BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:	**)**
ENGI d/b/a National Grid	**) DG 08-009**
Rate Case	**)**

<u>REVISED</u>

Direct Prefiled Testimony

of

Kenneth E. Traum
Assistant Consumer Advocate

on behalf of
the Office of Consumer Advocate

Dated: **October 31, 2008 Revised January 26, 2009**

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I. Position and Qualifications

Q. Please state your name, business address and position.

A. My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA), which is located at 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been employed by the OCA for approximately 19 years. I include my resume as Attachment 1.

Q. Have you previously testified before the New Hampshire Public Utilities Commission (Commission)?

A. Yes. I have testified before the Commission in numerous dockets.

II. Purpose of Testimony

Q. Mr. Traum, what is the purpose of your testimony?

A. In my testimony, I propose a number of adjustments to the Company's filing and revenue requirement request. These specific adjustments are discussed in detail in section IV, below.

Q. Are you the only witness filing testimony on behalf of the OCA in this proceeding?

A. No. The OCA has retained Ms. Lee Smith and Mr. Arthur Freitas of LaCapra Associates to testify on its behalf. Ms. Smith and Mr. Freitas will address the OCA's position on the Company's proposal to redesign rates.

III. Summary of the Company's Requests

Q. Please provide a brief summary of the Company's original filing.

A. In its filing dated February 25, 2008, the Company requested a $9.9 million increase in its delivery rates, which represents a 5.6% increase in total revenues, or a 24% increase in delivery rates. For residential heating customers, who comprise the bulk of the Company's customers, the average total bill impact would be an increase of 6.4%. The Company's proposal, if approved, would result in an 8.5% average total rate increase for residential non-heating customers. The Company proposed to recover the increased revenue requirement through redesigned rates. Essentially, the Company proposed to double the customer (or fixed) charge and reduce the consumption (or volumetric) charge. The Company also proposed an annual Pension and OPEB reconciliation mechanism, as well as a new service and main extension policy.

The timing and several aspects of the Company's rate case filing correspond to the Commission's Order and an underlying settlement in DG 06-107. In that docket, the Commission considered, and ultimately approved, the acquisition of KeySpan by National Grid USA. The Commission's approval of the settlement agreement in that case included the following terms, which directly relate to this docket, and require that:

- the effective date for temporary rates be no earlier than twelve months from the closing of the merger, or August 24, 2008;
- the Company use a test year based upon the 12-month period ending with the quarter immediately preceding the merger closing;

- the Company recognize, in a cost of service study used as the basis for new rates, a merger net synergy savings credit equal to $619,000 annually;
- the Company file an updated depreciation study with this rate-case filing;
- the Company use an imputed capital structure composed of 50 percent debt and 50 percent equity capital;
- the Company exclude in this (or any subsequent) rate-case filing any acquisition premium from the merger;
- the Company show that the merger benefits that inure to the benefit of New Hampshire customers are at least as favorable to customers as those in New York (i.e., most-favored nation comparison);
- the Company begin for fiscal year 2009 an enhanced cast iron/bare steel replacement program (CIBS); and
- the Company conform to standards for customer call answering and emergency response times.

Q. Has the Company revised its original filing?

A. Yes. On April 23, the Company supplemented the testimony of its witness Gary L. Goble. Through this supplemental testimony, the Company presented its cash working capital requirements for both supply and delivery functions. With the addition of cash working capital related to delivery functions, Mr. Goble recommended an increase in total cash working capital. This increase in total cash working capital resulted in an increase to the proposed rate base, and, in turn, increased the overall requested revenue increase from $9.9 million to $10.1 million. In addition, in response to discovery, the Company revised its proposed revenue increase to

$10,062,679. See Attachment 2, Email and attachment from Attorney Camerino on behalf of the Company, dated October 22, 2008. Neither the Company nor the OCA has quantified the bill impact of the revised revenue increase, but the difference between the bill impact of the original revenue increase and the revised revenue increase is minimal.

