STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

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

Docket DG 10-017

Direct Testimony
of
Tracey McCarthy

February 26, 2010

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I. INTRODUCTION AND QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Tracey McCarthy. My business address is 300 Erie Boulevard West, Syracuse, New York 13202.

Q. By whom are you employed and in what capacity?

A. I am employed by National Grid USA Service Company, Inc., a subsidiary of National Grid USA, as Vice President of Customer Financial Services.

Q. What are your responsibilities in your position as Vice President of Customer Financial Services?

A. As Vice President of Customer Financial Services for National Grid Service Company, I provide services to the utility subsidiaries of National Grid USA, including EnergyNorth Natural Gas, Inc., which I will refer to as National Grid NH or the Company. Specifically, I am responsible for directing services that are part of the process of converting the throughput at the customer's meter to cash received by the Company, including Meter Data Services, Billing and Systems, Payment Processing and Credit and Collections.

Q. Please provide your educational and professional background.

A. I received a B.S. in electrical engineering from Clarkson University in 1988 and a J.D. from Syracuse University College of Law in 1998. I was admitted to practice law in New York State in 1998. I have been employed by National Grid or its predecessors since 1998. In 1998, I joined Niagara Mohawk as an attorney and served in that role through 2002. From 2002 – 2004, I served as Executive Assistant to the President of Niagara Mohawk. From 2005 - 2006, after the acquisition of Niagara Mohawk by National Grid, I worked briefly in the United Kingdom as Manager of Internal Audit. From 2007 – 2008, I worked in the Customer Service group as Director of Customer Contact Centers. Since 2008, I have served in my present capacity as Vice President for Customer Financial Services.

Q. Have you previously testified before this Commission or any other utility regulatory agency?

A. I have not previously testified before this Commission or any other regulatory agency.

Q. Please explain how your testimony is organized.

A. First, I will discuss the Company's current level of uncollectible accounts expense and factors that affect the Company's ability to control this expense. Second, I will briefly address past criticisms of the Company's collection practices that were raised by the Commission staff ("Staff") and its consultant, Mr. Bruce Gay of Monticello Consulting Group, in a report prepared on behalf of Staff in the Company's last rate case, DG 08-009. I will not address that report in detail, however, because that is the subject of testimony being provided by Mr. Mark Hirschey of Oliver Wyman, a consulting firm engaged by the Company to address the conclusions in Mr. Gay's report. Third, I will discuss how the Company currently recovers the costs associated with accounts that are uncollectible as well as the Company's proposal for how uncollectible accounts expense should be recovered going forward for both delivery and commodity service. Fourth, I will describe a number of initiatives the Company is undertaking as part of its ongoing efforts to manage its uncollectible accounts expense in a cost-effective manner, particularly in light of the extremely challenging forces in the economy that the Company is facing. Lastly, I will briefly discuss the treatment of occupant accounts, an issue that was addressed in two recent cost of gas dockets, DG 07-129 and DG 09-050.

Q. Are you sponsoring any exhibits as part of your testimony?

A. Yes. I am sponsoring the following exhibits:

- Attachment TBM-1 sets forth the historical uncollectible rate calculation for the 12 month periods ending June 30, 2005, 2006, 2007, 2008, and 2009 as well as those for the 12 month periods ending December 31, 2005, 2006, 2007, 2008 & 2009.
- Attachment TBM-2 depicts historical gas commodity costs in relation to the Company's net write-offs and to the Company's uncollectible rate.

- Attachment TBM-3 is a forecast of personal and business bankruptcies through the fourth quarter of 2013 from a database provided by Moody's Economy.com.
- Attachment TBM-4 is a forecast of unemployment rates through the fourth quarter of 2013 from a database provided by Moody's Economy.com.

II. UNCOLLECTIBLE ACCOUNTS EXPENSE EXPERIENCE

Q. Are you familiar with the Company's experience regarding uncollectible accounts and its efforts to mitigate this expense?

A. Yes. The uncollectible accounts expense incurred by the Company is a significant focus of my attention, as are the Company's efforts to mitigate this cost. The Company focuses significant resources on ensuring that customers are properly and timely billed for their usage of natural gas and that, once billed, those amounts are collected in a timely manner. At the same time, the Company must carefully balance its desire to minimize the level of uncollectible accounts with concerns regarding its customers' financial, health and safety concerns, which are reflected to a large extent in the Commission's own customer protection regulations.

As I discuss later in my testimony, several significant factors have placed considerable upward pressure on the level of uncollectible accounts (also referred to as net write-offs) in recent years. Because of the impact of these forces, the

Company has significantly stepped up its collections activities and undertaken innovative approaches to address the situation. In particular, the Company implemented a bad debt mitigation plan in 2008, which included ramping up the level of outbound calls and field visits to customers. In calendar year 2009, field terminations increased 71% over 2008, the number of payments obtained in the field rose by 87%, and outbound calls with contact (i.e., calls in which the Company was able to speak directly to the customer) increased by 67%. As was indicated in the Company's most recent rate case, DG 08-009, some of the mitigating actions taken by the Company were expected to contribute toward moving the uncollectible rate in an unfavorable direction. However, the increase that the Company has experienced in its uncollectible rate goes well beyond what the Company could have anticipated and indicates that other factors outside the Company's control are at work.

Q. What is the level of total net write-offs and the uncollectible rate that the Company has used for purposes of determining its revenue requirement in this case?

A. The Company calculated its uncollectible accounts expense by using the level of net write-offs of $5.763 million through December 31, 2009 and dividing that amount by the total test year revenues of $171.6 million, yielding an uncollectible rate (also called the bad debt rate) of 3.36%.

