

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:
Sales Panel

Mary Ann Sorrentino
Utility Engineer 3

Aferdita Bardhi
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 name and business address.

2 A. My name is Mary Ann Sorrentino (formerly named
3 Mary Ann Salvagni) and my business address Three
4 Empire State Plaza, Albany, NY 12223.

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

6 A. I am employed by the New York State Department
7 of Public Service of the State of New York. I
8 am an engineer in the Gas Rates Section of the
9 Office of Gas & Water.

10 Q. Please describe your education and employment
11 experience.

12 A. I graduated from Clarkson University in 1991
13 with a Bachelor of Science degree in Chemical
14 Engineering and began employment with the
15 Department in 1993.

16 Q. Have you previously testified before the
17 Commission?

18 A. Yes, I testified in Case 95-G-1095, Case 96-G-
19 0548, Case 00-G-1274, and in Case 05-G-0935 on
20 various gas rates matters.

21 Q. Please state your full name and business
22 address.

1 A. Aferdita Bardhi, Three Empire State Plaza,
2 Albany NY 12223.

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

4 A. I am employed by the Department of Public
5 Service, State of New York as a Utility Engineer
6 1 on the staff of the Office of Gas & Water, Gas
7 Rates Section.

8 Q. Please describe your education and employment
9 experience.

10 A. I graduated from State University of New York at
11 Buffalo in 1999 with a Bachelor of Science
12 degree in Civil Engineering. I joined the
13 Department of Public Service in February 2005.
14 Previously, I have worked as a structural
15 engineer in the private sector and also spent a
16 year as a project manager for a HVAC firm.

17 Q. Have you filed testimony before the Commission
18 in other proceedings?

19 A. Yes. I have testified in the Central Hudson
20 rate filing, Case 05-G-0935 and the St. Lawrence
21 gas rate filing, Case 05-G-1635.

22 Q. Please describe your responsibilities in this

1 proceeding.

2 A. We are testifying on specific issues as follows:

3 (1) the firm sales and transportation gas

4 throughput forecast for the twelve months ended

5 March 31, 2008 (the rate year); (2) the

6 calculation of loss rate for the rate year; and

7 (3) issues related to service for Temperature

8 Controlled (TC) and Interruptible customers.

9 Regarding TC and Interruptible sales, rates and

10 revenue requirement, we are testifying on the

11 following Companies' proposals: (1) serving

12 interruptible customers under the current TC

13 service classification, (2) the proposed margin

14 imputation and sharing mechanism for this

15 combined service class, (3) the Companies'

16 proposal to remove the TC price cap, and (4) the

17 treatment of revenue margin associated with

18 sales to power generators.

19 Q. Does the Panel have any exhibits in this

20 proceeding?

21 A. Yes. We are sponsoring Exhibit_____ (SP-1)

22 Throughput Forecast for KeySpan Energy Delivery

1 Long Island, Exhibit____ (SP-2) Throughput
2 Forecast for KeySpan Energy Delivery New York,
3 Exhibit____ (SP-3) Company provided sales data,
4 Exhibit____ (SP-4) Loss Rate and Fixed Factor of
5 Adjustment for KeySpan Energy Delivery Long
6 Island, and Exhibit____ (SP-5) Loss Rate and
7 Fixed Factor of Adjustment for KeySpan Energy
8 Delivery New York.

9

10 KEDLI Sales Forecast

11

12 Q. Please describe how you developed your rate year
13 throughput projection for KeySpan Energy
14 Delivery Long Island (KEDLI).

15 A. Staff's forecast is based on projections of the
16 number of customers coupled with projected gas
17 usage per customer.

18 Q. Explain how your number of residential customers
19 was determined?

20 A. Staff's projected number of residential
21 customers is an aggregate of individual
22 projections for residential general, residential

1 water heating and residential space heating
2 classes based on individual regression analyses
3 of historical numbers of customers. For each
4 class, 12-month rolling averages of aggregated
5 sales and transportation customers combined were
6 projected. The time period used in the
7 regression analyses was January 2004 - October
8 2006.

9 Q. How were the rolling averages used to determine
10 monthly customer numbers?

11 A. The customer counts for an individual month were
12 calculated by multiplying the 12-month rolling
13 average by twelve and then subtracting the
14 previous eleven months actual customer counts.

15 Q. Please explain why you utilized the time period
16 of January 2004 - October 2006 for the
17 regression analysis.

18 A. Prior to 2004 the Company utilized incentives
19 intended to increase customer growth. The
20 Company has proposed including such sales
21 expenses in the rate year; however, Staff has
22 eliminated expenses above the test year levels.

1 Therefore, Staff's customer forecast does not
2 include elevated customer growth as experienced
3 during the period of elevated spending geared
4 toward enhancing growth.

