
16 And, that 4.46 is the -- is the revenue, actual revenue
17 received by the Company that's in dispute here, and
18 that's been called a "transition issue". How do we --
19 what do we do with that revenue in the transition from
20 billed revenue accounting to accrued revenue
21 accounting? And, so, that's a real number. It's not
22 extra revenue. It's just revenue that the Company
23 receives a little later than the costs that are
24 actually incurred.

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[Witness: McCluskey]

- 1 Q. Okay. And, Mr. McCluskey, those explanations are fine,
2 and if you -- if they're important, please give them,
3 because I think there's a lot of clarification that's
4 needed here, but I just want you to know, I have a lot
5 of questions, and so we may end of filling up a lot
6 more of the day than I planned.
- 7 A. Okay.
- 8 Q. But, in all seriousness, I'll defer to you on whether
9 those clarifications are necessary. Now, a couple of
10 questions about this. The first one is, that bottom
11 line, the ending balance at the end there, November 30,
12 '05, which is the same as is in the total, do you see
13 that number, the \$1.2 million figure?
- 14 A. Yes.
- 15 Q. Do you know if that's the same number that the Company
16 actually submits the next year as the reconciling
17 carryforward amount or whether the amount that's put
18 into the next summer's filing is different? In other
19 words, are there other adjustments to that number?
- 20 A. Could you just give me the question again.
- 21 Q. Sure. You've shown this as being the off-peak period
22 account, and you have an ending balance. Correct?
- 23 A. Yes.
- 24 Q. And, my question is, when the Company files its cost of

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[Witness: McCluskey]

1 gas rate for the next year, beginning May of the
2 following year, do you know if that figure that's on
3 this chart is the same one that gets carried forward or
4 whether, in fact, there are other adjustments that get
5 made before that number is carried forward?

6 A. For what purpose? When you say "made a filing", for
7 interest calculation purposes or for something else?

8 Q. For purposes of the reconciliation account, and
9 interest as well, I suppose.

10 A. The --

11 Q. In other words, are there other activities, other
12 adjustments, is there other activity beyond what's
13 shown on this schedule?

14 A. For the future period?

15 Q. Beyond November of '05, and December, --

16 A. Sure.

17 Q. -- January, February, March?

18 A. Sure. There will be other activity, that is correct,
19 yes.

20 Q. And, so, there are adjustments. This \$1.26 million
21 figure is not the number that's actually carried
22 forward to the next May, is it?

23 A. That's correct. There will be -- you will have
24 intervening months where there would be zero or very

[Witness: McCluskey]

1 little cost, and there would be very little revenues as
2 well. I'm not disputing there may be some activities
3 in the intervening months, but you'd have to show me a
4 schedule to really get your point across. I'm not sure
5 exactly what activities you're referring to.

6 Q. Okay. And, then, this chart, this is just a chart for
7 one, two, three, four, five, six, seven months of the
8 off-peak period, right?

9 A. That's correct.

10 Q. So, first of all, it doesn't show the other five months
11 of activity on the off-peak period, does it?

12 A. That's correct.

13 Q. There would be a similar table like this for the peak
14 period, wouldn't there?

15 A. That's correct.

16 Q. And, those two together would create the entire
17 reconciliation account, right?

18 A. That's correct.

19 Q. And, those two together would have a month of revenues
20 and a month of costs in total for all 12 months of the
21 year, wouldn't they?

22 A. They -- Yes, they would.

23 Q. So, when you show an extra four -- two weeks of revenue
24 here, if we looked at the peak period that went with

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[Witness: McCluskey]

- 1 this and collapse them into one reconciliation account,
2 we'd see the other half month of revenues and we'd see
3 a month's worth of costs, wouldn't we?
- 4 A. That's correct.
- 5 Q. And, those would essentially offset each other,
6 wouldn't they?
- 7 A. The revenues wouldn't offset each other. You'd have a
8 full month of revenues.
- 9 Q. No, the total revenues and the total costs would be
10 close to each other, wouldn't they?
- 11 A. They would be reasonably close, that's correct.
- 12 Q. Okay. And, that would be consistent with our
13 understanding, that, in every one of the 12 months, we
14 should have a month in total revenues and a month in
15 total costs?
- 16 A. That's correct.
- 17 Q. But, here, you're just looking at half of that account.
18 You're only focusing on the off-peak account --
19 subaccount, right?
- 20 A. And that is the -- that's my understanding of the only
21 account that's at issue in this transition argument.
- 22 Q. Well, it's the only account that's at issue because
23 it's the only subaccount where the Staff is trying to
24 move revenues from one month to another, correct?

