

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger

Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery
New York - Gas Rates

Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery
Long Island - Gas Rates

Case 06-G-1186

January 2007

Prepared Testimony of:

Plant & Depreciation Panel

Daniel J. Wheeler
Utility Engineer 3

Aferdita Bardhi
Utility Engineer 1

Davide Maioriello
Utility Engineer 1

Gas Rates Section
Office of Gas & Water
State of New York
Department of Public Service
Three Empire State Plaza
Albany, New York 12223-1350

1 Q. Please state your full name and business
2 address.

3 A. Daniel J. Wheeler, Three Empire State Plaza,
4 Albany NY 12223.

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

6 A. I am employed by the Department of Public
7 Service, State of New York as a Utility Engineer
8 3 on the staff of the Office of Gas & Water, Gas
9 Rates Section.

10 Q. Please state your educational background and
11 professional experience.

12 A. I hold a Bachelor of Science Degree in Civil and
13 Environmental Engineering from Clarkson
14 University (1981). Prior to my employment with
15 the Commission in 1982, I held a position as a
16 Field Service Engineer with Babcock & Wilcox,
17 Fossil Power Generation Group. My
18 responsibilities involved the improvement of
19 availability and inspection of large-scale,
20 industrial and utility boilers.

21 Since joining the Department, I have held
22 various engineering positions, working primarily

1 in Gas Rates, with rotational assignments in Gas
2 Safety and Gas Policy Sections. Currently, my
3 duties with the Department relate to gas utility
4 rate matters, including preparation of materials
5 for proceedings before the Commission.

6 Q. Have you testified before the Commission
7 previously?

8 A. Yes, I have testified many times during the last
9 24 years.

10 Q. Please state your full name and business
11 address.

12 A. Aferdita Bardhi, Three Empire State Plaza,
13 Albany NY 12223.

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

15 A. I am employed by the Department of Public
16 Service, State of New York as a Utility Engineer
17 1 on the staff of the Office of Gas & Water, Gas
18 Rates Section.

19 Q. Please describe your education and employment
20 experience.

21 A. I graduated from State University of New York at
22 Buffalo in 1999 with a Bachelors of Science

1 degree in Civil Engineering. I joined the
2 Department of Public Service in February 2005.
3 Previously, I have worked as a structural
4 engineer in the private sector and also spent a
5 year as a project manager for a HVAC firm.

6 Q. Have you filed testimony before the Commission
7 in other proceedings?

8 A. Yes. I have testified in the Central Hudson
9 rate filing, Case 05-G-0935 and the St. Lawrence
10 gas rate filing, Case 05-G-1635.

11 Q. Please state your full name and business
12 address.

13 A. My name is Davide Maioriello, and my business
14 address is Three Empire State Plaza, Albany, New
15 York 12223.

16 Q. What is your occupation, Mr. Maioriello?

17 A. I am a Utility Engineer 1 in the Gas Rates
18 Section of the Office of Gas and Water of the
19 New York State Department of Public Service.

20 Q. Please provide an overall summary of your
21 educational and professional experience.

22 A. I attended Hudson Valley Community College and

1 graduated with an Associate in Applied Science
2 degree in construction technology. Then I
3 continued my education at the SUNY Institute of
4 Technology and graduated with a Bachelor of
5 Science degree in civil engineering technology.
6 From February 2000 to February 2003, I was
7 employed by SPEC Consulting, LLC as a Project
8 Engineer. My work involved project management
9 and coordination of projects, engineering, as
10 well as various computer aided design projects,
11 for several clients. From February 2003 to
12 December 2005, I worked for the City of Albany
13 Engineering Division, where I was responsible
14 for a number of tasks which included inspections
15 of major roadway projects and other types of
16 construction projects. I was also engaged in
17 permit processes and utility work inspections.

18 In December 2005, I joined the staff of the
19 Office of Gas and Water, where I have performed
20 various engineering analyses of gas utility
21 operations and filings.