5 Q. Explain how your usage per customers for
6 residential customers was determined?

7 A. The panel analyzed actual usage per customer on
8 a monthly basis for a three year period,
9 November 2003 - October 2006, using a linear
10 regression analysis. The analysis produced a
11 forecasting equation with allocated heating
12 degree-days (HDD) at Central Park as the
13 explanatory variable.

14 Q. What is an allocated heating degree day?

15 A. Allocated heating degree days are combinations
16 of actual monthly heating degree days analogous
17 to monthly billing periods.

18 Q. Why did Staff use a three year period in the
19 regression analysis?

20 A. Staff used a three year period in the analysis
21 to include a variety of weather patterns in the
22 analyzed data. The chart below summarizes the

1 three heating seasons included in the regression
 2 analysis.

3

4 Central Park Heating Degree Days

5	<u>Period</u>	<u>Actual</u>	<u>Normal</u>	<u>% Dev.</u>
6	11/1/03 - 3/31/04	4,037	3,923	2.9%
7	11/1/04 - 3/31/05	3,931	3,923	0.2%
8	11/1/05 - 3/31/06	3,594	3,923	-8.4%

9

10 Q. How was the forecasting equation used to produce
 11 rate year projections?

12 A. The equation was applied to 30-year normalized
 13 HDDs. Staff adjusted the HDDs for February to
 14 reflect the 2008 leap year.

15 Q. Please summarize the customer and usage
 16 projections.

17 A. Exhibit____ (SP-1), pages 2 and 3, summarizes
 18 throughput and customer projections for the
 19 residential general, residential water heat and
 20 residential space heating classes for the period
 21 2004 through the twelve months ending March 31,

1 2008 (the rate year). It shows residential
2 growth of 1.3%.

3 Q. Explain how your number of commercial customers
4 was determined?

5 A. Staff's projected number of commercial customers
6 is an aggregate of individual projections for
7 commercial general, commercial water heating and
8 commercial space heating classes based on
9 individual regression analyses of historical
10 numbers of customers. For each class, 12-month
11 rolling averages of aggregated sales and
12 transportation customers were projected. The
13 time period used in the regression analyses was
14 January 2004 - October 2006. Again, prior to
15 2004 the Company utilized incentives intended to
16 increase customer growth. The Company has
17 proposed including such sales expenses in the
18 rate year; however, Staff has eliminated
19 expenses above the test year levels. Therefore,
20 Staff's customer forecast does not include
21 elevated customer growth as experienced during

1 the period of elevated spending geared toward
2 enhancing growth.

3 Q. How were the rolling averages used to determine
4 monthly customer numbers?

5 A. Again, the customer counts for an individual
6 month were calculated by multiplying the 12-
7 month rolling average by twelve and then
8 subtracting the previous eleven months actual
9 customer counts.

10 Q. Explain how your usage per customers for
11 commercial customers was determined?

12 A. The Panel analyzed actual usage per customer on
13 a monthly basis for a three year period using a
14 linear regression analysis. The analysis
15 produced a forecasting equation with allocated
16 heating degree days (HDD) at Central Park as the
17 explanatory variable. To produce rate year
18 projections the equation was applied to 30 year
19 normalized HDDs. Staff adjusted the HDDs for
20 February to reflect the 2008 leap year.

21 Q. Please summarize the results of your analysis.

1 A. Exhibit____ (SP-1), pages 4 and 5, summarizes
2 throughput and customer projections for the
3 commercial general, commercial water heat and
4 commercial space heat classes for the period
5 2004 through the twelve months ending March 31,
6 2008 (the rate year). It shows commercial
7 growth of 1.3%

8 Q. Explain how your number of multifamily customers
9 was determined?

10 A. Staff's projected number of customers is an
11 aggregate of individual projections for the
12 multifamily space heating and multifamily other
13 classes based on individual regression analyses
14 of historical numbers of customers. For each
15 class, 12-month rolling averages of aggregated
16 sales and transportation customers were
17 projected. The time period used in the
18 regression analyses was January 2004 - October
19 2006.

20 Q. How were the rolling averages used to determine
21 monthly customer numbers?

1 A. As with the residential and commercial service
2 classes, the customer counts for an individual
3 month were calculated by multiplying the 12-
4 month rolling average by twelve and then
5 subtracting the previous eleven months actual
6 customer counts.

7 Q. Explain how your usage per customers for
8 multifamily customers was determined?

9 A. Staff analyzed actual usage per customer on a
10 monthly basis for a three year period using a
11 linear regression analysis. The analysis
12 produced a forecasting equation with allocated
13 heating degree days (HDD) at Central Park as the
14 explanatory variable. To produce rate year
15 projections the equation was applied to 30 year
16 normalized HDDs. Staff adjusted the HDDs for
17 February to reflect the 2008 leap year.