Q. Why did the Company use a six-month revenue lag to calculate the uncollectible rate for test year revenues?

A. This is the same methodology that the Company used in its filing in its last rate case, and is the method that the Company believes is the most representative means of determining its uncollectible rate because it tracks write-offs with the revenues to which they relate. Lagging write-offs by six months relative to revenues accomplishes this because during the heating season the Company generally does not disconnect service to customers because of health and safety concerns. (In some years, the Commission itself has ordered a moratorium on terminations during this period because of similar concerns.) Furthermore, there is a ninety-day lag between the date when service is terminated and an account is written off. Because of the amount of time between when revenue is booked and a write-off occurs, a six-month lag closely matches write-offs with the related billed revenue.

Q. How does the 3.36% uncollectible rate compare to the Company's uncollectible rate in prior years?

A. As shown on Attachment TBM-1, the uncollectible rate has been rising fairly steadily in recent years. As of June 30, 2009, the uncollectible rate was 2.99% using the same method of lagging the revenue base by six months. As of December 31, 2009, the uncollectible rate was 3.36%. The table below shows the Company's uncollectible rate for each of the last five years, calculated based on write-offs as of June 30 and December 31 and lagging revenues by six months:

Year	Uncollectible Rate as of 6/30	Uncollectible Rate As of 12/31
2009	2.99%	3.36%
2008	2.81%	2.93%
2007	2.43%	2.72%
2006	2.56%	2.30%
2005	2.10%	2.61%

Q. To what do you attribute the escalation in write-offs and the uncollectible rate that the Company has experienced in recent years?

A. A number of factors have contributed to the steady increase in write-offs in recent years. Notably, the escalation in gas commodity costs for much of the past decade has affected the ability of our customers to pay their bills. More recently, the economic environment across the northeast and New Hampshire has also had a major impact on collections by limiting the disposable income available to our customers. This has brought an added economic burden to customers already faced with mounting credit card debt, rising health care costs, and volatile gasoline prices.

Q. How do higher commodity costs impact uncollectible accounts expense?

A. Higher commodity prices play a significant role in whether customers can afford to pay their gas bills because they can dramatically affect the amount that customers must pay the Company for gas service. Attachment TBM-2 shows historical gas commodity costs overlaid with the Company's historical rolling twelve-month net write-offs. As you can see, there is a correlation between the two, with the net write-offs generally lagging the commodity price somewhat. In reviewing this data, it is important to bear in mind that the commodity prices from the winter months, when volumes are much greater, are more critical than those of the shoulder and summer months. This chart shows that the Company's net write-offs are very directly and substantially affected by gas costs. During the period shown on Attachment TBM-2, the commodity-related portion of bills on a per therm basis ranged from approximately 60% of the bill to around 80%.

Q. What factors other than commodity costs affect the Company's ability to mitigate the level of write-offs?

A. Another major factor affecting customers' ability to pay their utility bills is their income level, which is directly affected by the health of the economy, in particular the level of unemployment. For that reason, and as I will discuss below in Section IV, the Company has considerable concern that the steep recession that we have been experiencing in New Hampshire and throughout the country will continue to create significant upward pressure on the level of uncollectible accounts for some period of time.

Other factors that can change the uncollectible rate are winter weather (which, because of the higher demand during the winter period, can have a significant impact on the size of customers' bills), and expenses that compete for customer dollars such as gasoline, credit card debt, and rising health care costs. Just as reduced income levels affect our customers' ability to pay their gas bills, so do substantial changes in other expenses that customers give priority to because they reduce the funds that customers have available to pay their gas bill or other expenses. Yet another factor that can affect the level of uncollectible accounts is the level of government assistance available to aid customers with their utility bills (such as LIHEAP).

Q. Please describe how the Company manages its collections process and seeks to minimize its uncollectible accounts expense.

A. The Company uses a full suite of collection activities and strategies, from outbound calls and letters to field visits and, ultimately, service termination for non-payment. In addition, the Company has increased its outreach to low income customers in order to assist them with managing their energy consumption and payment of their bills. The Company's collection strategies are continually reviewed to ensure that the most efficient and effective approach is utilized.

In June 2010 the Company will implement a new strategy called behavioral scoring that has proven to be successful in other National Grid service territories. I will describe that process later in my testimony. The Company also plans to begin using what we call Consumer Advocates to assist our most vulnerable customers through the collections process. These efforts are designed to reinforce and expand the safety net for low income customers and assist them in managing their arrears, which in turn, should help minimize the Company's uncollectible account expense.

In addition, I am aware that the Commission staff ("Staff") has raised some concerns regarding whether the Company's practices have been adequate in the past to manage the level of uncollectible accounts. I will address those concerns in more detail below. The Company has also engaged an independent consultant (Oliver Wyman Consulting) to discuss those issues. Mr. Mark Hirschey of Oliver Wyman is therefore providing testimony on this subject as well.

III. RESPONSE TO PRIOR CRITICISMS OF STAFF AND MONTICELLO CONSULTING GROUP

Q. As you noted above, in the Company's last rate case, Staff expressed concerns regarding the Company's collection practices and the Company's uncollectible rate. What is your response?