22 Q. Have you previously testified before the

1 Commission?

2 A. Yes. I have testified in the Orange and
3 Rockland Utilities gas rate filing, Case 05-G-
4 1494 & St. Lawrence gas rate filing, Case 05-G-
5 1635.

6 Q. What areas will the Panel address?

7 A. We have reviewed both KeySpan Gas Companies'
8 projection of Capital Construction, Gross Plant
9 in Service, Depreciation Reserve and
10 Depreciation Expense, which is based upon the
11 Depreciation Study results and specific
12 recommendations made by the Company's
13 consultant, Management Applications Consulting,
14 Inc. (MAC). Based on the results of the study
15 provided, Staff will present its own
16 recommendations for average service lives and
17 net salvage for various plant accounts.
18 We also reviewed and have recommendations for
19 the appropriate levels for Materials & Supplies
20 in Inventory (M&S) and certain Operating
21 Expenses (O&M) which are used to forecast Rate
22 Base.

1 Q. Please summarize the recommendations reached in
2 the Panel's testimony.

3 A. We recommend that certain capital additions be
4 removed from the forecast, as the additions
5 relate to projects which have been delayed
6 beyond the rate year or eliminated from the
7 Company's future plans all together.

8 We recommend that the Commission require The
9 Brooklyn Union Gas Company d/b/a KeySpan Energy
10 Delivery New York and KeySpan Gas East
11 Corporation d/b/a KeySpan Energy Delivery Long
12 Island (KEDNY and KEDLI, respectively or the
13 Companies) to compare the levels of capital
14 expenditures projected here to the actual
15 expenditures incurred by each company during the
16 rate year. If actual expenditures fall short of
17 the commission approved amount, KEDNY and KEDLI
18 should defer for ratepayer benefit the amount of
19 the shortfall multiplied by the authorized pre-
20 tax rate of return.

21 We also recommend that the Companies' Internal
22 Auditing function analyze KEDNY and KEDLI's

1 current capital expenditure variance reporting
2 practices and report all findings to the
3 Commission within 120 days of the date of the
4 Commission order in this case. While we think
5 that utilities should keep track of their
6 capital variances on a project by project basis,
7 it does not appear that KEDNY and KEDLI do so.
8 We further recommend that the current
9 depreciation rates be adjusted as shown in
10 Exhibit____ (PDP-1), and that the KeySpan
11 companies be required to file depreciation
12 studies in the next general gas rate filing, if
13 at least 3 years have elapsed.
14 We recommend that the M&S forecast for both
15 Companies be reduced by the amount included for
16 inflation, which the Companies inappropriately
17 applied to the inventory balance.
18 Finally we recommend an adjustment to O&M for
19 KEDLI's Toll Free Customer Number proposal.

20 Q. What adjustments are being proposed to Plant in
21 Service and related Depreciation Reserve?

22 A. Staff is recommending adjustments to Gross Gas

1 Plant in Service, of \$(9,503,008) for KEDNY and
2 \$(18,845,424) for KEDLI, and to related Reserve
3 for Depreciation (Reserve) of \$12,356,476 for
4 KEDNY and \$3,902,237 for KEDLI.

5 Q. What other adjustments are being proposed by the
6 Panel?

7 A. M&S should be reduced to a rate year level of \$9
8 million for KEDNY and \$7.85 million for KEDLI
9 (Adjustments of (\$0.6) million and (\$0.35)
10 million for KEDNY and KEDLI, respectively).
11 Total adjustments to the current depreciation
12 accrual rates will decrease gas depreciation
13 expense by about \$22.0 million for KEDNY and
14 \$6.9 million for KEDLI, based on historic year
15 plant levels and an additional reduction to
16 depreciation expense of \$5.9 million for KEDNY
17 and \$4.0 million for KEDLI is warranted based on
18 Staff's Plant in Service projections.