[Witness: McCluskey]

- 1 A. That's correct. So, that's why I'm showing the
2 Commission the off-peak account.
- 3 Q. But the Commission isn't seeing that, if you put the
4 two subaccounts together, in every single month you
5 have an entire month of revenues and a entire month of
6 costs, correct?
- 7 A. In both of the accounts that the Company has filed, we
8 don't see this \$4.46 million. That's what's at issue
9 here.
- 10 Q. Well, there would be approximately 4. something million
11 dollars in the peak account as well, wouldn't there?
12 There would be the other two weeks of revenue?
- 13 A. It's our position that the starting balances, in both
14 the peak and off peak account, under accrual
15 accounting, do not reflect this \$4.4 million. So, if
16 it's not in the off-peak starting balance, it has to be
17 in the peak. And, based on our analysis, it's not
18 there.
- 19 Q. But, now, what the Staff wants to do under the
20 Commission's order, and as I understand the
21 Commission's order, beginning in November, you're going
22 to reflect revenues sooner than you would have under
23 the billed method, right?
- 24 A. That's correct.

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[Witness: McCluskey]

1 Q. The accrued revenue method will recognize revenues
2 sooner than the billed method would, right?

3 A. That's correct.

4 Q. And, so, what you call the "loss" of these two weeks of
5 revenue is made up by recognizing the revenues sooner,
6 isn't it? You're going to get a full month of revenues
7 in that first month.

8 A. The "loss"? What "loss" are you referring to?

9 Q. You're talking about there's two weeks of revenues that
10 need to be recognized, otherwise they are lost?

11 A. That's correct.

12 Q. And, what I am saying is, you've moved the revenues up
13 so that you're still recognizing a full four weeks of
14 revenues under the accrued method?

15 A. It's our position that we are recognizing these
16 revenues, these real revenues in October, essentially a
17 half a month before they're actually realized in
18 practice. We're not adding \$4.4 million to the
19 Company's revenue stream. We're just recognizing them
20 a half a month earlier, because, to leave them in
21 November, which is the current practice, would violate
22 accrual accounting.

23 Q. Okay.

24 CHAIRMAN GETZ: One thing, Mr. Camerino.

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[Witness: McCluskey]

1 I think you've referred at least a couple of times to "the
2 order". And, we're talking about the September 13 order
3 in DG 07-033?

4 MR. CAMERINO: Yes. Thank you. I
5 apologize.

6 BY MR. CAMERINO:

7 Q. Let me try and refine this a little bit. I want to be
8 careful not to just keep going over the same ground
9 with you. With implementation of the order that the
10 Chairman just referred to, there will be a month of
11 revenues and a month of costs in November 2005,
12 correct? And, there appears to be no dispute about
13 that?

14 A. That's correct.

15 Q. And, there is already, under the existing methodology,
16 without any transition, a month of revenues recorded in
17 October 2005 and a month of costs, correct?

18 A. In both, in both accounts, peak and off-peak, that's
19 correct.

20 Q. Okay. So, in all months, we already have, before we
21 make the adjustment that the Staff wants, a month of
22 revenues and a month of costs, correct?

23 A. That's correct.

24 Q. Okay. Now, I take it you also agree that, if you add

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[Witness: McCluskey]

1 the extra two weeks of revenues into October, that will
2 reduce the balance in the reconciliation account,
3 correct?

4 A. It will recognize the actual revenues and reduce the
5 balance appropriately.

6 Q. Well, I don't want to use the word "actual", because
7 it's not cash, right?

8 A. These revenues?

9 Q. It's not -- The revenue that's being recognized is not
10 cash, right? Whether it's billed or accrued, we're not
11 talking about cash in the door?

