BEFORE THE STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

In the matter of:)
DG 10-017 EnergyNorth Natural Gas, Inc. d/b/a National Grid NH)
Notice of Intent to File Rate Schedules)

Pre-filed Direct Testimony

of

Kenneth E. Traum
Assistant Consumer Advocate

on behalf of
the Office of Consumer Advocate

Dated: **October 22, 2010**

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LIST OF ATTACHMENTS

I. Introduction and Summary of Purpose and Positions

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.

Q. How long have you worked for the OCA?

A. I have been employed by the OCA for approximately 21 years.

Q. Is a summary of your experience attached to this testimony?

A. Yes. Attachment KT-1 is my resume.

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

A. Yes. I have testified before the Commission on behalf of the OCA on many occasions, in adjudicatory proceedings involving electric, natural gas, water and telecommunications utilities.

Q. What is the purpose of your testimony in this natural gas rate case?

A. Other witnesses will testify on behalf of the OCA about Grid NH's decoupling proposal as well as its cost of service study and rate design proposal.[1] My testimony is intended to

[1] *See* Prefiled Direct Testimony of George Briden, of Snake Hill Energy Resources, Inc., on behalf of the OCA, for the OCA's position on decoupling. *See* Prefiled Direct Testimony of Lee Smith and Arthur Freitas, of La Capra

provide the OCA's position on three of the four annual rate reconciliation mechanisms (other than decoupling) proposed by EnergyNorth Natural Gas, Inc. d/b/a National Grid NH's (Grid NH). I will also provide the OCA's position on Grid NH's proposed revenue requirement and make a recommendation about the Company's recovery of rate case expenses.

Q. Please summarize the OCA's positions on the issues discussed in your testimony.

A. Regarding the proposed reconciling mechanisms other than decoupling, the OCA agrees in part and disagrees in part. The specific position on each proposal is discussed in further detail below.

With regard to the proposed revenue requirement,[2] the OCA recommends an increase of no more than $1,082,601 from the Company's last permanent rates, which were approved in DG 08-009 in Order No. 25,044 issued on November 13, 2009. My recommendation will result in a decrease of $3,917,399 from the current temporary revenue requirement, which the Commission approved for implementation on June 1, 2010. The details supporting this recommendation can be found later in my testimony. Generally speaking, however, the OCA's proposed reduction to the revenue requirement is the result of a different calculation of rate base from the Company's, the use of the last return on equity

Associates, Inc., on behalf of the OCA for the OCA's position on Grid NH's cost of service study and proposed rate design.

[2] Pre-filed Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 6 (Bates p. 8), line 13 ($11,422,718) as revised by Pre-filed Supplemental Direct Testimony of Frank Lombardo (September 13, 2010), at p. 2 (Bates p. 3), lines 3-5 (removing $60,681 from proposed revenue requirement).

approved by the Commission, and numerous adjustments to Grid NH's Adjusted Net Operating Income.

Finally, the OCA recommends that prudently-incurred rate case expenses should be shared equally between ratepayers and stockholders, rather than paid solely by ratepayers through rates, and that the reconciliation of temporary and permanent rates be accomplished on a volumetric, per therm basis through the LDAC.

Q. Before turning to address Grid NH's rate reconciliation proposals, is there anything more you would like to say about the OCA's revenue requirement recommendation?

A. Yes. Based upon statements of Grid NH in testimony and during discovery, the OCA expects the Company to update its revenue requirement at some point after the deadline for intervenor testimony.[3] Therefore, the OCA's recommendation on the revenue requirement is based upon Grid NH's original filing, as revised by supplemental testimony filed in September.[4] To the extent that Grid NH revises its revenue requirement following the filing of this testimony, the OCA reserves its rights to respond.

[3] *See, e.g.*, Pre-filed Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 44 (Bates p. 46), lines 18-20 ("Company will update rate base for any variances between the budgeted and actual amounts of capital additions through September 30, 2010); and Grid NH's Response to Staff Tech 3-7 dated October 1, 2010 (Company will update its overall revenue requirement in October 2010).
[4] Pre-filed Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 6 (Bates p. 8), line 13 ($11,422,718) as revised by Pre-filed Supplemental Direct Testimony of Frank Lombardo (September 13, 2010), at p. 2 (Bates p. 3), lines 3-5 (removing $60,681 from proposed revenue requirement).

II. Annual Rate Reconciliation Mechanism Proposals

Q. Other than decoupling,[5] what are Grid NH's annual rate reconciliation proposals?

A. Grid NH proposed the following annual rate reconciliation mechanisms:

- Expansion of the annual [Cast Iron Bare Steel (CIBS)] rate adjustment mechanism to include public works projects and eliminate the current $500,000 threshold [or deductible].
- Rate adjustment mechanism to reflect changes for certain known and measurable costs (pensions, OPEBs, and commodity-related bad debt) relative to the test year amounts included in base rates...[and]
- Inflation adjustment net of assumed productivity factor for certain operating expenses.[6]

Q. What is the magnitude of the increase in revenues associated with Grid NH's proposed annual rate reconciliation mechanisms?

A. Not including the decoupling proposal, Grid NH's three other rate adjustment mechanisms, if approved, would result in an increase to revenue of $987,406[7] in 2011and $1,703,275 in 2012.[8] When one includes decoupling, the proposed increase for 2011 and 2012 would be $3,566,568[9] and $6,952,096, respectively.[10]

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[5] *See* Prefiled Direct Testimony of George Briden on behalf of the OCA for the OCA's position on decoupling.
[6] Prefiled Direct Testimony of Nickolas Stavropoulos (February 26, 2010), at p. 23, lines 14-21. See also Pre-filed Direct Testimony of Susan L. Fleck (February 26, 2010), at p. 16 (Bates p. 18), lines 2-10 (Grid NH's CIBS proposal); Pre-filed Direct of Frank Lombardo and Michael J. Adams (February 26, 2010), at pp. 23-29 (Bates pp. 25-31) (Grid NH's proposed rate adjustment mechanism to reflect changes for Pension and OPEB expenses); and Pre-filed Direct Testimony of Susan F. Tierney (February 26, 2010), at pp. 27-32 (Bates pp.29-34) (Grid NH's proposed inflation adjustment).
[7] *See* Grid NH's response to Locke 2-6 (Attachment KT-2).
[8] *See* Grid NH's response to Locke 2-8 (Attachment KT-3).
[9] *See* Grid NH's response to Locke 2-6 (Attachment KT-2).
[10] *See* Grid NH's response to Locke 2-8 (Attachment KT-3).

Q. What is the OCA's position on the first of these rate reconciliation proposals, the expansion of the CIBS annual rate adjustment mechanism to include public works projects and eliminate the current $500,000 deductible?[11]

A. The CIBS program, which was approved in DG 06-107, allows the Company more timely recovery of pre-approved cast iron/bare steel replacements, with certain limitations which the Company now seeks to change. In light of the present circumstances of limited growth in sales, the OCA does not oppose the proposed changes to the CIBS rate adjustment as a pilot program until the next base rate case and only so long as the recovery, through CIBS, is limited to 90% of the otherwise calculated recovery. A 90% limit on recovery through CIBS incents Grid NH to prudently manage costs. Grid NH could seek recovery of the remaining 10% of actual expense in its next base rate case. The OCA also recommends that the Commission consider, in making its determination on this proposal, the extent to which the Company is exposed to less risk because of more timely and predictable cost recovery, and the value of that reduced risk, for the purpose of setting the Company's Return on Equity (ROE).

Q. What are the OCA's positions on the next proposed rate reconciliation, the annual rate adjustment mechanism to reflect changes for certain costs (*e.g.*, pensions, OPEBs, and commodity-related bad debt) relative to the test year amounts included in base rates?

[11] *See* Pre-filed Direct Testimony of Susan L. Fleck (February 26, 2010), at p. 16 (Bates p. 18), lines 2-10 (Grid NH proposes to expand CIBS to include public works projects and eliminate the current $500,000 cost threshold for recovery).

A. The OCA does not oppose the proposal to reconcile commodity-related bad debt. This proposal is consistent with the Commission's rate treatment of other commodity-related expenses.

However, the OCA opposes Grid NH's proposal to reconcile pension and OPEB costs annually.[12] The proposed Pension and OPEB reconciliation would completely indemnify Grid NH and remove any incentive to prudently manage these costs. Even if the ability to manage costs in the near term is somewhat limited if Grid NH continues to bear some risk for cost increases between rate cases it is more likely than not that Grid NH will consider and take actions that reduce these costs, and the volatility associated with them, over the long term.

This issue is not new to the Commission, and both the OCA and the Commission Staff have opposed reconciliation of pension and post-retirement benefits in other dockets. For example, in DE 05-178, a Unitil Energy Systems, Inc. (UES) rate case, Staff testimony identified similar concerns about the establishment of a separate reconciling mechanism for pension and post-retirement benefits.[13] Staff also pointed out that other utilities had taken steps to alter their defined benefit plans or otherwise reduce the costs associated with those plans including a partial pension freeze and the implementation of a 401(k) benefit for employees hired after a certain date. Consistent with these cost-saving

[12] *See* Pre-filed Direct of Frank Lombardo and Michael J. Adams (February 26, 2010), at pp. 23-29 (Bates pp. 25-31) (proposed rate adjustment mechanism to reflect changes for Pension and OPEB expenses); and Pre-filed Direct Testimony of Susan F. Tierney (February 26, 2010), at p. 27, line 1-17 (Bates p. 29) (same).
[13] Pre-filed Direct Testimony of Steven E. Mullen (DE 05-178, June 9, 2006) (Attachment KT-4), at p. 19, line 5, through p. 20, line 16.

suggestions, UES closed its defined benefit plan to new hires as of January 1, 2010.[14] Also, UES has not proposed a pension tracker in its pending rate case. Therefore, Grid should explore taking similar steps to reduce these costs, and the Commission should reject the Company's proposal.

Q. What is the OCA's position on the third annual rate reconciliation proposal, the inflation adjustment for certain operating expenses?

A. The OCA opposes Grid NH's proposed inflation adjustment.[15] This rate adjustment would enable Grid NH to increase rates without any corresponding increases in expenses. An automatic adjustment for hypothetical cost increases reduces Grid NH's incentive to prudently manage expenses. An increase in rates associated with an un-known and un-measurable expense is also not just or reasonable. Of note, UES proposed a similar inflation adjustment in DE 05-178. Both the OCA and Staff opposed it for the same reasons just stated.[16] While this issue was not litigated in DE 05-178, UES did not propose an inflation adjustment reconciling mechanism in its pending rate case, DE 10-055.

Q. Does the OCA have any other concerns about the proposed inflation adjustment mechanism?

[14] *See* Pre-filed Direct Testimony of George E. Long, Jr. (UES Rate Case, DE 10-055), Exhibit GEL-1, p. 7 of 18 (Bates p. 0159) (Attachment KT-5), lines 18-21 ("Effective January 1, 2010, Unitil Corporation closed the Retirement Plan to new non-union hires."

[15] *See* Pre-filed Direct Testimony of Susan F. Tierney (February 26, 2010), at pp. 27-32 (Bates pp. 29-34) (Grid NH's proposed inflation adjustment).

[16] Pre-filed Direct Testimony of Steven E. Mullen (DE 05-178, June 9, 2006) (Attachment KT-4), at pp. 15-16.

A. Yes. The inputs to the Grid NH inflation adjustment would be an inflation rate, a productivity offset, and the residual operating expenses not already subject to a reconciling adjustment. The OCA also has concerns about Grid NH's proposed productivity offset of 0.5%, which is below the lower end of the distribution productivity offset range discussed in Grid NH's testimony.[17] In fact, Grid NH's productivity range suggests the need for a Grid NH specific productivity study.

Q. Do you wish to add anything else about these rate reconciliation proposals?

A. Yes. Although I am not an expert on the calculation of ROE, my experience in rate cases at the Commission causes me to see a logical connection between the risk faced by Grid NH in the recovery of costs through rates and the level at which the Company's shareholders should be compensated for that risk, the level of ROE. If Grid NH were permitted to automatically recover its pension and OPEB costs or eliminate the impact of inflation on its earnings, it follows common sense that Grid NH's shareholders face less risk of recovering a return on their investment in the Company. Thus, ROE should be reduced if any of these mechanisms – or decoupling – is approved.

[17] Pre-filed Direct Testimony of Susan F. Tierney (February 26, 2010), at p. 31 (Bates p. 33), at lines 15-16 ("Distribution productivity ranges from 0.53% (Boston Gas) to 1.99% (Central Maine Power)").

III. Revenue Requirement

A. Rate Base

Q. Please summarize the Company's rate base proposal totaling $169,006,099.[18]

A. The Company calculated rate base using test-year-end net utility plant together with net forecasted non-growth capital additions through September 30, 2010, "property base adjustments" including $32,572,501 related to a Fixed Asset Study, customer deposits and accrued interest, and working capital.

Q. What is the OCA's rate base proposal?

A. The OCA's rate base figure is $131,442,410.

Q. How did you calculate this amount?

A. I started with the test-year-average net plant, $195,420,246, and added a pro-forma adjustment to fully recognize the annualized cost of non-growth capital additions, $2,680,020, adjusted "property base" of ($67,717,804), and working capital of $1,059,948. The sum of these figures totaled $131,442,410. This amount does not include $32,572,501, the amount which was allocated to Grid NH for a Fixed Asset Study conducted in December 2009.[19]

Q. Why did you use test-year-average rate base as your starting point?

A. Using test-year-average rate base properly matches test-year customer revenues with the investment, which was in service over that same time period to serve them.

[18] Exhibit EN 2-4, page 1 of 5.
[19] Grid NH Response to Staff Tech 3-20 (Attachment KT-6).

Q. Why did you increase test-year-average rate base by the value of non-growth capital additions during the test year?

A. Adding the value of non-growth capital additions to the test-year-end rate base recognizes the drag these investments have on earnings, particularly during a period of lower sales growth due to the economy.

Q. Why did you reduce rate base by the cost of the Fixed Asset Study?

A. The Company acknowledged in discovery that the Fixed Asset Study "did not identify any substantive changes that were required for EnergyNorth."[20] Attempts to drill down into the substance of the Fixed Asset Study were unsuccessful for the parties and the Commission's Audit Staff.[21] Without more information, the OCA takes the position that Grid NH has not met its burden of proof for recovery of the $32.5 million related to the results of the Study.

Q. Do you have anything further to add about the OCA's rate base recommendation?

A. As alluded to earlier, the OCA's rate base recommendation is based upon Grid NH's original rate base proposal dated February 26, 2010. Any revisions by Grid NH to its rate base proposal which occur after my testimony is filed may require additional testimony. In addition, to the extent that the Commission's Staff recommends any reductions to rate base on the grounds of imprudence, the OCA reserves its rights to review any such reductions.

[20] Grid NH's Response to Staff Tech 1-7 dated August 25, 2010 (Attachment KT-7).
[21] Final Audit Report dated August 16, 2010 (Audit Report) (Attachment KT-8), p. 35 ("Audit attempted to verify the components noted on the page to the general ledger and was unable to do so.").

A. <u>Adjusted Net Operating Income</u>

Q. Please summarize Grid NH's proposed Adjusted Net Operating Income.

A. Grid NH originally proposed an Adjusted Net Operating Income of $8,576,532.[22] The Company's supplemental testimony increased this amount by $35,802.[23] Then, as a result of the Audit and discovery, the Company agreed in part to increase its Adjusted Net Operating Income by an additional $159,595.[24]

Q. Please summarize the OCA's recommended adjustments to Grid NH's proposed Adjusted Net Operating Income.

A. Table 1 below sets forth the OCA's recommended adjustments. I took the Company's original Adjusted NOI and removed the OCA recommended expense adjustments and the adjustments that the Company agreed to in discovery.[25] I then adjusted the proposals to account for taxes. The result is an Adjusted NOI of $10,213,274, as compared to the company's originally filed amount of $8,576,532.

[22] *See* EN 2-1, p. 1, line 4.
[23] *See* Pre-filed Supplemental Direct Testimony of Frank Lombardo dated September 13, 2010 ($60,681 with 59% tax impact).
[24] *See* Grid NH's Response to Staff Tech 3-43 (Attachment KT-9). This amount reflects only the amounts associated with items 2 through 14 in Attachment Staff Tech 3-43.
[25] *See* Grid NH's Response to Staff Tech 3-43 (Attachment KT-9).

Table 1

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH			
OCA Recommended Adjusted Net Operating Income			
	Pre-Tax Adj. to Expenses *	Tax Adjusted Impact on NOI*	Net Operating Income
Column Number	2	3	4
Original Company Amount (EN 2-1)			$8,576,532
Company Revision per Supp. Test.	-$60,681	$35,802	$8,612,334
Company Agreed Adj. per Tech 3-432-14	-$270,500	$159,595	
OCA Proposed Adjustments			
Collections Expense	-$776,886		
Contract Center Consolidation	-$163,000		
Brand Conversion	-$119,639		
Global ERP	-$95,633		
Incentive/"Gainsharing" Comp	-$228,837		
Payroll Taxes Capitalized	-$297,566		
Acct # 88700	-$146,130		
Acct # 8870K	-$6,617		
Acct # 88900	-$43,975		
Allocated Savings NG	-$75,000		
Staples	-$16,246		
Postage	-$4,719		
Sales Demo	-$413,481		
Non-recurring per Staff 2-10	-$55,227		
TOTAL OCA Adjustments	-$2,442,958	$1,441,345	
OCA Adj. to NOI			
OCA Adjusted NOI			$10,213,274

*A reduction in expenses will increase the Company's taxable net operating income. Tax liability will reduce that increase by 41%. Thus Column 3 = (-1) x (.59) x (Column 2).

1. Collections Expense Adjustment and Uncollectible Rate for Non-Commodity Costs

Q. Please summarize Grid NH's proposal for expenses related to collection activities.

A. Grid NH proposes a $776,886 increase[26] for expenses related to an "increased level of collection activities undertaken or proposed to be undertaken."[27]

Q. Please summarize Grid NH's proposed uncollectible rate for non-commodity expenses.

A. Grid NH proposes using an uncollectible rate of 3.36%[28] based on the "most recent experience of write off to revenue percentage."[29]

Q. What portion of Grid NH's uncollectibles relates to non-commodity expenses?

A. Based upon test year revenue levels, approximately 28% of Grid NH's uncollectibles relates to non-commodity expenses. The remaining uncollectibles relate to commodity expenses. As noted earlier in my testimony, the OCA does not oppose the reconciliation of commodity-related uncollectibles.

Q. What are the OCA's concerns about the proposed collection expense and uncollectible rate for non-commodity expenses?

A. Grid NH's proposed collection expense includes costs that have not yet been incurred such as the costs associated with the proposed "Consumer Advocates" and the proposed

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[26] EN-2-2-2, Schedule 16.
[27] Pre-filed Direct of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 34 (Bates p. 36), line 3.
[28] EN 2-2-2, Schedule 14, p. 2, line 2.
[29] Pre-filed Direct of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 33 (Bates p. 35), line 8.

replevin process.[30] At the same time, Grid NH's proposed uncollectible rate for non-commodity expenses does not reflect any reduction associated with the proposed increased collection expense and activities. The Company estimates that the proposed incremental increase of $776,886 to collection expense will reduce net charge offs by $1.1 to 1.8 million.[31]

Q. What are the OCA's recommendations for collection expense and the uncollectible rate for non-commodity costs?

A. To ensure that rates are set based on costs actually incurred, the $776,886 estimate of increased collection costs should not be a pro-forma expense adjustment for the purpose of setting permanent rates. Instead, the OCA recommends that Grid NH be allowed to seek recovery of <u>actual</u> incremental costs related to new collection policies – to the extent they are approved by the Commission – through a future step adjustment. Also, in calculating the future step adjustment, an offset should be made in order to recognize that the costs are being incurred to reduce net charge offs. For example, to calculate the amount of the offset, the Commission could use the midpoint of the $1.1-1.8 million range (i.e., $1.45 million) times 28% (base rate percent of total revenues in the test year) divided by 2 or 3 in order to recognize that the savings would develop over two or three years. The resulting range would be $135,000 to $200,000 per year.

[30] *See* Grid NH's Response to OCA 2-106 dated July 7, 2010 (Attachment KT-10) (Company will launch the Consumer Advocate positions after Commission approval in this rate case); and Grid NH's Response to OCA 2-103 dated July 13, 2010 (Attachment KT-11), p. 3 (replevin practice has not yet been initiated; no costs incurred to date).
[31] Pre-filed Direct Testimony of Mark Hirschey (February 26, 2010), p. 20 (Bates p. 22), line 21, through p. 21 (Bates p. 23), line 1.

Q. Is there anything else you would like to add before turning to the next income statement issue?

A. Yes. The OCA expects that other parties to this docket may take positions in testimony on the proposed changes to Grid NH's collection practices. Therefore, the OCA reserves its right to comment on the other parties' positions at a later time.

2. Contract Center Consolidation

Q. Please summarize Grid NH's proposal for expenses related to its contract center consolidation.

A. Grid NH's proposed revenue requirement includes $983,788 associated with Account #9030K, Customer Records and Collection Expenses, for work related to operating a call center in Massachusetts. In response to the Staff Audit, the Company described these costs as "incremental costs associated with the contract center consolidation."[32]

Q. What is the OCA's recommendation with regard to the contract center consolidation costs?

A. The OCA recommends reducing the revenue requirement by $163,000. The basis for the OCA's recommendation is Grid NH's response to subsequent discovery, that the "12 months ending June 2009 reflects an approximate $163,000 increase from 12 months ending December 2008."[33] The Company identified "incremental costs associated with contract center consolidation" as the "primary driver" of this increase.[34] Because costs

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[32] Audit Report (Attachment KT-8), at p. 31.
[33] Grid NH Response to OCA 3-28, Attachment (a) (Attachment KT-12), p. 2 of 3.
[34] *Id.*

associated with consolidation are typically one-time, non-recurring costs incurred for the purpose of reducing expenses, the OCA recommends that the proposed revenue requirement be reduced by $163,000, to $820,788 as it relates to this account.

3. Advertising: Brand Conversion Project

Q. Please summarize Grid NH's proposal for expenses related to its "informational and instructional advertising."

A. Grid NH's proposed revenue requirement includes $500,000 related to "additional allocations from the National Grid USA Service Company for outside consultants utilized in informational and instructional advertising and other noncontractor charges."[35] Included within the $500,000 increase in allocations is approximately $119,000 "tied to a brand conversion project."[36] The brand conversion project included costs for "non-media branding costs for items such as signage changes."[37] In response to the Audit, the Company confirmed that the $119,000 is non-recurring.[38]

Q. What is the OCA's recommendation with regard to the branding conversion project costs?

A. Consistent with the Company's confirmation that the cost associated with this project is non-recurring, the OCA recommends that the proposed revenue requirement be reduced by $119,000.

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[35] Prefiled Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 30 (Bates p. 32), lines 14-17.
[36] Grid NH's Response to Staff 1-85 (without attachments) (Attachment KT-13).
[37] Grid NH's Response to OCA 2-95 (Attachment KT-14).
[38] Audit Report (Attachment KT-8), p. 33.

4. Global Enterprise Resource Plan

Q. Please summarize Grid NH's proposal for expenses related to the Global Enterprise Resource Plan (ERP).

A. Grid NH's proposed revenue requirement includes a "non-recurring write-off in the amount of $95,633 described as global ERP."[39] According to the Company, the "Global Enterprise Resource Plan was a project designed to consolidate National Grid's front and back office into one global set of applications in the US and UK."[40] Subsequent to incurring these costs, an "Executive decision was made that a regional solution was more appropriate" and the costs incurred for the project were written off.[41]

Q. What is the OCA's recommendation with regard to the proposed write-off of these costs?

A. The OCA concurs with the Audit Staff's recommendation that "a credit adjustment be made to the filing for the non-recurring write-off in the amount of $95,633 global ERP."[42]

5. Incentive Compensation and "Gainsharing"

Q. **Please summarize Grid NH's proposal for expenses related to Incentive Compensation and "Gainsharing."**

A. Grid NH's proposed revenue requirement includes $363,357 related to incentive compensation[43] and $94,318 related to "gainsharing,"[44] for a total of $457,675.

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[39] Audit Report (Attachment KT-8), p. 32.
[40] *Id.*
[41] *Id.*
[42] *Id.*

Q. What is the OCA's recommendation with regard to this proposal?

A. The OCA recommends that the proposed revenue requirement be reduced by 50% of the $457,675, or $228,837. The OCA's recommendation is based upon the fact that the Company's stockholders directly benefit from the incentives that are tied to the Company's financial performance. Thus, to the extent that incentive compensation and "gainsharing" is based upon financial performance, the stockholders – not the ratepayers – should pay the costs associated with the benefits of meeting the Company's financial goals. Based upon Grid NH's responses to discovery,[45] the OCA selected 50% as the percentage of incentive compensation and "gainsharing" associated with financial performance.

6. Payroll and Payroll Taxes: Percentage Capitalized

Q. Please summarize Grid NH's proposal for the percentage of payroll and payroll taxes that is capitalized.

A. Grid NH proposes to capitalize 28.97% of payroll[46] and 24.79% of payroll taxes.[47]

Q. What is the OCA's recommendation with regard to this proposal?

A. Consistent with the Grid NH's use of a multi-year average to normalize fluctuating expenses,[48] the OCA recommends that a three-year average (i.e., 2007, 2008 and 2009)

[43] Grid NH's Response to OCA 1-49 (Attachment KT-15).
[44] Grid NH's Response to Staff Tech 3-29 (Attachment KT-16).
[45] Grid NH's Response to Staff 1-67 (without attachments) (Attachment KT-17), p. 1 of 2 ("In the Annual Performance (P4G) Plan, 50% of the maximum incentive compensation opportunity is based on financial targets and 50% is based on individual objectives"); and Staff 2-39 (Attachment KT- 18) (Annual Performance Plan financial goals between 50 and 60%).
[46] Grid NH's Responses to OCA 1-69 (Attachment KT-19) and OCA 2-69 (Attachment KT-20).
[47] Prefiled Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 38 (Bates p. 40), line 10. See also Grid NH's Responses to OCA 1-69 (Attachment KT-19) and OCA 2-70 (Attachment KT-21).

be used to normalize the capitalization rate for payroll and payroll taxes. The result of this recommendation is a reduction to the proposed revenue requirement of $278,576 and $18,990, for payroll and payroll taxes, respectively, for a total of $297,566.[49]

7. *T&D Mains & Services Expense, Activities*

Q. Please summarize Grid NH's proposal for the expenses associated with activities 002015, 003727 and 004255 within account #88700, T&D Mains & Services Expense.

A. Grid NH's proposed revenue requirement reflects significant cost increases for several activities booked in this account. "Costs for activity 002015, Meetings & Trainings totaling $148,144 in the test year show an **increase of $49,522** when compared to the 12 months ended 12/2008" (i.e., 50%).[50] Test year "[c]osts for activity 003727, Equipment Room totaling $240,734 show **an increase of $69,978**" (i.e., 52%) and test year "[c]osts for [a]ctivity 004255, Valve/Drip Repair-Main totaling $239,519 **increased by $44,811**" (i.e., 27%).[51] Grid NH's response to discovery shows that the costs associated with these activities have fluctuated at least since 2006.[52]

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[48] *See, e.g.*, Grid NH's Response to Staff Tech 1-17 (Attachment KT-22)("A five year average was used to smooth fluctuations in claims payments from year to year.").
[49] *See* Grid NH's Responses to OCA 2-69 (Attachment KT-20) and OCA 2-70 (Attachment KT-21).
[50] Audit Report (Attachment KT-8), p. 18 (emphasis in original).
[51] *Id.* (emphasis added).
[52] *See* Grid NH's Response to OCA 3-19 (Attachment KT-23) (Grid NH provided the costs associated with these activities for 2006, 2007, 2009, and the 12 months ending June 30, 2010).

Q. What is the OCA's recommendation with regard to this proposal?

A. Again, consistent with the Grid NH's use of a multi-year average to normalize fluctuating expenses,[53] the OCA recommends that a three-year average (i.e., 2007, 2008 and 2009) be used to normalize the expenses associated with these Account #88700 activities. The result of this recommendation are reductions to the proposed revenue requirement of $17,624 (activity 002015), $94,284 (activity 003727) and $54,842 (activity 004255), for a total of $166,730. This total must then be reduced by $20,600 in order to recognize an adjustment that the Company has agreed to,[54] resulting in a net total reduction to the revenue requirement of $146,130.