A. In the Company's last rate case, the Staff submitted a critique of the Company's collection practices that indicated that Staff believed the Company could do a better job relative to Northern Utilities. The Company recognizes that, because of the proximity of this case with the prior one, Staff is likely to raise similar issues in this case, so we believed it would be best to address those concerns at the outset. The issues raised by Staff in the Company's last rate case actually had their genesis in DG 07-050, which was resolved by a settlement in which the parties agreed to jointly engage a consultant to review the Company's collection practices and customer demographics to assess the Company's uncollectible accounts experience. Unfortunately, the Staff and Company were ultimately unable to agree on a consultant. The Staff then separately engaged Mr. Bruce

Gay of Monticello Consulting to perform a review of the Company's collection practices on behalf of Staff in the Company's last rate case. Mr. Gay was not engaged by Staff until very late in the course of the rate case, however. Therefore, his report was not provided to the Company until after all testimony had been submitted and the parties were finalizing a settlement on all but one other issue in the case. (The report was not provided in final form until January 19, 2009. The parties executed their settlement in the rate case on January 23, 2009.) Given the timing of Mr. Gay's report, the Company felt a need to reach a settlement on the treatment of uncollectible accounts expense for purposes of that case, rather than substantially delaying resolution of the rate case by engaging its own consultant and litigating the issue. (In fact, among other complications that would have been caused by pursuing such a course of action, failing to resolve the uncollectible account issue would have extended the rate case beyond the statutory one year period that I understand normally governs a rate case.) Because the Company's uncollectible rate is continuing to rise substantially, the Company believes it is necessary to now address this issue more fully in this case. Otherwise, the Company will face an insurmountable hurdle to being able to earn its allowed return because its revenue requirement will not fully and fairly reflect this major cost category.

As I noted above, the Company has engaged Mr. Hirschey of Oliver Wyman to respond directly to the analysis previously provided by Mr. Gay. In addition, below I will provide a description of the Company's collections process in order to give the Commission comfort that the Company takes a sophisticated, well-conceived approach to collections and that the Company is focused on continually improving that process. The Company strongly believes that the increases that have been experienced in the uncollectible rate in recent years reflect the effect of the exogenous forces I discussed above and others that are not tied to the level of collection efforts undertaken by the Company. There is always room for improvement in any business process, and the Company has demonstrated a willingness and ability to be innovative and creative in implementing cost-effective measures to mitigate the increase in uncollectible accounts. At the same time, the Company has tried to ensure that it provides appropriate protections for the health, safety and financial concerns of its most vulnerable customers, and has always believed that the Commission and its staff are supportive of its doing so.

IV. PROPOSAL FOR RECOVERY OF THE COMPANY'S NET WRITE-OFF

Q. Please summarize how the Company has treated net write-offs for purposes of determining the revenue requirement in this case and how it proposes to treat uncollectible accounts expense on a going-forward basis.

A. When the Company incurs write-offs they normally relate to both delivery and commodity revenues because there is no basis on which to allocate partial payments between the two types of service. Therefore, the Company's uncollectible rate of 3.36% applies equally to both delivery and commodity service. Because the Company's rates are unbundled, however, commodity-related uncollectible accounts expense is recovered through the Company's cost of gas rates, and the delivery-related portion is recovered through delivery rates. With regard to the delivery portion, the Company's revenue requirement in this case includes uncollectible accounts expense at the rate of 3.36% as applied to the pro forma revenues. With regard to the commodity portion, the Company is proposing to recover the expense by initially setting the uncollectible rate equal to 3.36% of gas cost revenues and then deferring and reconciling any variances in the Company's actual net write-offs associated with commodity revenues.

Q. In the settlement in its last rate case, the Company agreed to recovery of commodity-related uncollectible accounts expense based on a fixed percentage of revenues that would decline over several years. Why is the Company proposing a different approach in this case?

A. First, I should stress that the settlement in the prior case clearly contemplated that the arrangement implemented in that case could be revisited in a subsequent base rate proceeding. In particular, Section II.C.3. of the settlement provided that the bad debt rate used for cost of gas purposes "will not be adjusted prior to or after April 2013, whether for purposes of determining the Company's cost of gas rates or otherwise, *unless and until a different bad debt rate is determined by the Commission as part of a base rate proceeding, at which point the rate determined by the Commission shall apply*." (Emphasis added.) Moreover, the settlement did not impose any restrictions on how uncollectible accounts expense would be addressed in the next base rate case. Second, as discussed in Mr. Hirschey's testimony, the analysis by Mr. Gay that led to the declining scale incorporated in the settlement in that case was incomplete and, therefore, the levels in the prior settlement need to be revisited. Third, the Company generally does not earn a profit on gas sales and, therefore, it is inappropriate for it to be required to bear the risk of not being able to collect what is essentially a pass-through of the wholesale cost of gas. Finally, as I will discuss below, the Company believes that moving to a reconciling mechanism can be done in a manner that provides the Commission with ongoing transparency to the Company's collection efforts and results, and thus will give the Commission a more meaningful ability to review the Company's efforts on an ongoing basis.

Q. Are there any other reasons that support implementing a fully reconciling approach to recover commodity bad debt?

A. Yes**.** The problem with relying on the average historic levels of net write-offs to set the initial uncollectible rate in these challenging times is the unpredictability of what macroeconomic elements will influence future net write-offs. Attachment TBM-3 and Attachment TBM-4 show the precarious nature of both bankruptcies and unemployment in the principal Metropolitan Statistical Area (MSA) served by the Company (Manchester-Nashua). Based on a database from Moody's Inc (which includes bankruptcy data from the Administrative Office of the U.S. District Court and unemployment data from the U.S. Bureau of Labor Statistics), net write-offs in the Company's service territory will continue to be subject to adverse pressure for at least the next few years (through 2012 and into 2013). Of course it is possible that, at the same time as these forces are having a negative impact on the level of uncollectible accounts, the reduced commodity prices that we have seen may have a positive impact. Under the current highly uncertain economic and energy market circumstances we face, a reconciling process would be particularly appropriate because it will provide a mutually beneficial means by which the Company and the customer will be able to mitigate the impact on uncollectible accounts expense associated with the potential for an economic recovery and changes in energy prices.

Q. If the Commission were to approve full reconciliation of commodity-related uncollectible accounts expense, what assurance would there be that the Company was continuing to act prudently to collect its accounts?