12 A. Well, from an accounting concept, it's not cash. But
13 it's real revenue received in November.

14 Q. Well, I don't want to be too picky about words, but
15 here's my concern. The Company can only send out 30
16 days of bills every month, right?

17 A. That's correct.

18 Q. And, it only pays 30 days of gas costs every month,
19 right?

20 A. That's my understanding.

21 Q. And, so, there is, in fact, in real life, cash in the
22 door and cash out the door every month, approximately
23 30 days in and 30 days out, right?

24 A. That's correct.

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[Witness: McCluskey]

1 Q. So, in the end, the accounting method should reflect
2 what's really going on, right?

3 A. They should. And, that is -- that is partly underlying
4 our recommendation for accrual accounting.

5 Q. And, the motivation for the change from billed to
6 accrued is simply a timing issue. It's not to increase
7 the total revenues or decrease the total revenues?

8 A. That's correct.

9 Q. Okay. Now, so, I guess where I was when I interrupted
10 myself was, if you add -- if you book the additional
11 two weeks of revenue in October, that will lower the
12 balance that's being carried forward for reconciliation
13 purposes, correct?

14 A. I agree.

15 Q. And, the impact of that, and where the Company and the
16 Staff differ is, that will permanently reduce the
17 amount of interest that the Company collects, right?

18 A. The Staff certainly disagrees with that.

19 Q. Well, it doesn't disagree with the characterization, it
20 disagrees with whether that should occur?

21 A. Well, I believe the Company actually used the word
22 "permanent" in terms of balances. That there would be
23 a permanent difference in the balance. Staff agrees
24 with one little aspect of that, that, essentially, the

[Witness: McCluskey]

1 main idea it disagrees with, and I want to make the
2 distinction, if, certainly, if you recognize these
3 revenues in October, the ending balance in October is
4 lower, so the starting balances in November is lower.
5 And, so, immediately you've got a different interest
6 calculation for November. Now, if no other change
7 happened, that reduction in the average balance for
8 November would be reflected on a going-forward basis.
9 But, if you're not going to recognize these
10 \$4.4 million of revenues in October, you have to
11 recognize them in November. So, when you get to the
12 end of November, you're back to the position that you
13 would have been under Staff's approach. So, we
14 disagree that there's actually a permanent reduction in
15 balances going forward. There's certainly a difference
16 in the balances in November, but not going forward.

17 Q. Well, I've got to take you through that then, because
18 that's not my understanding. My understanding is that
19 -- I thought we were through this. If you change from
20 billed to accrued revenue in the month of November, you
21 would book a full month of revenues on an accrued
22 basis, and you would remove from the calculation the
23 billed revenues that were there before. So, you would
24 still have a month of revenue and a month of costs.

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[Witness: McCluskey]

1 But the revenues would be accrued revenues rather than
2 billed, which would cause them to be a little bit
3 higher, not a lot higher, but somewhat higher. Isn't
4 that a fair statement?

5 MS. ROSS: You're talking about the peak
6 account now, correct?

7 BY MR. CAMERINO:

8 Q. Well, in the whole account. It happens to be in the
9 peak period. But, if we're taking the combined total
10 reconciliation account, you would book your revenues on
11 an accrued basis, and you would remove any billed
12 revenues from that period. You're only going to have
13 one month of revenues, right?

14 A. I think we're actually talking about the off-peak
15 period? Because these revenues are received in
16 November, get transferred to the off-peak account.
17 And, they currently, under the current approach, sit in
18 the month of November. Under the Staff's accrual
19 accounting proposal, we're going to shift them back to
20 October.

21 Q. But you can't create --

22 A. If I could finish, finish this?

23 Q. Sure. Please. I'm sorry. I apologize.

24 A. So, I understand the Company to be disputing whether

[Witness: McCluskey]

1 that's appropriate or not. If you don't shift them
2 back to October, you have to put them in November,
3 because, otherwise, we're losing \$4.4 million of
4 revenue. If you put them in November, I agree we now
5 don't have pure accrual accounting, because you have
6 revenues in November that relate to October. But you
7 certainly cannot just forget about them. And, so, it's
8 by putting them in November that you would finish up
9 getting back to the ending balance for November that
10 Staff would get to under its approach of accrual
11 accounting. So, going forward, there's going to be no
12 difference in the balances between the Company's
13 approach and Staff's approach. So, it's really just a
14 one month effect.