IV. OCA's Recommended Adjustments to the Company's Revenue Requirement

Q. You stated earlier that the purpose of your testimony is to recommend adjustments to the Company's filing and revenue requirement. Please identify generally the aspects of the Company's filing to which these proposed adjustments relate.

A. The OCA's proposed adjustments relate to the following aspects of the Company's filing:

1. The proposed Pension/OPEB (Other Post-Employment Benefits) reconciliation adjustment mechanism;
2. The proposed service and main extension policy;
3. The weather normalization revenue adjustment;
4. The Company's depreciation study;
5. The inclusion of costs related to incentive compensation and gainsharing;
6. The inclusion of costs related to promotional advertising and related activities;
7. The amount included for a merit increase effective June 29, 2008;
8. The amount included for health and hospitalization costs;
9. The calculation of rate base; and
10. Bad Debt and Collections Practices.

I will discuss these in order.

(1) Proposed Pension/OPEB Reconciliation Adjustment Mechanism

Q. Please summarize the Company's proposed Pension/OPEB reconciliation adjustment mechanism (Pension/OPEB mechanism).

A. The details of the proposed Pension/OPEB mechanism are described in the testimony of the Company's witness John E. O'Shaughnessy. Generally, the Company proposes to adjust the local distribution adjustment clause (LDAC) charge annually for any difference between the actual amount of recorded FAS (Financial Accounting Standard) expense and the amount included in the pro forma test year. See Prefiled Direct Testimony of John E. O'Shaughnessy at pp. 16-17. The Company proposes to apply a carrying charge at the pre-tax weighted cost of capital and include that amount in the annual LDAC adjustment. See Id. at p. 17. The Company contends that the proposed reconciliation adjustment mechanism allows the Company to mitigate, to the benefit of its customers, the difficulties and risks associated with calculating pension and OPEB expenses. See Id. at p. 16. By adjusting these costs on an annual basis, the Company posits, customers pay no more and no less than the actual costs incurred by the Company to fulfill its Pension and OPEB obligations. See Id. at p. 17.

Q. What are the OCA's concerns about the Pension/OPEB mechanism?

A. The OCA's primary concern is that the proposed Pension/OPEB mechanism would unfairly shift all of the risk associated with the Company's Pension and OPEB costs to ratepayers. In doing so, the proposed Pension/OPEB mechanism will create a disincentive for the Company to exert care and caution in carrying out its Pension and OPEB obligations, as it will completely insulate the Company and its shareholders from any negative financial consequences arising from this activity. On the other hand, ratepayers, who have no control over Pension and OPEB decisions, will bear 100% of the risks of financial harm.

Q. What action does the OCA recommend the Commission take on the Pension/OPEB mechanism?

A. The OCA recommends that the Commission reject the Pension/OPEB mechanism.

Q. If the Commission disagrees with the OCA's recommendation, should the Commission recognize in its determination of just and reasonable rates a reduction of risk to the Company and its shareholders?

A. Yes. If the Commission allows the Company to remove its Pension and OPEB costs from base rates, and recover these costs on a fully reconcilable basis, the Commission should simultaneously adjust the Company's return on equity (ROE) to recognize its newly reduced operating risk.

Q. If the proposed Pension/PBOP rate adjustment mechanism is approved, how would you suggest the Commission recognize this in determining the ROE?

A. First, the Commission would determine the ROE the way it traditionally does. Hypothetically let's say that figure is 9.00%. The Commission would then have to determine what percent of total costs are reconcilable costs related to Pension/PBOP. Hypothetically, let's say they are 10%. The revised ROE would then be weighted 90% at 9.00%, and 10% at the risk free rate, say 5.0%. In this hypothetical example, the reduced ROE would therefore be 8.60%.

Q. Does the OCA have any other concerns about the proposed Pension/OPEB mechanism?

A. Yes. The OCA is concerned about the Company's decisions, since at least 2001, to make no cash contributions to Energy North's Pension and OPEB reserves.