18 Q. Please summarize the results of your analysis.

19 A. Exhibit____ (SP-1), pages 6 and 7, summarizes
20 throughput and customer projections for the
21 multifamily other and multifamily heating
22 classes for the period 2004 through the twelve

1 months ending March 31, 2008 (the rate year).

2 It shows multifamily growth of 5.1%

3 Q. Does Staff have any other adjustments to the
4 KEDLI estimate of rate year throughput?

5 A. Staff proposes no adjustments to the KEDLI
6 estimate of throughput for high load factor,
7 space conditioning, baseload distributed
8 generation, or natural gas vehicle services.

9 Q. Why does Staff's resulting forecast differ from
10 the Company's forecast?

11 A. As previously stated, Staff performed regression
12 analyses on historic customer counts and usage
13 per customer per month by customer type to
14 develop forecasting equations. The Company
15 utilized a margin analysis tied to marketing and
16 incentive programs to develop a rate year
17 forecast.

18 Q. Please explain the basis of the Company's sales
19 and revenue forecast.

20 A. The Company states "the number of customers used
21 in the revenue forecast was calculated based on
22 the normalized average usage per customer,

1 customer base and slope and the 2005 normalized
2 margin. Actuals are reported in DPS-64-1 and
3 differ slightly from the calculated number in
4 the forecast." Therefore, the Company's
5 forecast is based on one year, 2005. The actual
6 2005 number needed to be adjusted to match the
7 Company's forecasting methodology.

8 Q. Please display the differences in the customer
9 forecasts.

10 A. For comparative purposes, Exh_____ (SP-1), pages
11 8 and 9, shows a plot of historic customer
12 counts and both Staff's and the Company's
13 resulting rate year forecasts for KEDLI's
14 Residential Heat and Commercial Heat service
15 classifications.

16 Q. What are the major reasons for the customer
17 count differences?

18 A. The Company lumped conversion additions in
19 January, while Staff added customers throughout
20 the 12 month period. Also, Staff's regression
21 analyses used more recent data.

1 Q. Does this difference in number of customers
2 forecast apply to other service classifications?

3 A. Yes, but the difference is most prominent in
4 heating service classifications due to the
5 Company's incentive campaign intended to
6 increase customer conversion to heating service
7 classifications.

8 Q. Please summarize the differences between the
9 usage per customer forecasts?

10 A. As stated in Jennifer Feinstein's testimony on
11 page 7, the Company employed a 1.5% attrition
12 rate to reflect declining usage per customer.
13 Staff performed regression analyses for all
14 customer types, in aggregate. The regression
15 analyses covered three, four and five year
16 periods. These regression analyses indicated no
17 time trend associated with usage per customer in
18 the heating service classifications.

19 Q. What does the lack of a time trend in usage per
20 customer indicate?

21 A. It indicates that there are only weather-related
22 changes in usage per customer which occur over

1 time. Thus, there was no basis for Staff to
2 apply an attrition factor for any service
3 classification.

4 Q. Are there any other major differences in the
5 usage per customer forecasting methodologies?

6 A. Yes, as stated in the testimony of Staff witness
7 Aric Rider, Staff utilized 30 years of data to
8 determine normal weather, and used this
9 information to develop its sales forecast. By
10 contrast, KEDLI and KEDLI use a 20-year period.

11

12 KEDNY Sales Forecast

13

14 Q. Please describe how you developed your rate year
15 throughput projection for KeySpan Energy
16 Delivery New York (KEDNY).

17 A. As with KEDLI, Staff's forecast is based on
18 projections of number of customers coupled with
19 projections of gas usage per customer.

20 Q. Explain how your number of residential customers
21 was determined?

- 1 A. Staff's projected number of customers is an
2 aggregate of individual projections for
3 residential general and residential space
4 heating classes based on individual regression
5 analyses of historical numbers of customers.
6 For each class, 12-month rolling averages of
7 aggregated sales and transportation customers
8 were projected. The time period used in the
9 regression analyses was July 2004 - October
10 2006.
- 11 Q. How were the rolling averages used to determine
12 monthly customer numbers?
- 13 A. The customer counts for an individual month were
14 calculated by multiplying the 12-month rolling
15 average by twelve and then subtracting the
16 previous eleven months actual customer counts.
- 17 Q. Please explain why you utilized the time period
18 of July 2004 - September 2006 for the regression
19 analysis.
- 20 A. Prior to 2004 the Company utilized incentives
21 intended to increase customer growth. The
22 Company has proposed including such sales

1 expenses in the rate year; however, Staff has
2 eliminated expenses above the test year levels.
3 Therefore, Staff's customer forecast does not
4 include elevated customer growth as experienced
5 during the period of elevated spending.