15 Q. Now, Mr. McCluskey, I want to focus you. When you say
16 they have "received these revenues", I think it's very
17 important to make sure that we don't let the accounting
18 treatment create revenue that never existed. And, so,
19 I want to ask you again, the Company actually receives
20 only a month of revenues in November, right?

21 A. Yes.

22 Q. Okay. It happens, under the billed method, that it
23 used to take that revenue and split it, and say "half
24 of this is attributable to summer rates and half of it

[Witness: McCluskey]

1 is attributable to winter rates", right?

2 A. I agree.

3 Q. But, in fact, it only got a month of revenues?

4 A. I agree.

5 Q. And, under the new method, it's only going to get a
6 month of revenues?

7 A. I agree.

8 Q. And, so, there is nothing to correct, because you still
9 have a month of revenues and a month of gas costs,
10 correct?

11 A. No. Because, in the peak account, we have half a month
12 of revenues that belong there, because they relate to
13 November consumption. In the off-peak account we have
14 the other half month, and all that's at issue here is
15 "where is that going to be recognized in this
16 transition?" Because Staff is saying "you have to
17 recognize it somewhere". It's either in October or not
18 in October. And, if it's not in October, it's got to
19 be in November. And, that's what, if it's in November,
20 you essentially just have a difference of treatment
21 between the Company and Staff of one month, then
22 everything else is the same.

23 Q. Well, it sounds like you're not going to break down and
24 cry and agree with me. So, let me, I want to --

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[Witness: McCluskey]

1 A. I may do it, before it's over.

2 Q. The crying part, not the agreeing part. Okay. I want
3 to -- what I was trying to get at with the
4 reconciliation balance is to see again whether you and
5 Ms. Leary are on the same page with regard to this
6 aspect of her testimony. And, let me try it in a
7 slightly different way, if it doesn't work, I'll move
8 on. She says that, if you lower the starting balance,
9 the Company will collect less interest going forward,
10 even if going forward you correctly book a month of
11 accrued revenues and a month of costs. Remember that?

12 A. Yes.

13 Q. That discussion, again, without regard to whether the
14 Company and the Staff agree on whether that's the right
15 result, does the Staff agree with that
16 characterization? That, by lower the starting balance,
17 you're going to collect less interest than you would
18 had you not made this transition adjustment that the
19 Staff is seeking?

20 A. Okay. And, I think we'll get into this in much more
21 detail. But the answer is "yes", there is a difference
22 between the Company and Staff on this calculation. But
23 it's significantly smaller than what the Company
24 claims. The Company is claiming that they will under

[Witness: McCluskey]

1 collect \$471,000. Staff calculates the difference to
2 be \$12,000.

3 Q. All right. And, Ms. Leary, and I don't remember the
4 exact numbers, Ms. Leary's gave some numbers of what
5 the interest would be with the Staff's transition
6 method versus the Company's method, do you recall that?
7 I think the figure, and I roughly recall it, was that
8 it was about \$450,000 of interest lost to the Company
9 under the Staff's method, and 100 plus thousand under
10 the Company's method. Do you recall that?

11 MS. ROSS: Could you indicate where in
12 the record that information is?

13 MR. CAMERINO: Yes. I think it's in the
14 last or second to last page of her November testimony,
15 which was premarked as "Exhibit 8". The last page has the
16 119,000 figure. Do you have it? Do you need a copy of
17 it?

18 WITNESS McCLUSKEY: Yes, I need a copy.

19 BY MR. CAMERINO:

20 Q. So, on that last page, you can see that she's
21 calculated that interest would be reduced by \$119,000
22 for the year?

23 MS. ROSS: We're on what page again?

24 MR. CAMERINO: On the very last page is

[Witness: McCluskey]

1 the \$119,000 figure.

2 BY MR. CAMERINO:

3 Q. And, then, on Page 12 is where she gives what the
4 reduction would be under the Staff's methodology.
5 That's approximately \$470,000. And, actually, I don't
6 have a specific question on the numbers, but I want to
7 make sure you at least have them handy.