Q. Please explain the OCA's concern.

A. The OCA is concerned that the Company's decisions not to make cash contributions to ENGI's Pension and OPEB funds each year since 2001 may have contributed to a higher level of Pension and OPEB costs in the test year. <u>See</u> Attachment 3, Company Response to Staff 1-12. However, the OCA defers to the Commission Staff the determination of whether such decisions were prudent, and whether the test year amounts for Pension and OPEB costs represent a prudent amount to consider in the determination of just and reasonable rates.

(2) <u>Proposed Customer Service and Main Extension Policy</u>

Q. You indicated earlier that the OCA proposes an adjustment to the Company's proposed new service and main extension policy. Please summarize the Company's proposed Extension policy.

A. In pertinent part, the Company proposes to change its methodology for determining the level of customer contribution required for Extensions of service by using an internal rate of return model. <u>See</u> Direct Prefiled Testimony of Ann E. Leary at p. 18. In support of the proposed Extension policy the Company states that it will "ensure that the investment [required for new service line installations] is not being subsidized by other customers and that it is comparable to other investment opportunities available to the Company." <u>Id</u>., lines 7-9.

Q. Is the OCA concerned that existing customers are subsidizing new service line installations under the Company's current Extension policy?

A. Yes, and we believe that this subsidization is inappropriate. At the same time, we do not think it would be appropriate for new customers to subsidize existing customers through contributions for extensions.

Q. Please explain.

A. Based on the Company's analysis and assumptions, under the existing residential contribution policy the estimated return on investment to serve residential installations added in 2007 was 4.4%. See Attachment 4, Company's Response to Staff 1-41. By comparison, the Company is seeking a return on total rate base of 9.26%. Consequently, if the Commission approved the Company's proposed ROR, and if this difference of 4.86% (9.26 – 4.4) remained over the long run, existing customers would subsidize the new ones because the new customers would not be contributing enough to pay the full rate of return.

Q. What is your conclusion regarding the Company's proposed new Extension policy?

A. The OCA agrees that existing customers should not subsidize new ones, but we disagree with the Company's proposal for accomplishing this goal. Instead, the OCA recommends that a new customer's contribution be determined through a modified analysis and in such a way as to allow the Company to earn a return on its investments for adding the new customer which approximates the cost of capital that the Commission determines to be appropriate for revenue requirement purposes in this case.

Q. More specifically, how should the Company calculate a customer's contribution for an extension of service?

A. The OCA recommends that the determination of a customer's contribution begin with an analysis of the forecasted return on the investment needed to connect the new customer, which incorporates the following factors or considerations into the Company's proposed methodology.

1. The first 80 feet of any extension should be provided at no cost to the new customer;
2. Use of current rate levels;
3. Use of marginal costs (instead of historical costs);
4. Removal of bad debt expense;
5. Removal of marketing expense;
6. Use of 30 years for debt service; and
7. Use of a weighted average service life for booked depreciation for mains (60 years), services (40 years) and meters (35 years).
8. Use of at least 60% of any prospective load along the extension as an off-setting revenue source.

Q. Following this initial analysis of the forecasted return on the new Extensions, what should happen next?

A. The Company should compare the forecasted return to the cost of capital approved by the Commission for revenue requirement purposes. If the approved cost of capital is greater than the forecasted return on the investment needed to connect the new customer, the Company should require the new customer to pay an amount which allows the Company to earn the difference.

(3) <u>Weather Normalization Revenue Adjustment</u>

Q. Please explain the OCA's concern about the Company's weather normalization revenue adjustment.

A. The Company proposed pro forma adjustments to sales and revenues for the test year in order to adjust the levels to what they would have been in a year with "normal" weather. The OCA agrees with this type of adjustment in general but proposes two additions to the weather normalized revenue adjustment.

