STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket DG 08-009

EnergyNorth Natural Gas, Inc.
d/b/a
National Grid NH

Rebuttal Testimony
of
William Richer and John E. O'Shaughnessy

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Q. Mr. O'Shaughnessy, please state your name and business address.

A. My name is John E. O'Shaughnessy. My business address is One MetroTech Center, Brooklyn, New York 11201.

Q. Are you the same John O'Shaughnessy who previously submitted direct and separate rebuttal testimony in this case?

A. Yes.

Q. Mr. Richer, please state your name and business address for the record.

A. My name is William Richer. My business address is 25 Research Drive, Westborough, Massachusetts 01582. I am employed by National Grid USA Service Company (NG-USA Service Co) as Assistant Controller.

Q. Please briefly describe your education and professional experience.

A. I graduated from Northeastern University in June 1985 with a Bachelor of Science degree in Accounting. During my schooling I interned at the international certified public accounting firm Pannell Kerr Forster in Boston, Massachusetts as a staff auditor and continued with this firm after my graduation. In February 1986, I joined Price Waterhouse in Providence, Rhode Island where I worked as a staff and senior auditor. During this time, I earned my certified public accounting license in the state of Rhode Island. In June 1990, I joined NG-USA Service Co (then known as New England Power Service Company) as a supervisor of Plant Accounting. Since that time, I have held various positions with the Service Co including Manager of Financial Reporting, Principal Rate Department Analyst, Manager of General

Accounting, and Director of Accounting Services until my promotion to Assistant Controller in 2005.

Q. What is the purpose of your rebuttal testimony?

A. We are replying to the direct testimony of Staff witnesses James J. Cunningham Jr. and Stephen P. Frink regarding pensions and other post-retirement employment benefits (OPEB).

Q. What position did Staff put forward in its testimony regarding pension and OPEB expense?

A. Staff, through the testimony of Mr. Cunningham, recommended a reduction of $336,646 in the allowance for pension and OPEB expense.

Q. Please describe the Staff's proposed pension and OPEB expense reduction of $336,646.

A. The pension and OPEB costs that the Company included in its revenue requirement were based on the test year expense for the 12 month period ended June 30, 2007. The Staff, on the other hand, based its proposed allowance for pension and OPEB expense for the 12 month period ended March 31, 2008. Staff's proposed pension and OPEB expense reduction of $336,646 represents the difference in expense calculated for these two different 12 month periods.

Q. Did Staff's testimony identify any problems or concerns with the computations supporting the pension and OPEB test year expense?

A. No. Staff did not object to the way that the Company's pension and OPEB expense was calculated, and in fact followed the same approach as the Company in the determination of its pension and OPEB expense calculations. Staff's only objection to the Company's proposed pension and OPEB expense is that they believed the Company had used the wrong 12 month period to measure expense.

Q. Does the Company agree with Staff's position on this matter?

A. Partially. The Company agrees that if a figure from a single point in time is going to be used for pension and OPEB expense, it is appropriate to use an up-to-date calculation of that expense. However, the Company does not support the use of an arbitrary date such as March 31. If the pension and OPEB expense is going to be updated, then the most current available information should be used. Otherwise, there is no reason to ignore the test year data and arbitrarily use March 31, a date that is nine months after the end of the test year. In particular, using March 31 has the effect of updating some of the inputs used by the Company's actuaries to derive the pension and OPEB expense figure without fully reflecting all changes, such as the recent significant downturn in the stock market and changes in the discount rate used to compute the Company's benefit obligations.

Q. What period would the Company propose to use if the Commission decides to update the level of pension and OPEB expense to be included in rates?

A. The current economic crisis and precipitous decline in the stock market and the significant strain on the credit markets that began to occur during this past summer have continued into December and show no signs of abating. Through the end of November, the S&P 500 stock index had decreased 32.2% since March 31, 2008, the end of Staff's proposed 12 month test period. A large portion of the assets invested in the pension and OPEB plans are invested in equity securities. As shown below, this significantly increases pension and OPEB expense because of the reduction in the value of the plan assets. Given the significant change in circumstances since the Company filed its case and the material impact that this is having on the Company's funding obligation for these plans, the Company believes that using a more current figure for annual pension and OPEB expense is appropriate. The Company asked its actuaries to provide a more up-to-date calculation of its annual pension and OPEB expense based on plan asset market values and plan liabilities as of October 31, 2008.