8 A. Well, I'm certainly familiar with the \$471,000.

9 Q. Okay.

10 A. That's the difference between the Company's
11 implementation and Staff's. I'm not clear in my mind
12 what the "119" is. What's that compared to?

13 Q. Let me see if I can go to my ultimate question on this
14 and then see if we can get there without getting into
15 specific numbers. In your testimony, in your
16 surrebuttal, you said that if the Staff's transition
17 method weren't adopted, it would "defeat the purpose of
18 the accounting change" that the Commission had ordered.
19 And, my question to you is, would you agree that there
20 would still be an interest benefit to customers, even
21 if the Company's methodology was adopted, it just would
22 not be as large as it would be under the Staff's
23 methodology? In other words, it wouldn't defeat the
24 purpose, it would reduce the impact?

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[Witness: McCluskey]

1 A. I agree it would certainly reduce the impact. Again,
2 my question about the "119", I'm not clear what you are
3 comparing that with. So, --

4 MS. ROSS: I'd like to object to this
5 line of questioning at this time. I think, when we have
6 Ms. Leary up to explain those numbers, this witness may be
7 able to answer these questions. Right now, we don't
8 understand either of the two numbers that you're referring
9 to.

10 BY THE WITNESS:

11 A. I believe I understand the first, the first one. I
12 don't understand the second one, the "119,000", how
13 that was calculated.

14 BY MR. CAMERINO:

15 Q. Did you have a chance to review the schedule that was
16 attached to Ms. Leary's testimony?

17 A. I did. But, because it's not in a monthly calculation,
18 like schedules that we've been discussing today, it's a
19 summary calculation. It's very difficult to determine
20 what's going on.

21 Q. All right. I can have Ms. Leary address this. All I
22 was trying to establish, and I will ask you one more
23 time, if you can't answer it, just say so. You said in
24 your testimony that the Company's methodology would

[Witness: McCluskey]

1 "defeat the purpose" of what the Commission was trying
2 to accomplish. And, I'm trying to see if you would
3 agree that, while it would reduce the interest impact,
4 it would not eliminate it. There would still be a
5 benefit to customers from what the Commission had
6 ordered?

7 A. And, I can't respond to that question at this time,
8 because I don't understand how the "119" was
9 calculated.

10 Q. But you also then don't have any basis, at least as of
11 right now, to disagree with that statement either?

12 A. That's correct.

13 Q. Okay. All right. Now, on Page 16, I want to make sure
14 I'm on the right page. I'm sorry, Page 6 of your
15 surrebuttal. And, just to remind everybody, the
16 relevant part of Mr. McCluskey's surrebuttal ends on
17 Page 7. So, it's not that we have to go to the end of
18 this document. On Page 6 of your prefiled, Lines 16 to
19 23, you say that "It's wrong to review the reduction in
20 interest as a penalty." Do you see that?

21 A. That's correct.

22 Q. All right. And, you're saying that's because the
23 reduction in the reconciliation balance by a half month
24 of revenues corrects a prior error, right?

[Witness: McCluskey]

1 A. Correct.

2 Q. All right. Who made that error? Maybe we should start
3 with, can you tell us what the error is?

4 A. Yes. The error is the use of billed revenue accounting
5 for reconciliation purposes.

6 Q. Okay. So, when that process began, that was an error?

7 A. I believe so.

8 Q. All right.

9 A. And, I believe the Commission has determined it to be
10 so, based on the Northern order.

11 Q. Who made that error?

12 A. I'm not sure -- I'm not sure whether I was around at
13 the time.

14 Q. I'm not accusing you, Mr. McCluskey.

15 A. The problem is, we really don't know, as you will see
16 from the discovery response that we issued to the
17 Company. While we know when reconciliation was
18 implemented, we don't know when the specific -- the
19 current methodology for billed revenue accounting was
20 implemented. We don't know whether it was the same
21 time or sometime later. So, --

22 Q. So, you don't know when the error occurred?

23 A. We don't know exactly when the error occurred, whether
24 it was -- whether it related to the Company's proposed

[Witness: McCluskey]

1 implementation of billed revenue accounting or the
2 Staff's or the Commission's, we don't know.