Q. Please describe the additions proposed by the OCA.

A. First, the weather normalized revenue adjustment should be increased by $985 due to a correction to the underlying degree day data that the Company recognized in discovery. <u>See</u> Attachment 5, Company's Response to Staff 1-30. Second, the weather normalized revenue adjustment should be increased by $37,052, which is the amount by which this adjustment would increase if the weather normalization revenue adjustment were calculated using bill frequency data from the Company's billing system rather than using average incremental base rate charged to each rate group in each month. <u>See</u> Attachment 6, Company's Response to OCA 1-41. The use of bill frequency data to calculate weather normalized revenue adjustment is a more accurate calculation method, and is consistent with the resolution in DG 06-154, the Commission's investigation of the thermal billing practices of EnergyNorth Gas, Inc.

Q. What is the impact of the increased weather normalized revenue adjustment on the Company's proposed rate increase?

A. The proposed rate increase should be reduced by $38,037 ($985 + 37,052) to account for these two revisions.

(4) <u>Depreciation Study</u>

Q. Please explain the OCA's proposed adjustment related to the Company's depreciation study.

A. The OCA proposes one adjustment to the results of the depreciation study, and we defer to Staff on other depreciation issues due to its expertise in this area. The OCA's proposed adjustment relates to the Reserve Variance shown on Attachment PMN-2 of the Company's filing. See Attachment 7, Company's Attachment PMN-2 at p. 25, column (13). The amount of Reserve Variance, ($10,004,279), indicates that more has been charged historically for depreciation than was necessary. The Company proposes to flow this excess recovery back to ratepayers over approximately 25 years, or $386,927 annually. <u>See</u> <u>Id</u>., column 15. Recognizing the current state of the economy and the principle of matching costs and benefits, which I discuss later in my testimony, the OCA recommends that the Company flow the excess Reserve Variance back to rate payers at a much quicker pace. Specifically, the OCA recommends that the credits to ratepayers be applied over a 3 to 5 year period. This shorter period of time is more consistent with the frequency with which many utilities file rate cases, and the time when the next depreciation study might be expected. Using a 4 year period as an example, the $10 million would be returned at a rate of $2,501,070 annually, as opposed to the proposed $386,927 per year. This adjustment would reduce the proposed rate increase by $2,114,143.

(5) <u>Incentive Compensation and Gainsharing Costs</u>

Q. What adjustments does the OCA recommend to the Company's incentive compensation and gainsharing plans?

A. In the test year, non-union employees received $437,775 in incentive compensation and gainsharing. <u>See</u> Attachment 8, Company's Exhibit EN 2-2-2, p.2-8 (Incentive Compensation charged to O&M minus Adjustments), and Attachment 9, Company's Exhibit EN 2-2-2, p.2-9 (Gainsharing charged to O&M minus Adjustments). The primary earnings trigger for incentive compensation and gainsharing in 2007 was "Earnings per share (EPS)." <u>See</u> Attachment 10, Company's Response to Staff 1-4, Attachment (b) (KeySpan 2007 Annual Incentive Compensation and Gainsharing Plan), pages 8&9. This trigger relates to earnings that solely benefit the Company's shareholders. Accordingly, the incentive compensation and gainsharing paid in the test year should be paid for by the Company's stockholders, and not by its ratepayers.

Q. Does the OCA recommend any other adjustments in the area of incentive compensation and gainsharing?

A. Yes. According to the Company, "There is approximately $52,300 of O&M expense associated with stock options included in the test year." <u>See</u> Attachment 11, Company's response to Tech 1-34. Because these stock options solely benefit the Company's shareholders, this amount should also be removed from the proposed revenue requirement.

(6) <u>Promotional Advertising and Activities</u>

Q. What are the OCA's concerns about the amounts included in the proposed revenue requirement, which relate to promotional advertising and related sales incentives?

A. In the test year, the Company offered financial incentives to customers for the purpose of increasing sales. These promotions and incentives totaled at least $787,851 in the test year. <u>See</u> Attachment 12, National Grid NH Response to OCA 2-15 (k), (m), and (n) without the attachments. The OCA does not object to the Company offering financial incentives to customers to increase its sales. However, the OCA believes that the Company may not recover the costs associated with these financial incentives through rates.