8. "Maintenance Free Bin" Activity

Q. Please summarize Grid NH's proposal for the expenses associated with activity 003818, "Maintenance Free Bin."

A. Grid NH's proposed revenue requirement reflects a significant cost increase for activity 003818, Maintenance Free Bin (within account #8870K, Maintenance of Mains). Costs for this activity, which relates to the maintenance of mains, total $23,627 in the test year, a "$22,109 increase when compared to [the] 12 months ended 12/2008."[55] Grid NH's response to discovery shows that the cost associated with this activity has fluctuated – and increased dramatically – at least since 2006.[56]

[53] *See, e.g.*, Grid NH's Response to Staff Tech 1-17 (Attachment KT-22) ("A five year average was used to smooth fluctuations in claims payments from year to year.").
[54] *See* Grid NH's Response to Staff Tech 3-43 (Attachment KT-9).
[55] Audit Report (Attachment KT-8), p. 18.
[56] *See* Grid NH's Response to OCA 3-19 (Attachment KT-23) (Grid NH provided the costs associated with these activities for 2006, 2007, 2009, and the 12 months ending June 30, 2010).

Q. What is the OCA's recommendation with regard to this proposed increase to activity 003818?

A. Consistent with the Grid NH's use of a multi-year average to normalize fluctuating expenses,[57] the OCA recommends that a three-year average (i.e., 2007, 2008 and 2009) be used to normalize the expenses associated with this Account #8870K activity. The result of this recommendation is a reduction to the proposed revenue requirement of $6,617.

9. Property Structure Maintenance Activity

Q. Please summarize Grid NH's proposal for the expenses associated with activity 004109, Property Structure Maintenance.

A. Grid NH's proposed revenue requirement reflects a significant cost increase for activity 004109, Property Structure Maintenance, within account #88900, T&D-Maintenance Measures & Regulator Equipment. Costs for this activity totaled $122,034 in the test year, "**an increase of $46,207** when compared to 12 months ended 12/2008."[58] Grid NH's response to discovery shows that the cost associated with this activity has fluctuated at least since 2006.[59]

[57] *See, e.g.*, Grid NH's Response to Staff Tech 1-17 (Attachment KT-22) ("A five year average was used to smooth fluctuations in claims payments from year to year.").
[58] Audit Report (Attachment KT-8), p. 18.
[59] *See* Grid NH's Response to OCA 3-19 (Attachment KT-23) (Grid NH provided the costs associated with these activities for 2006, 2007, 2009, and the 12 months ending June 30, 2010).

Q. What is the OCA's recommendation with regard to this proposed increase for account #88900?

A. Again, consistent with the Grid NH's use of a multi-year average to normalize fluctuating expenses,[60] the OCA recommends that a three-year average (i.e., 2007, 2008 and 2009) be used to normalize the expenses associated with this account. The result of this recommendation is a reduction to the proposed revenue requirement of $43,975.

10. Health and Welfare Benefits

Q. Please describe the basis for the next recommended reduction to Grid NH's Adjusted Net Operating Income.

A. In its filing, Grid NH described "cost control efforts" taken to mitigate increases in its operating expenses.[61] Specifically, on January 1, 2009, National Grid USA implemented a consolidated, common health and welfare benefits plan for all non-union employees[62] and the medical and dental plans for non-union employees became self-insured.[63] "Some of the union populations also moved to a self-insured platform for medical coverage during the latter part of 2009 and January 1, 2010." The total anticipated annual savings to National Grid NH associated with the medical plan consolidation is $3.5 million.[64] The total anticipated annual savings to National Grid USA, in medical and dental costs, as a result of moving legacy KeySpan Corporation employees to a self-insured platform

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[60] *See, e.g.*, Grid NH's Response to Staff Tech 1-17 (Attachment KT-22) ("A five year average was used to smooth fluctuations in claims payments from year to year.").
[61] Pre-filed Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 10 (Bates p. 12), lines 18-19.
[62] Grid NH's Response to Staff 1-59 (Attachment KT-24).
[63] Grid NH's Response to Staff 1-60 (Attachment KT-25).
[64] Grid NH's Response to Staff 1-59 (Attachment KT-24); and Grid NH's Response to OCA 2-89 (Attachment KT-26).

is \$3.9 million.[65] None of this savings is reflected as an allocation reducing NH's proposed revenue requirement.

Q. What does the OCA recommend with regard to this health and welfare benefit cost savings?

A. The OCA recommends that the proposed revenue requirement be reduced by \$75,000, to reflect a portion of the savings. I calculated this amount by multiplying the total savings, \$7.4 million, by the Company's billing pool allocation of 2.708%.[66] I then multiplied the result, \$200,392, by 75%, to reflect the capitalization of 25% of these savings.[67] Then, I reduced the result of \$150,294 by half to reflect that the fact that the consolidation of National Grid USA's medical plans and the implementation of a self-insured plan occurred in the middle of the test year.

11. Office Supplies

Q. Please describe the basis for the next recommended reduction to Grid NH's Adjusted Net Operating Income.

A. In its filing, Grid NH described another "cost control" efforts taken to mitigate increases in its operating expenses, the "[r]e-negotiation of the Company's office supply vendor contract."[68] In discovery, the Company quantified the annual savings associated with new three-year contract to National Grid U.S. operations as \$800,000 plus an amount

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[65] Grid NH's Response to Staff 1-60 (Attachment KT-25); and Grid NH's Response to OCA 2-90 (Attachment KT-27).
[66] Grid NH's Responses to Staff 1-85 (Attachment KT-28) and Staff 2-23 (Attachment KT-29).
[67] Grid NH's Responses to OCA 2-89 (Attachment KT-26) and OCA 2-90 (Attachment KT-27).
[68] Prefiled Direct Testimony of Frank Lombardo and Michael J. Adams (February 26, 2010), at p. 10 (Bates p. 12), line 20.

from Staples that the Company claims is confidential.[69] The Company also provided an effective date of October 1, 2009.[70]

Q. What does the OCA recommend with regard to this office supply cost savings?

A. The OCA recommends that the proposed revenue requirement be reduced by $16,248, which reflects allocated savings for nine months of the twelve months following the test year (*i.e.*, October 2009 through June 2010). The OCA's recommendation does not include any portion of the confidential savings associated with Staples because we view that payment as non-recurring.

12. Postage

Q. Please summarize Grid NH's proposal for postage expense.

A. Grid NH's proposed revenue requirement includes a $371,515 increase to test year postage expense.[71] In discovery, however, the Company provided data showing a continuous decrease, between June 2007 and May 2010, in the number of customers who receive their bills through the mail.[72]

Q. What does the OCA recommend with regard to the proposed postage expense?

A. The OCA recommends that the proposed revenue requirement be reduced by $4,718 to reflect a 1.2% reduction in the number of customers who receive their bills by mail.[73]

[69] Grid NH's Response to Staff 1-61 (Redacted) (Attachment KT-30).
[70] Grid NH's Response to Staff 1-61 (Redacted) (Attachment KT-30).
[71] EN 2-2-2, Schedule 10, p. 2.
[72] Grid NH's Response to OCA 1-63 (Attachment KT-31).
[73] Grid NH's Response to OCA 1-63 (Attachment KT-31) (93.3% as of May 19, 2010 compared to the test year level of 94.5%).

13. ***Advertising and Activities***

Q. Please summarize Grid NH's proposal for the expenses associated with advertising.

A. Grid NH's proposed revenue requirement includes $413,468 for advertising expenses, which is approximately 50% of the test year expense.[74] Due to the 50% reduction of the test year expense, the OCA presumes that the Company is seeking recovery pursuant to Puc 510.03, which permits partial recovery through rates of certain advertising costs so long as the costs are "provided for in the utility's IRP."

Q. What does the OCA recommend with regard to the proposed level of "Sales-Demonst & Sell Exp" advertising expense?

A. Consistent with Staff's recommendation in the last Grid NH rate case, DG 08-009,[75] the OCA recommends that the proposed revenue requirement be reduced by the remaining 50%, or $413,468. As in the prior rate case, the last-approved IRP for Grid NH (Docket No. 06-105) does not provide for advertising.[76]

14. ***Miscellaneous Operations and Maintenance Expenses***

Q. Please describe the basis for the OCA's next recommended adjustment to Grid NH's Adjusted Net Operating Income.

A. In response to discovery, the Company described a number of "NH Revenue Increase and Spending Reduction Initiatives," or "efforts ... to reduce the Company's operations and

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[74] Exhibit 2-2-2, Schedule 13, p. 2, line 16 (account #91200, "Sales-Demonst & Sell Exp," reduced by $413,494, from $826,962)

[75] See Pre-filed Direct Testimony of Stephen P. Frink (Grid NH, DG 08-009) dated October 31, 2008, p. 10 (Attachment KT-32), lines 5-14.

[76] Pre-filed Direct Testimony of Stephen P. Frink (Grid NH, DG 08-009) dated October 31, 2008, p. 10 (Attachment KT-32), lines 11-13 ("Nowhere in EnergyNorth's IRP filed in Docket No. 06-105 is there a description of advertising and promotional programs and the role those programs play in developing the demand forecast."). Grid NH's pending IRP, in docket DG 10-041, has not yet been approved by the Commission.

maintenance expenditures."[77] In a subsequent discovery response, the Company identified the costs associated with each initiative.[78] The OCA's next recommended adjustment relates to initiatives 6, 7, 9, and 12.

Q. Please describe Grid NH's cost-savings initiative 6.

A. Grid NH described initiative 6 as "Reduce 3 mobile compressors from field operation – 2 in the operation – 2 in the Manchester yard and 1 in the Nashua [yard]."[79] This cost-savings initiative was "Completed and Partially Implemented … in August 2009, reducing annual lease expense by $4,000."[80]

Q. What is the OCA's recommendation regarding initiative 6?

A. The OCA recommends that the Adjusted Net Operating Income be reduced by $3,333. This amount reflects 10/12ths of the total reduction to annual lease expense ($4,000), to reflect savings in 10 of the 12 months following the test year. The basis for this recommendation is the fact that the expense is nonrecurring.

Q. Please describe Grid NH's cost-savings initiative 7.

A. Grid NH described initiative 7 as "Eliminate NH administrative assistant position."[81] This cost-savings initiative was "Completed and Implemented … in November 2009"

[77] Grid NH's Response to Staff 1-19 and Attachment Staff 1-19 (Attachment KT-33).
[78] *See* Grid NH's Response to Staff 2-10 (Attachment KT-34).
[79] Grid NH's Attachment Staff 1-19 (Attachment KT-33), p. 1.
[80] Grid NH's Response to Staff 2-10, p. 1 (Attachment KT-34).
[81] Grid NH's Attachment Staff 1-19 (Attachment KT-33), p. 1.

and resulted in a reduction to annual expense of $49,350.[82] The Company grossed up this amount to $69,090.[83]

Q. What is the OCA's recommendation regarding initiative 7?

A. The OCA recommends that the Adjusted Net Operating Income be reduced by $46,060, to reflect savings associated with 8 of the 12 months following the test year. The basis for this recommendation is the fact that the expense is nonrecurring.

Q. Please describe Grid NH's cost-savings initiative 9.

A. Grid NH described initiative 9 as "Reduce closed-box utility trailer,"[84] which was "Completed and Implemented … in August 2009, reducing annual lease expense by $2,000."[85]

Q. What is the OCA's recommendation regarding initiative 9?

A. The OCA recommends that the Adjusted Net Operating Income be reduced by $1,667, to reflect savings associated with 10 of the 12 months following the test year. The basis for this recommendation is the fact that the expense is nonrecurring.

Q. Please describe initiative 12.

A. Grid NH describes initiative 12 as "Reduce two tow able digger [sic]."[86] Grid "Completed and Implemented" this initiative in "August 2009, reducing annual lease expense by $5,000."[87]

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[82] Grid NH's Response to Staff 2-10, p. 2 (Attachment KT-34).
[83] See Grid NH's Response to Staff Tech 1-14 (Attachment KT-35).
[84] Grid NH's Attachment Staff 1-19 (Attachment KT-33), p. 1.
[85] Grid NH's Response to Staff 2-10, p. 2 (Attachment KT-34).

Q. What is the OCA's recommendation regarding Grid NH's cost-savings initiative 12?

A. The OCA recommends that the Adjusted Net Operating Income be reduced by $4,167, to reflect savings associated with 10 of the 12 months following the test year. The basis for this recommendation is the fact that the expense is nonrecurring.

Q. What is the total of these recommendations concerning miscellaneous operation and maintenance expenses?

A. The total of these adjustments is $55,227.

B. Revenue

2008 Ice Storm

Q. Please summarize the basis for the OCA's recommended adjustment to Grid NH's Revenue.

A. In discovery, Grid NH indicated that during the December 2008 Ice Storm, one supervisor's time was utilized to support storm restoration efforts in Massachusetts.[88] The cost of this time, $7,776.05, was included in test-year labor expense. The Audit Staff recommended that these costs be entirely "removed from the test year."[89]

Q. What does the OCA recommend with regard to these Ice Storm costs?

A. The OCA recommends a different approach from the one recommended by the Audit Staff. Instead of reducing the proposed revenue requirement by $7,776, the OCA

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[86] Grid NH's Attachment Staff 1-19 (Attachment KT-33), p. 1.
[87] Grid NH's Response to Staff 2-10, p. 2 (Attachment KT-34).
[88] *See* Grid NH's Response to OCA 1-48 (Attachment KT-36).
[89] Audit Report (Attachment KT-8), p. 50 (Audit Issue #9).

recommends that the $7,776 be recognized as revenue to Grid NH and treated as a credit in the reconciliation of temporary and permanent rates at the conclusion of the case.

C. OCA Revenue Requirement Summary

Q. Mr. Traum, did you calculate a recommended revenue requirement for Grid NH that takes into account all of the OCA's recommended adjustments, as well as the OCA's rate base recommendation?

A. Yes.

Q. In calculating the OCA's recommended revenue requirement, what rate of return did you use?

A. I used an overall rate of return (ROR) of 8.26%. I calculated this ROR by making one change to Grid NH's requested rate of return (ROR) of 9.09%,[90] which was to replace the Company's proposed return on equity (ROE) of 11.20% with the ROE determined by the Commission in Grid NH's last base rate case, DG 08-009, or 9.54%.

Q. What is the OCA's recommended revenue requirement for Grid NH?

A. The OCA recommends a rate increase of no more than $1,082,061 as compared to the Company's last permanent rates set in DG 08-009. This amount is actually a reduction of $3,917,939 from the current revenue requirement approved for temporary rates. Table 2 below provides the OCA's Computation of Revenue Deficiency. To develop this, I multiplied the OCA's proposed rate base of $131,442,410 by the OCA's proxy rate of

[90] *See* Company Exhibit EN 3-1.

return of 8.26%, which results in an annual Revenue Requirement of $10,857,143. I then subtracted the OCA's Adjusted NOI from Table 1 above, and after grossing up for taxes, the result is a revenue deficiency of $1,082,601.

Table 2

EnergyNorth Natural Gas, Inc. d/b/a National Grid NH	
Computation of Revenue Deficiency	
OCA Rate Base	$131,442,410
Rate of Return	8.26%
Income Required	$10,857,143
OCA Adjusted Net Operating Income	$10,213,274
Deficiency	$643,869
Tax Effect	1.6814
Revenue Deficiency	$1,082,601

Q. Before you turn to the last section of your testimony, is there anything else that you would like to say on the issue of revenue requirement?

A. Yes. The OCA expects that other parties may take positions in testimony on the issues not covered in my testimony or the testimony of the OCA's other witnesses. Also, the OCA anticipates that the Company may revise its filing further after my testimony is filed. Consequently, the OCA reserves its rights to comment on these other parties' issues and the Company's revisions to its rate proposal at a later time in this proceeding.

IV. Rate Case Expense Recovery and Temporary Rate Reconciliation

Q. What is the OCA's concern about the recovery by Grid NH of rate case expenses?

A. As the Commission is aware, the rate case expenses from Grid NH's rate case, DG 08-009, totaled $801,094 of which the Company was allowed to recover $788,416.[91] Although the actual amount of rate case expenses for DG 10-017 is not yet known, at the beginning of this case, the Company indicated its expectation that the rate case expenses for DG 10-017 would exceed those incurred for DG 08-009.[92]

Q. What is the OCA's preliminary position on the recovery by Grid NH of rate case expenses?

A. The OCA takes the position that rate case expenses should be borne equally by ratepayers and Grid NH's shareholders. In addition, in determining whether a rate case expense is prudently incurred, the OCA takes the position that the Commission should be guided by the Staff Recommendation on Rate Case Expenses filed in DG 08-009, which includes utilizing competitive bid processes where possible and utilizing special engagement agreements where competitive bids are not used; retaining itemized receipts for expenses; providing itemized invoices for outside services provided in rate case; and providing justification for transportation costs. The Commission should also consider whether the Company has complied with its own internal policies and practices and with the commitments made to Staff and OCA in the last case, and where they have not, costs should be disallowed. Lastly, the OCA recommends that rate case expense recovery be

[91] Re EnergyNorth Natural Gas, Inc. d/b/a National Grid NH (DG 08-009, Order No. 25,064 dated January 15, 2010).
[92] Grid NH's Response to Staff 1-41 (Attachment KT-37).

accomplished on a volumetric, per therm basis through the Local Distribution Adjustment Clause (LDAC).

Q. What is the OCA's concern about temporary rate reconciliation?

A. The OCA is concerned about the application to the temporary rate reconciliation of the rate design approved by the Commission for permanent rates. Changes to rate design are intended – at least in part - to impact customer consumption decisions. If a change to rate design is applied retroactively (e.g., for the purpose of collecting the difference between the new permanent rates and the temporary rates), customers have no opportunity to change the consumption for which they are being billed – because that consumption and the choices behind that consumption have already occurred.

Q. What is the OCA's recommendation with regard to the temporary rate reconciliation?

A. The OCA recommends that the reconciliation of the new permanent rates with the temporary rates be accomplished on a volumetric, per therm basis through the LDAC. This recommendation is consistent with the approach taken in Grid NH's last rate case.[93]

[93] *See* Transcript of May 6, 2010 Temporary Rate Hearing (DG 10-017), p. 24, lines 11-13 (Grid NH witness testimony that temporary rate reconciliation was recovered "on a volumetric basis, on a per therm basis to all customers … through our LDAC").

V. Summary and Conclusion

Q. Please summarize the OCA's positions included in your testimony.

A. The OCA agrees with the Company's proposed extension of the CIBS program with conditions, but opposes the proposals for reconciliation mechanisms for pension and OPEB costs as well as for inflation. The OCA recommends that Grid NH's proposed rate increase be reduced to no more than $1,082,601, which is a reduction of $3,917,399 from the current temporary rate level. The OCA recommends that the Company be permitted to recovery only 50% of its prudently-incurred rate case expenses and that the recovery of these costs as well as the recovery of the temporary rate reconciliation is done on a volumetric, per therm basis through the LDAC.

Q. Do you have anything further to add before concluding your testimony?

A. No. However, I do wish to reserve the OCA's rights to respond to the testimony of other parties and any new information provided by Grid NH after the filing of my testimony.

Q. Does this conclude your testimony?

A. Yes.

Kenneth E. Traum Qualifications

My name is Kenneth E. Traum. I am the Assistant Consumer Advocate for the Office of Consumer Advocate (OCA). My business address is 21 S. Fruit Street, Suite 18, Concord, New Hampshire 03301. I have been affiliated with the OCA for approximately twenty one (21) years.

I received a B.S. in Mathematics from the University of New Hampshire in June, 1971, and an MBA from UNH in June, 1973. Upon graduation, I first worked as an accountant/auditor for a private contractor and then for the New Hampshire State Council on Aging, before going to the New Hampshire Public Utilities Commission (NHPUC) in February, 1976. At the NHPUC I started as an Accountant III, advanced to a PUC Examiner and later become Assistant Finance Director.

In my positions with the NHPUC, I was involved in all aspects of rate cases, assisted others in the preparation of testimony and presented direct testimony, conducted cross examination of witnesses, directed and participated in audits of utilities, and performed other duties as required. While employed at the NHPUC, I was a member of the NARUC Regulatory Studies Program at Michigan State.

In 1984, I left the NHPUC for Bay State Gas Company. With Bay State, I was involved in various aspects of financial analysis for Northern Utilities, Inc., Granite State Gas Transmission, Inc., and Bay State Gas Company, as well as regulatory activities with regard to Maine, New Hampshire, Massachusetts and the FERC.

In early 1986, I returned to New Hampshire to join the EnergyNorth companies, where my areas of responsibility included cash management, regulatory affairs, forecasting and other financial matters. While with EnergyNorth, I was a member of the New England Utility Rate Forum and the New England Gas Association. I also represented the utility, which is the largest natural gas utility in New Hampshire, over a two year period in the generic Commission docket (DE 86-208) which developed a methodology for conducting gas marginal cost studies.

In 1989 I joined the Office of Consumer Advocate with overall responsibility for advising the Consumer Advocate and its Advisory Board on all Financial, Accounting, Economic and Rate Design issues which arise in the course of utility ratemaking or cases concerning determinations of revenue responsibility, competition, mergers, acquisitions and supply/demand issues. I assist the Consumer Advocate and the OCA Advisory Board in formulating policy, and in implementation of that policy. In that role, I have testified before the NHPUC on many occasions. In early 2005, I was promoted to Assistant Consumer Advocate.

I am a member of the NASUCA (National Association of State Utility Consumer Advocates), Committees on Electricity and Gas. I am currently on the Board of Directors for Granite State Independent Living (GSIL) and formerly served as Chair as well as a member on the GSIL's Finance and Audit Committees.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Locke's Data Requests – Set # 2

Revised Response

Date Received: August 24, 2010 | Date of Revised Response: October 21, 2010
Request No.: Locke 2-6 | Witness: Paul Normand

REQUEST: Reference Locke 1-9;

(a) please outline how much each customer class would absorb of the estimated 2011 revenue of $3,566,568 collected from all the proposed annual adjustments.

(b) please outline how much of the estimated 2011 revenue of $3,566,568 from the proposed annual revenue adjustments is attributable to each annual revenue adjustment.

(c) please outline how much each customer class would absorb from each proposed annual revenue adjustment answered to in response to 2-6(b).

(d) please provide any workpapers used to create the estimates in response to Locke 2-6(a) through 2-6(c).

RESPONSE: Please see Attachment Locke 2-6.

National Grid NH
Locke data Requests
Summary of 2011 LDAC Adjustments

Line No.	Description	Non-Heat	Heat	Low Income	Small High Winter Use	Med High Winter Use	Large High Winter Use	Small Low Winter Use	Med Low Winter Use	Large Load Factor <90%	Large Load Factor >90%	Total
	Rate Designation	RNSH R-1	RSH R-3	RLIAP R-4	SH G-41	MH G-42	LH G-43	SL G-51	ML G-52	LLL90 G-53	*LLG90 G-54 + G-63*	
1	Sales Volumes	1,046,902	51,659,668	4,679,981	18,220,666	30,337,794	7,565,321	3,744,752	6,674,862	8,913,180	*15,928,764*	148,771,890
2	Percent of total	0.70%	34.72%	3.15%	12.25%	20.39%	5.09%	2.52%	4.49%	5.99%	10.71%	100.00%
3												
4	Commodity Related Bad Debt	-	-	-	-	-	-	-	-	-	-	-
5												
6	Pension Reconciling Mechanism	3,445	169,997	15,400	59,959	99,833	24,895	12,323	21,965	29,331	52,417	489,565
7												
8	O&M Inflation Adjustment	294	14,529	1,316	5,124	8,532	2,128	1,053	1,877	2,507	4,480	41,841
9												
10	Revenue Decoupling	18,149	895,590	81,134	315,880	525,947	131,155	64,920	115,718	154,522	276,147	2,579,162
11												
12	CI/BS/Public Works	3,209	158,342	14,345	55,848	92,988	23,188	11,478	20,459	27,320	48,823	456,000
13												
14	Total	25,098	1,238,458	112,195	436,811	727,300	181,366	89,774	160,019	213,679	381,867	3,566,568

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Locke's Data Requests – Set # 2

Date Received: August 24, 2010
Request No.: Locke 2-8

Date of Response: September 13, 2010
Witness: Ann E. Leary

REQUEST: Please provide the total estimated revenues, in dollar terms, to be recovered from the LDAC in 2012 for the:

(a) Pension/OPEB adjustment,
(b) Net Inflation adjustment,
(c) Revenue Decoupling adjustment,
(d) Public Works portion of Cast Iron/Bare Steel adjustment,
(d) Commodity-Related Bad Debt adjustment,
(f) For all adjustments outlined in Locke 2-8(a) through 2-8(e).
(g) Please outline how much each customer class would absorb of the amounts in response to Locke 2-8(a) through 2-8(f).
(h) Please provide any workpapers used to create the estimates in Locke 2-8(a) through 2-8(g).

RESPONSE: Please see Attachment Locke 2-8. The response to this question is a follow up to the responses in Locke 1-3 through Locke 1-8 with the bill impacts resulting from the various mechanisms proposed by the Company for the second year of implementation.

(a) In this response the Company estimated the 2012 Pension/OPEB using the same criteria as used in the Locke 1-7 (i.e., 2007 vs. 2009 Pension/OPEB variance).
(b) For the net inflation adjustment, the Company calculated net inflation for the second year, 2012 vs. 2011 and added it to the 2011 increase.
(c) For revenue decoupling, the Company used the information from Dr. Tierney's workpapers- see pages 90-95. Again, this analysis assumes normal weather.
(d) For the public works portion only of the cast iron/bare steel adjustment, the Company used the 2012 forecast.
(e) The Company made no adjustment for commodity-related bad debt.