Q. How did the actuaries develop the updated figure for pension and OPEB expense?

A. The updated pension and OPEB expense figures are based on actuarial valuations as of the beginning of the Company's fiscal year, and reflect an update of all data previously used by the actuaries to calculate the pension and OPEB obligations and resulting expense included in the Company's initial filing in this case. The process of developing an annual valuation takes a number of months to complete, and therefore it would not be possible or practical to prepare new pension and OPEB plan valuations to completely update annual expense. Therefore, the actuaries' calculations relied on the valuation that was prepared as of April 1, 2008, modified only to reflect the market value of plan assets at October 31, 2008, and updated to reflect the current discount rate used to determine the net present value of the projected benefit obligations. Except for updating the market value of plan assets and revising the discount rate, the valuation is the same one that was used by the

Company to record pension and OPEB expense for its current fiscal year. All actuarial assumptions, with the exception of the discount rate, remained unchanged in determining the annual amount of expense as of October 31, 2008.

Q. What is the result of the updated calculations of annual pension and OPEB expense?

A. The results of the updated calculations are presented on Attachment JOS/WR-1. Based on the new calculations, annual pension expense would be $2,414,039 and annual OPEB expense would be $798,114. At these amounts, pension expense is $631,826 higher than the amount reflected in the Company's test year and $873,782 higher than that proposed by Staff. In contrast, OPEB expense decreased by $313,290 to $798,114,which is a decrease of $218,601 from the level proposed by Staff. As shown on Attachment JOS/WR-1, these calculations use the actual percentages of pension and OPEB costs charged to capital and the percentages of costs allocated from the service company. Attachment JOS/WR-2 was prepared by the Company's actuaries, Hewitt Associates, and reflects total pension and OPEB expense for the Company and its affiliates, including the service company, KeySpan Corporate Services LLC.

Q. Your description of the impact of the economic downturn and drop in the stock market would seem to suggest that both pension and OPEB would be negatively affected. However, the new calculation of OPEB expense results in a lower level of expense compared to both the Company's test year and the 12 month expense used by Staff. Can you please explain this apparent inconsistency?

A. OPEB expense has indeed been reduced, despite the recent decrease in the value of the assets within the OPEB plans. Although the change in the value of plan assets is a significant component of OPEB (and pension) expense, another variable that can have a significant effect on expense is the discount rate used to value the benefit obligation. In updating the valuations, we also updated the discount rate used to value the benefit obligation, and that resulted in the reduction in the overall OPEB expense level. For purposes of updating the value of both the pension and OPEB obligations, the applicable discount rate was 8%, which is a rather dramatic increase over the 5.75% to 6.00% used to value the benefit obligations for the Company's test year expense, and the 6.00% to 6.50% used for Staff's recommended annual expense. An increase in the discount rate assumption has the effect of *lowering* the benefit obligation (a decrease in the rate has the opposite effect). A reduction in the benefit obligation, in turn, helps to lower benefit expense. In this case, the impact of the decrease in expense caused by the increase in the discount rate exceeded the expense increase caused by the reduction in the value of the assets in the plans. The opposite result occurred for pension expense. That is, the increase to pension expense caused by the drop in the value of plan assets more than outweighed the decrease to expense that resulted from the higher discount rate.

Q. Do you have any further comments regarding updating of the pension and OPEB expense?

A. As we noted above, the Company agrees with Staff that it is appropriate to use a more current period for pension and OPEB expense, but this should be done by incorporating all known changes and not relying on outdated information embedded in older actuarial estimates. Alternatively, another potential remedy, which the Company believes is the best approach, would be to implement the Company's proposal to establish a pension and OPEB reconciliation mechanism. Such a mechanism would prevent both customers and the Company from being harmed, or conversely enriched by the potentially volatile swings in pension and OPEB expense.

Q. Does Staff's testimony change the Company's view in any way regarding the need for a pension/OPEB reconciling mechanism?