19 Q. Are you sponsoring any Exhibits?

20 A. Yes. Exhibit_____ (PDP-1) shows forecast versus
21 actual Gas Depreciation Expense related to
22 Depreciable Plant in Service for the rate year.

1 Exhibit____ (PDP-2) reflects Staff's projection
2 of Net Plant in Service. Exhibit____ (PDP-3)
3 shows Staff's and the Companies' forecasts of
4 M&S, excluding gas cost, to be included in rate
5 base.

6 Exhibits _____(PDP-4 through PDP-10) are
7 various information request responses from the
8 Companies.

9 Q. Please describe each of these issues and the
10 proposed adjustments in more detail?

11 Capital Expenditures

12 KEDNY

13 Staff found that KEDNY had included \$30.5
14 million for the Greenpoint LNG Liquefaction
15 System Project in rate base with an in-service
16 date of March 2007. Staff had discovered (see
17 Exhibit____ PDP-4, IR Response to DPS-260) that
18 the Company had revised the completion date for
19 this project to May 2007.

20 Staff also reviewed the Clove Lakes Uprate
21 Project and based upon the response to
22 Exhibit____ (PDP-4); found that the project had

1 been delayed beyond the rate year.

2 Q. What is Staff's adjustment related to these two
3 projects?

4 A. For the Green Point LNG Liquefaction Project
5 Staff has moved the in-service date from March
6 2007 to May 2007 and adjusted the plant in
7 service amount accordingly.

8 For the Clove Lakes Uprate Project, Staff has
9 removed entirely the effects of this project
10 from the Company's rate year calculations.

11 These adjustments to the KEDNY's projection of
12 rate year gross plant in service, including the
13 Thermal Billing Projects, discussed below, total
14 (\$9.9 million).

15 KEDLI

16 Q. Did Staff find that any KEDLI Capital
17 Expenditure Projects slipped outside of the rate
18 year?

19 A. Yes. The Islander East project, which was
20 budgeted at \$46.9 million and had an expected
21 in-service date of November 2007, has been
22 postponed past the rate year. In addition,

1 Exhibit____ (PDP-4, DPS-260) indicates that the
2 following three capital projects are now
3 expected to be in service in November 2008,
4 outside the rate year:

- 5 • The 20" Transmission Main project on Nugent
6 Drive in Calverton, budgeted/forecast at \$7.5
7 million.
- 8 • The 20" Transmission Main project located at
9 169th Street and Rockaway Point Boulevard,
10 budgeted/forecast at \$6.6 million, and
- 11 • The Heater Installation project at the
12 Bayshore Gas Plant, budgeted/forecast at \$2.0
13 million.

14 KEDNY and KEDLI

15 Thermal Billing Projects

16 Q. Are there any other significant capital projects
17 that have slipped outside the rate year?

18 A. Yes. Companies' witness Haran has testified
19 that both KEDNY and KEDLI plan on revising their
20 thermal billing system because of new natural
21 gas supplies coming into the distribution system
22 which would create a higher variation in heat

1 content. According to Company testimony, the
2 installation of caloric metering devices to
3 support thermal billing changes was estimated to
4 cost \$2.1 million for KEDNY and \$1.05 million
5 for KEDLI, with 2008 and 2007 in-service dates,
6 respectively. The Company has indicated to
7 Staff in Exhibit____(PDP-6, DPS-275) that these
8 projects have now been removed from the rate
9 year capital expenditure forecast. Moreover,
10 witness Haran's updated presentation reflects
11 the elimination of these projects. As a result,
12 we have removed these plant additions from the
13 rate year.

14 Capital Variance Reporting

15 Q. Did the Panel explore other aspects of the
16 Companies' construction program?

17 A. Yes. We have reviewed their capital variance
18 reporting process.

19 Q. What do you define as a capital variance?

20 A. A capital variance is the difference between the
21 budgeted amount for a capital project and the
22 amount that was actually expended for the

1 project.