		2012		
		Annual $	Throughput	Factor
a	Commodity Related Bad Debt	$0	150,828,182	**$0.0000**
b	Pension Reconciling Mechanism	$489,565	150,828,182	**$0.0032**
c	O&M Inflation Adjustment	$277,048	150,828,182	**$0.0018**
d	Revenue Decoupling	$5,248,821	150,828,182	**$0.0348**
e	CI/BS/Public Works	936,662	150,828,182	**$0.0062**
f	Total	$6,952,096	150,828,182	**$0.0461**

Line No.	Description	Non-Heat	Heat	Low Income	Small High Winter Use	Med High Winter Use	Large High Winter Use	Small Low Winter Use	Med Low Winter Use	Large Load Factor <90%	Large Load Factor <110%	Total
	Rate Designation	RNSH	RSH	RLIAP	SH	MH	LH	SL	ML	LLL90	LLL110	
		R-1	R-3	R-4	G-41	G-42	G-43	G-51	G-52	G-53	G-54	
1	Sales Volume	1,046 902	51,659,668	4,679,981	18,220,666	30,337,794	7,565,321	3,744,752	6,574 862	8,913 180	15,928,754	148 771,890
2	Percent of Total	0.70%	34.72%	3.15%	12.25%	20.39%	5.09%	2.52%	4 49%	5.99%	10.71%	
3												
4	Commodity Related Bad Debt	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	
5												
6	Pension Reconciling Mechanism	$3,445	$169,997	$15,400	$59,959	$99,833	$24,895	$12,323	$21 965	$29,331	$52,417	$489 565
7												
8	O&M Inflation Adjustment	$1,950	$96,202	$8,715	$33,931	$55,496	$14,088	$6,974	$12 430	$16,598	$29,653	$277 048
9												
10	Revenue Decoupling	$36,936	$1,822,605	$165,114	$642,843	$1,070,348	$266,912	$132,119	$235,496	$314,456	$551 983	$5 248 821
11												
12	CI/BS/Public Works	$6,591	$325,247	$29,465	$114,717	$191,006	$47,631	$23,577	$42,025	$56,117	$100 287	$936,662
13												
14	Total	$48,922	$2,414,051	$218,695	$851,450	$1,417,682	$353,527	$174,992	$311,916	$416,512	$744 350	$6 952 095

DG 10-017 National Grid NH Rate Case OCA Testimony of Traum
Attachment KT-3

National Grid NH
Docket DG 10-017
Attachment Locke 2-8
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Pension & OPEB Adjustment

Pension Settled				
DG 08-009	2007	2008	2009	
Pension & OPEB	2,525,687	2,715,973	3,015,252	
Incremental Pension			489,565	
Annual Throughput			150,828,182	
Incremental LDAF			0.0032	Per Therm

O&M Inflation Adjustment Calculation

	2011	2012
Total O&M Subject to Inflation	141,109,498	141,109,498
Less		
Gas Costs	112,156,610	112,156,610
Pension	1,995,447	1,995,447
PBOB	1,019,805	1,019,805
Commodity Relate bad debt	3,683,576	3,683,576
Sub-total	118,855,438	118,855,438
Sub-total O&M subject to Inflation	22,254,060	22,254,060
Annual Inflation		
Second Quarter EndingJune 2	110.40	111.16
Projected Endign June 2011	111.16	112.89
Inflation Increase	0.7%	1.6%
Productivity Offset	0.5%	0.5%
Net Inflation	0.2%	1.1%
Incremental Increase due to Net Inflation	41,841	235,207
Tota Increase due to Net Inflation	41,841	277,048
Total Throughput	150,828,182	150,828,182
Net Inflation Adj Factor	**0.0003**	**0.0016**

2009Q3	109.76	
2009Q4	110.61	
2010Q1	110.54	
2010Q2	110.67	110.40
2010Q3	110.73	
2010Q4	110.87	
2011Q1	111.29	
2011Q2	111.73	111.16
2011Q3	112.20	
2011Q4	112.64	
2012Q1	113.12	
2012Q2	113.58	112.89

Revenue Decoupling Backup

From Tierney's Analysis- See Workpapers pages 90-95

	RDM	LDAF
2010	0.0171	
2011	0.0348	0.0171
2012	0.0529	0.0348
2013	0.0713	0.0529

Energy North
Public Works Increment
Computation of Revenue Requirement

Annual Increase due to Cast Iron Bare Steel program

Line			(a) Estimate FY10	(b) Estimate FY11
	Deferred Tax Calculation			
1	CIBS Progam Actual Spend-Mains		4,000,000	
2	CIBS Progam Actual Spend-Service		-	
3	CIBS Progam Estimated Spend-Mains			4,000,000
4	CIBS Progam Estimated Spend-Service			0
5	Base Spending Amount		-	0
6	Incremental Amount		4,000,000	4,000,000
7	Cumulative REP Program Spend		4,000,000	8,000,000
8				
9				
10	Annual Tax Depreciation		4,000,000	4,000,000
11	Cumulative Tax Depreciation		4,000,000	8,000,000
12				
13	Book Depreciation		108,742	185,542
14	Cumulative Book Depreciation		108,742	294,284
15				
16	Book/Tax Timer		3,891,258	7,705,716
17	Effective Tax Rate		40.53%	40.53%
18				
19	Deferred Tax Reserve		1,577,127	3,123,127
20				
21	**Rate Base Calculation**			
22	Plant In Service		4,000,000	8,000,000
23	Accum Depr		(108,742)	(294,284)
24	Net Plant in Service		3,891,258	7,705,716
25	Def Tax Reserve		(1,577,127)	(3,123,127)
26	Year End Rate Base		2,314,131	4,582,589
27				
28	**Revenue Requirement Calculation**			
29	Year End Rate Base		2,314,131	4,582,589
30	Pre-Tax ROR		12.91%	12.91%
31	Return and Taxes		298,754	591,612
32	Book Depreciation		108,742	185,542
33	Property Taxes	2.07%	80,549	159,508
34	Annual Revenue Requirement		488,045	936,662
35				
36	Prior Year Annual Revenue Requirement		-	488,045
37				
38	Incremental Annual Rate Adjustment		488,045	448,617
39				
40				

Line		Ratio	Rate	Weighted Rate	Pre Tax
41	**Imputed Capital Structure**				
42					
43	Long Term Debt	50.00%	6.99%	3.49%	3.49%
44	Short Term Debt	0.00%	0.00%	0.00%	0.00%
45	Common Equity	50.00%	11.20%	5.60%	9.42%
46					
47		100.00%		9.09%	12.91%

3b & 4b Amounts based on estimated 90% 10% split of mains and services work
33 Actual 2009 ratio of municipal tax expense to net plant in service.

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DE 05-178

In the Matter of:
Unitil Energy Systems, Inc.
Petition for Rate Increase

Direct Testimony

of

Steven E. Mullen
Utility Analyst III

June 9, 2006

mismatch between rate base and revenues by failing to make any adjustment to annualize its revenues to recognize additional revenue from those new customers who began taking service during the year and for whom any related capital additions would be fully reflected in year-end rate base.

Q. What is your recommendation regarding UES' requested inflation adjustment applied to "Other" or "Residual" O&M accounts?

A. I recommend that the Commission deny UES' request. To begin with, a utility should not be allowed to substitute what amounts to an assumed and estimated adjustment for the Commission's traditional known and measurable adjustment standard. UES has no way of knowing if the inflation rate that it calculates using a blend of historical and forecasted inflation rates will apply in the future, or that it will apply to all cost categories proposed for inclusion in the adjustment. To begin with, UES has failed to make a persuasive case of attrition that is appropriately remedied by the proposed adjustment. Further, the word "residual" is revealing in that it makes clear that the expenses to which the proposed inflation adjustment would apply are simply those O&M expenses for which a known and measurable adjustment has not been proposed.[11] This was confirmed by UES in its response to Staff 1-22.[12] As for Mr. Yardley's above-referenced comments pertaining to "Other O&M Expenses," he further states,

> The Commission has not allowed any proforma adjustments to this category of expenses, essentially freezing them at the level as of the end of the test year or June 30, 2005 in this rate case.[13]

What Mr. Yardley refers to as a "category of expenses" is not a category at all; it is

[11] UES did remove amortizations and fixed leases from the calculation of the adjustment as expenses not subject to inflation.
[12] Attachment SEM-2.7, UES response to Staff 1-22.
[13] Yardley testimony, page 47 at 14-16.

merely a grouping of residual expenses for which no known and measurable adjustment was proposed. As Mr. Yardley testified, this so-called "category" of expenses

> ...includes such items as fuel for UES' fleet of utility vehicles, professional fees such as actuarial, audit and legal services, office supplies, telecommunications expenses, natural gas for heating, cleaning and building maintenance, snow removal and other contractor services.[14]

The annual changes in many of those listed expenses can be influenced by factors other than inflation. Continuing on page 47 of his testimony, Mr. Yardley further states that

> While it may be difficult to project specific adjustments using a methodology that is comparable to adjustments made to other expense categories, it is reasonable to *assume* that *many* of these expenses will be subject to inflationary pressures. For this reason, many commissions consider an inflation adjustment to this expense category (often referred to as 'Residual O&M') as being consistent with the 'known and measurable' standard typically applied to proforma adjustments.[15] (emphasis added)

As shown by the highlighted words above, Mr. Yardley acknowledges that what UES is trying to pass off as a known and measurable adjustment is merely an *assumption* that may apply to *many*, but not all, of the expenses in this so-called category of expenses. I clearly do not share Mr. Yardley's opinion.

Q. Do you have further comments on the proposed inflation adjustment?

A. Yes. As the adjustment is calculated based on what is termed the "residual" O&M expenses, there is no defined group of accounts to which the proposed adjustment would apply. A particular expense account for which a known and measurable adjustment was proposed in the current proceeding may not have a known and measurable adjustment in a future proceeding and, therefore, could end up being one of the leftover expenses lumped in with other residual expenses. Likewise, an expense account that is included in the "residual" grouping in one proceeding may, in fact, have a proposed known and measurable adjustment in a

Q. Will your recommendation to include pension and PBOP costs in UES' base distribution rates deny recovery of any of UES' test year pension and PBOP costs?

A. No. Rather, UES will be getting full recognition of its proformed test year pension and PBOP costs in the calculation of its base distribution rates.

Q. Do you have any concerns with the establishment of a separate reconciling mechanism for pension and PBOP costs?

A. Yes. While I can agree that UES' pension and PBOP costs have increased, for a variety of reasons, in recent years, UES is not alone. The pension and PBOP costs of other companies, utilities and non-utilities, have also been subject to the same cost pressures. As reflected in the record of DE 04-231, however, the pension cost increases experienced by UES were not caused by extraordinary events outside its control. The same can be said of UES' PBOP costs. Some of those other companies, including utilities, have been closely examining their pension and benefit plans and costs and, in some cases, have taken steps to alter the plans or otherwise reduce the costs associated with those plans. I'm concerned that if UES' proposed PAC is approved, there will be less of an incentive for UES to try to control its pension and benefit costs by either modifying the plans, reviewing the plans being offered to incoming employees, or taking other measures, similar to what other companies are doing. For example, effective June 30, 2006, Verizon Communications ("Verizon") will be implementing a partial freeze of its defined benefit pension plan and will also be raising its percent of salary match threshold and match amount for its 401(k) plans. As a result of the partial pension freeze, Verizon expects to save approximately $3 billion over the period 2006-2016.[20] In addition, Northeast Utilities ("NU") implemented a 401(k) benefit for new non-union employees

[19] Brock testimony, page 268 at 13-15.
[20] Attachment SEM-4

hired on and after January 1, 2006 in lieu of offering a defined benefit plan to those employees. NU is also making the 401(k) plan available as a choice for actively employed non-union employees as of December 31, 2005. NU expects "annual savings of $2.1 million in 2007 and, as important, [the new programs] will reduce cost volatility and cost growth in future years as participation increases."[21]

Q. Are you proposing any specific actions for UES to take in order to reduce its pension and PBOP costs?

A. No. What I'm merely trying to suggest is that if the PAC mechanism is approved, any incentive for UES to try to control its costs – as compared to if pension and PBOP costs remain in distribution rates – would be lessened as UES would know that its rates would be adjusted, subject to imprudence determinations, of course. I do acknowledge that UES has taken some steps in recent years that have reduced some of its costs of providing benefits. What I want to stress is that, while I don't have any quick solutions to offer in terms of lowering UES' pension and PBOP costs, I think that UES should continue to take a hard look at the details of its pension and PBOP plans and continue to strive to find ways to keep the costs in check.

Q. Do you know if UES has examined other types of retirement plans, such as defined contribution plans, as alternatives to its existing defined benefit plan?

A. UES was asked if it had ever considered freezing its defined benefit plan and substituting a defined contribution plan. UES originally replied that it had not formally considered such a scenario. In addition, UES stated that it was monitoring national and industry trends and,

> [i]n monitoring these trends, we note that while a number of large plans are being frozen by struggling companies in troubled industries, and (sic)

[21] Attachment SEM-5

UNITIL ENERGY SYSTEMS, INC.

DIRECT TESTIMONY OF

GEORGE E. LONG, JR.

New Hampshire Public Utilities Commission

Docket No. DE 10-055

non-union employees who are hired on or after January 1, 2010 will only be provided with company subsidized medical insurance until they reach age 65, but will not be eligible to receive a Medicare supplement plan after age 65.

Q. How long has the Pension Plan been in place?

A. The current Pension Plan is a consolidated retirement plan that resulted from the merger of the Exeter & Hampton Electric Company Pension Plan, the Concord Electric Company Pension Plan, the Fitchburg Gas and Electric Light Company ("FG&E") Pension Plan, the FG&E - Brotherhood of Utility Workers of New England, Inc. Local No. 340 Pension Plan, and the Unitil Corporation Retirement Plan as adopted by Unitil Service. The final merger of all these various retirement plans occurred in 1998. The Plan was amended again in 2009 following the acquisition of Northern Utilities, Inc. and Granite State Gas Transmission, Inc.

The Pension Plan currently offers a defined pension benefit to all eligible employees of the Unitil Companies, including the employees of Unitil Energy. Certain predecessor plan benefits are grandfathered in accordance with IRS regulations.

Effective January 1, 2010, Unitil Corporation closed the Retirement Plan to new non-union hires. These new hires are not eligible for any benefits from the defined benefit pension plan, but rather will receive all of their pension benefits from an Enhanced 401(k) plan.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Data Requests – Set # 3

Date Received: September 22, 2010 | Date of Response: October 4, 2010
Request No.: Staff Tech 3-20 | Witness: Frank Lombardo

REQUEST: Ref. Staff Tech 1-7. When was the fixed asset study undertaken? Explain when, and why, the adjustment was made. Did deferred taxes in the 08-009 rate case include the tax study adjustment? If so, where was it reflected? To the extent a copy of the portion of the study relative to the Company is available, please provide it.

RESPONSE: The fixed asset study that relates to DG 10-017 was undertaken prior to filing of the March 31, 2009 federal tax return in December of 2009. The adjustments were included in the March 31, 2009 tax return. The fixed asset study was performed on several former subsidiaries of KeySpan Corporation -- including EnergyNorth -- to assure that the fixed assets that were being depreciated for income tax purposes agreed with what was reported on the FERC Form 1 and that these fixed assets were being depreciated in a manner consistent with the rules under the Internal Revenue Code ("IRC").

As the test period for DG 08-009 covered 07/01/06 to 06/30/07, it did not reflect the results of the fixed asset study. The fixed asset study is voluminous and is too large to be provided and does not exist in electronic form. The portion of the study that is specific to EnergyNorth is comprised of approximately four (4) large binders of material. The fixed asset study could be made available for review at the Company's offices upon request.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Requests – Set 1

Date Received: August 12, 2010
Request No.: Staff Tech 1-7

Date of Response: August 25, 2010
Witness: Frank Lombardo

REQUEST: Please describe and explain the Company's fixed asset study and provide a copy of the study.

RESPONSE: The fixed asset study was performed on several former subsidiaries of KeySpan Corporation -- including EnergyNorth -- to assure that the fixed assets that were being depreciated for income tax purposes agreed with what was reported on the FERC Form 1 and that these fixed assets were being depreciated in a manner consistent with the rules under the Internal Revenue Code ("IRC"). The study did not identify any substantive changes that were required for EnergyNorth. The study is voluminous and is too large to be provided, is available for review at National Grid's MetroTech location in Brooklyn, NY. It does not exist in electronic form.

AUG 16 2010
CONSUMER ADVOCATE

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: August 16, 2010
AT (OFFICE): NHPUC

FROM: The NH Public Utilities Commission Audit Staff

SUBJECT: EnergyNorth Natural Gas, Inc.
d/b/a National Grid NH
DG 10-017
Final Report

TO: Mark Naylor, Director Gas/Water
Steve Frink, Asst. Director Gas/Water

INTRODUCTION

On February 26, 2010, EnergyNorth Natural Gas, Inc., d/b/a National Grid NH, (Company, EnergyNorth, ENG) made a delivery rate filing requesting permission to implement new permanent delivery rates for natural gas service rendered on and after June 1, 2010. The filing is based on an historical test year, which is the twelve months ended June 30, 2009.

During the test year period EnergyNorth had service agreements dated January 2008 with KeySpan Corporate Services, LLC (KCS), KeySpan Utility Services LLC, KeySpan Engineering & Survey Inc., National Grid USA Service Company (NGUSA) and a Mutual Assistance Agreement. On January 12, 2009 new service request forms were filed. The above KeySpan affiliate agreements now were to be known as National Grid. The services provided and their cost allocation percentages, among other things, are described in the agreements.

KeySpan/National Grid leases an executive headquarters building located in Brooklyn, New York. In addition they lease other office and building space, office equipment, vehicles and power operated equipment.

ALLOCATIONS

In accordance with the regulations of the Public Utilities Holding Company Act of 1935, KeySpan created three distinct service companies: *KeySpan Corporate Services*, providing traditional corporate and administrative services; *KeySpan Utility Services*, providing gas and electric transmission and distribution systems planning, marketing, and gas supply planning and procurement; and *Keyspan Engineering Services*, providing engineering and surveying services to subsidiaries. All three companies are collectively called the KeySpan Service Company. Allocation methodologies, approved by the SEC, have been in use since 2001 to allocate service costs to affiliates. Refer to the <u>Keyspan Service Billings</u> section of this report.

Cost Pools, which are an aggregation of all charges having uniqueness, are used by the Accounting Department of the Service Company.

The process of allocating Service Company cost pools to operating companies is accomplished using advanced functionality contained in the Oracle General Ledger (G/L). The Oracle G/L contains a fully automated, rule driven allocation process known as "Mass Allocations" that is executed each month as a normal recurring job routine in the monthly closing cycle.

The KeySpan Companies' support for allocation was provided on schedules headed as Raw Data. This schedule listed various data points including: employees, revenues, assets, sendout, O&M, W/O, CGS, meters, phone calls, bills and property. The Raw Data is then used in the creation of Services Allocation Tables.

For the test year 7/1/2008 through 6/30/2009 several Raw Data schedules were provided by ENG for PUC Audit review. ENG stated that as a result of moving to a fiscal year-end of March 31st, the allocation metric data is based on December 31st information.

Therefore, calendar year (CY) 2007 metric data was used for FY2009 (April 2008 through March 2009) allocations and CY 2008 metric data was used for FY2010 (April 2009 through end of test year). PUC Audit (Audit) asked ENG to provide selected Company financials and other support, as of 12/31/2007, to test the accuracy of selected data points found on the Raw Data schedules which support allocation percentages used through March 2009. Audit tested ENG provided data and tested allocation percentages.

PUC Audit did not find any methods, for which allocations were made to be unreasonably based.

<u>INTERNAL & EXTERNAL AUDITS</u>

<u>Internal Audits</u>

An Audit Department exists within National Grid plc Corporate Services. The corporate audit department did not perform any audits specific to Energy North during the time period 2008 and 2009. Internal Audit generally conducts audits related to specific processes across either National Grid USA or National Grid plc. A list of audits that may have included a process relating to either a service company or EnergyNorth was provided upon request. Audit reviewed the list and requested six audit reports.

National Grid provided the reports, confidentially to the PUC Audit Staff. They include a Review of Field Collections Process and two reports on Review of KeySpan Merger Integration Savings. The reports include audit observations and recommendations. The Review of Field Collections Process shows a report grade: "Improvement Needed", and includes a "Priority 1" observation.

There was no independent audit conducted on the financials of affiliate EnergyNorth. Outside audit services were performed on National Grid Corporate.

Audit is aware that a FERC review was conducted concerning National Grid USA Service Companies. The FERC Docket number is FA09-10-000. However, the audit report and recommendations has not been issued.

In response to the DRAFT Audit report, the Company states: "*the FERC audit of our service companies continues to be on going; therefore the FERC audit report is not available. National Grid has provided the FERC audit staff everything they have requested and is awaiting a full report from them. National Grid does not know when to expect to receive the report as FERC discussions on some of the relevant issues are still undergoing review within the various FERC offices.*"

ACCOUNTS PAYABLES – VOUCHERS, ACCOUNT #23201,

PUC Audit reviewed the Accounts Payable Aging and tied it to the Company's detailed trial balance showing the amount of $1,016,642 as of June 30, 2009. Audit noted that several invoices on the aging list are several days/years old per the invoice date displayed. Audit summarized the data presented and notes the following: Invoices that were listed as Rem. Amt. with dates from 9/01/2000 through 11/17/2008 sum to $26,085 as of 06/30/2009. **Repeat Audit Issue #1**

LABOR BURDENS

Audit was provided with several schedules supporting burden and the rates applied as a percentage of payrolls. Corporate burden includes pension, other post-retirement benefit (OPEB), health and welfare benefits, payroll taxes, incentive compensation, paid absence, vacation, gainsharing non-management burden and 401K matching costs.

Audit reviewed the burden for EnergyNorth, corporate services and utility services for the months of May and June 2009. Burden rates are established January 1 for the calendar year (January-December). Rates are monitored monthly and changed as needed. Capital burden rates include a distribution gas clearing burden which represents costs of supervision, clerical, building services, transportation, materials and office supplies associated with the Gas Construction, Maintenance and Support Organization.

Audit did not find any errors in the computation of burdens for the months of May and June.

PLANT

Continuing Property Records

The Audit Staff reviewed the Continuing Property Records (CPRs) provided by the Company via e-mail which listed a description of the assets, the year they were placed in service and the quantity. The CPRs included the beginning dollar amount of the asset, any additions, retirements and/or adjustments to the asset and the ending test-year balance as of June 30, 2009.

The CPRs totaled $309,009,582 which when reduced by $146,949, account 121 – non-operating plant, ties to the Schedule 3 rate base, Exhibit EN 2-4 page, 1 of 5 amount of $308,862,633. This also agrees with the general ledger provided to Audit.

Construction Work in Progress

Per the ENG general ledger, the test-year ending balance totaled $2,224,793. Please refer to the Contributions in Aid of Construction portion of this report.

Completed Construction Not Yet Classified

General ledger account #1060K totaled $8,720,726 at the end of the test-year. Audit notes that the Company calculates depreciation on plant posted to this account.

Non-Operating Plant

The CPRs provided to Audit listed five lines at the beginning of the schedule totaling $146,949 for account 121 – non-operating plant. These assets were described as Land Retained in the amount of $13,665 and Buildings Retained in the amount of $133,284. There were no retirements, transfers or adjustments for these assets from the date placed in service.

The Company responded to an Audit Request stating that the balance is not included in rate base and includes land, structures, equipment or other tangible or intangible property owned by the utility, but not used in utility service and not includible in the Gas Plant Held for Future Use account.

Plant Additions Review

Audit requested and received from ENG a list of plant additions greater than $100,000 posted to their general ledger for the period of July 2007 through June 2009. From that list the following large additions were reviewed in detail by the Audit Staff.

Project #K055CS, Operation **Seamless View, NY-Other Property** - $220,123; Project #K102CS, Operation **Seamless View II – NY-MASS** - $238,810.

Project #KO55CS, Operations **Seamless View, NY** is described by the Company as software to provide the Customer Service Representatives the ability to have total view of customer interactions within the utility regardless of the system. Costs for the above were allocated to ENG by KeySpan Corporate Services and were posted to account 303, Intangible – Capital Software in March 2008. Support showed that the total cost for Project K055CS, Operation Seamless View was $5,403,148. This project was allocated to four different companies (Boston Gas, Colonial Lowell, EnergyNorth and KEDNY) and it is based on the number of meters (Method B34) The percentage allocated to EnergyNorth was 4%.

From support provided for the above project Audit sought to review the details for line item allocation charges from company 31 in the amount of $10,539, $25,549 and $10,774, all receiving company cost center 997 – Burden. The Company responded that these charges do not have an original invoice or support number as they are part of an allocation from Company 31. An Excel spread sheet was provided showing allocations for project K055CS by month and allocation details.

Another project allocated to ENG and described as **Seamless View II, NY MASS** in the amount of $238,810 was noted. Audit submitted a request for an explanation as to what differentiates this project from project K055CS described as NY/Other Property and were the project costs allocated via the same method. The Company responded that the Plant Accounting Department took the position that all software should be treated as if it is installed in Metrotech, Brooklyn, NY, and that these items were adjusted to NY Other property in December 2009. Also, the two projects #K102CS and K055CS were allocated via the same method (B34) which allocated 4% of total cost to ENG.

Project #K05242, Office Furniture, NY Operations/Office Building - $106,604.

This project was posted to ENG account 391, General Office Furniture on December 30, 2008. Support describes the charge as NH's allocated portion of the Metrotech Restack Building Improvements. Audit Staff submitted a request for a detailed explanation of the description, "Install Renovate Metrotech Restacking" and to explain why Company 31 plant additions are allocated to ENG. The Company responded that *"Install Renovate – Metrotech Restacking" refers to the interior renovation of leased space within the Metrotech facility consisting of new flooring, ceiling, lighting and modifications to existing infrastructure such as mechanicals, electrical power distribution systems and purchasing of new modular furniture in an effort to consolidate three floors of a leased facility,* ***returning to the landlord for future cost avoidance."***

Company provided support show the total project amount was $16,309,065 and costs were allocated based on floor space utilization. ENG was allocated amounts totaling $214,148.

The Company stated that Company 38 (KeySpan Energy Delivery NY) is allocating plant additions to ENG because CWIP related to Metrotech Restacking was initially allocated from Keyspan Service Company 31 to Brooklyn Union Gas Company 38 as they are the owners of the lease. However, upon further review and discussions it was determined that CWIP dollars needed to be allocated and later capitalized based on each ENG-USA Company's utilization of the Metrotech floor space.

The Company also stated that ENG receives rent charges from Corporate (Co. 31 – Keyspan Corporate) and Metrotech.

Project #K02261, Security System, NH LNG Plant - $948,144.

The Company provided a project "K02261 allocation" sheet which summarized total costs to date for a guard booth, communication equipment and shelving. The sheet listed a description of the assets, account distribution, dollar amounts, fully loaded cost percentage (135.2%) and asset cost to date of $1,090,723.

Also provided was the detailed support for the costs being accumulated to account 107 – Construction Work in Progress. The costs were later transferred to account #390.00-Gen-Structures-Improvements.

Audit requested and received support for AFDUC Equity and AFUDC Debt postings made to the above project.

Audit submitted a request for support and the allocation method for $279,640 described as Accounting Transfers, cost type 590. The response shows that the providing company was KeySpan Corporate (#31). Costs were pooled and allocated via method (A86) which assigns all costs to EnergyNorth.

Audit submitted a request to review support for cost type 310 – Outside Services in the amount of $24,995 and $140,050 relating to the Security System, project K02261. The response showed that the providing company was KeySpan Corporate (#31). Costs were pooled and allocated via method (A86) which assigns all to EnergyNorth.
***Audit does not know why materials are charged 135.2%, or if that represents additional administrative charges.**

Work Order #442439, Mechanic St., LAC, Mains - $147,674.

Per the Company, the mains work was performed by a service contract. An Excel spreadsheet was provided listing the various cost type charges totaling to $147,674 charged to account #367.02, T&D-Mains.

Work Order #570415, 174 Court St., LAC, Mains - $796,663.

This project is a T & D Main replacement project booked to account 1070k – WIP from June, 2008 through June, 2009 in Laconia. The mains work was performed by a service contract. An Excel spreadsheet was provided listing the various charges. Vendor payments and inventory were the major cost components for this project.

Additional support was requested and provided for cost type 200 – Stock Issues in the amount of $102,120 and cost type 723 – Distribution Gas Clearing Burden in the amount of $7,234. The stock issues were received from KeySpan Energy Delivery NY. The distribution gas clearing burden represents costs of supervision, clerical, building services, transportation, materials and office, supplies associated with the gas construction, maintenance and support, organizations. The Company also stated that inventory from Keyspan Energy Delivery was charged to Energy North at cost.

Work Order #C01398, Broken Bridge Take Station - $428,721.

Per the Company, the mains work was performed by a services contract, the only exception being I & R related inside work. An Excel spreadsheet was provided that listed the various charges. (Please refer to the Property Tax section of this report, for exclusion of certain Broken Bridge property tax expenses).

Project #K02263, Security Systems - $301,679.

This project was for a Nashua Propane Security Installation and was posted to account #390.00, Gen-Structures-Improvements. The work included an access control system, intrusion detection system and a CCTV system. An Excel spreadsheet was provided that listed the various charges.

Additional support was requested and provided for cost type 310 – Outside Services in the amount of $87,974 and cost type 590 – Accounting Transfers in the amount of $115,798.

The Company's spreadsheet showed the original amount and the allocation, date and description of the project. The Company also stated that this project was allocated 100% to EnergyNorth.

Bidding

Audit requested to review the bids for the work order/projects chosen for plant addition review.

The Company responded that there were no bids sought for Operation Seamless View, project KO55CS.

For project KO5242, Office Furniture, NY Operations Office the Company stated *"the project team and Procurement conducted a review of each modular furniture manufacturer bid proposal (4RFQ's), as well as, performed an analysis of each manufacturer's fully functional work station model prior to rendering a recommendation on a single source vendor."*

The Company stated that no bids were sought for projects K02261 – Security Systems, NH LNG Plant and K2263 - Security System. Waivers of competitive bidding were used which was authorized by Senior Management and Procurement. In response to an Audit follow-up question, the Company stated that there was a need to maintain a higher level of confidentiality on specifics to security systems information. Input for selecting the contractor was provided by a large security intelligence firm. Negotiated structured pricing agreements, strong design and project management skills, as well as a proven track record in providing superior performance in the maintenance, servicing and installation of security systems, factored into the selection process.