3 Q. Are you aware of the use of billed revenues for cost of
4 gas purposes in other jurisdictions?

5 A. Yes, I am.

6 Q. Okay.

7 A. Based on research, not based on actual involvement in
8 the case.

9 Q. So, when you call it an "error", would it be fairer to
10 say "different methodology"?

11 A. No. I believe it is an error, because the -- one of
12 the arguments that was made, in order to support our
13 recommendation to change, was that the Company was
14 already compensated for the delay in revenues relative
15 to costs. And, hence, to be compensated a second time
16 through the reconciliation calculation was an error to
17 be charitable --

18 Q. To be charitable?

19 A. Yes.

20 Q. To whom?

21 A. Let me -- Let me remove that. I apologize for that.
22 It was an error, I believe.

23 Q. Is it fair to say that utility ratemaking has become
24 significantly more complex over time?

{DG 07-050} [Day I] (11-05-07)

[Witness: McCluskey]

1 A. The basics of ratemaking? I don't believe --

2 Q. Not the theory.

3 A. Well, I'm talking about the basic components of
4 ratemaking I don't think are significantly more
5 complex. There's certainly a lot more ratemaking
6 techniques in place. Just the unbundling of rates
7 themselves, while not difficult in concept, it just
8 adds much more work certainly. Certainly agree that
9 there's much more work involved, but I don't think the
10 concepts themselves are significantly more challenging.

11 Q. But what about the actual practices and calculations,
12 having they become more complex over time? And, isn't
13 -- isn't it the case that the advent of computing power
14 and the increase in that computing power has allowed
15 regulators to refine their ratemaking processes and
16 improve upon prior methodologies?

17 A. I think the use of computers allows much more -- allows
18 the work to be done more quickly. But the fact that
19 there's more work to do is also a reason for the need
20 for computing techniques as well.

21 Q. So, you don't think that ratemaking calculations and
22 cost allocations and prorations and things like that
23 have gotten more complex over time, as computing
24 capacity has increased?

{DG 07-050} [Day I] (11-05-07)

[Witness: McCluskey]

1 A. I don't believe so.

2 Q. Okay.

3 A. I think some of the -- going back 20 or more years,
4 when I first started in the business, I think some of
5 the pricing proposals were just as complex as they are
6 today.

7 Q. So, this error that you say that occurred, you don't
8 know when it occurred?

9 A. We don't know when it was first implemented. The
10 particular -- This current methodology of using, not
11 just billed revenue, but the practice of having half a
12 month's revenue in the beginning of a season, peak or
13 off-peak.

14 Q. And, do you have a document to offer me or the
15 Commission that shows me that this error occurred?

16 A. Well, the current methodology occurred at some point.

17 Q. Well, you're assuming that the current methodology
18 started with only a half month of revenue, aren't you?

19 A. No, I think I said it in the discovery response. The
20 use of billed revenue started in the 1970's. We
21 couldn't say when the practice of using a half month of
22 revenue for the first month of the season began. We
23 have no information to state when that actually first
24 began.

{DG 07-050} [Day I] (11-05-07)

[Witness: McCluskey]

1 Q. Well, were you at the Commission when the two gas
2 companies had a revenue neutral rate redesign case?

3 A. I don't believe so.

4 Q. That was 2001, was when the order came out. Does that
5 ring a bell? Did you come back after that?

6 A. I came back after that.

7 Q. Okay. Would it surprise you to know that, in that
8 docket, that was the first time that revenues were
9 prorated between the summer and the winter?

10 A. It wouldn't. I don't have any information to support
11 that. But it's my understanding, based on work that
12 was done on Friday or Saturday, that it may have begun
13 with the change from a bills rendered basis to service
14 rendered basis, which I believe was in 2000.

15 Q. Well, here's what I don't understand. I look at the
16 Staff's response that you wrote to Set 3, Number 1 from
17 the Company. This is -- I think we marked this as
18 "Exhibit 11", if I recall. No. Exhibit 9, I think? I
19 think we marked this, but I'm going to skip the number
20 and I'll find out later. What I'm just trying to refer
21 to is the document that has the e-mail from Ms. Ross on
22 the top, and if you can go back to that.