6 Additionally, as seen in Exh___ (SP-3), it does
7 not appear that KEDNY maintained transportation
8 detail prior to July 2004, therefore Staff's
9 analysis did not include data prior to July
10 2004.

11 Q. Explain how your usage per customers for
12 residential customers was determined?

13 A. Staff analyzed actual usage per customer on a
14 monthly basis for a three year period using a
15 linear regression analysis. The analysis
16 produced a forecasting equation with allocated
17 heating degree days (HDD) at Central Park as the
18 explanatory variable.

19 Q. How was the forecasting equation used to produce
20 rate year projections?

21 A. The equation was applied to 30 year normalized
22 HDDs. Staff adjusted the HDDs for February to

1 reflect the 2008 leap year.

2 Q. Please summarize the customer and usage
3 projections.

4 A. Exhibit____ (SP-2), page 2, summarizes
5 throughput and customer information for the
6 residential general and residential space
7 heating classes for the period 2005 through the
8 twelve months ending March 31, 2008 (the rate
9 year). It shows residential growth of 0.5%.

10 Q. Explain how your number of commercial customers
11 was determined?

12 A. Staff's projected number of commercial customers
13 is an aggregate of individual projections for
14 commercial general and commercial heating
15 classes based on individual regression analyses
16 of historical numbers of customers. For each
17 class, 12-month rolling averages of aggregated
18 sales and transportation customers were
19 projected. The time period used in the
20 regression analyses was July 2004 - October
21 2006. Again, prior to 2004 the Company utilized
22 incentives intended to increase customer growth.

1 The Company has proposed including such sales
2 expenses in the rate year; however, Staff has
3 eliminated expenses above the test year levels.
4 Therefore, Staff's customer forecast does not
5 include elevated customer growth as experienced
6 during the period of elevated spending.

7 Q. Why was the regression analysis of historical
8 numbers of customers for commercial customers
9 performed on an aggregate?

10 A. As seen in Exh____ (SP-3), the historic data
11 provided by KEDNY did not include monthly
12 customer numbers for commercial heat and non-
13 heat service classifications.

14 Q. How were the rolling averages used to determine
15 monthly customer numbers?

16 A. Again, the customer counts for an individual
17 month were calculated by multiplying the 12-
18 month rolling average by twelve and then
19 subtracting the previous eleven months actual
20 customer counts.

1 Q. How did Staff differentiate heat and non-heat
2 customers for purposes for determining rate year
3 revenues?

4 A. Staff allocated the aggregate number based on
5 the KEDNY estimate of sales and transportation
6 customers.

7 Q. Explain how your usage per customer for
8 commercial customers was determined?

9 A. Staff analyzed actual usage per customer for
10 commercial heat and non-heat customers in
11 aggregate on a monthly basis for a three year
12 period using a linear regression analysis. The
13 analysis produced a forecasting equation with
14 allocated heating degree days (HDD) at Central
15 Park as the explanatory variable. To produce
16 rate year projections the equation was applied
17 to 30 year normalized HDDs. Staff adjusted the
18 HDDs for February to reflect the 2008 leap year.

19 Q. Please summarize the results of your analysis.

20 Q. How did Staff differentiate heat and non-heat
21 throughput for purposes for determining rate
22 year revenues?

- 1 A. Staff allocated the throughput based on the
2 KEDNY estimate of sales and transportation
3 throughput.
- 4 A. Exhibit____ (SP-2), page 3, summarizes
5 throughput and customer information for the
6 commercial general and commercial space heat
7 classes in aggregate for the period 2005 through
8 the twelve months ending March 31, 2008 (the
9 rate year). It shows commercial sales growth of
10 1.1%.
- 11 Q. Explain how your number of multifamily customers
12 was determined?
- 13 A. Staff's projected number of multifamily
14 customers is an aggregate of individual
15 projections for multifamily heating and
16 multifamily other classes based on individual
17 regression analyses of historical numbers of
18 customers. For each class, 12-month rolling
19 averages of aggregated sales and transportation
20 customers were projected. The time period used
21 in the regression analyses was July 2004 -
22 October 2006.

1 Q. How were the rolling averages used to determine
2 monthly customer numbers?

3 A. As with the residential and commercial service
4 classes, the customer counts for an individual
5 month were calculated by multiplying the 12-
6 month rolling average by twelve and then
7 subtracting the previous eleven months actual
8 customer counts.