2 Q. Do KEDNY and KEDLI monitor capital expenditure
3 variances between budgeted amounts and actual
4 expenditures for each project?

5 A. Exhibit____ (PDP-5, DPS-87), indicates that the
6 Companies monitor their total capital
7 expenditures on a unit cost basis, a number of
8 units completed basis, and a total capital
9 budget level. The Companies do not, however,
10 review its expenditures at per project level of
11 detail.

12 Q. Please give an example of the type of review now
13 employed by KEDNY and KEDLI.

14 A. Let us look at the situation when the Companies
15 consider projects that involve 8" diameter gas
16 mains. Under the Companies' budget review
17 process, it monitors the cost per linear foot
18 (unit cost) of 8" diameter gas mains for all
19 projects, the quantity of 8" diameter pipe
20 installed (units completed) for all projects,
21 and the cost of the entire capital budget as a
22 whole.

1 Q. Did Staff request the Companies to submit
2 capital variance reports?

3 A. Yes, we made multiple requests for capital
4 variance reports, see Exhibits____(PDP-5,7,& 8,
5 DPS-87, 63, 68). The Companies responded to
6 these requests with a total variance report for
7 the entire capital budget rather than providing
8 a report comparing budget and actual
9 expenditures showing the variance on a project
10 by project basis.

11 Q. Why is this problematic?

12 A. The Companies' current approach is ineffective
13 because it does not permit management or Staff
14 to identify specific project level causes of
15 over/under-expenditure trends that the Companies
16 may be experiencing with its capital
17 expenditures on a project basis because of the
18 lack of detail the Companies provided in its
19 responses.

20 Q. What type of detail do other New York utilities
21 maintain regarding capital variance reporting?

22 A. Staff has observed that most New York State gas

1 utilities keep detailed capital variance reports
2 showing the budget amount, the actual amount and
3 the variance amount for each discrete project.

4 Q. Why is this level of detail important?

5 A. This level of detail would allow the KEDNY and
6 KEDLI management and Staff to better understand
7 expenditure trends or cost control problems the
8 Company are currently experiencing and has
9 experienced in the past. For example, if a
10 company could be over-expending in one area of
11 its construction budget and under-expending in
12 another, the company and Staff would be able to
13 verify this trend because of detailed variance
14 reports capable of showing budget amounts,
15 actual expenditures, and variance amounts for
16 every project.

17 Q. What is Staff's recommendation on this matter?

18 A. The Companies' variance reporting methodology
19 does not support the evaluation of variances on
20 a project to project level of detail. We
21 recommend, therefore, that the KEDNY and KEDLI
22 conduct an internal audit considering the

1 effectiveness of capital expenditure variance
2 reporting, including examination of an approach
3 that does not keep track of expenditure variance
4 on a project by project basis as compared to one
5 that does and report all findings to the
6 Commission within 120 days of the date of the
7 Commission order in this case. The report
8 should be attested to by an officer of KeySpan.
9 Staff believes that all companies should keep
10 track of its capital variance on a project by
11 project basis.

12 Capital Expenditures Slippage Mechanism

13 Q. Does Staff have more recommendations?

14 A. Yes, the Panel recommends that the amount
15 authorized by the Commission for KEDNY's and
16 KEDLI's capital expenditures, be compared to the
17 actual expenditures incurred by each Company
18 during the rate year. If actual expenditures
19 fall short of the Commission approved amount,
20 KEDNY and KEDLI should defer for ratepayer
21 benefit the amount of the revenue requirement
22 effect of any shortfall multiplied by the

1 authorized pre-tax rate of return. Commencing
2 on April 1st, 2008, such deferral will be subject
3 to carrying charges calculated at the authorized
4 pre-tax rate of return.

5 Q. Why is this deferral mechanism needed?

6 A. This is needed to protect ratepayers if the
7 capital programs slip, are canceled, or if the
8 actual expenditures are less than forecasted.
9 Staff has seen occurrences of capital projects
10 presently forecasted to occur being either
11 cancelled or slipped.