Q. Upon what does the OCA base its position that these financial incentives should not be recovered through rates?

A. The OCA's position is based upon the advice of counsel and the Commission's rules, Puc 510, which govern, in part, the recovery of costs associated with promotional advertising and activities. Puc 510.03 (a)(7) allows recovery from ratepayers of 50% of these types of costs only if they "[a]re consistent with the utility's approved integrated resource plan."

Q. What is the Company's position on whether Puc 510.03 (a)(7) permits recovery of these costs?

A. The Company indicated in response to a data request that it is permitted to recover these costs pursuant to Puc 510.03 (a)(7). <u>See</u> Attachment 13, National Grid NH Response to Tech 1-39. In support of its position, the Company characterized these costs as "[i]mplicit in the Company's growth forecast contained in its IRP." <u>Id</u>.

Q. What is the OCA's response to the Company's claim and recommendation to the Commission?

A. The OCA does not agree that an implied "assumed level of promotional advertising" is a sufficient basis upon which the Commission may conclude that these costs should be borne by ratepayers. Instead, the OCA recommends, consistent with Puc 510.03(a)(7), that the Commission exclude all $787,851 from the proposed revenue requirement.

(7) <u>Costs of a June 29, 2008 Merit Increase</u>

Q. What are the OCA's concerns about the merit increase dated June 29, 2008?

A. The Company chose a test year of July 1, 2006 through June 30, 2007, which is consistent with the Settlement and Order in DG 06-107, concerning the acquisition of KeySpan by National Grid. In its proposed revenue requirement, the Company included a pro forma adjustment to wages equal to an annualized amount of a merit increase that took effect on June 29, 2008, two days before the end of the pro forma year which is subsequent to the test year. This amount violates the well-established matching principle used in ratemaking.

Q. What is the "matching principle?"

A. Based on my almost 30 years of experience in the field of utility ratemaking, I understand the "matching principle" to mean that, in setting just and reasonable rates, one must start by aligning the stockholders investment (i.e., rate base) with the revenues and expenses related to that investment. To accomplish this, the period of time used to evaluate the value of the rate base is aligned or matched with the period of time used to evaluate revenues and expenses.

Q. Could you please illustrate this alignment or matching of time periods?

A. Yes. For example, if a Company chooses to calculate rate base based on the 2007 13-month average, then the Company should align or match its calculation of revenues and expenses by using the actual 2007 revenues and expenses. Alternatively, if the Company chooses to adjust rate base to reflect investment as of December 31, 2007, it should adjust its calculation of revenues and expenses to reflect the customer count as of December 31, 2007.

Q. What amount should the Company have included for the pro forma adjustment related to the June 29, 2008 merit increase?

A. The Company should have only included an amount equal to 2 days of that 4.75% increase, or $1,070. See Attachment 14, Company's Response to OCA 1-11, and Attachment 15, Company's Response to OCA 2-6.

Q. What is the OCA's recommended adjustment to the proposed revenue requirement?

A. The proposed revenue requirement should be reduced by $194,194 ($195,264 - $1,070).

(8) Health and Hospitalization Costs

Q. Please discuss the OCA's concerns about the Company's pro forma adjustment for Health and Hospitalization costs.

A. The Company's pro forma adjustment for health and hospitalization costs of $206,116 is based on costs incurred 18 months beyond the end of the Company's chosen test year. Specifically, this adjustment is based upon costs incurred between January 1, 2008 and December 31, 2008. This violates the matching principle discussed above.

Q. What does the OCA recommend to the Commission with regard to this pro forma adjustment?

A. The Commission should reduce the pro forma adjustment to costs incurred during the test year to an amount not to exceed that incurred during the twelve month pro forma period beyond the test year. In response to a data request, the Company quantified this amount as $124,447. <u>See</u> Attachment 16, Company's Response to OCA 1-13 and attachment. This would reduce the proposed revenue requirement by $81,669.

(9) <u>Calculation of Rate Base</u>

Q. Please describe the OCA's concerns about the Company's calculation of rate base.

A. The OCA has three concerns about the Company's calculation of rate base. First, the Company included in its rate base calculation an average of $4,510,701 for costs related to Construction Work in Progress (CWIP). <u>See</u> Attachment 17, Company's EN 2-4, p. 1. The Company characterized this amount as "non-interest bearing."

