

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:

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State of New York
Department of Public Service
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1 Q. Mr. Rider, please state your full name and
2 business address.

3 A. Aric J. Rider, Three Empire State Plaza, Albany,
4 New York 12223.

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

6 A. I am a Utility Engineer 2, currently assigned to
7 the Gas Rates Section of the Office of Gas and
8 Water of the New York State Department of Public
9 Service.

10 Q. Please provide a summary of your educational and
11 professional experience.

12 A. I hold a Bachelor of Science Degree in Civil
13 Engineering Technology, which I received in 2001
14 from the State University of New York Institute
15 of Technology at Utica/Rome. I am currently
16 pursuing a Masters in Business Administration at
17 the University at Albany. Within the Office of
18 Gas and Water, I currently work in the Gas Rates
19 Section, but have been assigned to the Gas
20 Safety Section and Gas Policy Section on a
21 rotational basis. My work involves the

1 engineering analysis of gas utility operations
2 as they relate to the ratemaking process, as
3 well as participating in various reviews of
4 local distribution companies, or LDC,
5 activities.

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

8 A. Yes, I have testified in several proceedings
9 before the New York State Public Service
10 Commission regarding cost of service, capital
11 expenditures, depreciation, sales forecasts,
12 rate design, and gas safety performance
13 mechanisms.

14 Q. What is the purpose of your testimony in this
15 proceeding?

16 A. I am responsible for the review of the filed gas
17 rate presentations of both KeySpan Energy
18 Delivery New York (KEDNY) and KeySpan Energy
19 Delivery Long Island (KEDLI) in the general
20 areas of weather normalization, revenue
21 allocation, and rate design. I will provide

1 specific adjustments and recommendations in
2 these areas.

3 Q. Are you sponsoring any exhibits?

4 A. Yes, I am sponsoring 17 exhibits. They are:

- 5 • Exhibit No.____(AJR-1) - Comparison of Major LDC
6 Weather Normalization Clauses.
- 7 • Exhibit No.____(AJR-2) - IR response DPS-189
- 8 • Exhibit No.____(AJR-3) - IR response DPS-304
- 9 • Exhibit No.____(AJR-4) - KEDNY SC 2-1 & SC 2-2
10 Existing Bill Comparison
- 11 • Exhibit No.____(AJR-5) - KEDLI and KEDNY Block
12 Comparison
- 13 • Exhibit No.____(AJR-6) - KEDNY SC 2-1 & SC 2-2
14 Proposed Bill Comparison
- 15 • Exhibit No.____(AJR-7) - KEDLI SC 2-1 & SC 2-2
16 Proposed Bill Comparison
- 17 • Exhibit No.____(AJR-8) - Revenue Allocation
18 Factor for KEDLI
- 19 • Exhibit No.____(AJR-9) - Revenue Allocation
20 Factor for KEDNY

- 1 • Exhibit No.____(AJR-10) - Summary of ECOS study
- 2 results on KEDLI's Service Classes
- 3 • Exhibit No.____(AJR-11) - Summary of ECOS study
- 4 results on KEDNY's Service Classes
- 5 • Exhibit No.____(AJR-12) - A Comparison of
- 6 Customer Costs vs. Customer Charges for KEDLI
- 7 • Exhibit No.____(AJR-13) - A Comparison of
- 8 Customer Costs vs. Customer Charges for KEDNY
- 9 • Exhibit No.____(AJR-14) - Rate Design for KEDLI
- 10 • Exhibit No.____(AJR-15) - Rate Design for KEDNY
- 11 • Exhibit No.____(AJR-16) - Bill Impacts for KEDLI
- 12 • Exhibit No.____(AJR-17) - Bill Impacts for KEDNY

13 Weather Normalization

14 Q. What is the purpose of weather normalization?

15 A. Weather normalization is a process that adjusts
16 a company's weather sensitive actual delivery
17 volumes for the effects that colder or warmer
18 than normal weather has on its throughput. The
19 adjustment creates a base from which the rate
20 year forecast is then developed.

1 Q. What is normal weather?

2 A. Normal weather is the average actual heating
3 degree days over a period of time.

4 Q. How does KEDNY define a heating degree day?

5 A. KEDNY defines a heating degree day as the
6 average of the highest and lowest daily
7 temperature, subtracted from 65 degrees
8 Fahrenheit. A heating degree day is equal to
9 zero when the average temperature is above 65
10 degrees Fahrenheit.