9 Q. Explain how your usage per customers for
10 multifamily customers was determined?

11 A. The Panel analyzed actual usage per customer on
12 a monthly basis for a three year period using a
13 linear regression analysis. The analysis
14 produced a forecasting equation with allocated
15 heating degree days (HDD) at Central Park as the
16 explanatory variable. To produce rate year
17 projections the equation was applied to 30 year
18 normalized HDDs. Staff adjusted the HDDs for
19 February to reflect the 2008 leap year.

20 Q. Please summarize the results of your analysis.

21 A. Exhibit____ (SP-2), page 4, summarizes
22 throughput and customer information for the

1 multifamily class for the period 2005 through
2 the twelve months ending March 31, 2008 (the
3 rate year). It shows multifamily sales growth
4 of 2.8%.

5 Q. Does Staff have any other adjustments to the
6 KEDNY estimate of rate year throughput?

7 A. Staff proposes no adjustments to the KEDNY
8 estimate of throughput for high load factor,
9 space conditioning, baseload distributed
10 generation, or natural gas vehicle services.

11

12 KEDLI Loss Rate

13

14 Q. Can you please explain what the lost and
15 unaccounted for, or LAUF, gas factor of
16 adjustment is?

17 A. In Case 21656, the Commission developed the LAUF
18 factor or fixed factor of adjustment as an
19 incentive for each utility to control losses on
20 its system, and required the factor to be set in
21 each utility's major gas rate proceeding (16
22 NYCRR §720-6.5). To the extent that a Company

1 can reduce actual annual gas losses below the
2 target factor previously set in rates, the
3 associated gas cost benefit is retained by the
4 Company. Conversely, if a Company experiences
5 actual losses greater than those allowed by the
6 factor, the cost of the gas losses that exceeds
7 the target LAUF factor must be absorbed by the
8 Company.

9 Q. How is the LAUF factor calculated?

10 A. By definition, the loss rate is a ratio of the
11 difference between total receipts and total
12 deliveries divided by the total volume received,
13 expressed as a percentage. For example, if the
14 total delivery is 100, and the total metered use
15 is 98, the quantity 100 minus 98, or 2, divided
16 by 100 equals 2%. By comparison, the LAUF
17 factor of adjustment is one divided by one minus
18 the loss percentage. For example, 1 divided by
19 the quantity 1 minus 2% equals 1.0204. To
20 determine the total amount of gas that is
21 required to be purchased for a given amount of
22 sales, those sales are multiplied by the LAUF

1 factor. The LAUF factor is applicable to both
2 sales and transportation customers. The LAUF
3 factor is also used as part of the calculation
4 to determine the proper amount of gas an Energy
5 Service Company, also known as ESCOs or
6 marketers, must deliver to the citygate for
7 delivery to customers.

8 Q. Does Staff propose any changes to KEDLI's
9 allowed loss rate and corresponding LAUF factor
10 of adjustment?

11 A. Yes, Staff proposes to set a new LAUF factor of
12 adjustment based on a four year average.

13 Q. Does Staff propose any other changes to KEDLI's
14 allowed factor of adjustment?

15 A. Currently KEDLI has different factor of
16 adjustments for sales and transportation
17 customers. Sales customers have a 3.9% loss
18 rate (1.0404 factor of adjustment) while
19 transportation customers have a 3.3% loss rate
20 (1.0341 factor of adjustment). Staff proposes
21 to equalize loss rates for sales and
22 transportation customers.

1 Q. Why do KEDNY and KEDLI have different loss
2 factors for ESCOs?

3 A. Different loss factors were established as part
4 of an Order issued on December 26, 2000 in Case
5 99-G-1469, Petition of the Brooklyn Union Gas
6 Company and KeySpan Gas East Corporation for a
7 Multi-year Restructuring Agreement. These
8 different loss factors were established to
9 provide ESCOs with a loss factor that was more
10 reflective of the KEDNY and KEDLI loss
11 experience at that time. Since Case 99-G-1469
12 dealt strictly with competitive restructuring
13 issues, and KEDNY and KEDLI's rates were subject
14 to multi-year rate agreements, no changes to the
15 loss factor associated with KEDNY and KEDLI
16 service to sales customers was made.

17 Q. Why does Staff propose levelizing loss rates of
18 adjustments for sales and transportation
19 customers?

20 A. These customers are similarly situated on
21 KEDLI's system and contribute equally to KEDLI's
22 losses; therefore, they should have the same

1 loss rate and factor of adjustment.

2 Q. What does Staff propose for firm sales and
3 transportation customers on KEDLI's system?

4 A. Staff proposes the loss rate be set at 2.73%
5 (1.0281 factor of adjustment).

6 Q. Why does Staff use a four year average?

7 As seen in Exh____(SP-4), KEDLI's system losses
8 have been relatively flat for the twelve months
9 ending August 2002, 2003 and 2004. For the
10 twelve months ending August 2005 the loss rate
11 increased by over 1% and remained elevated
12 through the twelve months ending August 2006.
13 Setting a benchmark on equal weighting of the
14 loss rates sets a reasonable goal for the
15 Company to attain.