12 Q. Has this type of capital expenditure deferral
13 clause been previously included in a rate case?

14 A. Yes. Central Hudson Gas Company (Case 05-G-0935)
15 and Con Edison (Case 03-G-1671) have similar
16 mechanisms in place.

17 Depreciation

18 Q. What areas will be addressed in the Panel's
19 testimony on depreciation?

20 A. We will address the average service lives and
21 net salvage (gross salvage less cost of removal)
22 rates forecast for both KEDNY and KEDLI.

1 Q. Prior to the present proceedings, when did
2 KeySpan last have a depreciation study
3 performed?

4 A. The last KEDNY (then Brooklyn Union Gas Company)
5 study was done in 1988 and the last KEDLI (then
6 Long Island Lighting Co.) study was done in
7 1990.

8 Q. Did KeySpan perform a depreciation study for
9 this case?

10 A. Yes, KeySpan hired a consultant, Management
11 Applications Consulting, Inc. (MAC), to perform
12 a depreciation study for each Company and it has
13 proposed to modify the depreciation rates as a
14 result of the studies.

15 Q. Has the Panel reviewed the results of the study
16 performed by MAC?

17 A. Yes. KeySpan included a summary of the results
18 of that study and recommendations in its
19 prefiled testimony. MAC reviewed both the
20 average service lives (ASLs) of various plant
21 accounts and also provided a net salvage study
22 summary. The actual study runs were supplied in

1 response to a Staff information request.

2 Q. What type of analysis was provided?

3 A. The MAC results included set groupings or bands
4 of vintages for each plant account for KEDNY and
5 some of the plant accounts for KEDLI. The
6 remaining KEDLI plant accounts were examined
7 using one band of information. This formed the
8 basis for the various H-curve runs and fit
9 indices provided. KEDLI's last study provided
10 ASLs using Iowa curves.

11 Q. Can Staff determine what depreciation rates
12 should be employed from the information provided
13 to date?

14 A. Yes, for the most part. Staff examined the
15 study results and was able to agree with some of
16 the consultant's recommendations. In several
17 instances, Staff recommends maintaining the same
18 depreciation rates because the data in the study
19 is insufficient to warrant a change at this
20 time. For KEDNY, transmission plant was not
21 analyzed in the study, but Staff has made
22 recommendations for transmission plant which are

1 consistent with the recommendations for KEDNY
2 distribution plant (e.g. Staff recommends the
3 ASLs for Account 367.01 - Steel Transmission
4 Mains be the same for KEDNY Transmission and
5 KEDNY Account 376.01 - Steel Distribution
6 Mains).

7 Q. Does KeySpan rely on the study to determine rate
8 year depreciation rates and, therefore, the
9 annual depreciation expense?

10 A. Yes, but not entirely. In many accounts the
11 consultant did not accept the study results and
12 either did not change the current rate or, in
13 most cases, moved modestly in the direction of
14 the study results. The Companies' proposed
15 depreciation rates, produced by MAC, were
16 applied to the historic year and forecast rate
17 year Plant in Service.

18 Q. Why is Staff proposing changes to MAC's
19 recommended depreciation rates?

20 A. Staff's review of the current rates, when
21 compared to the results of the Depreciation
22 Study, indicate that many of the currently

1 effective rates are outdated and do require
2 adjustment. We do not agree, however, with some
3 of the recommendations. It is appropriate to
4 adjust depreciation rates now and avoid
5 potentially onerous adjustments that would
6 otherwise be needed in the future.

7 Staff is also concerned because the infrequent
8 nature of KEDNY and KEDLI rate filings means
9 that if depreciation rates are not reviewed and
10 appropriately adjusted here, it could be
11 difficult to protect ratepayers from excessive
12 rates in the future. Depreciation rates have
13 not been considered for many years: this case
14 provides the proper forum and opportunity to
15 make adjustments to average service lives and
16 net salvage that are in the best interests of
17 ratepayers.