Q. Why is the OCA concerned about the inclusion of CWIP in the calculation of rate base?

A. Based upon the advice of counsel, this is inconsistent with the "anti-CWIP" statute. <u>See</u> RSA 378:30-a (public utility rates or charges shall not in any manner be based on the cost of construction work in progress).

Q. Does the Company's characterization of the CWIP as "non-interest bearing" change the OCA's position that its inclusion in the rate base calculation is improper?

A. No.

Q. What does the OCA recommend to the Commission with regard to the CWIP costs included in the Company's calculation of rate base?

A. The full amount of the average CWIP balance, or $4,510,701, should be removed from rate base.

Q: What is the OCA's second concern related to the Company's calculation of rate base?

A: According to the Company, the rate base filing includes $1,414,912 for "Gas Jobs in Progress." See Attachment 18, Company's Response to Staff 3-71 and attachment. According to the Company, this amount is, at least in part, CWIP related to gas jobs where "a reimbursement from a governmental agency remained outstanding at the time the entry was booked," and relates to gas jobs in progress that "could be one that was already in service when it was booked." See Attachment 19, Company's response to Staff 4-7. Because the OCA only received this response on October 17, 2008, we have not had the opportunity to explore further how much is due from governmental agencies and how much is truly CWIP. Consequently, the OCA recommends that all of the $1,414,912 be removed from the rate base calculation.

Q. What is the OCA's third concern about the Company's calculation of rate base?

A. During discovery, the OCA learned from the Company that the rate base includes an amount equal to the 13-month average of customer deposits, or $183,925. See Attachment 20, Company's Response to OCA 3-7. The Company also included in its calculation of rate base an amount equal to the 13-month test year average of accrued interest on customer deposits, or ($51,484.68). See Attachment 21, Company's Response to OCA 3-8.

Q. Please explain why this concerns the OCA.

A. Customer deposits and interest on these deposits, while they are held by the Company, do not belong to the Company or its shareholders. As such, they should not be included in the calculation of the value of the shareholders' investment, or rate base. This position is consistent with longstanding Commission practice.

Q. What does the OCA recommend to the Commission concerning the amount included in rate base that corresponds to customer deposits and interest on deposits?

A. The Commission should reduce the Company's proposed rate base by $235,409.68 ($183,925 + $51,484.68).

(10) <u>Bad Debt and</u> <u>Collections Practices</u>

Q. What is the status of the bad debt issue?

A. The issue of the appropriate percentage of bad debt the Company will be allowed to include in its revenue requirement going forward is presently on hold, pending the Commission Staff's retention of a consultant related to bad debt. Therefore, the OCA reserves its rights to address this issue at a later time.

Q. What is the issue relating to collections practices?

A. The Company has proposed what it characterizes as a change to its collection practices. Consequently, the Commission needs to decide, for the purpose of determining just and reasonable rates, how much the Company should be allowed to increase its revenue requirement to recover the costs of the proposed changes to its collection practices.

Q. By how much does the Company propose to increase its revenue requirement to recover the costs associated with its change in collection practices?

A. The Company proposes to include $566,141 in its revenue requirement for this change. See Attachment 22, Company's Response to OCA 1-50 (reducing original proposed amount of $644,078 to $566,141).

Q. In terms of avoided charge off or additional revenues, what does the Company forecast if it implements the changes to its collection practices?

A. The Company estimates that, by the third year after implementing the changes to its collection practices, the avoided charge off or additional revenues to the Company would increase by $423,988. See Attachment 23, Company's Response to Staff 1-65 and attachment. Also, in the following year, the avoided charge off grows to $811,296, and there would be a net savings of $167,296. See Id. Further, in every following year shown, net savings would grow by several hundred thousand dollars per year. Those figures represent the Company's forecasted net savings due to implementation of the "new" collection policies, which would reduce the total revenue requirement dollar for dollar.