11 Q. How does KEDLI define a heating degree day?

12 A. KEDLI defines a heating degree day as the actual
13 difference between 65 degrees Fahrenheit and the
14 average outdoor dry bulb temperature for a
15 particular day based on readings made every hour
16 on the hour throughout the day.

17 Q. Has KEDLI proposed to change its definition of
18 an actual heating degree day?

19 A. Yes. KEDLI proposed to use the same definition
20 as KEDNY, the average of the highest and lowest
21 daily temperature, subtracted from 65 degrees

1 Fahrenheit.

2 Q. Do you agree with KEDLI's proposal?

3 A. I believe that it is reasonable. Most of the
4 major LDCs of New York State use this
5 definition, as shown on Exhibit No.____(AJR-1).

6 Q. Currently, what methodology does KEDNY use to
7 calculate normal heating degree days?

8 A. KEDNY uses the thirty-year period ending
9 September 1994 to determine its normal heating
10 degree days.

11 Q. What methodology does KEDLI use to calculate
12 normal heating degree days?

13 A. KEDLI is using a thirty-year rolling
14 methodology. Each year, KEDLI updates the
15 Weather Normalization Adjustment, or WNA, in a
16 filing to the Commission and recalculates the
17 normal heating degree days using the latest
18 thirty-year data ending May.

19 Q. Are KEDNY and KEDLI proposing to change the
20 methodology used to determine normal heating
21 degree days?

1 A. Yes, both KEDNY and KEDLI proposed to use the 20
2 year period from 1986 to 2005, and hold this
3 value static.

4 Q. Do you agree with the proposed change?

5 A. No.

6 Q. Please explain.

7 A. The World Meteorological Organization uses a 30-
8 year time frame to define normal weather and the
9 National Oceanic and Atmospheric Administration,
10 as well as every LDC in New York State that has
11 a WNA, utilizes this accepted international
12 standard, see Exhibit No__(AJR-1). I see no
13 reason for KEDNY or KEDLI to deviate from the
14 international standard or the 30-year time frame
15 used by every LDC in New York State. I also
16 believe that the calculation should be updated
17 each year to capture the most recent thirty
18 years of degree day data and average customer
19 consumption levels.

20 Q. Do KEDNY and KEDLI have a Weather Normalization
21 Clause, or WNC, in each of their tariffs?

1 A. Yes, they each have a WNC that tempers the
2 effect of weather variations for both customers
3 and each company.

4 Q. When do the WNCs correct for weather variances
5 on customer bills?

6 A. As shown on Exhibit No__ (AJR-1), each LDC in New
7 York State that has a WNC, except KEDNY, adjusts
8 customers' bills from the beginning of the
9 heating season starting October 1st and runs
10 through May 31st. KEDNY's WNC is in effect from
11 October 13th through May 10th.

12 Q. Do you recommend any changes to the time when
13 KEDNY's WNC is in effect?

14 A. I recommend that KEDNY correct for weather
15 variances from October 1st through May 31st to be
16 consistent with the other LDCs in the state.

17 Q. Was a dead-band included in the WNC calculation
18 for each company?

19 A. KEDLI currently has a dead-band of plus or minus
20 2.2% and its WNC corrects for variances in
21 weather to the outside of the dead-band. As

1 part of Case 95-G-0761, the Commission approved
2 a 12.8% sharing mechanism for KEDNY that shares
3 the differences between actual margin revenues
4 and margin revenues that would be produced under
5 normal weather conditions between weather
6 sensitive customers and the company. This
7 mechanism was a result of a Joint Proposal
8 between the parties of that case.

9 Q. Do you recommend any changes to the WNC with
10 respect to how the companies correct for weather
11 variances?

12 A. Yes. I recommend that KEDNY adopt the same
13 methodology KEDLI uses when correcting for
14 weather variances, to the outside of the dead-
15 band.

16 Q. Why do you recommend correcting to the outside
17 of the dead-band?

18 A. The recommendation stems from potential adverse
19 customer impacts, best illustrated in a simple
20 example. Two next door neighbors could be on
21 different billing cycles, separated by one

1 billing day. If the first customer's actual
2 billing heating degree days were at the plus
3 2.2% dead-band, no adjustment to the bill would
4 be required. If the second customer's actual
5 billing heating degree days fell just outside of
6 the band at plus 2.3%, a correction would be
7 necessary. The weather correction should only
8 be 0.1% to the outside of the dead-band, not
9 2.3%, to be fair and equitable.