23 CMSR. BELOW: Exhibit 11.

24 CHAIRMAN GETZ: Eleven.

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[Witness: McCluskey]

1 MR. CAMERINO: Eleven? Okay. Thank

2 you.

3 BY MR. CAMERINO:

4 Q. Have you got that, Mr. McCluskey?

5 A. Yes, I've got that.

6 Q. Okay. And, in that response, okay, if you look at (b),
7 it says "When did the "error" referred to occur?" All
8 right?

9 A. Uh-huh.

10 Q. And, you say "While it seems reasonable to assume that
11 the use of billed revenues began when the above
12 referenced orders became effective, the same can not be
13 said for the half month issue." Okay? So, there it
14 sounds like you're not -- you're not talking about when
15 cost of gas reconciliation began, but rather when the
16 -- what I'll call the "shoulder month revenues" were
17 split between peak and off-peak, right?

18 A. That's correct.

19 Q. Okay. And, is that what your testimony meant on Page
20 6, at the bottom, your surrebuttal? When you said "The
21 inclusion of the extra revenue in October corrects an
22 error made when the billed revenue accounting
23 methodology was first implemented, namely, the
24 inclusion of only a half month's revenue in the initial

[Witness: McCluskey]

1 month."

2 A. That's correct.

3 Q. So, those are saying the same thing?

4 A. That's correct.

5 Q. So, you are not referring to 1975, when cost of gas --
6 the cost of gas adjustment mechanism began, but rather
7 to when a single month of revenue was allocated between
8 the two different subaccounts?

9 A. That's correct.

10 Q. Okay. And, so, if that occurred at the time of the
11 revenue neutral rate redesign in 2001, that's the error
12 you're referring to?

13 A. That's correct.

14 Q. And, the reason it would be an error in your mind is
15 that only a half a month of revenues was recognized,
16 correct?

17 A. That's correct.

18 Q. But, if a full month of revenues was recognized, there
19 would be no error, correct?

20 A. That's correct.

21 Q. Okay.

22 CHAIRMAN GETZ: Mr. Camerino, I think
23 we're going to have to take a recess at this point. It's
24 12 -- it's almost 12:40. I think we could resume at --

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[Witness: McCluskey]

1 We'll have to resume at 1:45. But I just want to give you
2 a heads-up, I have a conference call I have to be on at
3 2:30. So, and I think you speculated earlier that we may
4 not get through everything. We may have to resume
5 tomorrow afternoon, I'll look at the schedule to see
6 what's available. But we'll address that, I guess, when
7 we get back from the lunch recess.

8 MR. CAMERINO: Okay. Thank you.

9 (Lunch recess taken at 12:40 p.m. and
10 the hearing reconvened at 1:56 p.m.)

11 CHAIRMAN GETZ: I apologize for the
12 delay, and for what I'm about to say. I think we're going
13 to have to move this off to tomorrow afternoon. A couple
14 of conflicts came up that we've just been able to -- not
15 been able to reconcile. Are the parties available
16 tomorrow, 1:30-ish?

17 MR. CAMERINO: One thought we had, if it
18 would work for the Commission, is the Company has a
19 meeting with Staff, and actually what would probably be a
20 very short prehearing on Thursday on the Concord Lateral
21 filing. And, we thought, if we could come in at 9:00, and
22 do this until we're done, and then have our brief
23 prehearing, that would work for all involved.

24 CHAIRMAN GETZ: What I didn't grab was

[Witness: McCluskey]

1 my schedule for the rest of the week. Can you pull that
2 up?

3 CMSR. MORRISON: Yes.

4 CHAIRMAN GETZ: We can go off the
5 record, Steve.

6 (Off the record.)

7 CHAIRMAN GETZ: All right. Let's go
8 back on the record. Thank you everyone for your
9 flexibility in this regard. We will recess for today and
10 resume Thursday morning at 9:00 a.m. and continue with the
11 examination of Mr. McCluskey.