A. Actually, Staff's testimony lends further support to the idea of implementing a reconciling adjustment for pension and OEPB expense. As was demonstrated in the testimony of Mr. Cunningham, by merely moving forward nine months from the end of the test year, the pension and OPEB expense dropped by approximately $336,000 or approximately 2.18% of the Company's required net income after taxes. As we noted above, however, by moving forward another seven months, the pension and OPEB expense swing back in the opposite direction by over $655,181 or approximately 4.49% of the Company's required net income after taxes. It is apparent from this example just how volatile and significant an expense pensions and OPEBs are.

In addition to the effects of market volatility, pension and OPEB expense is affected by frequent changes in the law, changes in accounting pronouncements, changes in the applicable discount rate and changes in other actuarial assumptions. Recent law changes have included the 2003 Medicare Prescription Drug, Improvement and

Modernization Act, which was accompanied by an accounting pronouncement change, and more recently the Pension Protection Act of 2006 which has affected pension plan funding.

Ironically, a better funded pension plan is subject to greater volatility than a less funded plan due to market changes. An extreme example would be a plan with no assets. In the current economic environment, such a plan would only be subject to the change in the discount rate and the impact of the decrease in the equities market would have no effect. This is not a suggestion to temper funding in any way, but merely to further highlight the volatile nature of pension and OPEB expense. Depending on the randomness of when a rate case occurs, rates can grossly over or under collect for this item, something that is unfair to both customers and the Company.

Q. If the Commission were to authorize implementation of a pension/OPEB reconciling mechanism, how would the reconciliation be implemented for rate purposes?

A. The Company would implement the reconciling mechanism by comparing net pension and OPEB expense to the amount of expense allowed to be recovered in this proceeding, and deferring the difference to a regulatory asset or liability account. Net pension and OPEB expense would reflect the amount of expense predetermined by the actuaries less amounts charged to capital or billed out to others, plus expense charged from the service company and other affiliates. The Company would also propose to make contributions to the pension and OPEB trust funds in an amount that is equal to the amount collected through rates, plus the amount of pension and OPEBs charged to capital, all subject to carrying charges to the extent that the Company under or over contributes to the plans. The Company would propose to provide an annual reconciliation of the level of funding in the plans and calculation of carrying charges with its peak period cost of gas filing, and the reconciling mechanism would be added as a component of the local distribution adjustment charge included as part of that filing.

Q. **What is your response to the concerns raised by Staff regarding a reconciling mechanism?**

A. We recognize that the concerns raised in Mr. Frink's testimony have some legitimacy, but those concerns must be weighed against the significantly changed circumstances since this issue was first considered by Staff in the other cases in which it was raised. The volatility of pension and OPEB expense has continued to increase substantially, and a number of other commissions have now implemented such a mechanism. Specifically the Massachusetts Department of Public Utilities has approved reconciling mechanisms for distribution companies, including National Grid subsidiary Boston Gas Company. Just last month, the Rhode Island Public Utilities Commission approved a new pension/OPEB reconciliation mechanism for National Grid's gas distribution affiliate in that state. All of National Grid's New York subsidiaries are also subject to a generic statewide reconciliation mechanism that has been in place since 1993.

Because of the magnitude of the dollars and the level of volatility involved, this expense is not like any other O&M item. As we discussed above, in a single year this item can swing by many hundreds of thousands of dollars and have a major impact on the Company's overall earnings. It is highly unpredictable and uncontrollable. As Staff suggests, it may be the case that ultimately the Commission will have to implement a mechanism of this type for other utilities (of course, it would only do so as part of a full rate case), but the greatly increased volatility of this item makes such a mechanism appropriate.