10 Q. Do both KEDLI and KEDNY propose to change the
11 dead-band of the WNC?

12 A. Yes. Both KEDLI and KEDNY proposed a dead-band
13 of plus or minus 1%.

14 Q. Do you agree with the proposed change?

15 A. No.

16 Q. Please explain.

17 A. First, WNCs were established to temper extreme
18 impacts that weather has on both delivery
19 charges on customer bills and company delivery
20 revenues. Dead-bands in WNCs recognize a
21 certain amount of normal fluctuation between

1 normal heating degree days and actual heating
2 degree days. The one-half of a standard
3 deviation of winter heating degree days dead-
4 band was established by the Commission over
5 fifteen years ago and at that time it was equal
6 to plus or minus 2.2%. KeySpan's proposal would
7 change the dead-band to a level that is much
8 smaller than one-half of a standard deviation.

9 Q. Did you calculate what one-half of a standard
10 deviation of winter heating degree days would be
11 using Central Park data from 1976 to 2006?

12 A. Yes, using the winter months December through
13 March of each year from 1976 to 2006, I
14 calculated that one-half of a standard deviation
15 is plus or minus 4.4%.

16 Q. What does this mean?

17 A. The result of the calculation shows that using
18 the same methodology the Commission used to
19 establish the plus or minus 2.2% dead-band would
20 result in normal weather fluctuation of plus or
21 minus 4.4%.

1 Q. What dead-band do you recommend be established
2 for both KEDNY and KEDLI?

3 A. Even though one-half of a standard deviation of
4 winter heating degree days of the last thirty
5 year period is 4.4%, I propose that both KEDLI
6 and KEDNY incorporate a plus or minus 2.2% dead-
7 band in their WNC. As shown on Exhibit
8 No.__(AJR-1), every other LDC in the state that
9 has a WNA has a plus or minus 2.2% dead-band and
10 it is reasonable to establish this dead-band for
11 both KEDLI and KEDNY to be consistent with other
12 New York State LDCs.

13 Q. Please summarize your recommendations.

14 A. I propose the following for both KEDLI and
15 KEDNY: (1) a heating degree day should be
16 defined as the average of the highest and lowest
17 daily temperature, subtracted from 65 degrees
18 Fahrenheit, (2) the WNC clause should be
19 effective from October 1st through May 31st, (3)
20 the WNC should be based on the normal heating
21 degree-days, defined as the 30-year average

1 period ending December 31 of the year prior to
2 the applicable WNC winter season, (4) the dead-
3 band should be plus or minus 2.2%, and (5) when
4 applying the WNC, bills should be corrected to
5 the outside of the dead-band.

6 Q. Do the companies file a statement with the
7 Commission each year that identifies components
8 of the WNC?

9 A. Yes they do.

10 Q. Should the statements continue to be filed?

11 A. Yes. I recommend the statements be filed
12 annually with Staff.

13 Embedded Cost of Service Study

14 Q. Do you have any comments regarding the quality
15 of KeySpan's embedded cost of service, or ECOS,
16 study?

17 A. Yes. Generally speaking, I believe the ECOS
18 study to be reasonable. However, there is one
19 modification that is needed.

20 Q. Please explain.

21 A. The company's study used a three step process to

1 analyze each component of plant, expenses, and
2 revenues in calendar year 2005. The first step
3 is Functionalization where components are
4 functionalized to Supply/Storage, Collection
5 Costs related to Supply, Transmission,
6 Distribution, and Billing and Payment. The
7 second step is Classification of each
8 functionalized cost component as Demand,
9 Commodity, or Customer. The third step is class
10 allocation where each functionalized, classified
11 component is allocated to the rate classes.
12 Both external and internal allocators were used
13 in each of the three steps and were based on
14 studies derived from the company's records.
15 Specifically, KeySpan conducted a special study
16 to determine the allocator that would be applied
17 to the main accounts. The special study
18 attempted to identify the minimum size of main
19 in the company's system. As stated in the
20 response to IR response DPS-189, attached as
21 Exhibit No.____(AJR-2), KeySpan believes that

1 there has to be a minimum distribution system
2 that interconnects all customers to the source
3 of supply, standing ready to provide service,
4 even if each and every customer on the system
5 were to consume no gas. The company considered
6 the smallest diameter main as a customer cost.