A. Under the Company's proposal, commodity-related uncollectible accounts expense would be treated just like any other direct gas cost, as it should be, giving the Commission an opportunity on a semi-annual basis to consider the Company's performance if it saw issues in that regard. In order to provide the Commission with ongoing assurance that the Company's collections efforts are well designed and implemented and improve the Commission's ability to review the Company's efforts, the Company is willing to expand the scope of the data it reports. Currently, the Company submits monthly reports to the Commission providing information on service disconnection activity and accounts receivable consistent with New Hampshire Code of Administrative Rules Puc 1203.20. As part of a process that would enhance the Commission staff's understanding of the

Company's collection efforts, the Company would propose to expand the data already required by regulation to include monthly reports providing the number and dollar value of active payment agreements, final bills, and deposits received. The Company is also prepared to meet with the Commission staff on a quarterly basis to review the Company's collection efforts and discuss the level of net write-offs for the most recent period and changes that the Company has made or is contemplating making in its billing and collection process. Such a process would greatly increase the transparency of the Company's collections efforts, so it is easier for Staff to observe our overall performance. The level of uncollectible accounts for the most recent period would be included as part of each semi-annual gas cost reconciliation filing, which in turn is reviewed and approved in the subsequent semi-annual cost of gas rate proceeding. Finally, the Company would still be fully at risk for the delivery portion of customer bills, and therefore it will continue to have a direct incentive to maximize its collections.

Q. If the Commission were to authorize full reconciliation of commodity-related uncollectible accounts expense, what public benefit would there be?

A. First, because of the various forces that affect the level of uncollectible accounts, it is entirely possible (and even likely) that the uncollectibles rate will come down over time from its current level. When this occurs, the reduction will flow through to customers because the mechanism being proposed is symmetrical. Second, establishing a regular schedule of meetings and enhanced reporting will enable the Commission staff to better understand the Company's efforts and share their concerns before a perceived problem becomes more substantial. Third, if the Company stands to lose or gain substantial amounts of income through gas sales, as it does under the current method of establishing commodity-related uncollectible accounts expense, there could be an impact on the neutrality of the Company as to whether its customers take sales or transportation service. When gas rates were unbundled, the overarching goal was not only to ensure that the Company's commodity-related costs were recovered through the cost of gas rate and that delivery costs were recovered through base rates, but also that the rates would be designed in a manner that ensured that the Company was indifferent to whether a customer chose to purchase gas from the Company or a competitive supplier.

V. <u>COMPANY'S IMPLEMENTED AND PLANNED INITIATIVES</u>

Q. What initiatives has the Company implemented since its last rate case in order to respond to the exogenous forces you described earlier?

A. The Company has made a number of changes since the conclusion of its last rate case in order to respond to the increasing upward pressure on its write-off rate. First, in 2009, the Company added a field collector in the spring and four more in the fall. Second, the Company reduced the threshold level for accounts sent to the field for collection from $500 to $125, thereby increasing the number of accounts eligible for service disconnection. Third, the Company implemented an enhanced account initiation process in December 2009 that strengthened positive identification verification for new account applicants. This new process also allows us to identify and match those customers with previous bad debt. The system aids the Company in identifying customers who have received service at a specific address so that service will be denied if they have a prior unpaid balance. Fourth, we have increased our outreach efforts to low income customers by implementing a new calling campaign that contacts customers who may be eligible for LIHEAP but have never received a grant. Fifth, in June 2009 the Company began the development of a process for requesting residential deposits. That process is being implemented this month. Sixth, the Company is designing a replevin program, under which we will pursue available legal processes to remove meters from the premises of customers who refuse to provide access when service termination is justified. (Although the meter is the Company's property, because it is located on the customer's premises, unlike utilities in some other states the Company is unable to enter the customer's premises to remove the meter without a court order.) Additional detail regarding these initiatives is provided in Mr. Hirschey's testimony.

Q. What is the cost of these additional programs and is that cost included in the Company's revenue requirement in this case?

A. The incremental cost of the programs that is not reflected in the test year (along with the additional plans to implement behavioral scoring and establish a consumer advocate program) is $776,886 in total, which has been included in the Company's revenue requirement as a known and measurable change.

Q. Are there any other plans and programs to lower uncollectibles?

A. Yes. As I mentioned earlier, in June 2010 the Company plans to implement behavioral scoring as part of its collections strategy. Under behavioral scoring, the Company determines the appropriate collection strategy for different customer risk groups. This approach allows the Company to be flexible in how it responds to different customer situations, rather than following a one-size-fits-all approach. Specifically, for each customer account that is in arrears, the Company evaluates the account and customer characteristics and scores the account using a behavioral scoring model. The output from the model assists the Company in determining the appropriate collection actions based on the customer's past payment behavior. Customers are divided into five risk groups, with each group being assigned a treatment path determined to be the most likely to be successful in the most cost-effective manner. In prioritizing the accounts in the portfolio, the Company seeks to identify lower risk customers that will likely self-cure and higher risk customers that are likely to require more assertive treatment pathways. That way, an appropriate response is put in place for a customer who is late for the first time, as opposed to one who has paid late on many occasions, or to customers with smaller accounts than for those with larger accounts. There are many factors that influence how the Company responds to address a given arrearage, but the process attempts to gear the response to the specific circumstances of the individual customer. This process of analyzing/scoring accounts and determining a collection strategy geared to that account is repeated each month, with priorities being set and follow up steps determined. The approach attempts to ensure that the most cost-effective steps are taken to mitigate the Company's uncollectible accounts expense.

Q. How will the Company know that the collections strategies it uses under behavioral scoring are effective?

A. The Company plans to implement a process called "champion/challenger" that has been implemented at other National Grid utilities recently. Under that approach, the current strategy (the "champion") for a particular customer profile or situation is tested against a new or different approach (the "challenger") to determine which is the most effective. The results are reviewed at the end of the quarter, and if the challenger approach proves more effective in generating collections, it is adopted more broadly.