Q. Does that conclude your testimony?

A. Yes, it does.

Description	**Pension**	**OPEB's**	**Total**
Test Year Expense As Filed	1,782,213	1,111,404	2,893,617
Staff's Proposed Expense	1,540,257	1,016,715	2,556,972
Pro Forma Annual Expense as of October 31, 2008	2,414,039	798,114	3,212,153
Staff's Proposed Expense vs. Test Year	**(241,956)**	**(94,689)**	**(336,645)**
% Of Net Income	**-1.66%**	**-0.65%**	**-2.31%**
Actuarial Update vs. Test Year	**631,826**	**(313,290)**	**318,536**
% Of Net Income	**4.33%**	**-2.15%**	**2.18%**
Actuarial Update vs. Staff's Proposed Expense	**873,782**	**(218,601)**	**655,181**
% Of Net Income	**5.99%**	**-1.50%**	**4.49%**

Line	Category	Pro-Forma FY 2009 Based on Revised Actuarial Report Pension	OPEB's
1	Direct Actuarial Expense - Updated	1,401,082	291,204
2	FAS 158 Amort	930,156	305,110
3	Capital	(586,275)	(156,009)
4	Allocated Servco Expense	669,076	357,809
5		**2,414,039**	**798,114**
6	Total Servco Expense - Updated	44,578,887	21,376,771

Line	Category	Actual Fiscal YTD 2009 NOV-08 (8 months) Pension	OPEB's
7	Direct Actuarial Expense	358,872	192,173
8	FAS 158 Amort	620,104	203,407
9	Capital	(246,199)	(103,492)
10	Allocated Servco Expense	232,082	272,576
11		**964,858**	**564,664**
12	Total Servco Allocated FYTD	15,463,027	16,284,694
13	Capitalization %	-25.15%	-26.16%
14	Servco Allocation %	1.50%	1.67%

Line 1 - From Updated Actuarial Report
Line 2 = Line 8 / 8 months * 12 (annualized expense)
Line 3 = (Line 1+ Line 2) * Line 13
Line 4 = Line 4 * Line 14
Line 5 = Sum of Lines 1-4
Line 6 - From Updated Actuarial Report

Lines 7-10 - From General Ledger Details
Line 11 = Sum of Lines 7 - 10
Line 12 - From General Ledger Details
Line 13 = Line 9 / (Line 7 + Line 8)
Line 14 = Line 10 / Line 12

National Grid USA - KeySpan Pension Plans
FAS 87 Expense - Total Business Unit Allocations
Proforma 11/1/2008 FAS 87 Pension Expense

SOURCE: Hewitt Associates (the Company's actuaries)