7 Q. How did the company determine the minimum size
8 main?

9 A. As stated in IR response DPS-304, attached as
10 Exhibit No.____(AJR-3), the 2-inch size main was
11 selected as the minimum size because it is the
12 utility's practice and is consistent with
13 previous studies.

14 Q. Do you agree with these concepts?

15 A. No. For the purpose of revenue allocation and
16 rate design, I propose that all mains be
17 allocated as demand in the classification step.
18 The purpose of this change is to more closely
19 identify the minimum customer costs for each
20 service class when the study is re-run. The
21 result of the revised study indicates more of a

1 barebones level of service and is also more
2 representative of the costs saved when a
3 customer leaves the system.

4 Q. Did you request that KeySpan re-run the ECOS
5 study model to reflect this position?

6 A. Yes. The response to DPS-189, attached as
7 Exhibit No.____(AJR-2), shows the effect of
8 these changes on the rate of return for each
9 class and the minimum cost of service for each
10 class.

11 Q. How did you use the ECOS study in this
12 proceeding?

13 A. I used the ECOS study as a tool to aid in the
14 revenue allocation and rate design process.
15 Since there are many assumptions used in the
16 development of a study of this nature, and since
17 the demand allocation factor was developed
18 without the aid of load studies, the cost
19 studies can be used as a guide for the revenue
20 allocations within the company's service
21 classifications.

1 Revenue Allocation and Rate Design

2 Q. Could you describe KEDNY's overall revenue
3 allocation and rate design?

4 A. Yes. KEDNY originally requested a total
5 increase in base rates of approximately \$180.69
6 million for the twelve months ending March 31,
7 2008. This increase was first allocated to the
8 firm service classifications (SC) numbers 1A,
9 1B, 2-1, 2-2, 3, 4A, 4B, 7, and 14 evenly on a
10 percentage basis. Second, \$3.3 million was
11 shifted from SC 2-1 and SC 2-2 to SC 3 because
12 of the indications of the ECOS study. KEDNY
13 states that the shift brings the SC 3 class to
14 within 85% of the overall return. KEDNY
15 proposes to move the minimum charges for SC 1B,
16 2-1, 2-2, and 3 toward the results of the ECOS
17 study, and align the tail blocks with marginal
18 costs. KEDNY proposed to phase these goals in
19 over a three year period in a revenue neutral
20 manner. KEDNY also proposed changes to the
21 block structures of SC 1B and 2-1. SC 1B would

1 be reduced from five blocks to three and SC 2-1
2 would be reduced from six blocks to four. KEDNY
3 also proposed to combine the SC 2-1 commercial
4 non-heat and 2-2 commercial heat into one class
5 one year after rates are set in this proceeding.

6 Q. Could you describe KEDLI's overall revenue
7 allocation and rate design?

8 A. Yes. KEDLI originally requested a total
9 increase in base rates of approximately \$145.06
10 million for the twelve months ending March 31,
11 2008. The increase was first allocated evenly
12 on a percentage basis to the firm rate classes,
13 and then the minimum charges of SC numbers 1A,
14 1B, 2-A, 2-B, and 3 were aligned with the
15 results of the minimum cost of service as
16 indicated in the ECOS study, and align the tail
17 blocks with the marginal cost study result.
18 KEDLI proposed to phase these goals in over a
19 three year period in a revenue neutral manner.
20 KEDLI also proposed changes to the block
21 structures of SC 1B, 2-A, and 2-B. SC 1B would

1 be reduced from four blocks to three, and both
2 SC 2-A and 2-B would be reduced from five blocks
3 to four.

4 Q. Do you have any recommendations with respect to
5 the overall revenue allocation and rate design?

6 A. Yes. I recommend an approach which relies on
7 the guidance provided by the ECOS study, tied to
8 the overall percentage increase net of gas costs
9 and revenue taxes (overall net percentage
10 increase) allocated to each service
11 classification with a goal of creating similar
12 block structures for similar service classes for
13 the KEDNY and KEDLI systems.

14 Q. Generally, what principles do you recommend
15 should be followed when developing the overall
16 revenue allocation and rate design?

17 A. I recommend that revenue allocation and rate
18 design remain consistent with the following
19 goals:

20 • individual service class increases are
21 related to the overall net percentage increase,

- 1 • the direction of individual service class
2 increases are guided by the results of the ECOS
3 study,
4 • existing rate classes are maintained, and
5 • an effort is made in the direction of
6 developing similar block structures for similar
7 service classes for the KEDNY and KEDLI systems.