The Company responded that construction projects #442439, Mechanic St. mains, #57045, Court St. mains and #C01398 Broken Bridge take station were not put out to bid. These were all part of the annual mains services contract which is put to bid every three years. The only exception noted was the I & R related to inside work at the Broken Bridge Take station.

Allowance for Funds Used during Construction (AFUDC)

The ENG general ledger, account #4191K – Allowance for Other Funds Used During Construction contained a June 30, 2009 balance of ($307,488). Account #4320K - Allowance for Borrowed Funds Used During Construction contained a June 30, 2009 balance of ($100,283).

Audit reviewed selected plant additions which contained posting for Cost type, 730 – AFUDC-DEBT and Cost type, 731 – AFUDC-EQUITY.

Cost of Removal/Dismantling

The general ledger showed a June 30, 2009 balance for account 1070K, Removal Costs – Mains, 008100 of $8,485. Account 1070K, Removal Costs – Services, 008101 showed a June 30, 2009 balance of $4,900.

Audit submitted a request for detailed support for any cost of removal related to the retirements for project 650935, Concord Main Replacement in the amount of $7,641. The Company provided a PDF file that shows the retirement of $7,641 and stated there was no cost of removal or salvage for this project.

Retirements

Account #1081K – Retirement Work in Progress showed a June 30, 2009 ending balance of $911,661. Credits to work in progress totaled ($1,312,410) for the test year. The Company's detail trail balance shows account 101AR, Utility Plant in Service – ARO (Asset Retirement Obligation) with a June 30, 2009 balance of $140,015.

Audit submitted a request for support for retirement postings for each of the seven sample plant additions with dates in June 2009. The Company provided a spreadsheet showing the retirement postings to account 367.2, T & D Mains for two additions, one project in Manchester and one project in Concord and three service additions with June "Eng-In-Service" dates. Per the Company, two projects had no retirement activity as these included the installation of new main with no assets being retired.

CONTRIBUTIONS in AID of CONSTRUCTION (CIAC) Accounts #27100 and #27101 $-0-

CIAC account 27100 contained an opening balance of $7,615, a manual journal entry for ($7,615), a debit to Power Plant System for $132,524 and credit to Treasury Workstation for ($152,001) leaving a test-year ending balance of ($19,477). Account 27101, CIAC 4-year Wait (EN) had a test-year opening balance and ending balance of $19,477. The net of these two accounts is zero.

In April 2010, Audit asked if the Company has a policy in place regarding customer contributions, and was told that the Tariff (section 7 of the General Terms and Conditions section) reflects the policy, including a description of the "25% test". Audit asked if any customers during the test year had to pay a Contribution in Aid of Construction and was told ten customers were required to pay a total of $9,934. Further information provided detailed ten specific addresses (without customer names or account numbers) for the contribution total. Emails during June 2010 requesting the calculations for the contribution requirements, and the accounts to which the required contributions were posted were submitted. The IRR calculation detail for one specific location was requested and provided. The query contains data points for specific mains and footage, services with and without mains, the street, city, state, year placed in service, and marginal cost analysis spreadsheets which include as revenue the company investment, projected MMBTUs, the project margin, bad debt, gross profits, debt financing; expenses of the capital investment, O&M, insurance, customer incentives, marketing expenses, debt interest, book depreciation, property tax expense; project results include the EBITDA, income tax, net income, debt payment, depreciation, deferred taxes, cash flow, and calculated project IRR. If the resulting rate is less than 25%, a contribution is required.

The final follow-up email was submitted on June 23, 2010. The question was again posed regarding the debit and credit entries for the $9,934; if the contribution was used to offset the cost of physical plant, why the amount was not noted in the CIAC account; and finally, regarding the ten customers, because there were no dates on the information provided and the tariff requires that the 25% test calculation be performed within twelve months, had it been done, how does the Company keep track of the rolling requirement by customer by time, and whether they are due a refund or should be required to send additional contribution. On July 27, 2010, the following response was provided:

Regarding the accounts to which the contributed funds are posted: "*When a payment is received from a customer, Plant Accounting first credits the payment in the (CIAC) 270/271 Account, then subsequently it is transferred from Account 271 into 1070K (Construction Work in Progress) when the project is started.*" **Audit Issue #2**

Also included with the July 27, 2010 response, regarding the annual review of the 25% test was the following: "*The IRR information provided in response to #77 should have been dated October 2008. In accordance with tariff, the 25% test was recalculated on this account in April 2010 which was 12 months from the day of the first bill being rendered (first bill rendered April 2009). In terms of process-the Company has a process in place for all EN contributions received. All calculations roll through one organization-the Company's Business Financial Support for Energy Solutions Delivery for US Gas. Revenues and capital costs are reviewed and calculations are reviewed in accordance with tariff.*" See Audit Issue #2

DEPRECIATION

Audit submitted a request for depreciation posted for the test-year on the seven plant additions listed under Plant Additions Review section of this report. The Company provided a file reflecting depreciation posted in the test-year. In addition, a depreciation journal entry report provided the June 2009 Depreciation and the associated accounting string resulting in the expense amount being recorded to GL account 4030K – Depreciation Expense. Another tab provided the Recalculation of the Depreciation expense for the selected work orders which rolls up to the depreciation expense per work order assigned utility account. Each of the individual projects identified are a component of the total monthly Depreciation expense identified by category.

Audit confirmed that ½-year convention was utilized for calculating depreciation on new plant additions.

KeySpan-SERVICE BILLINGS

Test Year Service Charges

KeySpan Corporate Services LLC provided corporate and administrative services. KeySpan Utility Services LLC provided gas distribution systems planning, marketing and gas supply planning and procurement. KeySpan Engineering Services & Survey Inc. provided engineering and surveying services. National Grid USA Service Company provided services related to the implementation of common corporate policies, streamlined business processes and integrated information services.

Each month, intercompany invoices from KeySpan Corporate Services and KeySpan Utility Services, LLC were received by ENG. The supporting details for intercompany invoicing show, the providing cost center description, the activity description, date and amount. Audit randomly selected intercompany invoices from KeySpan Corporate Services and KeySpan Utility Services, LLC to ENG for the months of May and June 2009 to review in detail.

The Service Company and affiliates bill the Company at cost. The service companies include a return on capital component in the Servco Asset Recovery charge that is billed to EnergyNorth for their use of common assets that are owned and recorded on the service companies' books. The Company responded to data request OCA 1-42 that "*The Servco Asset Recovery charge includes a return on equity of 7.25%*".

ENG also receives intercompany charges from National Grid USA Service Company, Inc. Audit requested the billings for the months of May and June 2009 to review. However, per the Company, NGUSA Services Inc. does not issue bills to affiliates. Intercompany charges are reconciled and settled by the Service Company Accounting team.

ENG also receives charges from other affiliates. For the test year a total of $107,515 was posted. The main charges came from Boston gas. Their total of $84,598 included provider cost center "<u>maintain Rivermoor</u>" charges for T&D of $5,842 along with provider cost center "materials Management charges for T&D of $75,796.

KeySpan Corporate Services billed EnergyNorth **$16,016,131** for the test year.

KeySpan Utility Services charged **$45,550** for gas, marketing, development, labor and related costs.

National Grid USA (NGUSA) Service Company, Inc. charged **$1,173,737**. Per the response to Staff 1-85, approximately $119,000 was recorded to GL Account 909FK – Informational and Instructional Advertising Expenses. These charges were the result of a brand conversion project. Refer to the Advertising Expenses, Account #909FK portion of this report.

<u>May and June 2009 KeySpan Corporate Service Invoices and KeySpan Utility Services, LLC invoice for June</u>

Audit reviewed in detail two months of KeySpan Corporate Services billings to ENG. The billing for May 2009 contained 170 pages of detail and totaled $1,237,534. The June 2009 billing contained 199 pages of detail and totaled $1,472,609. In addition Audit reviewed the KeySpan Utility Services, LLC billing for June 2009 which totaled $4,981. Audit then selected many charges and a few credits from the billings for further detailed review, which included reasonableness of assigned project and activity coding and allocation.

REVENUE

The Filing, Exhibit EN 2-2, Schedule 1-Operating Revenues, details total revenues for the test year of $175,770,353. The Monthly Income Statements submitted to the PUC over the course of the test year sum to $175,760,357 which is $9,997 less than the filing and the general ledger. The error was noted in the September 2008 monthly income statement and appears to be typographical. In summary, the operating revenue for the test year, according to the general ledger was:

Residential	$ 94,312,806
Commercial & Industrial	70,817,897
Sales for Resale (municipal)	10,156,214
Miscellaneous Service Revenue	245,820
Transportation	8,690,198
Other	(8,452,581)
Total	$175,770,354

Residential revenue was verified to accounts 48000 and 4800K with nine activity code blocks. Commercial and Industrial revenue was verified to accounts 48100 and 4810K with nineteen activity code blocks. The Sales for Resale figure was verified to account 48300, activity 005181. Miscellaneous Service Revenue was verified to account 48800, activity code 005261, reconnection fees. Transportation revenue was verified to accounts 48900 and 4890K with twenty activity code blocks. Other revenue, noted as a debit balance above, was verified to the following:

49500-005281	Other-NG Check Charge	8,635	credit balance
49500-005401	Other-Unbilled Revenue	(2,991,010)	debit balance
49500-005419	Other-DSM Financial Incentive	164,816	credit balance
49500-005590	Other-Broker Balancing Charges	(66,225)	debit balance
49500-005634	Other-Deferred Profit Off System Sales	(112,599)	debit balance
49500-007322	Other-Revenue Recognition Reserve	(5,456,198)	debit balance
	Total Other Revenue	(8,452,581)	debit balance

Within the filing, on exhibit EN 2-2, the Revenue Recognition Reserve is noted to be a "deferral of temporary rate increase".

Other Non-operating Revenue and Expenses as of 6/30/2009 and 12/31/2008

Audit compared the non-operating revenue and expenses according the December 2008 PUC annual report to the general ledger for the same period. For informational purposes, the balances as of the test year end June 2009 are also noted.

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	6/30/2009	12/31/2008
Interest and Dividend Income-# 41900	(1,671)	(1,671)
Interest and Dividend Income-# 4190k	(655)	(1,410)
Intercompany Interest Income -#4191C	(129,475)	(206,450)
Interest Income (PUC 1524)	$ (131,801)	(209,531)
Non-operating Rental Income-#41800 (PUC 1522)	(52,083)	(48,583)
Gain on Disposition of Utility Plant-#4116k	$ -0-	-0-
Depreciation-non utility-#4180D	6,037	6,037
Allowance for Funds Used during Construction-# 4191K	(307,448)	(465,990)
Investment Tax Credits-# 4200K	-0-	(71,421)
Gain on Disposition of Property-# 4211K	-0-	-0-
Other (Net) Income/Deductions-# 42600	6,250	8,450
Miscellaneous Income Deductions-#4260K	510,779	-0-
Donations-# 4261K	2,280	653
Penalties #4263K	-0-	250,000
Expenditures Certain Civic, Political Activities-#4264K	33,794	25,571
Donations 100% non-deduct rate cases-#4267K	14	17
Non-operating Deductions (PUC 1527)	$ 259,073	$246,683
AFUDC #4320K (PUC 1536)	(100,283)	(109,255)
Amortization Debt Premium & Exp-#42800 (PUC 1531)	339,241	1,043,237
Intercompany Interest Expense-#4301C	4,987,191	5,351,299
Other Interest Expense #43100	(1,173,584)	(1,910,978)
Other Interest Charges #4310K	21,547	25,749
GL Interest Charges (PUC 1530 and 1535)	$3,835,157	3,466,070

Unbilled Revenue

The Unbilled Revenue reflected on the general ledger at 6/30/2009 was $1,435,247 in the Accrued Utility Revenue account 17301. The net activity for the year in the amount of $2,992,014 was noted as a credit in the Accrued Utility Revenue account 17301 and a debit in the Other Revenue account 49500-005401.

Audit requested and was provided with the calculation for unbilled revenue at month end June 30, 2009. The package provided reflects a rolling calculation of volumes, unaccounted for gas, and company use. Audit verified the June 2009 calculation of the sendout and throughput volumes, and verified the mathematical accuracy of the calculations.

Audit also reviewed the monthly calculations for the test year, for a determination of reasonableness of the process throughout the test year. The detailed general ledger journal entries for June 2008 and June 2009 were reviewed.

Annually, a "true-up" is calculated based on the actual bills issued. The annual so called "Root Test" is performed on the August billings, due to the decreased activity within the summer months. The actual calculations are performed in September after all of the August information is available, and the adjustments are noted in the October monthly unbilled revenue calculations. The August 2008 Root Test reflected an adjustment to firm sales of (41.71%) and to transportation of 2.43%. The August 2009 Root Test resulted in an adjustment of (23.90%) to firm sales and 8.12% to transportation.

The Unbilled Revenue account 17301 represents the gross revenue based on the calculations described above. The Unbilled Gas Costs, general ledger account 17599, represents amounts related to gas costs associated with the unbilled revenue. As of 6/30/2009 there was a credit balance of ($416,138) in account 17599.

Uncollectible Accounts Reserve

Audit verified the Uncollectible Reserve to four separate general ledger accounts:

Account Number and Title Change	Balance 12/31/08	Balance 6/30/09	%
26001 Reserve for Uncollectible	($2,395,604)	($2,395,604)	-0-
26002 Provision for Loss	(7,310,059)	(7,053,219)	-3.5%
26003 Write-Offs	5,548,418	2,270,505	-59%
26004 Recoveries	(615,272)	(237,450)	-61%
Total	($4,772,517)	($7,415,768)	55%

The Company identified the reserve accounts' uses in response to audit request #67. Account 26001 was used to record the net balance of the years' activity in account 26002, 26003, and 26004 (the historical accumulated balances of each of the other three accounts, through the end of 2006). In January of the years prior to January 1, 2007, the activity in accounts 26002, 26003, and 26004 had been rolled into 26001 in order to track the activity in each by fiscal period. From 2007 forward, the activity within each specific uncollectible reserve account has remained on a rolling basis. The balance in account 26002 represents the monthly bad debt provision. Account 26003 is used to record the monthly charge off of accounts receivable balances determined to be uncollectible. Account 26004 is used to record cash recoveries of accounts previously charged off.

On June 11, 2010, Audit submitted Request #75 asking for clarification of the balance swings noted in account 26003. Specifically, the monthly balance increased from July through November 2008, with the November balance reflecting $14,795,983. The December balance dropped to $5,548,418, and January $462,071. The response, received July 12, 2010 indicated that:

"Entries made on calendar year end basis to reclass write-offs (26003) and recoveries (26004) in the provision for loss account (26002). This is to achieve an accurate figure for the current year's write-offs and recoveries. In December '08 was a reclass entry that should've been made in January '08 for the 2007's write offs and recoveries as a result the entry was made in December but is normally done in January. The January '09 entry is a reclass for calendar year 2008's write offs and recoveries. Please see attached files for highlights as to where the offsetting entries post..."

The 2007 write off and recovery discussed above (posting in December 2008) was for $9,752,702. The debit posted to account 26002 and the credit to 26003.

The 2008 write off amount, noted in the journal entry for January 2009 was in the amount of $5,548,418 with the debit to 26002 and credit to 26003.

Audit questioned the Company about the use of the calendar year, as the corporate fiscal year is March, and the response was that the

"calendar year is relevant so as to facilitate the reporting of the annual return to the NHPUC, which is on a December 31st calendar year end and not a fiscal year end basis. Reclass entries are done in order to allow for reporting of the balances at calendar year end."

Audit informed the Company that with the National Grid acquisition of Keyspan, and the subsequent change from calendar year end to March fiscal year end, the annual report should have been filed according to the fiscal year end.

Further, audit reviewed the monthly entries provided with the response received on July 12, and noted only that the regular monthly journal entries used at the corporate level to write off uncollectible revenue reflected debits to revenue accounts 48000 and 48001 with credit offsets to 26003, write offs. Recoveries were posted monthly with offsets to cash 13135 and 26003, with credit entries to accounts receivable 1420K.

Settlement Agreement Docket DG 06-154

Audit requested and was provided with the journal entries supporting the settlement agreement noted in Docket DG 06-154, Order 24,752 issued on May 25, 2007. That docket was associated with an investigation into thermal billing practices and resulted in an Order to refund to customers a total $3,076,708. The total was comprised of $2,265,266 overbilling and $811,442 carrying costs. The final journal entry, posted in May 2007 was:

Debit 43100, Other Interest Expense	$ 811,442	
Debit 4800K Residential Sales	$1,103,922	
Debit 4810K Commercial and Industrial Sales	$1,161,344	
Credit 1420K Customer Accounts Receivable		$3,076,708

EXPENSES

The Company's filing, Exhibit EN 2-2-2, Schedule 1A-Summary of Operations & Maintenance (O&M) Expense sums to $155,706,772 for the twelve months ended 6/30/2009. The total O&M for the preceding fiscal year ended 12/31/2008 was $152,463,604. Audit verified in total the operations and maintenance expense figure to seventy seven (77) individual general ledger accounts. The EnergyNorth Source Ledger Source report (referenced as the general ledger) provided each account and related activity codes. The result was a spreadsheet of 3,358 lines.

Summary EN 2-2-2:	Total Expense	#of Accounts
1. Gas Cost	$130,797,571	6
2. Labor	9,947,497	44
3. Contract Labor	1,090,079	28
4. Health and Hospitalization	1,554,788	30
5. Other Employee Related Expenses and Benefits	450,459	46
6. Pensions	1,995,447	30
7. OPEBs	1,019,805	31
8. Payroll Taxes	520,455	39
9. Purchased Services	3,917,223	52
10. Postage	358,386	6
11. Contributions, Tickets and Sponsorships	31,578	4
12. Dues and Memberships	53,649	10
13. Other	2,451,588	56
14. Uncollectible account 90400	3,759,035	1
15. GAC Offset	(2,240,786)	1
16. Program Changes	-0-	0
17. Synergy Savings	-0-	0
TOTAL Operations and Maintenance	**$155,706,772**	

Audit requested the information on which a comparison of the reported expenses could be made to the general ledger. This was requested via audit request #50, issued on May 5, 2010. The response was received June 7, 2010.

Audit compiled a grid which detailed each of the 77 general ledger accounts and the 17 line items above, and used the response to audit request #50 to identify the lines to which each of the actual general ledger accounts were spread, as noted on the filing.

Line 1, Gas Cost $130,797,571 is comprised of the following accounts:

72810 Liquefied Petro Cgac Allow	$ 729,664
80400 Natural Gas City Gate Pur	(2,846,500)
80410 Natural Gas Cgac Allow	121,463,345
80510 Underground Storage Cgac Allow	1,186,183
80810 LNG Cgac Allow	623,237
80820 Deferred Gas Costs-Off Peak Demand	9,641,642

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Detailed review of these accounts was not conducted during the current base rate case, as the Company petitions for cost of gas adjustments for both winter and summer rates. Therefore, these costs and revenues are not included in base rates, and removal of them, via proforma to schedule EN 2-2-2 was noted.

Via audit request #72, initially issued on June 10, 2010, Audit requested the specific accounts to which any of the Local Distribution Adjustment Clause (LDAC) charges post (as they are separately docketed and not part of base rates). On July 29, 2010, the Company indicated that the "*LDAF collections (actual bills to customers) is in Account 80820. Unlike gas costs, we do not book the LDAF expenses to the income statement but instead book the expenses directly to the balance sheet accounts.*" LDAF collections are Commission approved recoveries of prior year expenses, which are reflected on the balance sheet such as Deferred Rate Case Expenses.

After further discussion with the Company, Audit was provided with an income statement for the month of June 2009. The LDAF revenues received monthly do post to the expense account 80820, reflecting Commission approved collections of prior period expenses such as rate case expenses. Other contra-expense postings and expense postings which hit account 80820 are Gas Cost offsets, Reverse Occupant bills, Broker Revenues, GAC collections, Low Income Subsidy, and Off-system Sales. Unbilled Gas costs are posted to account 80400, and Cost of Gas expenses post to accounts 72810, 80410, 80510, and 80810.

Audit also received from ENG a detailed trial balance and income statement that showed comparative expense account balances as of 6/30/2009, 12/31/2008 and 12/31/2007. The report included: Account, Account Description, Activity, Activity Description and balances. From the above, Audit reviewed various accounts with an emphasis on those reflecting test year increases greater than 10% over the 12 month period ended 12/31/2008.

Audit's review of the ENG trial balance/balance sheet show that Operations-Other and Maintenance (O&M) accounts *#70000* through *#89400* which excludes Fuel and Purchased Power total $7,364,824 for the test year. This is an increase of $698,688 when compared to the 12 month period ending 12/2008 total of $6,666,136.

Per analysis Activity #007076, **Inside Pipe Inspections,** a new program started in the test year, accounts for $229,871 of the above increase. Refer to the Mains and Services Expenses, Account #8740K portion of this report.

Audit's review of the ENG trial balance and balance sheet show that accounts *#90100* through *#9550K* total $17,544,744 for the test year. This is an increase of $2,338,989 when compared to the 12 month period ending 12/2008 total of $15,205,383.

Per analysis Activity #002460, **Provision for Uncollectible Accounts-Gas** accounts for $2,907,045 of the above test year increase. Refer to the Uncollectibles, Account #90400 section of this report.

T&D Mains & Services Expenses, Account #87400

Costs for activity 003670, Markouts totaling $538,224 and activity 003865 Atmospheric Corrosion-Mains totaling $57,775, show **increases** in the test year of **$56,183 and $24,073**. The increase for Markouts was driven by workload for ENH Damage Prevention program. The increase for activity 003865 was driven by workload.

Mains and Services Expenses, Account #8740K

Costs for activity 007076, Inside Pipe Inspections totaling $376,483 show an **increase of $229,871** when compared to the 12 month period ending 12/2008. Per ENG, a new program was implemented in August 2008 that led to the rise in cost for the test year.

T&D Mains & Services Expense, Account #88700

Costs for activity 002015, Meetings & Training totaling $148,144 in the test year show an **increase of $49,522** when compared to 12 months ended 12/2008. Per the Company this was due to an increase in training requirements. Costs for activity 003727, Equipment Room totaling $240,734 show an increase of $69,978 due to an overall rise in workload. Costs for Activity 004255, Valve/Drip Repair-Main totaling $239,519 increased by $44,811 due to labor charges associated with higher volumes of leak/valve work.

Audit's review of charges to Account #88700 and #89200 led to questioning costs that were described as being Spoil Plant Everett. The Company responded as follows: *"These costs are for Everett Spoils Plant facility in Everett, MA, which processes asphalt and fill reclamation. Further research into this item identified approximately $20,600 of costs incorrectly allocated to EnergyNorth during the test year. The company identified the incorrect allocation in September 2009 and made the correction to remove the allocation from EnergyNorth. As a result, the Company will reduce its test year revenue requirement by approximately $20,600."* **Audit Issue #3**

Maintenance of Mains, Account #8870K

Costs for activity 003818, Maintenance Free Bin totaling $23,627 in the test year show an increase of $22,109 when compared to 12 months ended 12/2008. Per the Company this was due to material charges as a result of higher workload.

T&D-Maintenance Measures & Regulator Equipment, Account #88900

Costs for activity 004109, Property Structure Maintenance totaling $122,034 in the test year **show an increase of $46,207** when compared to 12 months ended 12/2008. Audit found that this was mainly due to postings in March 2009 and April 2009 for $31,316 and $23,286 respectively. Per the Company, *"the work charged to IRE387* *activity 4109 during March and April 2009 was for work associated with maintenance (including electrical and instrumental work), at the Broken Bridge Road facility. This was a one time charge, therefore the jump in O&M charges during the two months in 2009."* **See Recommended Expense Adjustments section of this report.**

Customer Accounting and Recordkeeping, Account #90300

Test year balance $374,571 increased 63% over 12/31/2008. Audit verified the allocation of this account to the filing in the following line items of the filing EN 2-2-2:

Line 2-Labor $253,301
Line 3-Contract Labor 2,632
Line 4-Health and Hospitalization$3,265
Line 5-Other Employee Expenses and Benefits $1,928
Line 6-Pensions $4,340
Line 7-OPEB $965
Line 8-Payroll Taxes $10,000
Line 9-Purchased Services $43,394
Line 11-Contributions, Tickets and Sponsorships $51
Line 13-Other $54,695

Regarding Line 8-Payroll Taxes: Audit Request #69, issued on June 8, 2010 and response provided July 16, 2010 regarding payroll tax allocations, required a follow-up question which was issued to the Company on July 20. On July 30, the following was received:

Audit Request #69 - Auditor original 2nd follow up question:

a. My initial question was on what basis the so allocated payroll taxes had hit the various accounts, and I am still unsure of that. Would provide the direct and allocated payroll and related tax so I could follow the payroll through?

b. It would be helpful to have a totals page of the annual payroll register which would tie into the payroll and payroll tax.

Response:

a. The basis of the direct and allocated payroll taxes is budgeted costs and budgeted labor. The burden rate is derived by dividing these budgeted payroll tax costs by the budgeted labor base for each company. The resulting rate is then applied to direct labor. The direct and allocated labor base and payroll tax used to calculate the burden rate was supplied to the Audit Staff in the response to Audit Request # 16. (Attached for your review)

b. Because the labor base and payroll tax used in the burdening process are based on budgeted costs and budgeted labor, and the payroll register is based on actual amounts. The two are irreconcilable.

The response Audit received on July 16 was a high level summary that did not answer the questions posed in AR #69, and the "sample" chosen by the Company to walk through the process was unacceptable. Audit was unable to specify the actual basis on which Payroll Taxes are posted. **Audit Issue #4**

The source ledger report reflected 23 activity codes relating to account 90300. Audit selected two specific codes for review. Code 002005, Admin Assistant Office Supplies, reflected a NGrid Peoplesoft Financials debit of $44,865. The explanation for the activity for the year was outlined as Labor $21,076, Consulting $21,208, Labor Loading $1,225, Other Charges $1,347.

Code 00NG99, Default, reflected a NGrid Peoplesoft Financials debit of $44,064. Audit requested the supporting documentation for the $44,064 and was provided simply with the explanation that $37,849 was Labor and $6,211, Labor Loading.

On June 14, 2010, Audit requested clarification (via audit request #76) of the full-time equivalents (FTE) and the basis on which the labor loading was calculated. On July 29, 2010, the company responded: "*The information requested is unavailable in our general ledger system and because of the volume of the material required to produce responses, the Company will not be able to provide the detailed information requested. In general, the burden rate is derived by dividing the specific cost (i.e., vacation, paid absence) for each company by the total direct labor for each company. During the burdening process, for EnergyNorth, the resulting rate is applied to capital and clearing accounts direct labor only. After the burdening process, a second process is run where the clearing accounts are then allocated to either O&M or capital accounts.*"

Therefore, as outlined in Audit Issue #4, the payroll taxes are unable to be verified, and as discussed in the paragraph above, the spread of labor, consulting, labor loading, vehicles, etc., noted in account 90300 cannot be verified as the information is unavailable and/or too voluminous.

Customer Records and Collection Expenses, Account #9030K

The balance $2,298,355 reflected an increase of 7% over 12/31/2008. While the increase is less than 10%, the dollar amount was significant overall. The account is included on the filing schedule EN 2-2-2 in the following line items:

Line 2 Labor $1,014,973
Line 4 Health and Hospitalization $128,300
Line 5 Other Employee Expenses and Benefits $24,530
Line 6 Pensions $141,776
Line 7 OPEB $98,323
Line 8 Payroll Taxes $90,085 **see Audit Issue #4**
Line 9 Purchased Services $352,302
Line 10 Postage $325,302
Line 13 Other $108,029

Audit requested clarification (via audit request #76) of increases noted (in response to Audit Request #25) as postage $367,037; lockbox $45,909; other $129,915; and call center operations in activity code 003602 $983,788. The response received on July 29 was (in part) "*the primary driver of the increase is in activity code 003602 which relates to customer billing and accounting costs associated with contact center* *consolidation. This increase is due to* ***incremental costs associated with contact center consolidation.*** *Call center operations includes the costs associated with running and maintaining our internal call center that receives and addresses customer calls for issues such as-existing customers with no gas, bill inquiries, safety issues-customers smell gas , etc"* **See Recommended Expense Adjustment section of this report.**

Given the lack of timeliness and generalized nature of the response received, Audit was unable to quantify and/or verify the accuracy of the reported expenses.