18 Many of the changes recommended by MAC are
19 acceptable as they move in the direction towards
20 more representative depreciation rates.

21 Therefore, Staff makes no changes to certain
22 service lives, survivor curves and/or net

1 salvage rates. Other recommendations of the
2 study move either too far or do not move far
3 enough. Staff therefore makes recommendations
4 to specifically change some depreciation rates.

5 Q. What is the basis for accepting MAC's
6 recommended ASL on several plant accounts?

7 A. The chosen survivor curve, when visually
8 observed and utilizing the fit indices, seems to
9 be a reasonable fit to the observed data or is
10 at least moving in the right direction.

11 Q. Please explain why the Panel rejected some of
12 the consultant's proposed changes to gas plant
13 accounts?

14 A. We believe it is very difficult to accurately
15 fit a survivor curve to original curves that are
16 stubbed, as there is just not enough data. We
17 would not recommend changes to most of these
18 accounts at this time.

19 Q. What is a stubbed curve?

20 A. A stubbed curve is the graphic representation of
21 an account with very few retirements.

22 Q. Would you further explain why you rejected some

1 of the consultants recommended average service
2 lives (ASLs)?

3 A. MAC has recommended maintaining the 50 year ASL
4 for KEDLI Account 376.4 - Cast Iron Distribution
5 Main (Pre-Oracle). The depreciation study
6 analysis shows the best fits to be an ASL of at
7 least 77 years. Staff recommends that the ASL
8 increase to 60 years, especially absent a safety
9 program targeting the removal of cast iron main.

10 MAC has proposed to maintain the present life
11 for Account 376.00 - Distribution Mains (steel,
12 plastic, and cast iron), Account 367.00 - Steel
13 Transmission Main, and Account 362.10 - Gas
14 Holders. The recommendations by MAC do not
15 follow the study results. The study results
16 show ASLs which far exceed the MAC
17 recommendations. Examples of this include: for
18 Account 376.00, study results with lives well
19 over 100 years; for Account 367.00, study
20 results with lives well over 150 years; for
21 Account 362.10, study results with lives in the
22 79+ year ASLs.

1 Staff is recommending extending the ASLs beyond
2 those recommended by the consultant, as they are
3 too conservative.

4 Q. Please explain your proposed modifications to
5 MAC's recommended average service lives for gas
6 plant accounts for KEDNY.

7 A. The average service lives proposed by Staff are
8 a better fit for the data provided to Staff in
9 the KeySpan study.

10 The changes proposed by Staff which have the
11 largest impact on gas depreciation expense are
12 due to increasing average service lives for
13 Accounts 367 (Mains - Transmission), 376 (Mains
14 - Distribution) and 380 (Services). Increasing
15 these average service lives, as proposed by
16 Staff, yields a decrease to annual depreciation
17 expense by \$8.6 million, per year, based on the
18 actual plant in service balance on 12/31/2005.
19 Increasing the average service lives of these
20 accounts is supported by the current data
21 provided in the study. A trend analysis
22 indicates even longer average service lives for

1 these accounts due, in-part, to greater use of
2 plastic mains, which are expected to have an
3 even longer life expectancy than protected steel
4 mains.

5 Q. Please explain your proposed modifications to
6 MAC's recommended average service lives for gas
7 plant accounts for KEDLI.

8 A. The average service lives proposed by Staff are
9 a better fit for the data provided to Staff in
10 the KeySpan study.