8 Q. Why do you state that existing rate classes
9 should be maintained as a goal?

10 A. KEDNY has proposed to merge SC 2-1 commercial
11 non-heat and SC 2-2 commercial heat because they
12 state that it is difficult to distinguish small
13 commercial customers who use gas for heating and
14 non-heating purposes. I recommend that they
15 remain separate.

16 Q. Please explain.

17 A. The company may have had problems distinguishing
18 small commercial customers, but I believe that
19 changing the applicability clause of SC 2-1,
20 that states "For the purposes of this Service

1 Classification, customers whose annual load
2 factor is 50% or less as determined by the
3 Company will be deemed heating customers; all
4 others will be deemed non-heating," as well as
5 the rates for the SC 2-1 and 2-2 classes would
6 provide a better solution.

7 Q. Why would the applicability clause cause
8 classification problems?

9 A. Customers that are very close to the 50% load
10 factor would benefit with lower bills if they
11 were on the SC 2-2 heating rate, as shown on
12 Exhibit No.____(AJR-4).

13 Q. What do you recommend?

14 A. I recommend that the applicability clause test
15 be changed to state that if a customer's
16 throughput in January is twice that of the
17 customer's throughput in July, or greater, they
18 be served under the heating service class 2-2.

19 Q. Why do you recommend a volumetric test?

20 A. The test would be easier administratively than
21 calculating the load factor for each customer

1 and would be easier for customers to determine
2 what class they would be served under.

3 Q. Should the SC 2-1 commercial non-heat and SC 2-2
4 commercial heat be merged?

5 A. No. The commercial heat and non-heat classes
6 should remain separate because heating customers
7 place different load requirements on KEDNY's
8 system. Using the data within the company's
9 ECOS study, the class load factor of SC 2-1
10 commercial non-heat is 39% where the class load
11 factor of SC 2-2 commercial heat is 24%. These
12 two distinct general load factors do show that
13 there is a need for two different classes.
14 However, it also shows that on average all of SC
15 2-1 customers would be considered heating
16 because their load factor is below the
17 applicability clause requirement of 50%.

18 Q. How do you propose to structure the rates of
19 commercial non-heat and commercial heating?

20 A. I recommend that the third block and tail block
21 rates for SC 2-1 be set lower than the block

1 rates of SC 2-2. Rates typically reflect demand
2 requirements placed on the utility's system and
3 this change is necessary to reflect these
4 differences and is supported by the distinct
5 load factors.

6 Q. Could there be revenue and customer impacts from
7 this recommendation?

8 A. Yes, some customers may be required to move from
9 non-heat to heat and some may be required to
10 move from heat to non-heat, increasing or
11 decreasing their bills respectively, and have a
12 corresponding effect on KEDNY's delivery
13 revenues.

14 Q. How do you propose to address the effect on
15 delivery revenues?

16 A. I recommend that a year from when rates take
17 effect, KEDNY be required to file a formal
18 petition with the Commission detailing the
19 effect this change has had on its delivery
20 revenues for this service class. The Commission
21 could then decide how to address any surplus or

1 shortfall and any necessary rate design changes.

2 Q. How did you conclude that similar block
3 structures should be created for similar service
4 classes for KEDNY and KEDLI.

5 A. I analyzed the block structure of the
6 residential, commercial and multi-family service
7 classes for both companies. I found that the
8 bill distribution, use per customer, and
9 applicability clauses for the companies were
10 similar.

11 Q. How did you determine what the common block
12 structures would be?

13 A. Using IR response DPS-288, I conducted a bill
14 frequency analysis that identified the number of
15 bills that fell within specific usages. I
16 plotted this information to graphically
17 determine where the natural groups of customers
18 fell. Using my judgment, I recommend the common
19 block structures shown on Exhibit No.____(AJR-
20 5).

21 Q. Do you agree with the general concept of

1 increasing the minimum charge based on the
2 indications of the ECOS study and decreasing the
3 tail block rates based on the indications of the
4 marginal cost study?

5 A. Yes, however, I only used these studies as a
6 guide and also considered impacts to customers
7 in the rate design process.

8 Q. If the Commission were to determine that no
9 change in delivery revenues were necessary,
10 would you recommend any rate design changes?