Uncollectibles, Account #90400

The balance of $3,759,035 was verified to line item number 14 on the filing schedule EN 2-2-2. The test year total represents an increase over 12/31/2008 of **393%.** The source ledger report indicates two activity codes relating to this account.

Code 000000-Default Activity	($24,273)
Code 002460-Provision for Uncollectible Accounts-Gas	$3,783,308

Audit requested an explanation for the credit balance and supporting documentation for the debit balance (see audit request #25 dated 3/24/2010, response received 5/10/2010). The only information provided was:

Summary of Expenses 904 002460, 000000	
Provision Expenses	*$5,183,238*
Contingency Reserve Adjustments	*669,000*
Allowance for Supply Related Bad Debt activity 002460	*(2,068,928)*
Subtotal 904 002460	*$3,783,310*
Allowance for Supply Related Bad Debt activity 000000	*(24,273)*
Total 904	*$3,759,035*

On June 14, 2010 Audit requested clarification of how the above reported numbers were determined (see request #76). On July 29, the following assumptions were provided:

The provision expense represents the following:

- *the historic relationship of fiscal year write-off to 12 month billed revenue (on a 6 month lag);*
- *use of discretionary 25% multiplier is factored in the historic write-off rates due to deteriorating economic conditions;*
- *the resulting ratio is applied to the projected/actual fiscal year billed sales to determine the year end reserve requirement;*
- *each month the provision rate is applied to current billed sales resulting in the month's provision expense and an increase to the reserve*

The Contingency Reserve Adjustment is added to fully reserve for account >360 days. Specific exposure contingency adjustment is added to the reserve for high risk account. Not applicable for ENH.

To recover the supply related portion of its uncollectible accounts, the Company is allowed to include in its cost of gas a percentage of its gas supply related costs, referred to as the supply related bad debt percentage which is applied to the applicable gas cost. The amount is recorded as a reduction to bad debt expense and an increase to regulatory receivable.

Due to the lack of timeliness and generalized nature of the response received, Audit was unable to quantify and/or verify the accuracy of the reported expenses.

Cust A/C Misc Cust A/C Exp, Account #90500

The balance of $20,544 reflects an increase over 12/31/2008 of **565%**. Audit requested an explanation for the increase and was provided with a breakdown of labor, loading, and other. Audit request #76 issued on June 14, 2010, requested clarification of how many FTE and on what basis the loading was applied. On July 29, the Company responded that *"during 2008 the allocation process changed from the KeySpan model to a new National Grid model implemented across all segments. The National Grid model includes the same basic source details but employs different target accounts. This change was implemented to ensure consistency across all corporate segments. The increase in account 905 is the result of this change in targeting."*

Because of the lack of timeliness and generalized nature of the response received, Audit was unable to quantify and/or verify the accuracy of the reported expenses.

Customer Assistance Expenses, Account #9080K

The balance of $17,700 reflects an increase over the 12/31/2008 balance which was $566. The increase is primarily due to increased labor costs.

Advertising Expenses, Account #909FK

The test year ending balance of $119,639 was compared to the 12/31/2008 zero balance. This account was identified by the Company to be part of the Purchased Services line 9 in the filing EN 2-2-2. The account had zero balances at year end 12/31/2008 and 12/31/2007. Audit requested clarification of the account and was told that the activity represents "customer markets expense from the service company". Audit Request #76 requested clarification of what that specifically meant, and for documentation of the entry. On July 29, the Company responded that *"The $119,639 change results from a larger allocation of dollars (approximately $4.4M) tied to a brand conversion project. The allocation is based upon the Company's billing pool allocation process and EnergyNorth was allocated 2.708% through Bill Pool 200. An attachment outlined bill pool 200 as allocated among:*

Niagara Mohawk Power	*13.394%*
Narragansett Gas	*8.668%*
Boston Gas Company	*22.528%*
Colonial Lowell Division	*4.108%*

EnergyNorth Company	*2.708%*
Keyspan Energy Delivery LI	*16.327%*
Keyspan Energy Delivery NY	*32.267%*

Refer to the Institutional or Goodwill Advertising Expenses, Account #9301K, and also see the **Recommended Expense Adjustments** section of this report.

9100K Customer Assistance Expenses, Account #9100K

The balance of $77,832 reflects a decrease of 42% over the 12/31/2008 balance. The Company indicated that the activity related to the "Low Income Settlement". Audit Request #76 requested clarification of the Low Income Settlement, and was directed to NH PUC Order 24,752 issued on May 25, 2007 relating to the Commission Investigation into Thermal Billing Practices. Further, Audit noted that $77,832 has been proformed out of the initial filing.

Sales Demonstration and Selling Expenses, Account #91200

The balance in this account at June 30, 2009 of $1,153,401 reflects a decrease of 12% over the 12/31/2008 balance, and was spread among the filing O&M detail in the following manner:

Line 2-Labor $535,639
Line 3-Contract Labor $254
Line 4-Health & Hospitalization $47,957
Line 5-Other Employee Expenses and Benefits $21,056
Line 6-Pensions $48,061
Line 7-OPEB $36,163
Line 8-Payroll Taxes $34,669 **see Audit Issue #4**
Line 9-Purchased Services $11,304
Line 10-Postage $431
Line 11-Contributions, Tickets and Sponsorships $4,540
Line 12-Dues and Memberships $3,123
Line 13-Other $410,149

In response to a request for specific detail regarding four specific activity codes relating to account 91200, Audit was provided with spreadsheet detail supporting activity code 002004 in the amount of $229,511; activity code 002953 in the amount of $80,236; activity code 007092 in the amount of $777,663; activity code 007199 in the amount of $447,447. Via Audit Request #76, Audit questioned why any portion of this account should be included in the base rates case and was informed that *"These costs are normal operating costs of the business, and as consistent with the resolution in DG08-009, are included in our revenue requirement. The O&M exhibits include categories based upon Cost Type and General Ledger Account. As a result, O&M was categorized by Cost Element and Cost Element Group. For GL account 91200 items related to advertising and incentive programs in the amount of $429,299 has been pro formed out of the Company's revenue requirement. Please see the current filing: Volumes 1A & 1B,*

Exhibit EN 2-2-2. Schedule 13, p. 2 for this adjustment. In addition, please find attached "Audit Request #76 attachment D.xls" for additional detail-this file is an update to response provided to Audit request 29". Attachment D spreadsheet had, among other tabs, one sheet of 5,745 lines of data.

Please refer to Accounts #91300, 9160K, and 9170K, each of which has the same attachment reference.

Sales-Advertising Expenses, Account #91300

The balance at the end of the test year was $79,637. The detailed expense query reflected 122 lines of data for this account. This account was identified by the Company to be spread among the following line items:

Line 4-Health and Hospitalization ($2)
Line 5-Other Employee Related Expenses & Benefits $1
Line 6-Pensions ($2)
Line 7-OPEBS ($16)
Line 8-Payroll Taxes ($1) See **Audit Issue #4**
Line 9-Purchased Services $47,587
Line 13-Other $32,075

As outlined in account 91200, Audit had questioned why any portion of this account should be included in the current rate case, and was directed to Attachment D of the response to audit request #76, which had been issued on June 14, 2010, and was answered on July 29, 2010.

Demonstrating and Selling Expenses, Account #9160K

The credit balance in this account was ($274,701). The detailed expense query reflect nine lines of data for this account. This account was identified by the Company to be spread among the following line items:

Line 5-Other Employee Related Expenses & Benefits $695
Line 13-Other ($275,397)

As outlined in account 91200, Audit had questioned why any portion of this account should be included in the current rate case, and was directed to Attachment D of the response to audit request #76, which had been issued on June 14, 2010, and was answered on July 29, 2010.

Promotional Advertising Expenses, Account #9170K

($7,966) was spread among the two accounts below:
Line 9-Purchased Services ($15,392)
Line 13-Other $7,426

An explanation for some of the entries were "*manufacturers' rebates*" and "*cost reallocation from KES through National Grid timing differences*"

As outlined in account 91200, Audit had questioned why any portion of this account should be included in the current rate case, and was directed to Attachment D of the response to audit request #76, which had been issued on June 14, 2010, and was answered on July 29, 2010.

A&G-Administrative Expense Trans, Account #92000

Costs for activity 002869, System Maintenance Activities totaling $377,792 show an increase of $67,757. Per ENG, system maintenance activities relate to maintenance/small changes to systems and vary depending on the incidence of any issues that arise and require fixing and any minor pieces of work identified by the business that they require resolving. The increase in costs is due to a higher number of projects running in the test period than in calendar year 2008.

Costs for activity 002953, New England Activities totaling $165,314 show an increase of $19,584 in the test year. This was due to Project K00008 legal staff costs to support rate filings.

Per the Company the above charges were received by ENG via an allocation. Service Company employees are not required to track time by specific matter or docket number. The above costs are for internal legal department employees, and work includes general legal advice, tariff interpretation, interpretation of rules/statutes, MGP related environmental advice, docket specific advice, compliance related work litigation, customer collection advice, etc.

Costs for activity 00NG99, NG Reference-Default Activity/Burden Offset show an increase of $72,412. Per ENG, costs rose due to a change in legacy Grid Service Company billing pools to correctly spread costs across all lines of business and regulated entities in Quarter 1 2009. Charges include costs from Business Services, Information Services, Customer Markets, and Shared Services. Total pool costs before allocations in the month of January 2009 were $5,658,150 of which $22,828 (0.4%) was allocated to ENG.

Office Supplies and Expenses, Account #9210K

This account was found to contain charges of $182,536 from Project K99041, Activity 002004, ***EnergyNorth Rate Case (ENRC) Regulatory***. All costs charged to this project were allocated 100% to EnergyNorth. Costs included in this project do not include work involved for this filed rate case DG 10-017, but do include work performed in DG 08-009 and DG 07-072. (Please note the Company adjustment to remove rate case expenses, Schedule 9, Exhibit EN 2-2-2 in the amount of $598,334).

Costs in account 9210K for activity 002000, Supervision, totaled $36,318 for the test year. When compared to the twelve month period ending 12/2008 the test year is an increase of $23,412. ENG stated that the test year increase was primarily driven by newspaper publication expenses from Bayard Advertising which was used to communicate to the New Hampshire ratepayers the rate increase granted by the last rate order.

Activity 002031, Executive General & Administrative Expense totaled $221,784 for account 9210K for the test year. This was an increase of $26,259 when compared to the twelve month period ending 12/2008.

Costs for activity 002869, System Maintenance Activities totaled $41,773 in the test year. This was $31,211 higher than the amount for the twelve month period ending 12/08. Per ENG, System maintenance Activities relate to maintenance/small changes to systems and vary depending on the incidence of any issues that arise and require fixing and any minor pieces of work identified by the business that they require resolving. <u>The increase in costs is due to a higher number of projects running in the test period than in calendar year 2008.</u>

Costs for activity 002876, Operations; IT Software Maintenance totaled $66,076 for the test year. This was an increase of $16,705 compared the amount at 12/2008. The increase was due to IBM, CA, Business Objects software maintenance expenses.

Costs for activity 00NG99, NG Reference-Default Activity/Burden Offset were $283,468 for the test year. This resulted in an increase of $180,870 over the balance at 12/2008 for this activity. Per ENG, costs rose due to change in legacy Grid Service Company billing pools to correctly spread costs across all lines of businesses and regulated entities in Q1, 2009. Audit's review found two large postings; $97,397 in February and $45,162 in March 2009. The Company responded that the spike in February 2009 is due to a global ERP –write-off of $10,217,217 of which $95,633 was allocated to ENG. **See Recommended Expense Adjustments section of this report.**

Audit noted two postings from KeySpan Corporate Services for $37,648 and $30,622 described as "Captive Insurance payment" in account 9210K. The Project number was K00257 and the activity number was 002747. Per the Company National Grid Insurance Company (Vermont) is a captive insurance carrier that was established in 2001 by KeySpan Corporation to provide coverage to its subsidiaries for their respective self-insurance retention liability. That arrangement remained in place until April 1, 2009, after which the practice was discontinued and the subsidiaries assumed direct responsibility for liability payments in amounts up to the self insurance limit.

The Company's response to OCA 2-101 provided support for payment and allocation of dues and membership fees for American Gas Association (AGA) which were posted to account 9210K totaling $31,531. The Company response identifies 6.1% of the above ASA payment as incurred for lobbying. **Audit Issue #5**

Outside Services Employed, Account #9230K

Audit noted many legal charges posted directly to the above account as well as allocation for monthly retainer of law firm for corporate that provides broad scope of legal services to National Grid and its US subsidiaries. In addition, Audit noted one charge of a year-end accrual for DESOLA GROUP in the amount of $150,000 allocated at 3.50% or $3,750 to ENG and posted as Project KO2650, activity 002975. However, it appears that the charge should have been posted with all other DESOLA GROUP invoices to the same general ledger account but Project KO2701, activity 00NG20 and allocated at 0.86%. All Costs in Project K02650 were then transferred to a deferral account. In summary $3,750 should be removed from the filing. **Audit Issue #6**

A&G Public Liability Expense, Account #92503

Costs for activity 00NG99, NG Reference-Default Activity/Burden Offset totaled $42,942. This was an increase of $30,926 compared to the 12/2008 balance. Per ENG, the increase was due to a change in legacy Grid Service Company billing pools to correctly spread costs across all lines of businesses and regulated entities in Q1, 2009.

Utility Assessment – General Ledger #92800 and #9280K

Audit verified that $657,982, which was expensed in account 92800, activity code 003079, agreed with two separate utility assessments billed to EnergyNorth for the state of NH fiscal year 2009. EnergyNorth gas was assessed $522,312 and EnergyNorth pipeline safety was assessed $135,670.

The total expenses noted on the general ledger were:

92800-003079 Regulatory Commission Expense	$657,982
92800-00NG99 NG Reference – Default	20,011
9280K-007398 Regulatory Support-Downstate	64,378
9280K-00NG98 Intercompany Charges from NGrid	-0-
Total Regulatory Commission	$742,371

Audit requested clarification of what the two accounts/activity codes represented, and was told that 92800-00NG99 represented "Service Company allocated costs including Government Relations and Legal Services" while 9280K-007398 represented "Service Company allocated costs including VP Regulatory Strategy, Gas Pricing, and Regulatory Accounting".

The utility assessment accounts were reflected on the filing schedule EN 2-2-2 in the following line items:

92800 A&G Regulatory Commission Expense $ 677,993
Line 2-Labor $9,145
Line 3-Contract Labor $50
Line 5-Other Employee Expenses and Benefits $646
Line 8-Payroll Taxes $2,585 see **Audit Issue #4**

Line 9-Purchased Services $7,457
Line 13-Other $658,112 of which $657,982 was verified to the PUC Utility assessment invoices.
9280K Regulatory Commission Expense $64,378
Line 2-Labor $10,147
Line 3-Contract Labor $47,572
Line 5-Other Employee Expenses and Benefits $661
Line 8-Payroll Taxes $2,733 **Audit Issue #4**
Line 9-Purchased Services $3,185
Line 13-Other $82

Purchased Services, Line 9 of $7,457 above, were payments to Joyce & Joyce. Their provided services included the review and analysis of all legislation filed for the 2007, 2008 legislative sessions.

Advertising

Audit requested clarification of where the advertising accounts were located within the Summary, and was provided with a report which summarized the accounts and the lines on EN 2-2-2 in which the amounts were reflected. Along with the single page summary was a spreadsheet, downloaded from a query of the general ledger, which supported the total advertising account expense of $3,121,475, and was comprised of 9,180 lines of data.

Institutional or Goodwill Advertising Expenses, Account #9301K

The balance of ($28,193) reflects a reduction from the 12/31/2008 expense total of 264%. In response to a request for an explanation of the large number of credit mass allocation entries in the account, ENG informed Audit that "*National Grid activity net credits at June 2009 include the transfer of prior month's costs to achieve expenses to the regulatory asset account.*"

Audit request #79, issued on June 15, 2010 (with requested response date of June 22, 2010) asked for clarification of the credit activity including what the specific regulatory account is, what the specific "cost to achieve" represents and for what purpose, and where within the filing the regulatory asset account could be located. On July 19, 2010, the Company responded that the regulatory account is #1823K, with the expenses relating "*to signage and other physical changes related to the brand conversion from Keyspan to NationalGrid.*"

Audit reviewed account 1823K and noted the balance of $18,722,109. This is comprised of the following:

Account	7/1/2008	6/30/2009
1823K- 002169- Deferred Pensions Costs	$10,329,641	$10,329,641
1823K- 005932- 2007 Amort IFRS Reg Asset	(860,804)	(1,893,768)
1823K-006459-Goodwill	635,979	635,979
1823K-006489-NG KSE Cost to Achieve	1,136,867	2,103,462

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1823K-008083-FAS 158 Adjustment	1,704,280	7,388,951
1823K-182343-Accumulated Accretion	157,844	157,844
Total 1823K Regulatory Asset	$13,103,808	$18,722,109

Audit was unable to perform detailed test work on any of the transactions noted in the accounts above, due to the lack of timely responses to the questions posed by Audit to the Company. Refer also to the Advertising Expense, Account 909FK portion of this report.

Miscellaneous General Expense, Account #9302K

Costs for activity 00NG99, NG Reference-Default Activity/Burden Offset totaled $73,447. This was an increase of $36,856 when compared to the 12 month total at 12/2008. Per ENG, the increase was due to a change in legacy Grid Service Company billing pools to correctly spread costs across all lines of businesses and regulated entities in Q1, 2009.

Audit asked for support for the June 2009 charge of $7,149. The Company response was that it was primarily due to a charge of $4,554 related to administrative costs associated with site investigation and remediation activities. The Company further stated; *"Upon further analysis the Company has identified that $4,554 as being incorrectly included in the revenue requirement, as the charges should have been deferred. Accounting will book an entry to correct the charge of $4,554 and the revenue requirement will be adjusted by the same amount."* **Audit Issue #7**

A&G Rents, Account #93100

Costs for activity 00NG99, NG Reference-Default Activity/Burden Offset totaled $82,989 for the test year. This resulted in an increase of $78,769 when compared to the balance of 12 months ended 12/2008. Per ENG, the increase is due to a change in legacy Grid service company pools to correctly spread costs across all lines of businesses and regulated entities in Q1 2009. Audit's review of the account found that a large posting amounting to $78,419 was posted in March 2009. Per the Company *"The $78,419 relates to 12 months of facilities leasing and financing charges allocated to EnergyNorth from the legacy Grid service company (Co.99) The original amount of this charge is $6,079,203 of which $78,419 (1.3% was allocated to EnergyNorth).* The Company response to OCA 2-44 shows this to be an on-going yearly approximate sum for A&G Rent.

Consulting

The Company indicated that certain expenses included Consulting costs. On June 10, 2010, Audit requested clarification of the consulting costs, (via audit request #70) including all accounts and activity codes for any other consulting expenses, including a description of the work the consultant was hired to perform, the name of the firm, the

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contract start date and end date, and the contracted amount. The original information, provided in response to audit request #25 included the following:

Account	Consulting Expense included in:
9280K	$ 49,912
90300	$ 21,208
90300	$ 19,335
9030K	$205,828
9030K	$ 28,489
909FK	$119,639

On July 19, 2010 the response to audit request #70 was provided. The information included in it stated that "*In audit request 25 consultant charges were generally described as outside labor and services employed by the Company. The attached file, Q70 Consulting Services.xls" is a schedule breaking down the consultant charges into detail by cost types-please refer to tab 'Response #70'. Data available on these specific charges has been included in attached file-tab labeled 'Outside consultants'.*

Tab Response #70 reflected a grid breaking the six amounts above into a grid including outside consultants, contract labor, other outside services, professional services-collection, outside legal and special services, collection agency fees, and other.

Account	Amount	Outside Consultant	Contract Labor	Outside Services Other	Prof. Services Collection	Outside Legal & Special Services	Collection Agency Fees	Other
9280K	$ 49,912	$ 2,340	$ 47,572	$ -	$ -	$ -	$ -	$ -
90300	$ 21,208	$ 18,692	$ 2,516	$ -	$ -	$ -	$ -	$ -
90300	$ 19,335	$ -	$ -	$ -	$ -	$ -	$ -	$ 19,335
9030K	$ 205,827	$ 9,549	$ -	$ 40,515	$ 19,560	$ 5,250	$ 130,954	$ -
9030K	$ 28,489	$ -	$ -	$ 28,489	$ -	$ -	$ -	$ -
909FK	$ 119,639	$ 119,639	$ -	$ -	$ -	$ -	$ -	
Total	$ 444,410	$ 150,220	$ 50,088	$ 69,004	$ 19,560	$ 5,250	$ 130,954	$ 19,335

The detail included on the tab labeled 'Outside Consultants', reflected some detail only for the Consultant column. **However, due to the lack of timely responses received by audit, follow-up on several line items noted as "details not available" was not conducted**. Further, because the second part of the question, regarding where and to what accounts all consulting expenses posted was not answered, **Audit cannot conclude that the $150,220 for the test year represents the Consulting expenses for the Company for the year.** Finally, the limited information provided did not answer completely the question regarding the contract dates and pricing.

NHPUC Penalty Assessments and Work Orders

During the test year the Company paid fourteen penalties to the NHPUC. The penalties are properly charged to general ledger account 426, Miscellaneous Income Deductions. The civil penalties were imposed for violations of "failure to mark facility, causing damage to marked facility, etc.

In addition, a contractor working for National Grid was found to be at fault on three occasions and penalties were imposed during the test year.

Per the Company, costs to respond to an emergency, and/or to make corrections due to a violation are posted to a DR (Damage Repair) work order. The accumulated costs are then expensed. For the above seventeen violations, the Company provided Audit with a report showing that the Damage Repair work orders totaled $48,458. However, per review of the Company's response to Staff 2-36 some work was completed in the test year and some were not. Audit recommends that $18,042 of this response be removed from the filing as they show completion dates with-in the test year. Audit discussed with Staff the possibility that there could be other work orders posted in the test year for which penalties were assessed later. **Audit Issue #8**

RECOMMENDED EXPENSE ADJUSTMENTS

The PUC Audit Staff has identified the following additional potential adjustments, many of which may require amortization for rates.

The Company's response to OCA 1-48 states the following: *"During the 2008 ice storm, one supervisor's time for eight twelve hour days was utilized to support storm restoration efforts in Massachusetts. These costs are included in test year labor expense. The cost for sending the supervisor to support storm restoration efforts amounted to$7,776.05, with fully loaded labor costs.* **Audit Issue #9**

Account #88900, T&D-Maintenance Measures & Regulator Equipment is recommended to have a credit adjustment due to non recurring cost of $54,602 posted in March and April 2009 that include electrical and instrument work at the Broken Bridge Road facility. Per the Company this was *"a one time charge."*

Account #9030K, Customer Records and Collection Expenses, according to the Company, includes the "*incremental costs associated with the contact center consolidation*," in the amount of $983,788 which should be considered non-recurring. Via electronic communication, the Company response to the DRAFT Audit report regarding this non-recurring item was: "*Review of the $983,788 in costs associated with contact center reflects labor cost and associated burdens with operating the call center. In line with the Company's move toward efficiency, it did consolidate its Waltham contact center into its Northboro facility. Labor costs increased to address the level of customer inquiries received in the normal course of business. The level of expense recorded to Account 9030K Activity 003602 is in line with the Dec 2008 ($756,525.50)* *and Dec 2007 ($886,067.45) levels (Dec. 08 and 07 provided in response to Audit 25) – as the expense is incurred in addressing customer inquiry which will vary on an annual basis. The Company disagrees with NH PUC Audit position to consider charge as non-recurring as maintaining the proper level of staffing in the Company's call center to address customer concerns is vital to the health of the Company. These costs are incurred in the normal course of business and reflect the variability of customer inquiry drivers such as gas costs and weather."*

Account #909FK, Advertising, includes a charge of $119,639 relating to a *"larger allocation of dollars (approximately $4.4M) tied to a brand conversion project. The allocation is based upon the Company's billing pool allocation process and EnergyNorth was allocated 2.708% through Bill Pool 200".* This amount should be removed from expense account 909FK and included in the Regulatory Asset account 1823K, activity code 006489, Cost to Achieve. See also the Company response in the Table provided, and associated discussion on page 33.

Account #9210K contained costs from activity OONG99. Analysis showed that this activity increased by $180,870 in the test year when compared to 12 months ending 12/2008. Audit's review found two large postings; $97,397 in February and $45,162 in March 2009. The Company responded that the spike in February 2009 is due to a global ERP –write-off of the $10,217,217 of which $95,633 was allocated to ENG.

Audit recommends that a credit adjustment be made to the filing for the non-recurring write-off in the amount of $95,633 described as global ERP. Company Response to the Draft Report: *"The Company's review of the $95,633 global ERP expense reflects a change in the Company's strategic information system approach. The Global Enterprise Resource Plan was a project designed to consolidate National Grid's front and back office into one global set of applications in the US and UK. At the end of CY 2008 an Executive decision was made that a regional solution was more appropriate for National Grid's requirements. The costs incurred to date on the Global Project were reviewed and it was agreed that they should be written off. The Company's commitment to a regional model will continue forward."*

Audit noted several postings in the expense accounts for which costs were described as CTA (Costs to Achieve). All charges were allocated from the service companies. The following is a list by account:

909FK	Project 000000, CTA-Customer Markets	$119,639
9210K	Project K03621, CTA-Consolidate Call Centers	4,940
9230K	Project K02932, CTA-Integration BS/CF/Forecast Proc	9,435
9230K	Project K02946, CTA-Customer Transformation Consultant Costs	24,031
9230K	Project K04121, CTA-Call Center improvement Consultant Cost	7,987
9230K	Project K04349, CTA-Income Tax Integration; Consultant Costs	41,998
92300	Project K02859, CTA-Global Proc Transf Prog; Consultant Costs	28,651
	Subtotal	$236,681

Audit recommends that the filing be credited in the amount of $236,681 as these should be posted to account 1823K, regulatory asset, and considered non-recurring costs.

The Company, via electronic response to the Draft Audit Report, indicated that the following expenses (outlined in the grid provided) have been transferred from the O&M accounts to a regulatory asset 1823K. *"The majority of the accounts have been transferred to a regulatory asset. Account 909FK Project 000000, in the amount of $119,639 has not been transferred to a regulatory asset as the Company maintains the costs associated with the signage benefits customers in New Hampshire. The signage changes occurred across the NH operating territory including changes to company operating facilities and vehicles, identifying a unified and transparent utility to all of our NH customers. Although the Company agrees that the cost is non-recurring, the Company does not agree to any adjustment, as the benefit of the change to a consistent Company name across all operating assets eliminates customer confusion which could impact customer satisfaction and potential operational performance. In addition, the common name allows customers to benefit from the Company's educating customers on making smart energy decisions including energy conservation and weather proofing homes, thus reducing customer bills and greenhouse emissions. The Company is determined to help customers recognize that their actions, along with those of the Company, have a powerful benefit."*

ENH Test Year Amount		
GL Account	Project	Total Test Year amount transferred into Reg Asset
9210K	K02859	($31,869)
	K03621	($29,003)
9210K Total	Total	($60,872)
92300	K02859	($28,630)
92300 Total	Total	($28,630)
9230K	K02859	($22)
	K02932	($9,476)
	K02946	($24,049)
	K04121	($8,061)
	K04349	($41,998)
9230K Total	Total	($83,605)
Grand Total		($173,107)

Audit did not verify when above were taken out of expense and transferred.

TAXES

Property Tax

Audit reviewed the property tax details reflected in the filing in section EN 2-2-3, pages one and two. Page one detailed a property tax expense of $3,855,759. This figure was verified to the general ledger property tax expense account 40810.