12 Is there anything we should address
13 before recessing for the day?

14 CMSR. BELOW: I do. The last exhibit
15 that was offered, which was a schedule ending for the six
16 months prior to November '05 for the off-peak period. If
17 a similar schedule for the on-peak, that is the winter,
18 for that six months leading up to and then including
19 November '05, a comparable schedule, that would be helpful
20 to have as a data request.

21 MS. FILLION: That's Exhibit 10, isn't
22 it?

23 MR. CAMERINO: You're talking about a
24 complement to Exhibit 12?

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[Witness: McCluskey]

1 CMSR. BELOW: Yes.

2 MS. FILLION: Oh, 12.

3 CHAIRMAN GETZ: That we will reserve as
4 Exhibit 13.

5 (Exhibit 13 reserved)

6 CMSR. BELOW: And, actually, I have
7 another one to request. For both that pair, plus
8 KeySpan's two spreadsheets, the ones that were offered on
9 the 11 by 17 sheet today, plus Mr. McCluskey's that were
10 offered as part of his testimony, surrebuttal testimony.
11 If you could take all of those pairs, which are the
12 on-peak and off-peak, and also show them compiled as a
13 total, that would also be helpful.

14 MS. ROSS: So, you're going to show, I'm
15 trying to clarify here, both Ann Leary's and George
16 McCluskey's spreadsheets as one, so that you can --

17 WITNESS McCLUSKEY: No.

18 MS. ROSS: -- actually compare on a
19 month-by-month basis how their numbers flow through the
20 spreadsheets?

21 CMSR. BELOW: Yes.

22 WITNESS McCLUSKEY: But you want the --
23 It's my understanding that you want Staff individually to
24 compile the peak and off-peak into a total, and you want

[Witness: McCluskey]

1 the Company to do the same, but to have --

2 CMSR. BELOW: Right.

3 WITNESS McCLUSKEY: -- but to not
4 combine the Company and the Staff's?

5 CMSR. BELOW: Correct. Correct. But
6 it's month by month.

7 WITNESS McCLUSKEY: Correct.

8 CMSR. BELOW: Both for that period
9 starting November '05, going forward for a year. In
10 addition, the pair that lead up to November '05, the six
11 months prior, totaled by month, in all the line items.

12 MR. CAMERINO: I think we understand
13 what you're requesting. I think what we want to make sure
14 is we know the starting date that we're combining.

15 CHAIRMAN GETZ: Yes, I think there may
16 be an issue here of, I think Ms. Leary's sheets ended in
17 '05, and Mr. McCluskey's ended in '06. They were
18 different periods, weren't they?

19 CMSR. BELOW: No.

20 MS. LEARY: No, the same periods.

21 CMSR. BELOW: We had both the same
22 periods pair, and then, additionally, we had one sheet for
23 the six months leading up to November '05.

24 MR. CAMERINO: So, first of all, the

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[Witness: McCluskey]

1 exhibit, this large spreadsheet actually does have it
2 combined on the second page.

3 CMSR. BELOW: Okay.

4 MR. CAMERINO: So, is there a different
5 time frame, because that one's all set?

6 CMSR. BELOW: Okay. That one of those
7 three pairs is done. Okay.

8 WITNESS McCLUSKEY: And, with regard to
9 the six months leading up to that 12 month period, there
10 is only one position, the Company's position. Because
11 it's under billed revenue accounting, and Staff doesn't
12 have an alternative to that, because we're proposing to
13 start that November '05. So, that schedule is already in
14 the record.

15 CMSR. BELOW: Well, except it's just for
16 the off-peak carryforward, --

17 WITNESS McCLUSKEY: Oh, you need it for
18 the peak period as well.

19 CMSR. BELOW: -- the on-peak
20 carryforward, --

21 WITNESS McCLUSKEY: Yes, I see.

22 CMSR. BELOW: -- and then combined.

23 CHAIRMAN GETZ: All right. Is there
24 anything else to address this afternoon?

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[Witness: McCluskey]

1 (No verbal response)

2 CHAIRMAN GETZ: Hearing nothing, then
3 we'll close the hearing for today and resume on Thursday.
4 Thank you, everyone.

5 (Whereupon the hearing was adjourned at
6 2:07 p.m. The hearing to reconvene on
7 November 8, 2007, commencing at
8 9:00 a.m.)

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