Q. What is the OCA's concern about the proposed additional collection costs included in the Company's revenue requirement?

A. The OCA is concerned about the prudency of these additional costs.

Q. Please explain this concern further.

A. The OCA understands from its involvement in this and other dockets (e.g., DG 07-129 and DG 07-050) that EnergyNorth, KeySpan's predecessor, had no collection problems. These problems arose after KeySpan's acquired the company, and changed its collection practices.

Q. Can you provide an example of a change in collection practices made after KeySpan acquired the company that probably reduced successful collection?

A. Yes. In 1999, under EnergyNorth management, the Company made collection calls through a customer service representative. See Attachment 24, Company's Response to Tech 1-2, Attachment, pp. 1-3 (1999 Procedures and Policies). As that response shows, in 2006, under KeySpan, these personal contacts were generally replaced by automated program dialers.

Q. Do you know why KeySpan changed the collection practices?

A. No. But, it may have been an effort to reduce payroll costs, which flow to the bottom line. With regard to the example above, it is my understanding that personal contacts and conversations are more successful from a collections point of view, but automated dialing is less expensive for the Company.

Q. Were the Company's rates reduced to reflect the reduced collection practices under KeySpan's management?

A. No. The Company, despite its reduced collection efforts, continued to collect the rates which included costs associated with EnergyNorth's collection practices. Additionally, the Company recovered most of its increasing amount of bad debt, which resulted from decreased collection activities, from all non-choosing customers through the Cost of Gas Adjustment (CGA) charge.

Q. Is it fair to conclude, based on the Company's own analysis, that had the Company made changes to its collection practices in 2005, or earlier, the Company would not require additional revenue to cover the costs of these collection practices?

A. Yes, and, for this reason, the OCA takes the position that customers should not be asked to pay more to get the Company back to where they would have been if the prior practices of EnergyNorth, the costs for which were included in rates, were continued after KeySpan acquired the company.

Q. What does the OCA recommend as an adjustment for the costs associated with the changes to the Company's collection practices.

A. The OCA recommends that the Commission reduce the proposed revenue requirement by the entire amount requested, or $566,141.

Q. If the Commission declines to reduce the proposed revenue requirement as recommended by the OCA, are there other factors that the Commission should consider in approving the amount of costs related to changes to the Company's collection practices?

A. Yes. First, it is my understanding that a portion of the $566,141 requested relates to costs which should have been capitalized. Therefore, it is not appropriate to increase the revenue requirement dollar for dollar for those capitalized costs. A second item relates to the potential overlap between the increased personnel requested for safety and to what extent those individuals will be able to deal with collections issues in their "spare" time. I am not prepared to quantify the revenue requirement impact of the gas safety/collection issues, though. Instead, I defer to PUC Gas Safety Staff on this issue.

V. Summary of OCA's Recommendations

Q. Please summarize the OCA recommendations.

A. The OCA recommends that the Commission determine just and reasonable rates consistent with the following recommendations:

1. The Commission should reject the proposed Pension/OPEB mechanism.

2. The Commission should establish a modified method for calculating a new customer's contribution for a main extension which allows the Company to achieve a return on that investment equal to the approved cost of capital on revenue requirements.

3. The Commission should reduce the revenue requirement as follows:

a. Weather normalization revenue adjustments totaling $38,037.

b. A depreciation study adjustment of $2,114,143.

c. Incentive compensation/gainsharing adjustments of $490,075.

d. A promotional advertising and activities adjustment of $782,851.

e. A June 29, 2008 merit increase adjustment of $194,194.

f. A health and hospitalization costs adjustment of $81,669.

g. Rate base adjustments totaling $6,161,023.

h. A collections practices adjustment of $566,141.

The adjustments included above in item 3 would reduce the Company's requested rate increase to approximately $2 million. However, I do wish to reserve my rights to reduce the proposed rate increase further once I review the testimony of Staff and New Hampshire Legal Assistance.

Q. Does this conclude your testimony?

A. Yes.