11 The changes proposed by Staff which have the
12 largest impact on gas depreciation expense are
13 due to increasing average service lives for
14 Accounts 367.00 (Steel Mains - Transmission),
15 Accounts 376.00- (Steel-Plastic-Cast Iron Mains
16 - Distribution), Accounts 376.60- (Plastic (pre
17 Oracle) Mains - Distribution) and Account 380.00
18 (Services-All). Increasing these average
19 service lives, as proposed by Staff, yields a
20 decrease to annual depreciation expense by \$3.5
21 million per year, based on the actual plant in
22 service balance on 12/31/2005. Increasing the

1 average service lives of the various main
2 accounts is supported by the current data
3 provided in the study and industry trends. A
4 trend analysis indicates even longer average
5 service lives for these accounts due, in-part,
6 to use of plastic mains, which are expected to
7 have an even longer life expectancy than
8 protected steel mains. The one exception is the
9 376.60 - Plastic (pre Oracle) Mains -
10 Distribution account, where the results conflict
11 and Staff recommends leaving the ASL at the
12 current 75 years, as also recommended by MAC.
13 The difference between the recommendations is
14 completely due to negative net salvage rates
15 proposed.

16 Q. So, in addition to changing ASLs, are you
17 proposing changes to certain net salvage rates
18 presented by MAC?

19 A. Yes, but for specific plant accounts only.
20 Staff agrees that current net salvage rates for
21 many gas plant accounts need to change. Thus
22 the changes to net salvage rates, summarized

1 below, pertain to Staff's recommended departure
2 from MAC's recommendations based on the net
3 salvage review. For mains and services
4 accounts, MAC recommended dramatic changes the
5 net salvage rates.

6 Q. What was the basis for MAC's recommended changes
7 to the net salvage rates?

8 A. MAC relied on the Companies' review of two years
9 worth of vouchers to determine the net salvage
10 rates that were recommended. In several
11 accounts, Staff found some significant
12 differences in the study, such as greatly
13 divergent results, and recommend that these
14 accounts maintain their current net salvage
15 rates.

16 Q. Please explain what is meant by "greatly
17 divergent results."

18 A. By either including or excluding an additional
19 year of data, the net salvage percentage could
20 significantly change or for several accounts
21 there have not has any retirements in many
22 years. Both of these scenarios produced some

1 odd results.

2 Q. Would you further explain your analysis?

3 A. Exhibit_____ (PDP-1) reflects the current actual
4 net salvage percentage, the consultant's
5 recommended salvage percentage and Staff's
6 recommendation.

7 Q. What else does the Panel recommend?

8 A. Based on this comparison, we recommend for KEDLI
9 that the net salvage percentage for Account
10 375.00 - Distribution Structures and
11 Improvements should remain at 0% and Account
12 377.00 Compressor Station Equipment should also
13 remain at -5.0%.

14 For KEDNY, we recommend that the net salvage for
15 Account 375.00 - Distribution Structures and
16 Improvements should not change and remain at 0%
17 and Account 391.00 PCs should also remain at
18 15.0%.

19 Q. Why are you recommending that the net salvage
20 rates for these accounts remain where they are
21 currently?

22 A. The data and analysis presented by MAC was

1 insufficient to justify a change to the accounts
2 at this time. Both accounts should be more
3 closely reviewed in the next study, when more
4 retirement history and net salvage data is
5 available.

6 Q. What recommendations does the Panel have for the
7 Transmission Mains (Account 367), Distribution
8 Mains (Account 376), and Services (Account 380)
9 accounts?

10 As may be seen on Exhibit____(PDP-1), for both
11 KEDNY's and KEDLI's transmission and
12 distribution main and the services accounts MAC
13 recommended changing the net salvage percentage
14 from either -10%, -15% or -20% to -85%. Where
15 the Panel can not determine a more appropriate
16 rate within each specific account, we recommend
17 moving the net salvage rates to -65% instead of
18 changing the rates all the way to -85%. MAC's
19 recommendation is too drastic a change for a one
20 year case. With less time between rate filings,
21 these accounts should be examined more
22 frequently and adjusted accordingly.

1 Q. Does the Panel have any further recommendations
2 for depreciation?

3 A. Yes.

4 KEDLI should begin keeping the mains and
5 services accounts in the same manner as KEDNY
6 currently does, breaking the accounts into sub-
7 accounts based on material type.