8.00% Discount Rate
4.00% Anticipated Salary Increases

Business Unit		Service Cost	Interest Cost	Expected Return on Assets	Net Transition Obligation	Prior Service Cost	Net (Gain)/Loss	Net Periodic SOURCE: Hewitt
KeySpan Energy Delivery New York (1)	BUG	$ 5,809,357	$ 28,996,498	$ (28,447,656)	$ -	$ -	$ 7,414,167	$ [illegible]
KeySpan Energy Delivery Long Island (2)	BUL	$ 3,398,792	$ 13,211,765	$ (11,251,073)	$ -	$ -	$ 2,593,356	$ [illegible]
KeySpan Electric Services LLC (3)	ESV	$ 5,880,811	$ 21,869,226	$ (18,440,068)	$ -	$ -	$ 4,264,349	**$ 13,574,318**
KeySpan Energy Trading Services LLC	TEG	$ 77,256	$ 377,323	$ (333,686)	$ -	$ -	$ 79,024	**$ 199,917**
KeySpan Generation LLC (4)	GEN	$ 2,042,172	$ 7,870,858	$ (6,661,342)	$ -	$ -	$ 1,529,309	**$ 4,780,997**
KeySpan Corporate Services LLC (5)	CSV	$ 16,354,566	$ 67,823,873	$ (54,852,577)	$ -	$ -	$ 15,253,025	**$ 44,578,887**
KeySpan Utility Services LLC	USV	$ 1,769,608	$ 8,952,252	$ (8,334,697)	$ -	$ -	$ 2,093,379	**$ 4,480,542**
KeySpan Engineering and Survey	KEC	$ 4,778,311	$ 11,184,347	$ (9,079,710)	$ -	$ -	$ 2,248,692	**$ 9,131,640**
KeySpan Energy Management Inc.	KEM	$ 121,307	$ 250,870	$ (230,810)	$ -	$ -	$ 107,328	**$ 248,695**
KeySpan Energy Services Inc.	KES	$ -	$ 57,985	$ (58,230)	$ -	$ -	$ 24,940	**$ 24,695**
KeySpan Energy Solutions Inc.	KSL	$ 964,937	$ 2,127,482	$ (2,031,528)	$ -	$ -	$ 851,250	**$ 1,912,141**
KeySpan Energy Supply LLC	KSP	$ -	$ 11,543	$ (11,362)	$ -	$ -	$ 4,603	**$ 4,784**
KeySpan Communications	KCM	$ 87,029	$ 192,092	$ (166,539)	$ -	$ -	$ 42,790	**$ 155,372**
KeySpan Services Inc.	KSI	$ 70,367	$ 284,798	$ (214,025)	$ -	$ -	$ 138,630	**$ 279,770**
KeySpan Plumbing & Heating Solutions LLC	PHL	$ 31,973	$ 67,894	$ (46,316)	$ -	$ -	$ 28,877	**$ 82,428**
KeySpan Plumbing & Heating Services Inc.	PHV	$ 27,822	$ 29,747	$ (26,407)	$ -	$ -	$ 7,575	**$ 38,737**
KeySpan Plumbing Solutions Inc.	PSL	$ 89,907	$ 61,699	$ (43,370)	$ -	$ -	$ 26,616	**$ 134,852**
KeySpan Home Energy Services NE	KHS	$ 14,417	$ 86,218	$ (81,547)	$ -	$ -	$ 17,178	**$ 36,266**
KeySpan Corporate Services LLC (KSI)	KSCSV	$ 63,683	$ 98,315	$ (100,440)	$ -	$ -	$ 42,082	**$ 103,640**
KeySpan Ravenswood Services Corp	RAV	$ 78,874	$ 367,642	$ 881,275	$ -	$ -	$ 318,714	**$ 1,646,505**
KeySpan Northeast Ventures	KNEV	$ -	$ 31,880	$ -	$ -	$ -	$ 8,245	**$ 40,125**
Seneca	SEN	$ 41,538	$ 39,233	$ (38,927)	$ -	$ -	$ 10,012	**$ 51,856**
Boston Gas (6)	BGC	$ 2,577,563	$ 12,863,164	$ (9,762,323)	$ -	$ -	$ 3,110,738	**$ 8,789,142**
Colonial Gas (excluding Transgas)	COL	$ 578,909	$ 5,014,603	$ (3,855,011)	$ -	$ -	$ 1,253,899	**$ 2,992,400**
Transgas	TG	$ 88,051	$ 347,620	$ (258,323)	$ -	$ -	$ 86,359	**$ 263,707**
Algonquin	ALG	$ 15,890	$ 48,463	$ (47,396)	$ -	$ -	$ 9,115	**$ 26,072**
EnergyNorth	ENH	$ 311,890	$ 2,261,843	$ (1,602,957)	$ -	$ -	$ 430,306	**$ 1,401,082**
Essex Gas	ESX	$ 178,970	$ 1,102,767	$ (759,955)	$ -	$ -	$ 118,442	**$ 640,224**
Grand Total KeySpan		**$ 45,454,000**	**$ 185,632,000**	**$ (155,855,000)**	**$ -**	**$ -**	**$ 42,113,000**	**$ 117,344,000**

NOTES:
Allocation of each component of expense base on actual FY2009 expense results

National Grid USA - KeySpan Postretirement Plans
FAS 106 Postretirement Health and Life Expense - Total Business Unit Allocations
Proforma 11/1/2008 FAS 106 Retiree Welfare Expense