Page two of section EN 2-2-3 detailed the property tax expense related to the NH State Utility Property Tax in the amount of $865,343, and a detail by municipality of the amounts paid during the calendar year 2009. The municipal total of $3,591,826 plus the state Utility Property Tax expense sum to $4,457,169. Audit requested clarification of where on the general ledger the difference between the "Expense" on page one $3,591,826 and the "Expense" on page two $4,457,169 could be found, and was provided with the following response:

"The detailed general ledger that had been previously submitted is for 12 months ending June 30, 2009. The amount accrued to property tax expense as of June 30, 2009 is $3,855,758.65. The amount of $4,457,169 represents payments for tax year 2009. These payments have been processed within the calendar year of 2009, with the exception of 2 payments issued in January 2010.

The total booked test year expense of $3,855,758.65 was an estimate of the total property tax expense for all the N.H. towns as well as the State of N.H. Utility Tax. The listing on EN 2-2-3 page 2 is the actual property tax payments for each town and the State of N.H. Utility tax for 2009. The difference between the actual property tax payments for 2009 and the actual test year expense is the Pro Forma Adjustment."

National Grid then informed Audit that the $4,457,169 noted on EN 2-2-3 page 2 represents the property tax bills paid during the calendar year 2009. The Company understands that the NH tax year runs from April 1 through March 31 of the following year. **Audit Issue #10**

Audit calculated property tax expense for the test year should have been $4,159,389 This figure was calculated using one half of the first 2008 municipal property tax invoices, the full second half 2008 property tax invoices, and one half of the first issue of the 2009 property tax invoices. Further, nine months of the State Utility Property Tax for tax year 2008 and three months for tax year 2009 were used in the calculation. **Audit Issue #11**

Eleven of the fifty nine properties (in twenty nine communities) included the statewide property tax on the municipal invoice, amounting to $8,560. Audit did not include that expense in the calculated property tax expense above. **Audit Issue #12**

Further, three of the eleven invoices in the paragraph above were invoices from the city of Concord issued to the Broken Bridge Corporation. The total expense related to this corporation, $1,951 which is non-utility related, was removed. Audit had requested clarification of the Broken Bridge property tax invoices via audit request #60, with a response requested by May 26, 2010. The response was received on June 15, 2010. The response stated that "*the land is non-utility land located near an EnergyNorth gate station that is owned by Broken Bridge Corp. Ownership is the result of the 2001 Eastern Enterprise acquisition by Keyspan Energy.*" Audit requested clarification of where on the general ledger, and in what dollar amount, the non-utility assets are booked. In response, the Company noted that "*the plant is booked to account 1010K-Gas Plant in*

Service and 3990K-Other Tangible Property <u>on the Balance sheet of the Broken Bridge Company</u>. *Its cost basis is original cost.*"

A payment to the Ducharme, McMillen & Associates, Inc. was noted on the Accounts Payable listing of expenses noted at year end 2008 in the property tax accrual account 23601. Audit requested the tax bill supporting this amount and was originally told that "*the company has excluded the Ducharme McMillen amount from its requested pro-forma rate year of $4,445,169…*"Audit again requested the invoice and was provided with an invoice from Ducharme McMillen & Associates, a tax consulting firm in the amount of $51,591, for a "third year fee" relating to Broken Bridge third year fee, and Energy North personal property third year fee. Audit did not include this invoiced amount in the calculated property tax expense. **Audit Issue #12**

Further, every Concord invoice for 2008 reflected a past due amount. <u>Audit request #46,</u> issued on May 3, 2010 requested clarification of why the amounts were past due and if there had been any interest associated with the late payment. If interest had accrued, to what account was it booked. A response was requested by May 10, 2010. A response was provided on June 8, 2010 and indicated that "*in consolidating the property tax payment process for Keyspan and National Grid, initially these particular bills were not captured, but ultimately identified and paid. Also, the entire payment, which includes interest, is posted to GL Account #23601.*" The spreadsheet provided along with the response indicated that the interest totaled $2,209. **Audit Issue #13**

<u>Prepaid Property Tax</u>

Prepaid property taxes were noted in an accrual account 23601, Accrued Real Estate and Personal, with a test year balance of debit $932,067. This figure was reported to be the net of the beginning balance in the accrual of $973,425 (debit) plus the actual first issue property tax invoices paid between March and June 2009 in the amount of $1,905,492. Based on the first and second issue 2008 and first issue 2009 NH (tax year) municipal invoices and state utility tax invoices of 2008, the calculated Prepaid property tax figure (in the accrual account) should be $809,860. **Audit Issue #14**

<u>Deferred Taxes</u>

The deferred taxes, according to the originally filed EN 2-4, page four of five, reflected ($39,867,830). Audit attempted to verify the components noted on the page to the general ledger and was unable to do so. Audit was informed by PUC Staff that the Company acknowledged a problem with the deferred tax calculation and would provide a revised filing page to the Commission. Further testwork was not performed as the Staff advised Audit that a thorough review would be accomplished through the discovery process.

State and Federal Income Taxes

The general ledger reflects the following tax expense accounts:

4081K Utility Operating Taxes	$ 308,066	$ 236,989
4091K Utility Operating Income Taxes	$7,025,513	$1,316,484
4091S Current State Income Taxes	$ 221,884	$ 194,661
4101K Provision for Deferred Income Tax	($6,594,943)	$3,035,541
4101S Deferred State Income Taxes	($ 213,992)	($ 223,819)
4111K Provision Deferred Inc. Tax Credit	$ -0-	($3,031,934)
4111S Provision for State Def Inc Tax	$ -0-	$ 122,877

Four manual journal entries (one in each Activity code within account 4091K) were selected for review.

- A credit to 4091K (activity code 007313) in the amount of $762,513 was noted as part of a consolidated fiscal year end (3/31/2009) journal entry totaling $175,601,703.
- A debit to 4091K in the amount of $20,114,678 and a credit in the amount of $11,305,292 for fiscal year end was noted as part of a consolidated comprehensive tax adjustment in the amount of $1,174,239,573. The net of the two entries, $8,809,386 represents the requested activity code 007319.
- The net of activity OOR54, $5,764,520 debit, was verified to 16 individual adjusting tax accrual entries. The total of the consolidated entries was $3,199,945,704.
- Finally, a debit to account 4091K activity 00T421 in the amount of $1,260,993 was part of a December 2008 return to provision true up for the entire corporation. The total of the journal entry was $305,388,374.

All company code 06 (EnergyNorth) entries were traced to offsetting entries to one or more of the following general ledger accrual accounts:

- 2360S, State Income Tax- test year credit balance $189,342, an increase over the December 2008 debit balance of $480,780;
- 24960, HOLDCO Interco Taxes-test year credit balance $25,733,114, an increase over the year end December 2008 balance of $13million and $5million at year end December 2007;
- 2830K, Accumulated Deferred Income Taxes Other-test year credit balance $33,338,593 down from $42million at year end December 2008;
- 2830S. Accumulated State Deferred Income Tax test year credit balance $542,574, down from $2.8 million at year end December 2008 and $4.1 million at year end December 2007.

Accounts 4091K, 4091S, 4101K, and 4101S were verified to the filing, EN 2-2-5, pages one and two. Audit reviewed the consolidated NH Business Enterprise Tax return and the NH Business Profits tax return, both for the period ended March 31, 2009. Because the returns represent consolidated activities of a variety of National Grid enterprises, a comparison to the general ledger and/or filing information could not be accomplished. The federal tax return represents the activities of the corporation, and thus, like the state returns, could not be compared to the estimates on the general ledger.

Repeat Audit Issue #1

Accounts Payable Invoices

Background

Audit reviewed the detailed accounts payable aging report for ENG.

Issue

PUC Audit found many invoices, both credits and debits, dated several days/years old per the invoice date displayed and should be written off.

Recommendation

The Company should write off the remaining amount balance(s) dating from September 1, 2000 through November 17, 2008, which total $26,085 listed below.

Inv. Date	Amt.	Rem. Amt.		Page
4/27/2001	(21.72)	(21.72)	100%	216
5/15/2001	(1,500.00)	(1,500.00)	100%	201
5/24/2001	50.00	50.00	100%	207
9/7/2001	3,490.00	3,490.00	100%	208
2/1/2002	767.99	767.99	100%	201
3/2/2002	856.98	856.98	100%	202
6/5/2004	(600.22)	(600.22)	100%	203
9/1/2000	(188.51)	(104.62)	55%	207
3/22/2006	1,361.94	680.97	50%	216
11/17/2008	26,744.30	13,372.15	50%	217
3/15/2004	18,341.86	4,585.06	25%	203
12/20/2000	24,635.00	935.50	4%	207
3/28/2001	40.47	0.81	2%	201
12/28/2000	22,181.12	443.63	2%	203
4/17/2001	38,716.82	774.34	2%	209
1/17/2001	225.00	4.50	2%	218
2/27/2001	786.00	15.72	2%	200
1/4/2001	23,842.57	476.84	2%	208
2/7/2001	405.65	8.11	2%	204
3/9/2001	126.25	2.52	2%	207
1/10/2001	78,312.61	863.97	1%	204
3/1/2001	404.58	4.05	1%	207
3/30/2001	481.98	4.82	1%	206
1/10/2001	72,383.56	723.83	1%	217
4/5/2001	1,308.46	13.08	1%	218
11/10/2000	28,074.94	235.87	1%	205
9/15/2003	1,540.38	0.24	0%	201
7/7/2003	30,416.85	0.23	0%	208
9/19/2003	52,962.46	0.15	0%	205
	426,147.32	**26,084.80**	6%	

Company Comment

The Company will review the balances identified by the PUC Audit staff to determine whether any of them should be written off.

Audit Comment

Audit agrees with the Company that these old balances should be reviewed.

Audit Issue #2

Contributions in Aid of Construction

Background

Using the Commission approved "25% Test", customers are required to pay for certain construction costs.

Issue

The Company debits the Cash account and credits the Contribution in Aid of Construction account, which is correct. However, the Company then debits the Contribution in Aid of Construction account and credits the Work in Process account.

Recommendation

While the Balance Sheet impact of the accounting described above is zero, any customer contribution in aid of construction should remain in account 270 and have the amount amortized over the timeframe for which the asset portion of the plant installed is depreciated.

Company Comment

The Company credits capital so as to offset the current construction charge and keep those amounts from future rate base.

The Company disagrees with the recommendation presented by the PUC Audit staff as the current methodology, which excludes those costs from rate base, reflects consist practice over time at Energy North, as well as, across other gas entities.

Audit Comment

Audit agrees that the contributed amounts are not included in rate base. However, the Recommendation is restated based on the compliance with the PUC Chart of Accounts.

Audit Issue #3

Everett Spoils Plant Charges

Background

Audit's review of charges to Account #88700 and #89200 led to questioning costs that were described as being Spoil Plant Everett.

Issue

The Company responded as follows: *"These costs are for Everett Spoils Plant facility in Everett, MA, which processes asphalt and fill reclamation. Further research into this item identified approximately $20,600 of costs incorrectly allocated to EnergyNorth during the test year. The company identified the incorrect allocation in September 2009 and made the correction to remove the allocation from EnergyNorth. As a result, the Company will reduce its test year revenue requirement by approximately $20,600."*

Recommendation

The Company must provide a credit revision to the filing for $20,600.

Company Comment

The Company agrees to remove the amount of $20,600 from the filed revenue requirement as noted in the Company's original response.

Audit Comment

Audit agrees with the Company that $20,600 should be removed from this filing.

Audit Issue #4
Payroll Tax

Background

The filing, schedule EN 2-2-2 reflects Payroll Tax for the test year of $520,455. The tax was allocated among thirty nine (39) various expense accounts. On June 6, 2010, Audit requested the basis on which the taxes were calculated, as the rates varied widely among those accounts.

Issue

On June 15, 2010 an eight page spreadsheet was provided which summed to the $520,455. The explanation was that the attachment included the general ledger accounts and cost types, and included payroll tax for direct and allocated payroll based upon labor dollars. On June 16, 2010, clarification of what the cost types represented and on what basis the allocated payroll taxes had hit the various expense accounts was requested, along with the totals page of the annual payroll register, into which the payroll tax in total could be tied. On July 20, 2010, the following was provided:

"*Cost Type 719 is the Payroll Taxes Burden. Payroll taxes in account 4081K include FICA match and Federal and State unemployment insurance taxes. The burden rate is derived by dividing these payroll tax costs for each company by the total direct labor for each company. During the burdening process, for Energy North, the resulting rate is applied to capital and clearing accounts direct labor only. After the burdening process, a second process is run, where the clearing accounts are then allocated to either O&M or capital accounts. From the schedule, the payroll taxes where the receiver company and provider company is Company 06, these are payroll tax allocations from clearing accounts and should be associated with the labor coming from those clearing accounts. The payroll taxes where the provider company is not Company 06, are allocated payroll taxes and should be associated with the respective labor allocated from those companies*"

The explanation was a restatement of what was on the eight page spreadsheet, and did not include an explanation of cost type 120, titled "Payroll Miscellaneous"

The allocation sample provided by the Company was chosen by the Company, not by Audit, and reflected $612, allocated to five project codes. The information was chosen by an unknown method, unable to be verified by Audit, and the initial request for the total page of the Payroll Register was not addressed. In response to request #69, provided to Audit on July 30, the Company noted that: "*Because the labor base and payroll tax used in the burdening process are based on budgeted costs and budgeted labor, and the payroll register is based on actual amounts. The two are irreconcilable*"

Recommendation

The Company should be required to substantiate the entire payroll tax figures posting to all of the expense accounts and any capitalized payroll tax.

Company Comment

National Grid NH is part of a holding company structure, and, as is typical of such company structures, receives services from its parent and affiliate companies for which it is charged. (See Direct Testimony of Frank Lombardo and Michael J. Adams beginning page 11 of 51 – for discussion of Holding Company structure) As a Holding Company, the Company has employees within its direct and service companies. National Grid NH incurs costs directly by the company and allocated by its service company. For additional information on the allocation process, the company directs Audit to DG 08-009, Attachment JOS-1.

The burdening and allocation processes are consistent across all of National Grid USA's jurisdictions. Utilizing the information provided by the Company, PUC Audit tested both the allocation and burdening process and provided recommendations in the Draft Audit Report issued. Regarding allocations, PUC Audit concluded "PUC Audit did not find any methods, for which allocations were made to be unreasonably based." (Draft Audit Report, Pg. 2). Regarding labor burdens, PUC Audit concludes "Audit did not find any errors in the computation of burdens for the months of May and June" (Draft Audit Report, Pg. 3).

Both allocations and burdens add to the complexity of the recommendation. Payroll taxes – a prudent expense that follows the Service Company labor - of $520,455 are included in O&M expense because when labor expenses are allocated from the KeySpan Service Companies and the National Grid USA Service Company to National Grid NH all benefits, including payroll taxes follow the labor. Service Company labor and associated payroll tax burdens are allocated to National Grid NH utilizing multiple allocation methodologies through hundreds of different projects charged to the Service Company. Also as a reference, burden rates labor base and cost pools have been provided in response to Audit request #16.

In addition, the Company maintains a variety of rigorous checks and balances in its system hierarchy that is subject to both internal and external audit on an annual basis.

As indicated, an example of this burdening process was provided. Company agrees the example provided was chosen by the Company, but does offer the PUC Audit staff the opportunity to select an amount from the data provided in response to Audit request #69 and the company will do its best to prepare the necessary support for the amount.

Audit Comment

Audit appreciates the complexity of the corporate structure, as well as the allocation testing that has been performed as part of this audit process. Audit further understands and agrees at a high level that payroll taxes are a prudent expense following labor.

However, Audit attempted to verify the specific payroll taxes in total and/or within the specific individual O&M accounts (as outlined in the filing EN 2-2-2) and could not.

The request for the totals page of the Payroll Register would have shown, presumably, the total payroll and related deductions including payroll taxes, for the corporation. Audit is aware that those figures would have been much higher than those noted as relative to the specific allocated Energy North expenses.

The reference to budgeted payroll taxes, as the expense for the year, whether direct or allocated, combined with the statement that the actual Payroll Register (and thus individual employee payroll taxes as reported to the IRS) and the general ledger payroll tax expense would never reconcile reiterates the Issue.

On 8/11/2010, Audit requested clarification of the Company Comment regarding the "rigorous checks and balances" as well as what internal and external audit work (audit, review, etc.) is done on a regular basis, and how the Company is sure that the corporate level tax on the books of the company agree with the individual employees' tax information as reported to the appropriate taxing authority.

On 8/12/2010, the Company provided Audit with the Process Flow Commentary related to Payroll Processing. Each Process Flow Commentary has component parts, each of which identifies the task, associated risks, and key controls. One sub-part of the Payroll Processing commentary related to Calculating Payroll Tax Accruals, ensuring that all payroll taxes withheld are reconciled to the accrual account on the general ledger. The Business Unit responsible for the process was noted to be National Grid. Further reviews are conducted to ensure PeopleSoft and the General Ledger accurately reflect the payroll interface performed weekly.

The Keyspan Legacy Withholding Tax Deposit Documentation instruction was also provided which outlines the specific days on which the (Treasury, Tax and Loan) tax deposits must be disbursed to the appropriate bank.

Finally, the Financial Close-Other Allocations-People Soft Process Flow Commentary was provided. This commentary included responsibilities, risks and controls related to, among other things, various allocations made within the company, including payroll tax. Specifically: "... For payroll charges to O&M of associated companies, the account assigned will be done in the allocation rules for each cost category such as payroll taxes and pension. The rates are reviewed monthly and changes made as necessary for Service Company by Accounting Services for each business unit (on PeopleSoft) with employees. Large variances of rates, from one month to another are investigated. All calculated and reviewed rates are submitted to an Accounting Manager for approval.

The reference to budgeted payroll taxes, and thus those posted as payroll tax expenses, never reconciling to the actual payroll register, is troublesome. However, based on the Process Flows provided, and the statements from 8/12/2010 that the external auditors conduct payroll tests and thus payroll tax reviews as part of the normal annual audit, PUC Audit can conclude that at the corporate level, controls are in place to ensure that accurate payroll taxes are withheld from employees' payroll, that the payroll system is reviewed and reconciled to the general ledger accruals posted monthly, and supervisory approval at all stages of the process must be documented.

Audit Issue #5

American Gas Association Dues and Lobbying

Background

The Company's response to OCA 2-101 contains support for payment and allocation of dues and membership fees for American Gas Association (AGA) which were posted to ENG account 9210K and total $31,531.

Issue

The Company's response identifies 6.1% of the above AGA payment as incurred for lobbying. Lobbying costs are not allowable for rate recovery from customers.

Recommendation

The sum of $1,923 should be deducted from expenses for rate making purposes.

Company Comment

The response to OCA 2-101 provides a general definition of the 2009 AGA calculation of the percentage of expenses incurred for lobbying as approximately 6.1% of AGA member dues. Although the Company does not control any decision by the AGA to lobby on specific matters, but does see the benefit of AGA membership for our customers in industry technology and knowledge applied to the operation and maintenance of our gas network, the Company does agree to remove the amount of $1,923 from the revenue requirement based upon the approximate value provided in response to OCA 2-101.

Audit Comment

Audit agrees with the Company that $1,923 be removed from this filing.

Audit Issue #6

Account #9230K, Outside Services Employed

Background

Audit reviewed several charges posted to account #9230K, Outside Services Employed.

Issue

Audit noted one charge of a year-end accrual for DESOLA GROUP in the amount of $150,000 allocated at 3.50% or $3,750 to ENG and posted as Project KO2650, activity 002975.

The charge should have been posted with all other DESOLA GROUP invoices to general ledger account 9230K but Project KO2701, activity 00NG20 and allocated at 0.86%. The support provided by the Company showed all costs in Project K02701being transferred from the above general ledger account to a deferral account.

Recommendation

In summary, $3,750 should be removed from this filing.

Company Comment

In the Test Year, the Company reversed the year end accrual for Desola Group identified. The Company reversed out of EnergyNorth the allocated amount of $3,405. The resulting balance in the test year of $345, will be removed from the filing. Please see attached file, "Audit Issue #6".

Audit Comment

Audit reviewed Company provided support showing the amount to be removed should be $345. Audit agrees that $345 is the amount to remove from this rate filing.

Audit Issue #7

June Service Company Posting to ENG Account #9302K

Background

Audit Request #68 asked for support for a June 2009 charge of $7,149 in account #9320K, Miscellaneous General Expense, Activity 00NG99, Burden.

Issue

The Company response was that it was primarily due to a charge of $4,554 related to administrative costs associated with site investigation and remediation activities. The Company further stated; *"Upon further analysis the Company has identified that $4,554 as being incorrectly included in the revenue requirement, as the charges should have been deferred. Accounting will book an entry to correct the charge of $4,554 and the revenue requirement will be adjusted by the same amount."*

Recommendation

This rate filing should be reduced by the amount of $4,554.

Company Comment

The Company agrees to remove the amount of $4,554 from the revenue requirement as noted in the Company's original response.

Audit Comment

Audit agrees with the Company that $4,554 be removed from this filing.

Audit Issue #8

Work Order Costs to Correct Incident in which a Violation is Paid

Background

During the test year fourteen penalties were paid to the NHPUC by the Company. The civil penalties were assessed for violations found by the NHPUC Safety Division for "failure to mark facility, causing damage to marked facility, etc.". The penalties are properly charged on the ENG general ledger to account 426, Miscellaneous Income Deductions.

Additionally, a contractor working for National Grid was found to be at fault on three occasions and penalties were imposed during the test year.

Issue

Per the Company, costs to respond to an emergency, and/or costs to make corrections due to a violation are posted to a DR (Damage Repair) work order. The accumulated costs are then expensed. For the above seventeen violations the Company provided Audit with a report showing that the Damage Repair work orders totaled $48,458. However, per review of the Company's response to Staff 2-36 some work was completed in the test year and some were not.

Recommendation

Audit recommends that costs to correct work that was in violation showing completion dates with-in the test year be removed from the filing. Audit discussed with Staff the possibility that there could be other work orders posted in the test year for which penalties were assessed at a later date. Audit's review of Staff 2-36 identifies $18,042 of costs with completion dates with-in the test year.

Company Comment

The Company does agree with the audit recommendation and does not see any issue with removing the above stated costs.

Audit Comment

Audit agrees with the Company. Audit finds that $18,042 should be removed but there could be other work orders posted in the test year for which penalties were assessed at a later date than 6/30/2009.

Audit Issue #9

Employee Costs for 2008 Ice Storm Work

Background

The Company's response to OCA 1-48 states the following: *"During the 2008 ice storm, one supervisor's time for eight twelve hour days was utilized to support storm restoration efforts in Massachusetts. The employees' activities were limited to administrative support of wires down efforts.*

The cost for sending the supervisor to support storm restoration efforts amounted to$7,776.05, with fully loaded labor costs. These costs are included in test year labor expense."

Issue

Costs for the above employee should have been charged to the Massachusetts affiliate.

Recommendation

Costs of $7,776 should be removed from the test year.

Company Comment

The Company disagrees with this adjustment. The identified cost would have been incurred for this employee even in the absence of the ice storm because he was a full-time employee of National Grid NH.

Audit Comment

Audit disagrees with the Company. The employee's costs should have been billed to the affiliate. Audit is of the opinion that the affiliate then would have collected that employee's costs as Storm Recovery. It appears that National Grid has collected the above costs from rate payers in Massachusetts and is now attempting to collect again from rate payers of New Hampshire.

Audit Issue #10

Lack of Compliance with State Statutes

Background

RSA 83-F and RSA 76:2 specify that a "Taxable period means the period beginning April 1, and ending March 31 of the following year."

Issue

National Grid informed Audit that the $4,457,169 noted on EN 2-2-3 page 2 represents the tax year 2009 property tax bills paid during the calendar year 2009.

The property tax reflected in the filing as actual expenses during the test year represent estimates during the year. The amount to which the proformed expense brings the expense represents the total cash paid to the state and municipalities during the calendar year January 1, 2009 through December 31, 2009, for the tax year 2009 (April 2009 through March 2010), excluding those payments made in 2010.

Recommendation

Audit reminds the Company that the NH property tax year runs from April 1 through March 31. Audit understands that the Company has chosen to consider the literal cash payments made during any calendar year as representative of the test year and/or tax year.

The Company is reminded that the books and records must comply with the PUC Chart of Accounts as well as with the laws of the state of New Hampshire.

Company Comment

As shown in the exhibit to Audit Request 22, the $4,457,169 noted on EN 2-2-3 page 2 does not represent the property tax bills literally paid during the calendar year 2009. Instead this is the amount of property taxes paid by the Company for the Tax Year April 2009 – March 2010 and includes $157,770.24 that was paid in January 2010. An additional $153,129.65 was paid as the 4th installment to the City of Concord in February 2010 which is not included in the above figure. Based upon the above response and data provided to the PUC Audit Staff, the Company notes that it is in compliance with New Hampshire State statutes.

Audit Comment

Audit request #22, issued on March 15, 2010 requested the 2008 and 2009 utility property tax returns, the municipal property tax invoices for the first and second issue 2008 as well as the first issue 2009. The request also asked for a detailed schedule to support the prepaid property tax figure and to which prepayment account those amounts posted.

Audit request #54, requesting additional information related to the "*Prepaid Accrual of Real Estate and Personal Tax account 23601" included a reference to EN 2-2-3 page 2 of 2 represents actual property tax payments for tax year 2009 (Jan 01, 2009 – Dec 31, 2009).* The timeline reference noted by the Company was not for the tax year, which Audit now believes the Company fully understands to be April through March.

Based on the Company Comment above, Audit understands that the Company books test year expenses based on estimated figures, rather than actual invoices. Audit further understands that the EN 2-2-3, page 2 figure of $4,457,169 represents actual expenses paid during calendar year 2009 for the tax year 2009 which runs from April 2009 through March 2010.

The reader is reminded that page two of the EN 2-2-3 section of the filing does not represent any connection with test year property tax expenses.

Audit Issue #11

Property Tax Expense

Background

The actual expenses noted on the filing schedule EN 2-2-3, page 1 in the amount of $3,855,759 were verified to the general ledger account 40810.

The pro forma figure of $4,457,169, as outlined on schedule EN 2-2-3, page 2 and listed as the total pro forma test year amount in column (D) on EN 2-2-3, page 1, represents the cash payments made during the calendar year January 2009 through December 2009, on the tax bills received during the calendar year. Refer to Audit Issue #10.

The State Utility Property Tax figure on EN 2-2-3, page 2, and included in the pro formed total, represents the 2009 Notice of Valuation, which is the total tax due and payable for the tax year April 1, 2009 through March 31, 2010.

Issue

The expenses related to the municipal and state utility property tax are understated on the filing schedule EN 2-2-3, page 1 by $290,396 and overstated on the filing schedule EN 2-2-3, page 2 by $311,014.

Audit calculated the property tax expense for the test year should have been $4,146,155. This figure was calculated using one half of the first 2008 municipal property tax invoices, the full second half 2008 property tax invoices, and one half of the first issue of the 2009 property tax invoices. The figure also includes nine months of the 2008 notice of valuation for the statewide utility property tax, and three months of the 2009 notice of valuation for the statewide utility property tax.

Recommendation

Audit reminds the reader that the amount to which the pro formed property tax expense has been adjusted does not represent the test year, nor the tax year. Rather, it is the 2009 tax year (4/2009 – 3/2010) expenses paid during the calendar year 2009.

Company Comment

As discussed in Audit Issue #10, the figure of $4,457,169 does not represent cash payments in Calendar Year 2009. The State Utility Property Tax figure on EN 2-2-3 page 2 does represent the 2009 Notice of Valuation, but represents the total tax due and payable for the tax year April 1, 2009 – March 31, 2010, **not** April 2010 – March 2011 as evidenced by the payments during the April 2009-March 2010 tax year totaling the exact amount in the Notice of Valuation.

The Company has a practice of accruing based on the prior tax year actual bills until actual bills are issued in the December timeframe because the first installments are only estimated bills. This practice causes some timing differences in the calculation of the test year property tax expense but still provides full accuracy in matching the expense with the State's April-March tax year.

The Company has clearly shown in its responses to Audit Requests 34 and 54 that it is using accrual accounting to expense property taxes over the New Hampshire April – March fiscal year. Additional reconciliations have been prepared and provided in attached file Audit Issue 11. xls.