8 Also, based on the length of time between
9 KeySpan rate filings, Staff recommends that the
10 Commission require any company rate filing made
11 more than three after the date an Order is
12 issued here contain information on this subject.
13 More specifically, the Companies should be
14 required to submit a complete depreciation
15 study, including a rolling and shrinking band
16 analysis, a net salvage study, and a book versus
17 theoretical reserve study in KeySpan's next rate
18 filing, assuming the next rate filing is made at
19 least 3 years from the date of a Commission
20 order in this case.

1 Materials & Supplies in Inventory

2 Q. How did the Companies forecast M&S?

3 A. The Companies' projection takes historic actual
4 inventory levels and projects them out into the
5 rate year by applying an inflation factor.

6 Q. Does Staff agree with the Companies' proposal?

7 A. No. There are problems with the Companies'
8 forecast concerning M&S. As shown in the
9 Company response to Exhibit _____, (PDP-9, DPS-
10 66), the Companies have arbitrarily added
11 inflation to the decreasing average historic
12 inventory level without examining whether or not
13 inflation is directly influencing the balances.

14 Q. Please explain the Panel's position on M&S.

15 A. The Commission has determined previously that
16 M&S balances, which are used to calculate Rate
17 Base, are not to be arbitrarily inflated (Cases
18 29191, 29428, 94-G-0100 and as part of several
19 Commission approved Joint Proposals reflecting
20 no inflation on M&S). Exhibit _____ (PDP-3)
21 graphically depicts the comparison of the
22 Companies' original forecast rate year average

1 gas M&S balances versus the actual historical
2 average levels since 2000.

3 New M&S purchases would be subject to inflation
4 because they reflect replacement cost for items
5 used previously, but the total balance would
6 not. Other factors may offset or completely
7 negate the effects of inflation (as in this
8 filing).

9 In this filing, KeySpan's M&S balances are
10 actually levelized or decreasing. The best
11 estimate of what could reasonably be expected
12 for the rate year would be the latest known
13 twelve month actual average, without inflation.
14 Removing inflation reduces the Rate Year
15 projection by \$600,000 for KEDNY and \$350,000
16 for KEDLI.

17 Operating Expenses

18 Q. Does the Panel have any adjustments to Operation
19 Expenses?

20 A. Yes, Staff recommends an adjustment to KEDNY's
21 forecasted expense to implement a Toll Free
22 Customer Number.

1 Q. How much is reflected in the KEDNY Rate Year
2 Revenue Requirement for the toll free customer
3 number?

4 A. The Company reflects an estimated expense of
5 \$1.719 million in KEDNY Ex. No.__(PJM-11)
6 Schedule 5, Page 2 of 2. This amount includes
7 one time or start-up costs of \$0.49 million and
8 an annual recurring cost of \$1.23 million.

9 Q. What adjustment does Staff propose?

10 A. Staff recommends reducing the Toll Free number
11 annual cost of \$1.23 million by \$0.42 million.

12 Q. Why is Staff recommending this adjustment?

13 A. Staff does not agree with the Company's
14 estimated average call length for each phone
15 call of 10 minutes. Staff has found that the
16 basis of the 10 minutes per call was information
17 from 2005, prior to the implementation of an
18 updated phone system. Over the 12-month period,
19 December 2005 - November 2006, the average call
20 time has dropped to 6.5 minutes. Changing the
21 talk time on the Companies supplied estimate
22 reduces the Toll Free Operating Expense by \$0.42

1 million, making the annual cost \$0.810 million
2 (See Exhibit____, PDP-10, Company response to
3 CPB-164). CPB-164 lists assumptions made by the
4 Company for the Toll Free costs.

5 Q. Is there anything else to Panel wishes to
6 address at this time?

7 A. Yes. The Panel has not completed our review of
8 the Companies' update, but will be updating our
9 testimony to the extent needed.

10 Q. Does this conclude the pre-filed direct panel
11 testimony?

12 A. Yes, it does.