Q. You indicated earlier that the Company seeks to balance its desire to minimize its level of uncollectible accounts with the financial, health and safety concerns of its customers. Please explain in more detail what you are referring to.

A. The Company is constantly balancing the need to collect its receivables with the desire to avoid exacerbating the financial pressures faced by its low and moderate income customers, particularly in the current economic situation. With the substantial increases in unemployment levels that New Hampshire is now suffering, the reality is that even middle income families may have a difficult time paying their gas bills. In just the last year, the unemployment rate in New

Hampshire jumped from 3.9% in September 2008 to 7.2% in September 2009. In addition to existing consumer protections and ongoing efforts to protect low income customers, the Commission has also recognized the need to accommodate customers who have difficulties paying their bills by requesting voluntary measures to limit service terminations or, in some years, issuing orders that provide protection from service terminations during the winter months or making less formal requests for the Company to take less aggressive measures to collect accounts. The Company strongly supports these policies, but they do have the effect of adding additional upward pressure on the level of uncollectible accounts expense.

Q. You've indicated that the Company is concerned about the ability of low income customers to pay their natural gas bills. Is the Company making any particular proposals in this case to augment existing programs that benefit these customers?

A. Yes. The Company plans to create a "Consumer Advocate" position to assist lower income customers in identifying and enrolling in all programs available to them. Specifically, the Company plans to add two Consumer Advocates to support the needs of New Hampshire customers who have trouble meeting their financial obligations to the Company and has included the associated expense of these positions in the revenue requirement in this case.

Q. Briefly describe the Company's Consumer Advocates program.

A. The Consumer Advocates are intended to provide specialized enrollment and education services tailored to each customer's unique needs and circumstances. In particular, the Consumer Advocates will assist payment-troubled customers to identify and enroll in all programs available for their benefit, whether these programs are offered by National Grid NH or through other forms of social assistance. The options available to eligible customers may include, but are not limited to, low income rates, fuel funds, and the low income heating assistance program (LIHEAP). The Consumer Advocates will respond to customer requests through early intervention, crisis bill payment management, and outreach and education. In addition, these advocates will maintain strong partnerships with human service agencies in order to remain current with the programs available outside of the Company and to enable the development of meaningful solutions to meet customers' needs. Ultimately, the Company believes that multiple, sustainable, and integrated solutions, such as those provided by the Consumer Advocates, will assist the Company to provide effective assistance to low income customers and, by assisting customers in identifying all sources of eligible revenue, will also support the Company's efforts to reduce uncollectibles.

VI. <u>ANCILLARY ISSUES</u>

Q. Are there any other issues that you wish to raise as part of this case?

A. There is an issue that has arisen regarding implementation of the settlement in DG 07-129 and DG 07-050 relating to the treatment of occupant accounts that the

Company believes needs to be resolved. The Company believes it would be most efficient to address the issue outside of this rate case, but wants to identify the issue now in case the Commission staff or others believe it must be addressed in this case.

Q. Please describe the issue.

A. In DG 07-129 and DG 09-050 (both of which were cost of gas dockets), the Company, Staff and the Office of Consumer Advocate reached a settlement regarding the ratemaking treatment of gas usage related to occupant accounts. Occupant accounts reflect gas usage at premises where the last identified customer has requested termination of service but where the meter continues to register consumption above a minimal threshold. The issues relating to occupant accounts and the provisions of the settlement were fairly complex, so I will not discuss them in any detail here. Among other things, the settlement provided certain changes to how the Company could proceed in disconnecting service to premises that were defined as occupant accounts. That part of the settlement was critical to the Company's willingness to resolve the issues on the agreed-upon terms. Recently, it has become apparent that the Company and Staff have differing views as to the meaning of the provision described in Section II.D.1 at page 3 regarding disconnection of service. The settlement contemplates that the Commission will have continuing jurisdiction over the issues resolved in the settlement (see Section III.3) and also recognizes that a request to change the cost recovery treatment associated with occupant accounts should be treated in the same manner as a request to change indirect gas costs (see Section II.F at page 2 of the Settlement Agreement). I have been told that the Commission typically considers indirect gas costs in the context of a general rate case, and that is why the Company has chosen to identify the issue here. The Company believes it may be more efficient for the Staff, the Consumer Advocate and the Company to discuss this issue outside of this case, however, and so we are prepared to do so with the agreement of the other parties.