Audit Comment

Audit concurs with the adjusted State Property Tax year of April 2009 through March 2010, and reiterates that the full amount of $865,343 should not be included in the expense total for the test year July 2008 through June 2009. The State Property tax figure should include nine months of the April 2008 through March 2009 valuation and three months of the April 2009 through March 2010 valuation.

Audit further concurs that the Company is using an accrual basis, although the basis on which such accrual is done resulted in the understatement of actual property tax expense and overstatement of the pro-formed figure.

Finally, based on subsequent information provided to Audit, the Company verified that $289,259 had been over expensed in prior periods, and $36,730 had been under-expensed in the first half of 2009, with subsequent correction made.

Audit Issue #12

Statewide Property Tax Included on Municipal Invoices

Background

Because RSA 83-F taxes utilities specifically at a uniform property tax rate, the utilities are not subject to the statewide portion assessed at the municipal level. EnergyNorth received municipal property tax invoices from twenty nine (29) communities.

Issue

Eleven of the fifty nine properties (in twenty nine communities) included the statewide property tax on the municipal invoice, amounting to $8,560.

Three of the eleven properties which reflected the statewide property tax were received from the city of Concord, and related to properties owned by the Broken Bridge Corporation. The total tax (as calculated by Audit for the test year) amounted to $1,951. This amount was not included in the expense calculated by Audit. Audit had requested clarification of the Broken Bridge property tax invoices via audit request #60, with a response requested by May 26, 2010. The response received on June 15 indicated that the Broken Bridge property is non-utility land and is reflected on the balance sheet of the Broken Bridge Corporation.

A payment to the Ducharme, McMillen & Associates, Inc. was noted on the Accounts Payable listing of expenses at year end 2008 in the property tax accrual account 23601. Audit requested the tax bill supporting this amount and was originally told that "*the company has excluded the Ducharme McMillen amount from its requested pro-forma rate year of $4,445,169...*" Audit again requested the invoice and was provided with a photocopy from Ducharme McMillen & Associates, a tax consulting firm in the amount of $51,591, for a "third year fee" relating to Broken Bridge third year fee, and Energy North personal property third year fee. Audit did not include this invoiced amount in the calculated property tax expense.

Recommendation

It is recommended that the Company contact each of the communities and request that the statewide property tax assessment be removed or discontinued, as it results in an overpayment of the statewide property tax. The total overpayment, including the entire Broken Bridge property tax figure above, was calculated by Audit to be $10,511 for the test year. This amount was <u>not</u> included in Audit's total expense calculation identified as $4,159,389.

Company Comment

The Company takes this recommendation under advisement and will pursue the removal of this assessment from the Company's property.

The Company agrees to remove the amount of $1,976 from the revenue requirement that relates to the Broken Bridge property tax mentioned above.

Audit Comment

Audit agrees that the removal of the statewide assessments on those municipal invoices should be pursued. Audit restates however, as noted in the Recommendation, that the total of *all of the overpayments*, including the Broken Bridge invoices, is $10,511 and should be removed from the filing.

Audit Issue #13

Property Tax Late Fee

Background

Audit reviewed the second issue 2008 City of Concord property tax invoices for the thirteen properties of the Company, and noted delinquencies on every invoice.

Issue

Via audit request #46, Audit requested the amount of any late penalty assessed by the City and to what account the late fee was posted. The Company responded that the interest assessed by the City on the late property tax payments amounted to $2,209 and posted to the 23601 general ledger account.

Recommendation

The Company is reminded that any late fee/interest/penalty of this type should post to a below the line expense account.

Company Comment

The Company takes this recommendation under advisement and will put controls into place to prevent the inclusion of late fees, interest, and penalties in the property tax expense account.

Audit Comment

Audit reiterates both the Issue and the Recommendation. Audit further concurs that controls be implemented to prevent inclusion of these types of fees in the property tax expense account.

Audit Issue #14

Pre-paid Property Tax Expenses

Background

Prepaid property taxes were noted in an accrual account 23601, Accrued Real Estate and Personal, with a test year balance of debit $932,067.

Issue

Based on the 2008 and first issue 2009 NH tax year municipal and state utility tax invoice of 2008, the calculated Prepaid property tax figure (in the accrual account) should be $809,860.

Recommendation

As identified in prior property tax related Audit Issues, the Company must ensure that the recording of expenses is done on an accurate accrual basis.

Company Comment

As addressed in the responses to Audit Issues #10 and 11, the company does record property taxes on an accrual basis. However, Company notes that for the period of April - June 2009 accruals were made based on the internally budgeted figure for property taxes which is not the most accurate basis. If the Company had used Tax Year 2008 actual taxes as the basis for its accruals, as is its current practice, then property tax expense for the Historic Test Year would have been $36,730.38 higher and the debit balance in accrual account 23601, Accrued Real Estate and Personal would have been correspondingly lower at Jun 30, 2009. The Company is unable to replicate Audit's calculated Prepaid property tax figure of $820,371 or find a basis therefore. Additional reconciliations have been prepared and provided in attached file, "Audit Issue 14 table.xls".

Audit Comment

Audit concurs that the expense posted for the test year is understated and that the accrual basis on which the 2009 prepayments were booked should be more accurately tied to actual invoices rather than internally budgeted figures.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Data Requests – Set # 3

Date Received: September 22, 2010
Request No.: Staff Tech 3-43

Date of Response: October 19, 2010
Witness: Frank Lombardo

REQUEST: Please set forth all adjustments to the revenue requirement that the Company agrees should be made based on information provided during the audit and discovery process.

RESPONSE: As indicated in the Company's initial filing and in response to a number of discovery requests, the Company intends to update its proposed revenue requirement and rate design to reflect the updated rate base (through September 30, 2010) that it is requesting be used for ratemaking purposes in this case and for other adjustments, including the updated lead/lag study that was filed on April 27, 2010 and changes in the marginal cost study. Attachment Staff Tech 3-43 sets forth the items for which the Company has agreed to adjust the revenue requirement in response to specific issues raised by the Commission staff or Office of Consumer Advocate during the audit and discovery process.

	Adjustments:	Expense Change	Rate Base Chang
1(a)	**OCA Set 2 - 72; Set 1-73** Rate Base - June 2009 plant of $1,281,821 included in error		($1,281,821)
(b)	Associated depreciation of ~$32,000	(32,000)	
2	**Audit Issue # 1 / OCA Set 3-12** Analysis of an invoice to Vanguard resulted in the Company's decision to write-off and to reduce the proposed revenue requirement by $13,372.15 due to the invoice being recorded during the test year.	(13,372)	
3	**Audit Issue #3 / Audit Request #74** Project: Spoil Plant Everett - Costs booked to this project were allocated to EnergyNorth in error. Further research identified $20,591 of costs incorrectly allocated to EnergyNorth during the test year. Plant is located in Massachusetts. The Company identified the incorrect allocation in September 2009 (outside of the test year) and made the correction to remove the allocation from EnergyNorth.	(20,591)	
4	**Audit Issue #5 / OCA Set 2-101 (Lobbying\ Memberships)** The Company does not control decisions by the AGA to lobby on specific matters, but does benefit from AGA membership through greater access to industry technology and knowledge applied to the operation and maintenance of the company's gas network. Nevertheless, the Company will remove the amount of $1,923 from the revenue requirement based upon the response to OCA 2-101.	(1,923)	
5	**Audit Issue #6 (Outside Services \ CTA)** In the test year, the Company reversed the year end accrual for Desola Group, which should have been treated as a cost to achieve rather than a reucrring operating expense. The Company reversed the allocated amount of $3,405. The resulting balance in the test year of $345, will be removed from the filing.	(345)	
6	**Audit Issue #7 / Audit Request #68 (SIR Costs)** The Company agrees that the charge of $4,554 related to administrative costs associated with site investigation and remediation activities and therefore should be recovered through thte Company's MGP cost recovery mechanism, rather than being treated as a test year expense.	(4,554)	
7	**Audit Issue #8 / Staff Set 2-36 / OCA Set 3-25; 3-26 (Violations \ Penalties)** The Staff audit identified $18,042 of DigSafe damage costs with completion dates that should be removed because they were incurred during the test year.	(18,042)	
8	**Audit Issue #12 / OCA Set 3-33** The Company agrees to remove the amount of $1,976 from the revenue requirement that relates to the non-utility property of Broken Bridge property tax.	(1,976)	
9	**Audit Issue #13 / OCA Set 3-34 (Property Tax Interest & Penalties)**	(100)	
10	**Audit Request #76 (Low Income Settlement Penalty)** The Company incurred $77,834 during the test year as a payment for the benefit of low income customers for which the Company agreed not to seek to recover through rates. Of that amount, $25,899 was adjusted out of the revenue requirement in the Company's initial filing (see Volumes 1A & 1B, Exhibit EN 2-2-2, Schedule 13, p.2). The balance of $51,933 should have been removed as well.	(51,933)	
11	**OCA Set 3-5 (Property Insurance Credit) / OCA Set 3-10** The July 2009 credit of $8,302.86, which occurred outside the test year, is a reversal of property insurance premiums that were incorrectly applied in the months of May and June 2009. In reviewing Account 9240K, Property Insurance, the Company identified additional rate year charges incurred in August 2009 ($4,279.37), September 2009, ($2,103.30) and January 2010 ($197.79) that should have been included as a proforma adjustment to the test year, resulting in a net credit reduction to the revenue requirement of $1,722.40.	(1,722)	
12	**OCA Set 3-15 (Boston Gas O&M)** "Maintain Rivermoor" is a cost center description that refers to one of the Massachusetts maintenance yards. This cost center relates to Boston Gas and therefore the identified expense should not have been included in the revenue requirement.	(5,842)	
13	**OCA Tech Session 1-12 (Rate Case Expense)** The Company's initial filing included an adjustment of $589,217 to remove rate case expenses incurred in the test year that releted to DG 08-009 (see Exhibit EN 2-2-2 Schedule 9 Page 2 - Purchase Services). Additional analysis of EnergyNorth's travel expense has identified $134,015.58 in prior rate case expenses that were inadvertently included in the revenue requirement as part of Total O&M included in Exhibit EN 2-2-2.	(134,016)	
14	**Staff Tech Session 1-10 (Essex & Norfolk County Sheriff's Department)** Reference OCA 2-99. The Company agreed to remove the identified charges totaling $16,084.	(16,084)	
15	**Supplemental Testimony on Eliminating Expat and Officer Expenses**	(60,681)	

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-106

Date of Response: July 7, 2010
Witness: Tracey B. McCarthy

REQUEST: OCA 1-105 asked Ms. McCarthy about when the Consumer Advocate positions proposed by the Company will be "created, filled and begin work." In response, Ms. McCarthy stated, "The Company estimates it would take approximately 60 days from authorization to launch these positions." By "authorization," to what is Ms. McCarthy referring (e.g., to the Commission's approval of permanent rates in this case)? Please explain.

RESPONSE: By "authorization," Ms. McCarthy was referring to PUC approval of a revenue requirement that reflects the funding necessary to support the new Consumer Advocate positions.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-103

Date of Response: July 13, 2010
Witness: Frank Lombardo

REQUEST: The response to Staff 1-90 referenced Lombardo/Adams workpaper, WP COS O&M 2-2-2, pp. 232-233 to support the $776,886 of incremental expense related to the Company's "increased level of collection activities."

a) Please provide a break down of and explain how the Company determined the Labor Burdens in excess of 100% (used in WP COS O&M 2-2-2, pp. 232-233).
b) Please provide a break down of and explain how the Company determined the $70,016 of "Deposit Interest." What was the monthly balance of residential customer deposits as of June 30, 2008 and each month since then to date.
c) What was the amount of "Replevin Court Costs & Fees," related to the residential class, booked on a monthly basis, as of June 30, 2008 and each month since then to date?

RESPONSE: a) The Company determined the labor burdens presented in WP COS O&M 2-2-2 pp. 232-233, based on the actual labor burden rates in place as of September 2009. In general burden rates are derived by dividing the cost (i.e., pensions, OPEBs, etc.) for each company by the total direct labor for each company.

The breakdown of the burden rates are as follows:

Pension	48.79%
OPEB	13.41%
Benefits	22.25%
Payroll Taxes	.95%
Incentive Compensation	14.75%
Paid Absence	4.59%
Vacation	9.48%
Gainsharing	1.05%
401K Match	2.34%
	117.61%

b) Note: The following long-term scenario was developed from test data in order to estimate the deposit interest owed going forward. The deposit interest of $70,016 was determined as indicated in Table 1 below.

The practice of collecting residential deposits was initiated during May, 2010. For the months prior to this there were zero residential deposits going back to June 30, 2008. The status of residential deposits as of June 30, 2010 can be seen in Table 2 below.

TABLE 1:

Pro-Forma Deposit Analysis		
Number of total accts deposits collected	7,600	Represents the number of accounts that are typically opened and closed in less than a year. This represents the target group of accounts that National Grid NH would likely be able to collect deposits on for a given year.
Number of Accts < 1yr	4,407	(Estimate of Test Year Accounts held < 1 yr that were charged off. If the Company had been collecting deposits on these accounts, it would have been able to offset the impact of the charge offs with these deposits.)
Number of accts that receive full deposits back	3,193	(The remaining accounts (7,600 - 4,407 = 3,193) represent accounts that were open for less than a year but did not charge off. Thus, the Company would be required to return these deposits with interest (had it collected deposits)
Cash Deposits Returned	$881,818	(Estimated value of deposits collected and returned from above accounts held over 1 yr)
2006 Prime Rate	7.94%	2006 was the year utilized in the Monticello study – this rate should be updated annually
Net Deposit Interest	$70,016	(Interest credited to those 3,193 accounts held over 1 yr whose deposits have been returned.)
Cash Deposits Kept	$1,217,091	(Deposits collected from the 4,407 accounts held < 1 yr.)

TABLE 2:

ENERGY NORTH
RESIDENTIAL DEPOSITS AS OF JUNE 30, 2010

Status	Count	Deposit Billed	Deposit on Hand
ACTIVE	67	$10,316.00	$8,818.37
FINAL	2	$190.00	$190.00
Total	**69**	**$10,506.00**	**$9,008.37**

c) The replevin practice in Energy North has yet to be initiated. Therefore, there have been zero costs to date. The replevin costs indicated in WP COS O&M 2-2-2 were part of a pro-forma analysis to produce a schedule of incremental costs of all the enhanced collection initiatives.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #3

Date Received: August 24, 2010 — Date of Response: September 14, 2010
Request No.: OCA 3-28 — Witness: Frank Lombardo

REQUEST: Page 31 of the NHPUC Audit Report dated August 16, 2010, addresses account # 9030K, Customer Records and Collection Expenses, and states: "[A]ccording to the Company, [this account] includes 'incremental costs associated with the contract center consolidation,' in the amount of $983,788 which should be considered non-recurring."

(a) Please provide copies of all responses provided to the PUC Audit Staff with regards to this issue. See, e.g., NHPUC Audit Report, pp. 20-21.

(b) Please explain if the proposed revenue requirement is higher by $983,788 or a different figure because of incurrence of these costs. What was the level of expense recorded to Account 9030K Activity 003602 in the test year?

RESPONSE: (a) Responses provided to the PUC Audit Staff with regards to this issue are attached hereto as Attachment OCA 3-28(a) and Attachment OCA 3-28(b).

(b) The proposed revenue requirement includes $983,788 - the level of expense recorded to Account 9030K Activity 003602 in the test year. As discussed in the Company's response to the PUC Audit Staff, this charge relates to call center operations, specifically the costs associated with operating and maintaining the Company's internal call center that receives and addresses customer calls for issues such as-existing customers with no gas, bill inquiries, safety issues (e.g., gas odor calls), etc. The $983,788 reflects labor costs in operating the call center. Labor costs increased to address the level of customer inquiries received in the normal course of business. The Company continues to incur these costs, which allow it to maintain the proper level of staffing in the Company's call center.

AUDIT REQUEST

UTILITY NAME: EnergyNorth **TODAY'S DATE: 6/14/2010**
NUMBER: 76 **RETURN REQUESTED BY:** 6/21/2010
NHPUC - AUDIT BY: Karen Moran **COMPANY CONTACT PERSON:** Frank Lombardo
DOCKET REFERENCE: DG 10-017 **TEST YEAR:** 7/1/2008 – 6/30/2009

AUDIT REQUEST

Regarding your responses to Audit Request #25:

a. Account 90300 Activity 002005 $44,856 you provided a spread of labor, consulting, labor loading and other charged. How many FTE/hours does the labor represent and on what basis is the labor loading calculated?

b. Account 90300 Activity 002037 how many vehicles?

c. Account 90300 Activity 003373 How many FTE/hours does the labor represent and on what basis is the labor loading calculated?

d. Account 90300 Activity 00NG99 How many FTE/hours does the labor represent and on what basis is the labor loading calculated?

e. Account 9030K requested an explanation for the increases. Your sum that it is postage $367,037 plus lockbox $45,909 plus Other $129,915 does not answer the question, does not relate to any of the activity codes. Finally, the indication that the $983,788 in Activity code 003602 is "Call Center Operations" is so generalized that it is not an indication of what the expense is.

f. Account 90400-your summary of expenses does not provide an explanation for how the numbers were determined.

g. Account 90500 your indication that $20k was spread among labor, loading and other does not answer the question of why did the account and activity increase from $3,639 at 12/08?

h. Account 909FK requested documentation for the $119,639. If there is a lead journal entry, or something to actually document what the customer markets expense from the service company was, please provide that.

i. Please indicate what the "Low Income Settlement" is, and why this account (9100K) should be included at all in the current rate case.

j. Please indicate why account 91200 should be included in the current rate case.

k. Please indicate why account 91300 should be included in the current rate case.

l. Please indicate why account 9160K, 9170K and 9301K should be included in the current rate case

PERSON RESPONSIBLE FOR RESPONSE: ______________________
RESPONSE:

Requests a. thru d.:

The information requested is unavailable in our general ledger system and because of the volume of material required to produce responses, the Company will not be able to provide the detailed information requested. In general, the burden rate is derived by dividing the specific cost (i.e., vacation, paid absence) for each company by the total direct labor for each company. During the burdening process, for Energy North, the resulting rate is applied to capital and clearing accounts direct labor only. After the burdening process, a second process is run, where the clearing accounts are then allocated to either O&M or capital accounts.

Request e.:
In reviewing the totals to Account 9030K – the 12 months ending Dec 2008 reflect an approximate $105,000 decrease from 12 months ending December 2007, 12 months ending June 2009 reflects an approximate $163,000 increase from 12 months ending December 2008. In order to provide an explanation for the increase in account 9030K overall, the costs were shown by description of expense: labor, consulting, labor loading, postage, lockbox and other. The primary driver of the increase is in activity code 003602 which relates to customer billing and accounting costs. This increase is due to incremental costs associated with contact center consolidation. Call center operations includes the costs associated with running and maintaining our internal call center that receives and addresses customer calls for issues such as – existing customers with no gas, bill inquiries, safety issues – customers smell gas, etc.

Request f.:
Please see the attached file, "Audit Request #76 attachment A.xls".

Request g.:
During 2008 the allocation process changed from the KeySpan model to a new National Grid model implemented across all segments. The National Grid model includes the same basic source details but employs different target accounts. This change was implemented to ensure consistency across all corporate segments. The increase in account 905 is the result of this change in targeting.

Request h.:
The $119,639 charge results from a larger allocation of dollars (approximately $4.4M) tied to a brand conversion project. The allocation is based upon the Company's billing pool allocation process and EnergyNorth was allocated 2.708% through Bill Pool 200. Please see the attached file, "Audit Request #76 attachment B.xls" for bill pool detail.

Request i.:
The low income settlement is referred to in the bottom of page 5 and page 6 in the attached file, "Audit Request #76 attachment C.doc". In the current filing $77,832.25 of charges related to the low income settlement has been booked to GL acct# 9100K. Of this amount, $25,899 has been pro formed out of the revenue requirement. See the current filing: Volumes 1A & 1B, Exhibit EN 2-2-2, Schedule 13, p.2. for this adjustment. In addition, please find attached "Audit Request #76 attachment D.xls" for additional detail – this file is an update to response provided to Audit request 29. Although components of charge are recorded to Cost type 520 - INCENTIVE PROGRAMS – OTHER, given this charge relates to the low income settlement, during the update phase of the current filing an additional $51,933.25 will be adjusted from the Company's revenue requirement.

Request j.:
These costs are normal operating costs of the business, and as consistent with the resolution in DG 08-009, are included in our revenue requirement. The O&M exhibits included categories

based upon Cost Type and General Ledger Account. As a result, O&M was categorized by Cost Element and Cost Element Group. For GL account 91200 items related to advertising and incentive programs in the amount of $429,299 has been pro formed out of the Company's revenue requirement. Please see the current filing: Volumes 1A & 1B, Exhibit EN 2-2-2, Schedule 13, p.2. for this adjustment. In addition, please find attached "Audit Request #76 attachment D.xls" for additional detail – this file is an update to response provided to Audit request 29.

Request k.:
These costs are normal operating costs of the business, and as consistent with the resolution in DG 08-009, are included in our revenue requirement. The O&M exhibits included categories based upon Cost Type and General Ledger Account. For GL account 91300; $31,644 has been pro formed out of our revenue requirement. Please see the current filing: Volumes 1A & 1B, Exhibit EN 2-2-2, Schedule 13, p.2. for this adjustment. In addition, please find attached "Audit Request #76 attachment D.xls" for additional detail – this file is an update to response provided to Audit request 29.

Request l.:
These costs are normal operating costs of the business, and as consistent with the resolution in DG 08-009, are included in our revenue requirement. The O&M exhibits included categories based upon Cost Type and General Ledger Account. For GL account 9170K; $7,427 has been pro formed out of our revenue requirement. For GL account 9301K; $44,822 has been pro formed out of our revenue requirement. Please see the current filing: Volumes 1A & 1B, Exhibit EN 2-2-2, Schedule 13, p.2. for these adjustments. In addition, please find attached "Audit Request #76 attachment D.xls" for additional detail – this file is an update to response provided to Audit request 29.

DATE RETURNED: ____________________ **DATE RELEASED:** ____________________

PLEASE RETURN TO: Karen Moran
NHPUC 21 So. Fruit St., Suite 10
Concord, NH 03301-2429
e-mail Karen.moran@puc.nh.gov Fax: (603) 271-3878 Phone (603) 271-7092

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010 | Date of Response: June 3, 2010
Request No.: Staff 1-85 | Witness: Frank Lombardo

REQUEST: Ref. p. 30, lines 13-17. Describe and explain the informational & instructional advertising resulting in a $500,000 increase in outside services. Provide a copy of the consultant contracts. What is the total cost for those services and on what basis were they allocated to National Grid NH? Provide supporting work papers. Does the Company expect to incur similar expenses in the future? Explain.

RESPONSE: 2009 Pro Forma Purchased services of $3,318,889 increased by approximately $650,000, since the Company's last rate filing. Of this increase, approximately $500,000 is from National Grid USA Service Company's additional allocations for outside consultants. Included in the $500,000 increase in allocations from National Grid USA Service Company is approximately $119,000 that was recorded to GL Account 909FK – 'Informational and Instructional Advertising Expenses' (see Attachment Staff 1-85(a), Line 1494 – worksheet prepared in response to OCA request Set 1 - 62). The $119,000 charge results from a larger allocation of dollars (approximately $4.4M) tied to a brand conversion project, which includes numerous contracts with a variety of vendors. The allocation is based upon the Company's billing pool allocation process. National Grid NH was allocated 2.708% through Bill Pool 200 (see Attachment Staff 1-85(b) for detail). The Company does not expect to incur this level of cost in the future.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-95

Date of Response: July 9, 2010
Witness: Frank Lombardo

REQUEST: The response to Staff 1-85 refers to a "brand conversion project." Please explain that project and the total impact on the requested revenue requirement in this proceeding of that project.

RESPONSE: The project resulted in the allocation of non-media branding costs of approximately $119,000 to National Grid NH, which is included in the requested revenue requirement. The costs were for items such as signage changes.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #1

Date Received: May 7, 2010 | Date of Response: June 2, 2010
Request No.: OCA 1-49 | Witness: Frank Lombardo

REQUEST: Page 20 (Bates p. 22), lines 5-7, of Mr. Lombardo and Mr. Adams' testimony refers to adjustments for variable compensation and gain sharing as shown on Exhibit EN 2-2-2, Schedule 2, "Operating Expenses by Component." Page 2 of that Schedule, "Labor - Adjustments," shows a reduction for Management Incentive Compensation of $299,840. After making that adjustment what amount remains in the request related to Management Incentive Compensation?

RESPONSE: The total amount of Incentive Compensation charged to O&M in Exhibit EN 2-2-2, schedule 2, page 8, line 2 is $663,197. Netting the Incentive Compensation labor adjustment of ($299,840) from Exhibit EN 2-2-2, schedule 2, page 8, line 6, the amount that remains in the request related to Incentive Compensation is $363,357.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Data Requests – Set # 3

Date Received: September 22, 2010 | Date of Response: October 4, 2010
Request No.: Staff Tech 3-29 | Witness: Frank Lombardo

REQUEST: Ref. OCA 1-49. Please provide the same analysis for gainsharing.

RESPONSE: The total amount of Gainsharing charged to O&M in Exhibit EN 2-2-2, schedule 2, page 9, line 2 is $104,633. Netting the Gainsharing labor adjustment of ($10,315) from Exhibit EN 2-2-2, schedule 2, page 9, line 6, the amount that remains in the request related to Gainsharing is $94,318.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010 | Date of Response: June 3, 2010
Request No.: Staff 1-67 | Witness: Frank Lombardo

REQUEST: Ref. p. 17, lines 15-18. Provide 2008 and 2009 Annual Incentive Compensation/Performance for Growth and Gainsharing/Annual Union Goals Program Plans. Describe and explain any differences between the 2008 and 2009 plans.

RESPONSE: The KeySpan Energy Annual Incentive Compensation and Gainsharing Plan included all eligible union and non-union employees. Awards granted under the plan were based on the following annual performance goals:

- An enterprise-wide corporate earnings trigger (earnings per share).
- Secondary triggers by business unit.
- All goals were paid out at their actual performance once targeted earnings were achieved.
- All goals were paid out at 25% of their actual performance if threshold performance on the secondary trigger was not achieved.
- Goal structure for employees was typically based on their Vice President's goal structure.

The National Grid Annual Performance Plan includes non-union employees only. Eligible Union employees participate in the National Grid Goals Program for Union Employees.

In the Annual Performance (P4G) Plan, 50% of the maximum incentive compensation opportunity is based on financial targets and 50% is based on individual objectives.

Financial Targets

Within the 50% for financial targets, 20% is based on group earnings per share (Group EPS) and the remaining amount for the financial element of the plan will be based on appropriate Line of Business/Executive Directorate (e.g., Shared Services/IS, etc.) targets (e.g., operating profit or any other appropriate targets set by the relevant Executive Director).

Individual objectives

> Four or five key individual objectives are set that are stretching, measurable and achievable. A performance assessment results in a rating using a scale of 1 to 5.
>
> When assessing achievement of the individual objectives, equal importance is attributed to performance against the Leadership Qualities using a scale of 1 to 3 (see Attachment Staff 1-67(c)).

The National Grid Goals Program for Union Employees is comprised of four main measurements: financial performance; safety; customer satisfaction and reliability. Employees who are members of unions that participate in the program may earn an award based on the achievement of these goals.

The main difference between the former KeySpan plan and the National Grid plans is that in the KeySpan plan, all union and non-union employees shared the goals in a particular business unit. The National Grid plans separate the union and non-union population into two separate programs.

Further details are provided in the following documents:
Attachment Staff 1-67(a)--2009 10 Annual Performance Plan - Band A
Attachment Staff 1-67(b)--2009 10 Annual Performance Plan - Band B
Attachment Staff 1-67(c)--2009-10 Annual Performance Plan – Bands C-Fc
Attachment Staff 1-67(d)--Union Goals Program Summary
Attachment Staff 1-67(e)--KeySpan Incentive Compensation Plan

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #2

Date Received: June 18, 2010
Request No.: Staff 2-39

Date of Response: July 16, 2010
Witness: Frank Lombardo

REQUEST: Please identify the amount of incentive pay included in the test year that is tied to the Company's financial performance and how the financial performance is/was measured.