8.00% Discount Rate

Business Unit		Grand Total Postretirement Health and Life Insurance						
		Service Cost	Interest Cost	Expected Return on Assets	Net Transition Obligation	Prior Service Cost	Net (Gain)/Loss	Net Periodic Ret. Welfare Cost
KeySpan Energy Delivery New York (1)	BUG	$ 1,957,830	$ 11,812,774	$ (5,269,233)	$ -	$ -	$ (1,224,371)	$ 7,277,000
KeySpan Energy Delivery Long Island (2)	BUL	$ 1,798,334	$ 9,002,155	$ (3,455,687)	$ -	$ -	$ (695,095)	$ 6,649,707
KeySpan Electric Services LLC (3)	ESV	$ 2,792,815	$ 14,071,277	$ (5,294,946)	$ -	$ -	$ (1,124,948)	$ 10,444,198
KeySpan Energy Trading Services LLC	TEG	$ 20,130	$ 134,116	$ (34,924)	$ -	$ -	$ (11,653)	$ 107,669
KeySpan Generation LLC (4)	GEN	$ 951,955	$ 5,751,378	$ (2,067,664)	$ -	$ -	$ (466,289)	$ 4,169,380
KeySpan Corporate Services LLC (5)	CSV	$ 5,410,338	$ 26,418,613	$ (8,282,419)	$ -	$ -	$ (2,169,761)	$ 21,376,771
KeySpan Utility Services LLC	USV	$ 513,541	$ 3,552,502	$ (1,039,243)	$ -	$ -	$ (293,907)	$ 2,732,893
KeySpan Engineering and Survey	KEC	$ 2,074,368	$ 6,010,781	$ (2,085,543)	$ -	$ -	$ (487,605)	$ 5,512,001
KeySpan Energy Management Inc.	KEM	$ 3,667	$ 44,768	$ (9,448)	$ -	$ -	$ (3,270)	$ 35,717
KeySpan Energy Services Inc.	KES	$ -	$ 21,230	$ (3,590)	$ -	$ -	$ (1,486)	$ 16,154
KeySpan Energy Solutions Inc.	KSL	$ 295,489	$ 884,501	$ (349,660)	$ -	$ -	$ (81,932)	$ 748,398
KeySpan Energy Supply LLC	KSP	$ -	$ -	$ -	$ -	$ -	$ -	$ -
KeySpan Communications	KCM	$ 25,623	$ 76,913	$ (18,732)	$ -	$ -	$ (7,064)	$ 76,740
KeySpan Services Inc.	KSI	$ 14,043	$ 25,000	$ (2,334)	$ -	$ -	$ (3,741)	$ 32,968
KeySpan Plumbing & Heating Solutions LLC	PHL	$ 3,449	$ 7,424	$ -	$ -	$ -	$ (2,405)	$ 8,468
KeySpan Plumbing & Heating Services Inc.	PHV	$ 889	$ 6,099	$ (1,381)	$ -	$ -	$ (569)	$ 5,038
KeySpan Plumbing Solutions Inc.	PSL	$ 2,510	$ 3,405	$ (1,854)	$ -	$ -	$ (399)	$ 3,662
KeySpan Home Energy Services NE	KHS	$ 5,833	$ 17,824	$ (72)	$ -	$ -	$ -	$ 23,585
KeySpan Corporate Services LLC (KSI)	KSCSV	$ 7,901	$ 19,702	$ (3,893)	$ -	$ -	$ (1,339)	$ 22,371
KeySpan Ravenswood Services Corp	RAV	$ 29,120	$ 290,359	$ (10,742)	$ -	$ -	$ (78,146)	$ 230,591
KeySpan Northeast Ventures	KNEV	$ -	$ 5,535	$ (852)	$ -	$ -	$ (482)	$ 4,201
					$ -	$ -		$ -
Seneca	SEN	$ -	$ -	$ -	$ -	$ -	$ -	$ -
							$ -	
Boston Gas (6)	BGC	$ 788,924	$ 5,790,385	$ (559,553)	$ -	$ -	$ 3,325	$ 6,023,081
Colonial Gas (excluding Transgas)	COL	$ 97,600	$ 844,618	$ (35,648)	$ -	$ -	$ (12,575)	$ 893,995
Transgas	TG	$ 13,949	$ 65,006	$ (9)	$ -	$ -	$ (1,693)	$ 77,253
Algonquin	ALG	$ 4,031	$ 18,800	$ (78)	$ -	$ -	$ -	$ 22,753
EnergyNorth	ENH	$ 13,886	$ 279,716	$ (3,104)	$ -	$ -	$ 706	$ 291,204
Essex Gas	ESX	$ 61,775	$ 312,119	$ (4,391)	$ -	$ -	$ 74,699	$ 444,202
Grand Total KeySpan		**$ 16,888,000**	**$ 85,467,000**	**$ (28,535,000)**	**$ -**	**$ -**	**$ (6,590,000)**	**$ 67,230,000**

NOTES:
Allocation of each component of expense base on actual FY2009 expense results