VII. <u>CONCLUSION</u>

Q. Does that conclude your testimony?

A. Yes, it does.

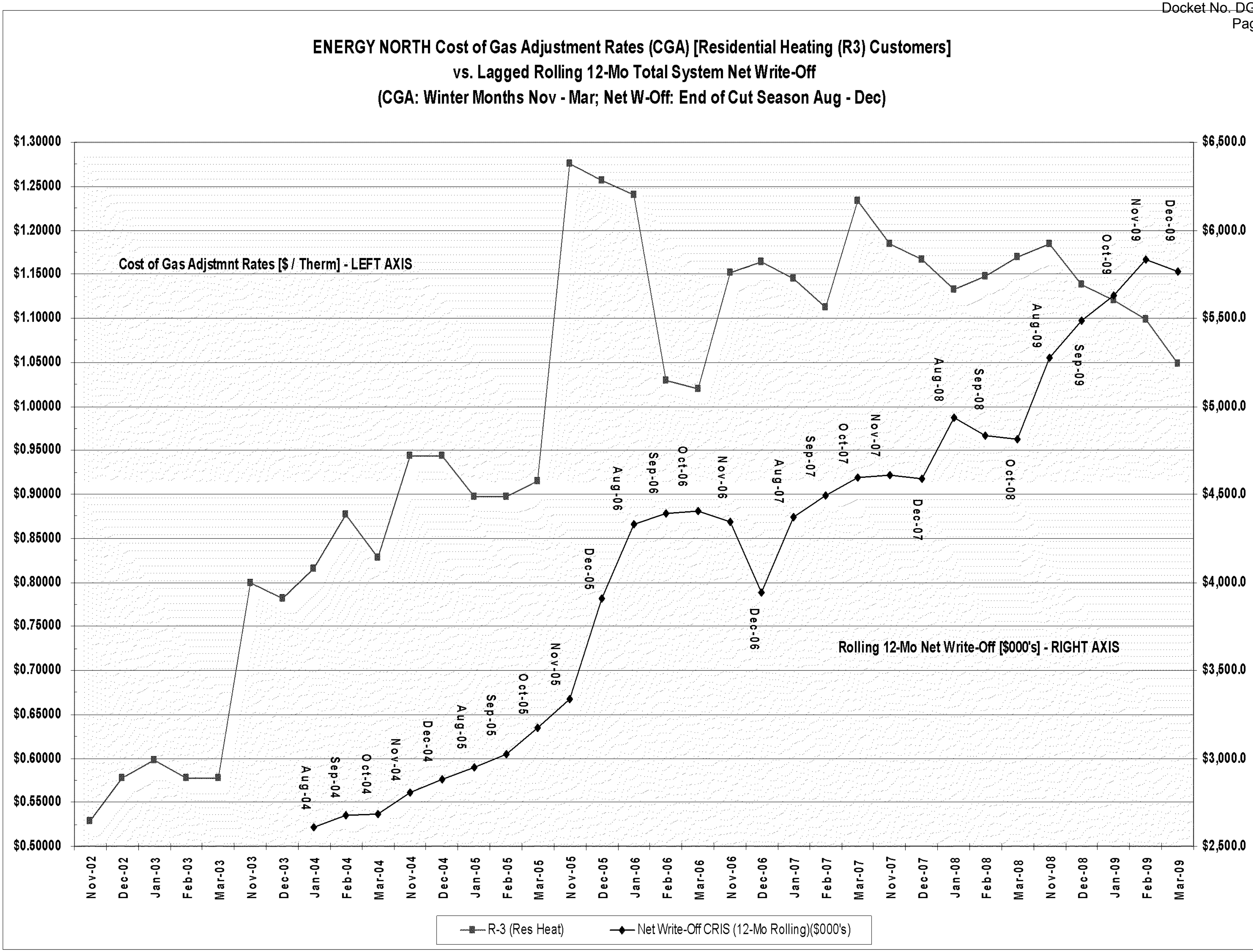
ENERGY NORTH NATURAL GAS, INC. d/b/a NATIONAL GRID, NH
HISTORICAL UNCOLLECTIBLE RATE FOR THE 12-MONTH PERIODS ENDING:

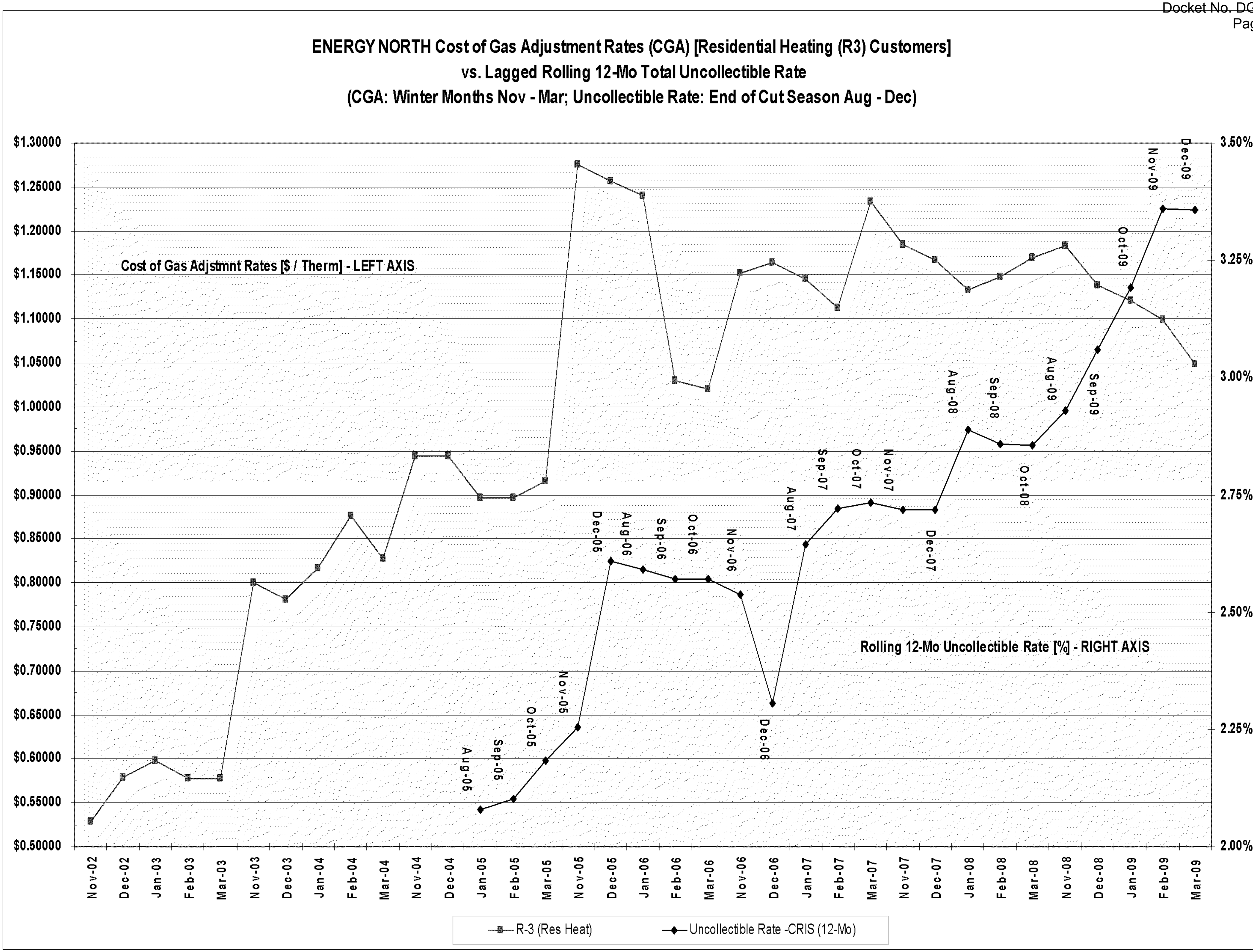
	Jun 2005	Jun 2006	Jun 2007	Jun 2008	Jun 2009
12 month Revolving Revenue (6 month Lagged) **(1)**	$143,165,000	$161,393,415	$165,357,317	$172,833,184	$173,307,777
12 Month Revolving Net Write Off - CRIS	$3,003,064	$4,126,314	$4,025,771	$4,864,321	$5,184,050
Write-off % - CRIS	**2.10%**	**2.56%**	**2.43%**	**2.81%**	**2.99%**