RESPONSE: The Annual Performance Plan is comprised of financial targets and individual objectives.

However, National Grid does not account for these two elements on a segregated basis on a company-wide basis, and therefore the requested information is not available. In addition, the revenue requirement in this case has been adjusted to reflect the Company's target level of incentive compensation, rather than the actual level incurred in the test year, and therefore the amount included for cost of service purposes is lower than the actual amount incurred.

Financial performance under the plan is measured as follows. The particular financial goals for individual employees vary depending on the level of the employee—Band A through Band F. For employees in Band A and Band B the financial targets represent up to 60% of the maximum amount that can be paid under the plan (i.e., if the financial goals are fully attained or exceeded). For Band C to Band F they represent 50% of the plan maximum. If the financial goals are not fully attained or exceeded, employees may still earn a portion of the incentive compensation, but something below the maximum. The specific financial targets utilized under the plan are earnings per share on a company-wide basis, operating cash flow for the line of business in which the individual works, and operating profit for the line of business in which the individual works.

Financial performance against the targets is measured at the end of the performance year (i.e., the fiscal year). The resulting percentage for each element under the plan is then added to the percentages for the other individual elements and the total percentage is then applied to the employee's eligible base pay earned throughout the year. Although the resulting percentage for financial results is the same for all employees within the same band in the same line of business, the cash amount will vary depending upon the employee's eligible earnings and individual results. Thus, for example, all Band C employees in a particular line of business will be eligible to receive the same percentage of their base pay if National Grid achieves 75% of its earnings per share target and the line of business in which those employees work achieved 100% of its operating profit target and 80% of its cash flow target, but the actual dollar amount received by each employee would vary depending on the employee's base salary.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #1

Date Received: May 7, 2010
Request No.: OCA 1-69

Date of Response: June 2, 2010
Witness: Frank Lombardo

REQUEST: Page 38 (Bates p. 40), line 10, of the testimony of Mr. Lombardo and Mr. Adams refers to capitalized payroll taxes. What percentage of payroll and payroll taxes was capitalized in 2007, 2008, 2009, and the test year?

RESPONSE: For payroll the percentage capitalized is as follows:

2007 -- 35.46%
2008 -- 32.79%
2009 -- 29.65%
Test Year -- 28.97%

For payroll taxes the percentage capitalized is as follows:

2007 -- 34.53%
2008 -- 33.69%
2009 -- 14.33%
Test Year -- 24.79%

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-69

Date of Response: July 9, 2010
Witness: Frank Lombardo

REQUEST: According to the response to OCA 1-69, the average percentage of payroll capitalized over the period 2007-2009 was 32.63%. If 32.63% of payroll had been capitalized in the pro-forma rate year (*i.e.*, the twelve months following the test year), by what amount would the requested revenue requirement have declined? Please provide the calculations.

RESPONSE: Please see the following calculation and impact on the revenue requirement primarily related to O&M. The calculation below excludes the impact on Rate Base (Rate of Return on additional capital).

	Proforma Test Year	Capital	O&M
Direct labor	7,611,378	28.97%	71.03%
		$ 2,205,016	$ 5,406,362

Calculated using the average percentage of payroll capitalized for the period 2007-2009 as requested in OCA 2-69:

	Proforma Test Year	Capital	O&M
Direct labor	7,611,378	32.63%	67.37%
		$ 2,483,593	$ 5,127,786
Reduction in Revenue Requirement			$ 278,576

Please note that, although calculated above, the Company does not agree with the scenario suggested in this data request.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-70

Date of Response: July 9, 2010
Witness: Frank Lombardo

REQUEST: According to the response to OCA 1-69, the average percentage of payroll taxes capitalized over the period 2007-2009 was 27.52%. If 27.52% of payroll taxes had been capitalized in the pro-forma rate year (*i.e.*, the twelve months following the test year), by what amount would the requested revenue requirement have declined? Please provide the calculations.

RESPONSE: Please see the following calculation and impact on the revenue requirement primarily related to O&M. The calculation below excludes the impact on Rate Base (Rate of Return on additional capital).

	Proforma Test Year	**Capital**	**O&M**
Direct Payroll Taxes	695,591	24.79%	75.21%
		$ 172,437	$ 523,154

Calculated using the average percentage of payroll taxes capitalized for the period 2007-2009 as requested in OCA 2-70:

	Proforma Test Year	**Capital**	**O&M**
Direct Payroll Taxes	695,591	27.52%	72.48%
		$ 191,427	$ 504,164
Reduction in Revenue Requirement			$ 18,990

Payroll tax should follow the payroll capitalized – similar to the Company's response to OCA 2-69. Also, please note that, although calculated above, the Company does not agree with the scenario suggested in this data request.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Requests – Set 1

Date Received: August 12, 2010
Request No.: Staff Tech 1-17

Date of Response: August 25, 2010
Witness: Frank Lombardo

REQUEST: Reference OCA 2-97. What is the amount of insurance company expenses included in the test year?

RESPONSE: Insurance premiums paid by the Company in the test year totaled $219,797, which consisted of general liability, auto, property and other insurance in the amount of $155,269 of which $68,269 represented premiums paid to the National Grid Insurance Company (Vermont) ("NGIC") and insurance related to employees (i.e., workers compensation) in the amount of $64,528, of which $48,443 represented premiums paid to NGIC. Under the insurance arrangement with NGIC, the Company insured its self-insured retention for a set premium. That arrangement ended April 1, 2009.

In reviewing the Company's insurance expense in order to prepare this response, the Company determined (1) that the insurance expense included in the revenue requirement did not include the cost of claims paid directly during the portion of the test year when there was no insurance in place through NGIC and (2) in light of the termination of the arrangement with NGIC and in order to properly reflect the cost of claims expense that is within the Company's self-insured retention limits, an adjustment should be made to the revenue requirement. This adjustment consists of removing the premiums paid to NGIC during the test year and adding back an amount equal to the five year average of the actual amount of claims paid for the period 2005 to 2009. A five year average was used to smooth fluctuations in claims payments from year to year. Attachment Staff Tech 1-17 is a five year summary of claims paid by the Company that constitute its full self-insurance cost. The five year average is $237,582 as compared to the self-insurance premiums of $116,712. Therefore, a pro forma adjustment of $120,870 should be made to increase the revenue requirement. The Company will include this adjustment when it files its updated revenue requirement including all adjustments identified during the discovery process.

Attachment Staff Tech 1-17

EnergyNorth Natural Gas, Inc., d/b/a National Grid NH
Historical Claim Data
Valued as of 12/31/09

Claim Payments

Period	General Liability Paid	Automobile Liability Paid	Workers' Compensation Paid	Grand Total
Gas:				
01/01/05 - 12/31/05	44,154.79	425,417.50	66,711.22	536,283.51
01/01/06 - 12/31/06	21,417.78	5,810.09	133,882.05	161,109.92
01/01/07 - 12/31/07	13,541.22	16,746.74	66,682.39	96,970.35
01/01/08 - 12/31/08	36,279.83	13,746.82	143,851.35	193,878.00
01/01/09 - 12/31/09	129,350.31	3,106.81	67,210.88	199,668.00
5 Yr Avg - Gas	**48,948.79**	**92,965.59**	**95,667.58**	**237,581.96**

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #3

Date Received: August 24, 2010 | Date of Response: September 9, 2010
Request No.: OCA 3-19 | Witness: Frank Lombardo

REQUEST: Page 18 of the NHPUC Audit Report dated August 16, 2010, refers to five activities which showed increases in the test year when compared to the twelve month period ending December 2008: 002015, Meetings & Training; 003727, Equipment Room; 004255, Valve/Drip Repair-Main; 003818, Maintenance Free Bin; and 004109, Property Structure Maintenance. For each of these 5 activities please provide the comparable costs for 2006, 2007, 2009, and the 12 months ending June 30, 2010.

RESPONSE: Please see the following table:

	Calendar Year 2006	Calendar Year 2007	Calendar Year 2008	Calendar Year 2009	12 Mths Ended June 30, 2010
002015, Meetings & Training	$ 75,140	$ 89,282	$ 98,622	$ 203,656	$ 164,828
003727, Equipment Room	$ 99,668	$ 92,840	$ 170,756	$ 185,813	$ 117,286
004255, Valve/Drip Repair-Main	$ 106,878	$ 181,870	$ 194,708	$ 177,452	$ 165,224
003818, Maintenance Free Bin			$ 1,518	$ 49,511	$ 43,311
004109, Property Structure Maintenance.	$ 79,787	$ 62,020	$ 75,827	$ 96,329	$ 51,848

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010 | Date of Response: June 2, 2010
Request No.: Staff 1-59 | Witness: Frank Lombardo

REQUEST: Ref. p. 10, lines 11-20. Describe consolidation of NG medical plans, date implemented, anticipated annual savings.

RESPONSE: In 2008, National Grid completed a review of the benefit plans and programs that were in place for non-union employees at both legacy National Grid and legacy KeySpan. As a result of this review, National Grid was able to align the health and welfare benefit offerings and develop a common benefits platform that was implemented for all non-union employees across the United States as of January 1, 2009. This common benefit platform reduced the number of healthcare vendors, which helped to stabilize and reduce administrative expenses through economies of scale. The healthcare providers were selected through a competitive bidding process and the successful results of those solicitation processes has assisted the Company in managing the cost of the healthcare benefit plans. The benefit changes and any associated impact on costs were reviewed by benefit plan at a total company level. The total anticipated annual savings in medical plans, including prescription drugs, resulting from vendor consolidation and plan design changes for National Grid (i.e., both legacy National Grid and legacy KeySpan combined) is $3.5M.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010
Request No.: Staff 1-60

Date of Response: June 2, 2010
Witness: Frank Lombardo

REQUEST: Ref. p. 10, lines 11-20. Describe the self-insurance plan, date implemented, anticipated annual savings.

RESPONSE: Given the large size of the employee population involved, National Grid decided to move to a self-insured platform for employee healthcare plans. All non-union medical, prescription drug and dental plans are self-insured. By moving to a self-insured platform, National Grid sought to remove risk and margin charges from its monthly premiums and ensure that it only paid for services actually utilized by its employees plus the administrative expense necessary for the plan administrators to pay claims.

The medical and dental plans for non-union employees became self-insured on January 1, 2009. Some of the union populations also moved to a self-insured platform for medical coverage during the latter part of 2009 and January 1, 2010. The prescription drug plans for both non-union and union employees have been self-insured for several years. Reserves for the medical and dental plans were established at the holding company level. The vendor submits a bill for payment to National Grid for the actual claims paid each month, and National Grid pays the monthly claims bill. For prescription drugs, there is no reserve, and National Grid pays the actual claims expense to the national vendor weekly. The total anticipated annual savings in medical and dental costs as a result of moving legacy KeySpan Corporation employees to a self-insured platform is $3.9M

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010 | Date of Response: July 9, 2010
Request No.: OCA 2-89 | Witness: Frank Lombardo

REQUEST: In response to Staff 1-59, Mr. Lombardo stated: "The total anticipated annual savings in medical plans, including prescription drugs, resulting from vendor consolidation and plan design changes for National Grid (i.e., both legacy National Grid and legacy KeySpan combined) is $3.5M." How much of the $3.5 million relates to National Grid NH and how was that amount determined? What percentage of the Company's medical and prescription drug costs were capitalized in the test year?

RESPONSE: National Grid completed a company-wide review of its benefit plans and programs in place for non-union employees which resulted in the total anticipated annual savings of $3.5M. The study related to National Grid USA on a company-wide effort. Savings were not identified on an operating company basis. The Company burdens its labor with rates that include total benefit costs. The burden rate does not differentiate between the various benefit costs; it is distributed in aggregate for all costs charged to the benefits account. Approximately 25 percent of the benefits costs are capitalized.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set # 2

Date Received: June 18, 2010
Request No.: OCA 2-90

Date of Response: July 9, 2010
Witness: Frank Lombardo

REQUEST: In response to Staff 1-60, Mr. Lombardo stated: "The total anticipated annual savings in medical and dental costs as a result of moving legacy KeySpan Corporation employees to a self-insured platform is $3.9M." How much of the $3.9 million relates to National Grid NH and how was that amount determined?

RESPONSE: National Grid USA moved to a self-insured platform for employee healthcare plans which resulted in anticipated annual savings of $3.9M to National Grid USA on an overall basis. The savings identified were company-wide and were not identified on an operating company basis.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010	Date of Response: June 3, 2010
Request No.: Staff 1-85	Witness: Frank Lombardo

REQUEST: Ref. p. 30, lines 13-17. Describe and explain the informational & instructional advertising resulting in a $500,000 increase in outside services. Provide a copy of the consultant contracts. What is the total cost for those services and on what basis were they allocated to National Grid NH? Provide supporting work papers. Does the Company expect to incur similar expenses in the future? Explain.

RESPONSE: 2009 Pro Forma Purchased services of $3,318,889 increased by approximately $650,000, since the Company's last rate filing. Of this increase, approximately $500,000 is from National Grid USA Service Company's additional allocations for outside consultants. Included in the $500,000 increase in allocations from National Grid USA Service Company is approximately $119,000 that was recorded to GL Account 909FK – 'Informational and Instructional Advertising Expenses' (see Attachment Staff 1-85(a), Line 1494 – worksheet prepared in response to OCA request Set 1 - 62). The $119,000 charge results from a larger allocation of dollars (approximately $4.4M) tied to a brand conversion project, which includes numerous contracts with a variety of vendors. The allocation is based upon the Company's billing pool allocation process. National Grid NH was allocated 2.708% through Bill Pool 200 (see Attachment Staff 1-85(b) for detail). The Company does not expect to incur this level of cost in the future.

Bill Pool	Bus Unit	BU Description	Segment	Percent	Comments
00200	00036	Niagara Mohawk Power	GAS	13.394	Gas Distribution Companies - Keyspan & Grid NE & NY
00200	00048	Narragansett Gas	GAS	8.668	
00200	01401	Boston Gas Company	GAS	22.528	
00200	01403	Colonial Lowell Division	GAS	4.108	
00200	01406	EnergyNorth Company	GAS	2.708	
00200	01437	Keyspan Energy Delivery LI	GAS	16.327	
00200	01438	Keyspan Energy Delivery NY	GAS	32.267	
00200 Total				**100.000**	

National Grid NH
Docket DG 10-017
Attachment Staff 1-85 (b)
Page 1 of 1

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #2

Date Received: June 18, 2010
Request No.: Staff 2-23

Date of Response: July 9, 2010
Witness: Frank Lombardo

REQUEST: Ref. Response Staff 1-85, Attachment B. What is the basis for the allocation? Provide all inputs and the calculation of the percentages.

RESPONSE: The basis for the allocation is O&M expenses. Please see Attachment Staff 2-23 for the inputs and calculation of the percentages.

O&M COMBINED WITH KEYSPAN AS OF 12/31/07
GAS ONLY

COMPANY NAME	CO #	PPS Co #	SEG	STATE	TOTAL	% TOTAL
Niagara Mohawk Power	NG 36	00036	GAS	NY	76,762,059	13.39%
Narragansett Gas	NG 48	00048	GAS	RI	49,675,672	8.67%
BOSTON GAS COMPANY	KS 01	01401	GAS	MA	129,116,074	22.53%
Colonial Lowell Division	KS 03	01403	GAS	MA	23,545,808	4.11%
EnergyNorth Company	KS 06	01403	GAS	NH	15,522,877	2.71%
KEYSPAN ENERGY DELIVERY LI	KS 37	01437	GAS	NY	93,573,659	16.33%
KEYSPAN ENERGY DELIVERY NY	KS 38	01438	GAS	NY	184,928,479	32.27%
TOTAL					573,124,629	100.00%

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010
Request No.: Staff 1-61

Date of Response: June 3, 2010
Witness: Frank Lombardo

REQUEST: Ref. p. 10, lines 11-20. Describe the changes in the office supply vendor contract, date implemented, anticipated annual savings.

RESPONSE: National Grid signed a three-year office supply contract with Staples that has an effective date of October 1, 2009, and extends through October 1, 2012. The Company anticipates annual savings across National Grid's U.S. operations of approximately $800,000 plus [redacted] from Staples. Because the contract was signed in October 2009, and National Grid is working through the first year of the contract, any estimate of savings to the Company would be speculative.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #1

Date Received: May 7, 2010
Request No.: OCA 1-63

Date of Response: June 2, 2010
Witness: Frank Lombardo

REQUEST: On page 30 (Bates p. 32), starting on line 19 of Mr. Lombardo and Mr. Adams testimony, and in Exhibit EN-2-2-2, Schedule 10, "Operating Expenses by Component,", Mr. Lombardo and Mr. Adams address postage costs. For the test year, the prior three twelve-month periods ending June 30, and for the most recent twelve month period for which data is available, what percentage of customers received their bills via the U.S. Mail?

RESPONSE: 12 Months Ended June 30, 2007 – 97.9% of customers received their bills by mail.
12 Months Ended June 30, 2008 – 95.8% of customers received their bills by mail.
Test Year Ended June 30, 2009 -- 94.5% of customers received their bills by mail.

More recently:

12 Months Ended May 19, 2010 – 93.3% of customers received their bills by mail.

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

DG 08-009

In the Matter of:
EnergyNorth Natural Gas, Inc d/b/a National Grid NH
Petition for Permanent Rate Increase

Direct Testimony

of

Stephen P. Frink
Assistant Director – Gas & Water Division

October 31, 2008

with the utility's approved integrated resource plan," claiming that implicit in the Company's growth forecast contained in its most recently filed IRP is an assumed level of promotional advertising designed to drive growth in various customer markets. ***See Attachment SPF-9 (Tech Session DR 1-39)***.

Q. Do Commission rules allow for full recovery of advertising costs consistent with a utility's IRP?

A. No, Puc 510.03(d) states "no more than 50% if costs provided for in a utility's IRP shall be borne by ratepayers." This rule allows limited recovery of costs but only for costs provided for in a utility's IRP approved by the Commission.

Q. Are the advertising and promotional programs in EnergyNorth's IRP?

A. Nowhere in EnergyNorth's IRP filed in Docket No. 06-105 is there a description of advertising and promotional programs and the role those programs play in developing the demand forecast. In addition, the Commission has not yet ruled on the adequacy of the IRP in the pending docket.

Q. Are there other reasons the incentive program should be discontinued?

A. Yes. The Commission does not normally encourage ratepayer-funded competition regarding the use of one energy source over another and giving away free equipment to convert customers does that. For example, in the Concord Steam Corporation 2007-2008 cost of energy proceeding, Docket No. 07-098, Staff was informed that Concord Steam had recently lost a large customer, the Pleasant View Nursing Home, to EnergyNorth because EnergyNorth paid the Nursing Home's capital costs to convert from steam service to natural gas. Customers and potential customers benefit from having multiple energy options but an incentive program that favors one energy source over another may not be in the public interest

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010
Request No.: Staff 1-19

Date of Response: June 4, 2010
Witness: Susan Tierney

REQUEST: Ref. p. 4, lines 8-13. Please indicate if the Company believes there are any other reasons, in addition to the Commission's "traditional rate-setting process," that are preventing the Company from earning the return authorized by the Commission.

RESPONSE: The prefiled testimony of Tracey McCarthy discusses in detail the challenges that the Company faces in collecting its accounts receivable and the impact of gas commodity prices on the Company's collections.

In addition, Dr. Tierney's response to Data Request Staff 1-17 described a number of factors that are contributing to the inability of the Company to earn its authorized return. These are described below and are creating significant financial challenges, in spite of the Company's efforts to undertake a variety of initiatives (including those specifically listed in Attachment Staff 1-19) to reduce the Company's operations and maintenance expenditures.

In addition to having limited areas to find further cost reductions and facing challenges within aspects of the traditional rate-setting process, the Company's inability to earn its authorized return arises from the combination of decreasing or flat usage per customer, increasing costs, and the need to replace aging infrastructure. This creates significant financial/economic challenges for local gas distribution companies.

Increasing natural gas prices in recent years, which rose for several years and hit a peak in the early Fall of 2008, coupled with a stronger state and federal focus on deploying energy efficiency programs for natural gas customers, have contributed to slowing growth in demand for natural gas generally. Even though the commodity prices for gas are passed through to customers and are thus different from delivery-related costs, the bundled price of natural gas service to customers does affect customer use and resulting sales volumes, and thus affects delivery-related revenue that varies with throughput. At the same time, utilities have faced rising expenses. Inflation alone had the effect of raising costs for utilities by 29 percent (from 2002-2008)[1].

[1] See page 14, lines 3-4 of Dr. Tierney's testimony.

In addition to these broad challenges, the Company has also faced significant challenges in recent years in the particular operating environment present in New Hampshire. These factors include: (1) minimal customer growth and relatively flat natural gas usage per customer, with declining gas consumption per residential customer nearly offset by rising gas consumption by commercial and industrial customers; (2) the fact that a majority of the Company's capital investment is not related to growth in throughput but rather is required to repair and replace portions of the Company's aging distribution system; and (3) the fact that several major categories of costs that tend to be quite volatile have risen substantially in recent years (e.g., pensions and other post-retirement benefit plans ("OPEBs"), uncollectible accounts expense (sometimes referred to as bad debt), and property taxes. For additional detail, please see line 10, page 5 through line 11, page 8 of the testimony of Mr. Stavropoulos; Attachment TMB-1 of the testimony of Ms. McCarthy; and line 1, page 1 through line 9, page 15 of Dr. Tierney's testimony.

nationalgrid

NH Revenue Increase and Spending Reduction Initiatives

Item No.	Item	Status
1	Increase collections to drive revenue increase and reduce bad debt over the long term	**Complete**
2	Hiring freeze, leaving one A-Technician position in Nashua NH unfilled	**Complete**
3	Eliminate or Transfer "A" technician that has been medically retrogressed	**Complete.**
4	Maintain current O&M under-run in spend	**Complete**
6	Reduce 3 mobile compressors from field operation – 2 in the Manchester yard and 1 in the Nashua	**Complete**
7	Eliminate NH administrative assistant position	**Complete**
8	Review potential for yard consolidations	**In progress.** Real Estate group is working with Environmental on assessing potential for Nashua consolidation to Lowell.
9	Reduce closed-box utility trailer	**Complete**
10	Cancel order for lift-gate truck for tool attendant; use existing van	**Complete**
11	Transfer two new C-Technicians from Operations and Construct to Collections vacancies	**Complete.**
12	Reduce two tow able digger	**Complete**
13	Manchester facilities security guard	LNG is reviewing need to continue use of security guard.
14	Stock Reconciliation	**Complete**
15	Utilize existing welding truck that is fully depreciated rather than purchase new	**Complete**
16	Verizon Wireless Arena	**Complete.**

Item No.	Item	Status
17	Main and service abandonment's Tax credits	**Complete**
18	Put repairs to the Manchester training facility on hold and operate in the secondary building as a place of training	**Complete**
19	The "gravel huts" that were planned for covering gravel & asphalt patch in both Manchester & Tilton could be cancelled	**Complete**
20	Displace contractors whenever possible	**Complete.**

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #2

Date Received: June 18, 2010	Date of Response: July 15, 2010
Request No.: Staff 2-10	Witness: Susan L. Fleck

REQUEST: Ref. Response Staff 1-19, Attachment. For each item described in the NH Revenue Increase and Spending Reduction Initiatives what costs were included in test year expense and if the initiative has been completed, what was the completion date?

RESPONSE: The items listed in Attachment Staff 1-19 reflect opportunities that the Company investigated to either increase revenue or reduce spending. The "Complete" status indicates that the Company's investigation of the opportunity was completed. The explanations for the requested line items below also include an update regarding the implementation of each item.

Item 1: Implemented and ongoing. The costs for field collections incurred in test year are $422,975.

Item 2: Completed and Implemented. The A-Tech transferred from Maintenance to Customer Meter Service on 5/11/09 to perform field collections. The transfer was done in conjunction with initiative described in Attachment Staff 1-19, Item 1. Since the employee was transferred, there were no net savings achieved.

Item 3: Completed and Implemented. An employee who was no longer able to perform the duties of an "A" technician due to medical restrictions was transferred to the Customer Meter Service on 10/26/09 to perform field collections work. The transfer was done in conjunction with initiative described in Attachment Staff 1-19, Item 1. Since the employee was transferred, there were no net savings achieved.

Item 4: Ongoing. This item referred to efforts to control overall spending reductions that were in place during the test year. There are no net savings from this initiative.

Item 5: [left blank in Staff 1-19 chart]

Item 6: Completed and Partially Implemented. Two of the three compressors were removed in August 2009, reducing annual lease expense by $4,000.

Item 7: Completed and Implemented. Administrative Assistant position was eliminated in November 2009. Annual expense was reduced by $49,350.

Item 8: Analysis Completed. No changes were implemented and thus there are no savings.

Item 9: Completed and Implemented. The trailer was removed in August 2009, reducing annual lease expense by $2,000.

Item 10: Completed and Implemented. Avoided cost savings only.

Item 11: Completed and Implemented. Two employees transferred from Maintenance to Customer Meter Service in October 2009 to perform field collections. The transfers were done in conjunction with initiative described in Attachment Staff 1-19, Item 1. Since the employees were transferred, there were no net savings achieved.

Item 12: Completed and Implemented. The trailer was removed in August 2009, reducing annual lease expense by $5,000.

Item 13: Completed Analysis, Not Implemented. No savings achieved.

Item 14: Completed and Implemented in August 2009. The stock was consolidated, resulting in some efficiency improvements. However, there were minimal savings associated with this consolidation since the Company did not find an excess of the consolidated material in any of its locations.

Item 16: Verizon Wireless Arena. Effective August 2010, National Grid chose not to renew its annual ticket contract for the Verizon Wireless Arena. The annual cost savings is $37,500.

Item 17: Completed Analysis. The Company investigated whether it was entitled to any tax abatements associated with abandoned facilities. The investigation determined that the Company was receiving all credits for which they were entitled. No savings resulted from this initiative.

Item 20: Completed and implemented in August 2009. Company crews completed an additional 42 service installations and one main installation job during the test year verses the previous 12 month period. The estimated avoided cost was approximately $200,000 in capital expense.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Technical Session Requests – Set 1

Date Received: August 12, 2010
Request No.: Staff Tech 1-14

Date of Response: August 20, 2010
Witness: Frank Lombardo

REQUEST: Reference Staff 1-19 and 2-10, Item 7. Does the expense reduction of $49,350 for the administrative assistant position include all salary and benefits expenses or only part of those expenses? If the $49,350 does not include all salary and benefits, what is the full amount of the expense?

RESPONSE: The $49,350 represents only the annual salary amount associated with the position. The annual benefits would be an additional $19,740 for a total amount of $69,090.

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
OCA's Data Requests – Set #1

Date Received: May 7, 2010
Request No.: OCA 1-48

Date of Response: June 2, 2010
Witness: Susan L. Fleck/Frank Lombardo

REQUEST: During the test year were any of the Company's employees assigned to tasks or projects related to storm restoration for any of the Company's affiliates? If so, please describe the circumstances, the scope of the activities and how the costs associated with these employees' activities for an affiliate are accounted for in the proposed revenue requirement.

RESPONSE: During the 2008 ice storm, one supervisor's time for eight twelve hour days was utilized to support storm restoration efforts in Massachusetts. The employees' activities were limited to administrative support of wires down efforts.

The cost for sending the supervisor to support storm restoration efforts amounted to $7,776.05, with fully loaded labor costs. These costs are included in test year labor expense

ENERGYNORTH NATURAL GAS, INC.
d/b/a NATIONAL GRID NH
DG 10-017

National Grid NH's Responses to
Staff's Data Requests – Set #1

Date Received: May 11, 2010 Date of Response: June 1, 2010
Request No.: Staff 1-41 Witness: Frank Lombardo

REQUEST: Ref. p. 20, lines 7-11. Does the Company expect its rate case expenses to be approximately the same as those in the prior rate case?

RESPONSE: The Company expects rate case expenses to be higher for this case compared to the last because of the need to procure witnesses to address bad debt, decoupling and overall commission ratemaking policy.