11 A. Yes. I recommend that revenue neutral rate
12 design changes be made to each service class to
13 bring the minimum charge closer to the results
14 of the ECOS study, excluding mains. I recommend
15 that the tail block for residential and
16 commercial heating be reduced to \$2.50 per
17 dekatherm. I also recommend setting the third
18 block and tail block rates for KEDNY's SC 2-1
19 lower than the same block rates of KEDNY's SC 2-
20 2, in a revenue neutral manner. This change
21 should also be made to KEDLI's commercial heat

1 and non-heat class. Exhibit No.____(AJR-6) and
2 Exhibit No.____(AJR-7) shows the impact of this
3 change with Staff's proposed revenue
4 requirement.

5 Q. If the Commission were to determine that
6 additional revenues were justified, would you
7 recommend the same rate design changes?

8 A. Yes. In addition to these recommendations, I
9 would also create a revenue allocation factor to
10 distribute the revenue requirement to the
11 customer classes based on the indications of the
12 ECOS study.

13 Q. How did you develop the overall percentage
14 increase for Staff's recommended revenue
15 requirement?

16 A. I took the revenue requirement less associated
17 taxes and adjustments and divided it by Staff's
18 forecasted rate year volumes and customers
19 priced out at existing rates. Exhibit
20 No.____(AJR-8) and Exhibit No.____(AJR-9) shows
21 this process for KEDLI and KEDNY, respectively.

1 Q. Have you reflected any changes to the low income
2 programs?

3 A. No. I incorporated these programs at historic
4 levels, as did the companies.

5 Q. Is the Consumer Services Panel proposing a rate
6 design discount for low income customers?

7 A. Yes, but I have not reflected the Consumer
8 Services Panel's proposal at this time. This
9 discount, if approved by the Commission, can be
10 reflected in the rate design when final rates
11 are determined.

12 Q. How did you incorporate the Revenue Panel's
13 sales forecast into your presentation?

14 A. The Revenue Panel provided me with their
15 forecasted rate year sales for each service
16 class. This included the number of customers,
17 as well as the total throughput. I allocated
18 the sales proportionally to each block based on
19 the company's rate year forecast.

20 Q. How did you allocate the revenue requirement to
21 the classes in KEDNY and KEDLI?

1 A. I multiplied the overall percentage increase by
2 a revenue allocation factor to distribute the
3 revenue requirement based on the indications of
4 the ECOS study, see Exhibit No.____(AJR-8) and
5 Exhibit No.____(AJR-9). For example, if the
6 factor is equal to one, the service class was
7 allocated the overall percentage. If the factor
8 is less than or greater than one, the overall
9 percentage was either adjusted up or down to
10 reflect the indications of the ECOS study. The
11 results were a revenue requirement per service
12 classification.

13 Q. When developing the revenue allocation factor
14 for KEDNY, what was the reason for allocating
15 more of an increase to SC 1A and 3 and less of
16 an increase to SC 1B, 2-1, and 2-2?

17 A. KEDNY's ECOS study indicated that the rate of
18 return for SC 1A and 3 was lower than the
19 overall rate of return and further the return on
20 SC 2-1 and 2-2 was higher than the overall
21 return. The ECOS study indicated that the rate

1 of return for SC 1B was lower than the overall
2 rate of return. I chose to allocate a larger
3 portion of the increase to SC 1A and 3 to
4 address the revenue deficiency and move the
5 class return toward the overall system average.
6 Since the overall return indicated in the ECOS
7 study for SC 2-1 and 2-2 was higher than the
8 system average, I allocated a decrease to these
9 classes. I allocated less than one to SC 1B as
10 a way to balance the process to as close as
11 possible to zero. This is reasonable because
12 the rate of return for the class was close to
13 the overall rate of return.

14 Q. Did you follow the same reasoning for KEDLI's SC
15 1A and 3, and SC 1B and 2B?

16 A. Yes, however the indications of the ECOS study
17 shows that the rate of return for SC 1B was less
18 than the overall rate of return. I still chose
19 to balance the process with SC 1B because
20 allocating less than one did not significantly
21 impact the class rate of return and increasing

1 the factor for SC 1A and 3 was more of a
2 priority.