(1) The revenue is for the 12-mo periods ending Dec '04, Dec'05, Dec '06, Dec '07 and Dec '08.

	Dec 2005	Dec 2006	Dec 2007	Dec 2008	Dec 2009
12 month Revolving Revenue (6 month Lagged) **(2)**	$149,889,865	$171,176,644	$168,782,172	$168,673,401	$171,642,539
12 Month Revolving Net Write Off - CRIS	$3,908,930	$3,944,944	$4,589,033	$4,937,837	$5,763,008
Write-off % - CRIS	**2.61%**	**2.30%**	**2.72%**	**2.93%**	**3.36%**

(2) The revenue is for the 12-mo periods ending Jun '05, Jun '06, Jun '07, Jun '08 and Jun '09.


ENERGY NORTH Cost of Gas Adjustment Rates (CGA) [Residential Heating (R3) Customers]
vs. Lagged Rolling 12-Mo Total System Net Write-Off
(CGA: Winter Months Nov - Mar; Net W-Off: End of Cut Season Aug - Dec)
Cost of Gas Adjstmnt Rates [$ / Therm] - LEFT AXIS
Rolling 12-Mo Net Write-Off [$000's] - RIGHT AXIS
R-3 (Res Heat)
Net Write-Off CRIS (12-Mo Rolling)($000's)