16 Q. Why does Staff consider this a reasonable goal?

17 A. The Company actually achieved loss rates lower
18 than the 2.73% (1.0281 factor of adjustment) in
19 two of the last four years. Also, the Staff
20 Safety Panel testimony addresses leak management
21 targets and an accelerated leak-prone pipe
22 replacement management program which are

1 intended to reduce leaks occurring on the gas
 2 distribution system, which should contribute to
 3 a reduction in losses.

4 Q. Please explain how the 2.73% loss rate was
 5 calculated.

6 A. Staff calculated losses for customers with non-
 7 negotiated loss rates on an annual basis by
 8 subtracting losses associated with negotiated
 9 contract customers from system losses. Staff
 10 divided this amount of lost and unaccounted for
 11 gas by all sendout excluding sendout for
 12 customers with non-negotiated loss levels. The
 13 lost and unaccounted for gas volumes and
 14 percentages are summarized below.

15	16	Non-Negotiated	Non-Negotiated	Loss
	TME	Sendout	Losses	Rate
17	8/2006	82,859,574	2,913,700	3.516%
18	8/2005	89,830,132	2,965,625	3.301%
19	8/2004	87,165,594	1,858,707	2.132%
20	8/2003	89,593,164	1,766,265	1.971%
21	8/2002	71,781,843	1,525,833	2.125%

22

1	Loss	Factor of	
2	Rate	Adjustment	
3	2.98%	1.0307	Three Year Average
4	2.73%	1.0281	Four Year Average
5	2.61%	1.0268	Five Year Average

6

7 Q. How did Staff calculate losses for customer with
8 negotiated loss levels?

9 A. Staff used contractual delivery requirements to
10 allocate losses.

11 Q. Does Staff have any other proposals with respect
12 to lost and unaccounted for gas?

13 A. By Order issued December 22, 2006 in Case 06-G-
14 1168, the Commission determined that the Company
15 was not calculating lost and unaccounted for gas
16 in the same manner as other companies in the
17 State. This may impact prior annual
18 reconciliation filings. The Commission further
19 directed that the Administrative Law Judge
20 presiding over this proceeding should ensure
21 that this matter is being addressed. In the
22 Company's updated filing the Company proposes to

1 work with Staff and other parties concerning
2 this issue and file a proposal that will resolve
3 this issue in an acceptable manner at a later
4 date. Staff agrees with the Company's proposal
5 regarding the process to address this issue.

6

7

KEDNY Loss Rate

8

9 Q. Does Staff propose any changes to KEDNY's
10 allowed loss rate and corresponding factor of
11 adjustment?

12 A. Yes, as with KEDLI, KEDNY currently has
13 different loss rates for sales and
14 transportation customers. Sales customers have
15 a 3.6% loss rate (1.0373 factor of adjustment)
16 while transportations customers have a 3.1% loss
17 rate (1.0320 factor of adjustment). Staff
18 proposes to equalize loss rates for sales and
19 transportation customers.

20 Q. Why does Staff propose levelizing loss rates for
21 sales and transportation customers?

22 A. These customers are similarly situated on

1 KEDNY's system and contribute equally to KEDNY's
2 losses; therefore, they should have the same
3 loss rate.

4 Q. What does Staff propose for firm sales and
5 transportation customers on KEDNY's system?

6 A. Staff proposes to use a four year average and
7 set the loss rate at 2.34% (1.024 factor of
8 adjustment).

9 Q. Why does Staff use a four year average?

10 As seen in Exh____ (SP-5), KEDNY's system loss
11 losses have been relatively flat for the twelve
12 months ending August 2003, 2004, 2005 and 2006.
13 Thus, setting a loss rate based on those four
14 years sets a reasonable goal for the Company to
15 attain.

16 Q. Why does Staff consider this a reasonable goal?

17 A. First, the Company actually achieved loss rates
18 lower than 2.34% (1.024 factor of adjustment) in
19 three of the last four years. Also, the Staff
20 Safety Panel testimony addresses leak management
21 targets and an accelerated leak-prone pipe
22 replacement program which are intended to reduce

1 leaks occurring on the gas distribution system,
2 which should contribute to a reduction in
3 losses.

4 Q. Please explain how the 2.34% loss rate was
5 calculated.

6 A. Staff calculated losses for customers with non-
7 negotiated loss rates on an annual basis by
8 subtracting losses associated with negotiated
9 contract customers from system losses. Staff
10 divided this amount of lost and unaccounted for
11 gas by all sendout excluding sendout for
12 customers with non-negotiated loss levels. The
13 lost and unaccounted for gas volumes and
14 percentages are summarized below.