3 Q. Will the use of a revenue allocation factor
4 fully correct the rate of return discrepancies
5 between the classes?

6 A. No. But it is a step in the right direction to
7 mitigate these discrepancies.

8 Q. Why not fully correct the discrepancies between
9 rate classes?

10 A. Rate design is not an exact science and other
11 factors have to be considered. For instance,
12 there is no firm rule which says all blocks of a
13 rate structure have to provide the same return,
14 and an ECOS study, does not provide definitive
15 results. Thus, if the Commission finds that the
16 company is entitled to some rate relief above
17 Staff's filed amount, some firm service classes
18 could be significantly impacted from the revenue
19 allocation factor, as well as proposed increases
20 to the minimum charges. It would be very
21 important to calculate and consider the impacts

1 to customers for any proposed increase.

2 Q. What is your recommendation for rate design?

3 A. Generally for each service class, I first
4 adjusted the first block charge, or monthly
5 minimum charge, based on the indications of the
6 ECOS study, excluding mains. I then set the
7 tail block rate of KEDNY's SC 1B residential
8 heat and 2-2 commercial heat, and KEDLI's SC 1B
9 residential heat and 2B commercial heat to \$2.50
10 per dekatherm based on the indications of the
11 marginal cost study. If additional changes were
12 required, I then adjusted the remaining blocks
13 on a per unit basis until the revenue
14 requirement for each class was achieved. I
15 chose to set the third block and tail block for
16 commercial non-heat at \$0.05 per dekatherm less
17 than the corresponding rate blocks for the
18 commercial heat class for both KEDLI and KEDNY.

19 Q. Are you supporting an exhibit that shows the
20 impact that your rate design has on the class
21 rate of return for each service class?

- 1 A. Yes, Exhibit No.____(AJR-10) and Exhibit
2 No.____(AJR-11) shows the impact of Staff's
3 proposed revenue requirement with my revenue
4 allocation and rate design proposals for each
5 service class for KEDLI and KEDNY, respectively.
- 6 Q. Why do you believe your recommendations for the
7 minimum charge increases are reasonable?
- 8 A. The minimum charge recommendations are still
9 less than the indications of the ECOS study
10 excluding mains as shown on Exhibit No.____(AJR-
11 12) and Exhibit No.____(AJR-13) for KEDLI and
12 KEDNY, respectively. The minimum charges are
13 also comparable to other New York State LDCs.
14 For example, the proposed residential heating
15 minimum charge of \$16.00 for KEDLI SC 1B and
16 KEDNY SC 1B are slightly higher as compared to
17 the residential rates of Central Hudson at
18 \$14.00, National Grid at \$14.71, New York State
19 Electric & Gas at \$14.00, Rochester Gas and
20 Electric at \$15.00, and National Fuel at \$15.54.
- 21 Q. Please describe Exhibit No.____(AJR-14) and

1 Exhibit No.____(AJR-15).

2 A. The attached Exhibit____ (AJR-14) and Exhibit____
3 (AJR-15) for KEDLI and KEDNY show the
4 development of rates for each service class. I
5 started with each company's forecast and
6 adjusted the customer and volumetric units as
7 directed by the Revenue Panel. I then priced
8 out the proposed rates to determine if Staff's
9 revenue requirement was met by pricing out the
10 Staff's rate year forecast. The exhibits also
11 show the recommended per unit increase or
12 decrease, and the percentage impact at Staff's
13 recommended revenue requirement level. I used
14 this amount for illustrative purposes, but my
15 recommendations have been designed to remain
16 appropriate regardless of the final revenue
17 requirement level determined by the Commission.

18 Q. Does Exhibit____ (AJR-14) and Exhibit____ (AJR-15)
19 for KEDLI and KEDNY include any other
20 information?

21 A. Yes, they also show a summary of Staff's

1 proposed rate by service classification and a
2 summary of how the delivery revenue increase was
3 distributed to the classes.

4 Q. What are the customer impacts of your revenue
5 allocation and rate design proposals?

6 A. In addition, Exhibit___ (AJR-16) and Exhibit___
7 (AJR-17) for KEDLI and KEDNY indicates the
8 monthly and annual bill impact of my
9 recommendations on a typical customer for each
10 service classification. These exhibits also
11 reflect Staff's recommended revenue requirement
12 level for illustrative purposes.

13 Q. Have you incorporated the companies' update in
14 your analysis and presentation?

15 A. I did include some updated information from
16 witness Feinstein, but have not completed my
17 review and additional updates to my presentation
18 may be required.

19 Q. Does this conclude your testimony at this time?

20 A. Yes.