ENERGY NORTH Cost of Gas Adjustment Rates (CGA) [Residential Heating (R3) Customers]
vs. Lagged Rolling 12-Mo Total Uncollectible Rate
(CGA: Winter Months Nov - Mar; Uncollectible Rate: End of Cut Season Aug - Dec)
Cost of Gas Adjstmnt Rates [$ / Therm] - LEFT AXIS
Rolling 12-Mo Uncollectible Rate [%] - RIGHT AXIS
$1.30000
$1.25000
$1.20000
$1.15000
$1.10000
$1.05000
$1.00000
$0.95000
$0.90000
$0.85000
$0.80000
$0.75000
$0.70000
$0.65000
$0.60000
$0.55000
$0.50000
3.50%
3.25%
3.00%
2.75%
2.50%
2.25%
2.00%
Nov-02
Dec-02
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Mar-03
Nov-03
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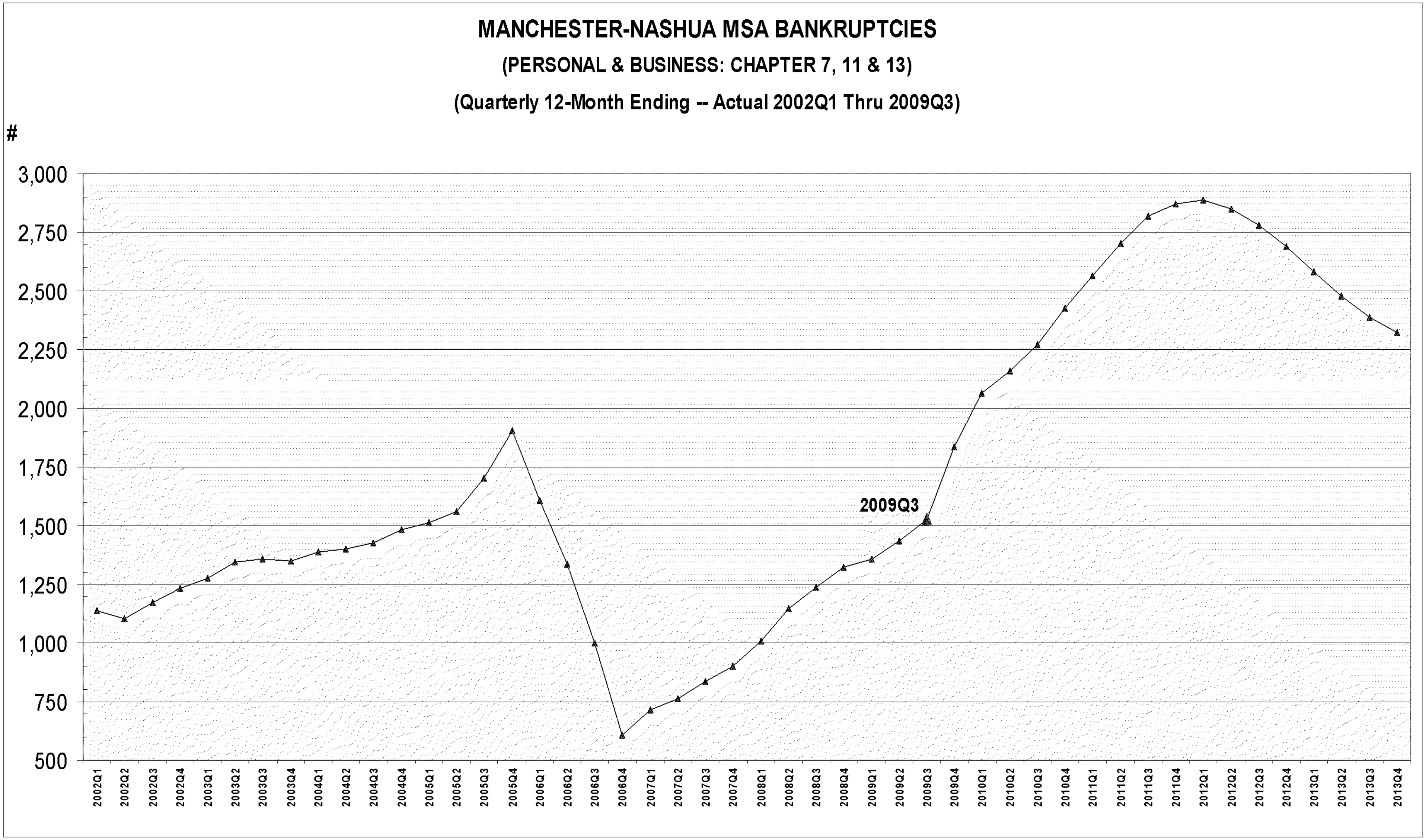
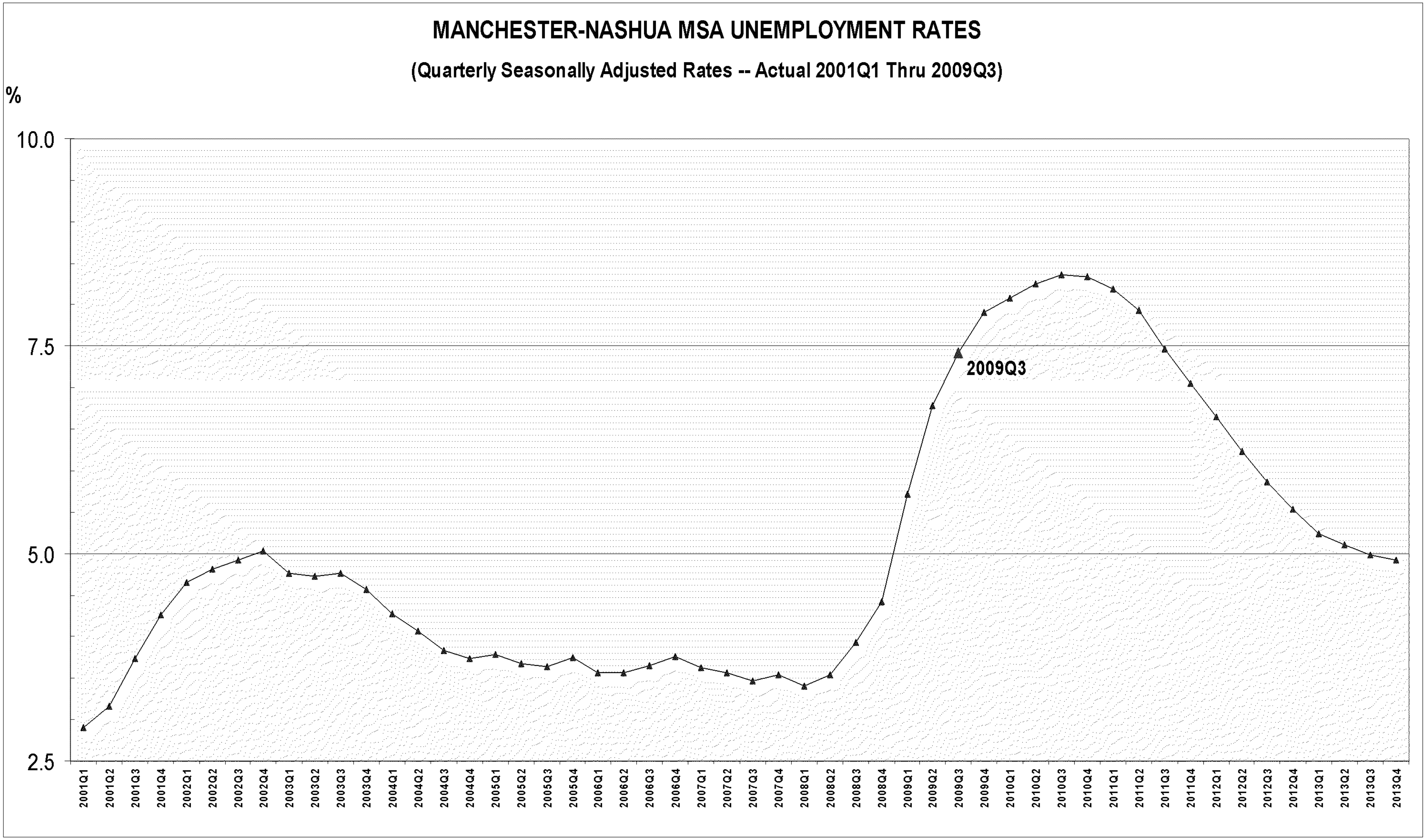
Oct-09
Nov-09
Dec-09
R-3 (Res Heat)
Uncollectible Rate -CRIS (12-Mo)

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



Source: Historical data is from the US District Court. Both historical and forecast data were provided under subscription services by Moody's Economy.com (January 2010 release)

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



Source: U.S. Bureau of Labor Statistics: Household Survey (CPS); Moody's Economy.com