15		Non-negotiated	Non-Negotiated	Loss
16	TME	Sendout	Losses	Rate
17	8/2006	135,677,131	3,639,316	2.682%
18	8/2005	149,308,863	3,221,007	2.157%
19	8/2004	149,996,934	3,310,934	2.207%
20	8/2003	161,775,389	3,745,048	2.315%
21	8/2002	131,491,014	1,748,638	1.330%
22				

1	Loss	Factor of	
2	Rate	Adjustment	
3	2.35%	1.0241	Three Year Average
4	2.34%	1.0240	Four Year Average
5	2.14%	1.0219	Five Year Average
6			
7	Q.	How did Staff calculate losses for customer with	
8		negotiated loss levels?	
9	A.	Staff used contractual delivery requirements to	
10		allocate losses.	
11	Q.	Does Staff have any other proposals with respect	
12		to lost and unaccounted for gas?	
13	A.	By Order issued December 22, 2006 in Case 06-G-	
14		1168, the Commission determined that the Company	
15		was not calculating lost and unaccounted for gas	
16		in the same manner as other companies in the	
17		State. This impacts prior annual reconciliation	
18		filings. The Commission further directed that	
19		the Administrative Law Judge presiding over this	
20		proceeding should ensure that this matter is	
21		being addressed. In the Company's updated	
22		filing the Company proposes to work with Staff	

1 and other parties concerning this issue and file
2 a proposal that will resolve this issue in an
3 acceptable manner at a later date. Staff agrees
4 with the Company's proposal regarding historic
5 lost and unaccounted for gas.

6

7 Service to TC and Interruptible Customers

8

9 Q. What do the Companies propose for temperature
10 controlled and interruptible service classes?

11 A. The Companies propose to serve interruptible
12 customers within the TC service classification.

13 Q. Does Staff agree with the Companies' proposal
14 for merging the classes?

15 A. No. Staff proposes to keep the interruptible
16 and TC customers in separate service classes as
17 discussed in Staff Witness John Sano's
18 testimony.

1 Margin Imputation and Sharing

2 KEDLI

3

4 Q. Please describe current rate treatment for
5 revenues from KEDLI's TC customers.

6 A. KEDLI retains 100% of the margins from the TC
7 customers who did not migrate from the
8 interruptible service class. For customers who
9 have migrated from interruptible service to TC,
10 firm customers receive an amount equal to the
11 amount that would have been credited to firm
12 customers had the customer stayed an
13 interruptible customer. The Company receives
14 the remainder of the margin. Base rates do not
15 include an imputation for the revenues received
16 from TC customers.

17 Q. Please describe current rate treatment for
18 revenues from interruptible customers.

19 A. Currently 100% of all margins associated with
20 interruptible customers are credited to firm
21 customers through the GAC. Base rates do not
22 include an imputation of revenues from

1 interruptible customers.

2 Q. What does the Company propose for ratemaking
3 treatment of the joined TC and interruptible
4 service classes for KEDLI?

5 A. The Company proposes the following ratemaking
6 treatment as mentioned in page 9 of Company
7 witness Lukas' testimony:

- 8 • KEDLI retains the first \$14.3 M which is also in
9 the Company's rate year revenue requirement
- 10 • Margins between \$14.3 M and \$17 M are shared at
11 25% Company, 75% ratepayer
- 12 • Margins between \$17 M and \$23M are shared at 50%
13 Company, 50% ratepayer
- 14 • Margins over \$23M are shared at 25% Company, 75%
15 ratepayer
- 16 • Margins below \$14.3M are recovered at 25%
17 Company, and 75% by the ratepayer.

18 Q. What does Staff propose for ratemaking treatment
19 of revenue margins associated with sales to TC
20 and interruptible customers in the KEDLI service
21 territory?

1 A. Staff proposes a \$14.3M imputation in base rates
2 due to TC and interruptible revenues with KEDLI
3 retaining the first \$14.3M. Revenues above and
4 below \$14.3M should be shared 90/10
5 customer/Company. To simplify current
6 imputations and sharing, Staff proposes the
7 combining of TC and interruptible revenues for
8 ratemaking treatment purposes.

9 Q. Why does Staff find 90/10 sharing is
10 appropriate?

11 A. Ratepayers and the Company should have limited
12 risk associated with TC and interruptible
13 revenue, yet the Company should still maintain
14 an incentive for maximizing sales to
15 interruptible and TC customers. Staff has
16 recommended changes to the Company's proposal
17 regarding the TC/interruptible service classes
18 and the treatment of corresponding revenue
19 margins. As addressed in the testimony of Staff
20 witness John Sano, Staff is proposing to
21 increase the demand charge allocation to TC
22 customers beyond the Company proposal of

1 \$0.35/dth presented by Company witness Lukas.
2 This change may reduce the revenue margin from
3 the TC service class. Staff is also proposing
4 to maintain the interruptible customer service
5 classification, instead of the Company's
6 proposal to merge the interruptible and TC
7 service classes. Interruptible customers are
8 not subject to the demand costs that TC
9 customers must pay. Therefore, projected
10 revenue margins from interruptible customers may
11 be higher than forecasted by the Company.
12 Staff's recommendation to modify the
13 TC/Interruptible rate cap as discussed below,
14 will also add upside potential to the revenue
15 margins for both TC and interruptible customers.

16

17 Margin Imputation and Sharing18 KEDNY

19

20 Q. Please describe current rate treatment for
21 revenues from KEDNY's TC customers.

22 A. Current base rates include a \$54 million

1 imputation and 100% of TC margins are retained
2 by the Company.

3 Q. Please describe current rate treatment for
4 revenues from interruptible customers.

5 A. Current base rates include a \$5.5 million
6 imputation for interruptible revenues. KEDNY
7 retains 100% of the interruptible revenues.

8 Q. What does KEDNY propose for ratemaking treatment
9 of the joined TC and interruptible service
10 classes?

11 A. The Company proposes the following sharing
12 mechanism as mentioned in page 9 of Company
13 witness Lukas' testimony:

- 14 • KEDNY retains the first \$62.8 M which is also in
- 15 the Company's rate year revenue requirement
- 16 • Margins between \$62.8 M and \$75 M are shared at
- 17 25% Company, 75% ratepayer
- 18 • Margins between \$75 M and \$100M are shared at
- 19 50% Company, 50% ratepayer
- 20 • Margins over \$100M are shared at 25% Company,
- 21 75% ratepayer

1 • Margins below \$62.8M are recovered at 25%

2 Company, and 75% by the ratepayer.

3 Q. What does Staff propose for ratemaking treatment
4 of revenue margins associated with sales to TC
5 and interruptible customers in the KEDNY service
6 territory?

7 A. Staff proposes that a revenue imputation of
8 \$62.8M be assigned to these customers and KEDNY
9 retains the first \$62.8M. Revenues above and
10 below \$62.8M should be shared 90/10 between the
11 ratepayers/Company. TC and interruptible
12 revenues are combined to simplify ratemaking
13 treatment.

14 Q. Why does Staff find 90/10 sharing is
15 appropriate?

16 A. Staff recommends the 90/10 sharing for the same
17 reasons provided for KEDLI above.

18

19 TC and Interruptible Rate Cap

20

21 Q. What have the Companies proposed for the TC and
22 Interruptible rate cap?

1 A. The Companies have proposed to remove the TC and
2 Interruptible rate cap. The Companies state
3 that due to the rate cap, they are sometimes
4 forced to provide service at an excessive
5 discount to the dual fuel customer's alternate
6 fuel.

7 Q. What is the current rate cap and why was it
8 established?

9 A. The current rate cap is set at the rate charged
10 for the terminal block and the Monthly Cost of
11 Gas for the applicable firm class. The rate cap
12 was established as a means to ensure that non-
13 core customers paid less than firm customers for
14 non-firm service.

15 Q. What is Staff's view on the Companies' proposal
16 regarding the interruptible/TC rate cap?

17 A. Staff accepts the Companies' proposal for the
18 removal of the interruptible/TC rate cap as long
19 as these rates are less than the corresponding
20 firm rate on an annual basis. Interruptible/TC
21 customers receive a lower quality of service
22 than firm customers and should pay less than

1 firm customers.

2 Q. What does Staff recommend for ensuring that
3 interruptible/TC customers pay less than firm
4 customers?

5 A. Staff recommends an annual reconciliation for
6 all interruptible/TC customers comparing what
7 they would have paid had they been firm
8 customers to what they actually paid. Any
9 overpayments would be reconciled by a credit
10 back to interruptible/TC customers.

11

12 Power Generator Revenues

13

14 Q. Does Staff propose any modifications to the
15 Companies proposal for the treatment of revenue
16 margin associated with sales to power
17 generators?

18 A. No. Currently the Companies retain 100% of the
19 margin from power generator customers on KEDLI's
20 SC No. 14 and KEDNY's SC No. 18 and SC No. 20.
21 The Companies propose to credit back 100% of
22 margin from all power generators to core

1 customers via the GAC. Staff takes no exception
2 to the Companies' proposal with respect to
3 margin from power generator customers.

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

6 A. Yes. We have not completed our review of the
7 Companies' update, but will update our testimony
8 to the extent needed.

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

11 A. Yes, it does.